

Amidst strong demand, thermal paper producers feel squeeze of rising costs

EU sanctions and anti-dumping measures influence paper supply

Demand is extremely strong on the European market for thermal paper, say both paper mills and converters. But besides the spiralling costs of raw materials, auxiliary materials and logistics, energy costs have now become an existential issue in the paper industry. Against this backdrop, paper producers are pushing through price hikes. Rising costs in all key segments, such as POS, labels and tickets, are weighing on business.

Strong demand and rising prices were seen on the thermal paper market in April. Soaring energy prices forced paper mills to implement energy or raw material surcharges in April, in addition to the regular price hikes. The surcharges, which could reach €300/t in some cases, were introduced across the board. Although these are evaluated monthly, they are necessary for now and in the near future to keep up with the increasing costs of production, say representatives of the paper industry.

Meanwhile, converters say supplying customers is their top priority – but only if customers accept their price hikes. Players are making great efforts to ensure reliable deliveries, EUWID was told. There was no alternative but to fully pass on to customers the price hikes announced by the paper industry, converters said.

Market experts warn that buyers must be prepared for higher paper prices going forward. The price changes for thermal paper started one year ago, say market experts, noting that significant mark-ups were applied to all contracts by the second half of 2021 at the latest. And ever since, prices for thermal paper have moved higher in large steps. Industry experts describe the price demands put forth by producers in 2022 as massive.

According to representatives of the thermal paper industry, paper producers in other segments have raised prices for their products by 50-100 per cent within a year. Suppliers of thermal paper say they are nowhere near such levels, so they have

a real need to catch up. They expect that another round of double-digit percentage hikes will be implemented widely in the market by the second half of the year.

Demand supports price increases

Representatives of the paper industry unanimously report full capacity utilisation at European paper mills. Converters also say their order books are full. In the meantime, it appears that thermal paper imports are having minimal to no influence on the market, so experts are detecting a trend towards tight supply. Nevertheless, industry experts question whether there is actually specific demand behind every order for paper deliveries placed by converters, or whether buyers are building up inventories. One motivation for inventory build-up could be the desire to secure future orders. Another motive could be the ongoing intensive price developments, players suspect.

Other industry experts, however, say there is little opportunity to build up stocks. Supplies are only being provided by European producers and demand is truly high, they say. Following the massive collapses in the pandemic year 2020, the POS (point of sale) and label segments already experienced positive catch-up effects in 2021. Although the steep declines – of more than 20 per cent in some cases – could not entirely be offset, the recovery in business was clearly noticeable, EUWID was told. The current business year started off with

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full order books and the good trend continues, according to market players.

The POS segment, the largest application area for thermal paper, is even stronger than expected. By contrast, the tickets segment is still a cause of concern. Although there is some recovery in sectors such as aviation and events, demand is shrinking noticeably due to digitalisation. This ongoing trend suggests that the tickets segment will never reach its pre-crisis levels again, industry observers believe. Meanwhile, the development of the labels segment is perpetually positive, players agree.

EU starts expiry review of anti-dumping measures

Experts say there are two factors shaping the development of supply. Because of the EU sanctions, volumes previously delivered to Russia – which were significant in some cases – are now staying within the EU. Experts also point to potential shifts in the market: Southeast Asian producers are now reportedly taking over the deals previously done in Russia by European companies, since Russia does not have any thermal paper production of its own.

Another issue is that the European Thermal Paper Association (ETPA) has requested that the European Commission review the upcoming expiry of anti-dumping measures against imports of lightweight thermal paper originating in the Republic of Korea. As part of these measures, deliveries from Hansol Paper were subject to a duty of 10.3 per cent. According to the Official Journal of the European Union, the Commission launched a review in early May. In its review request, ETPA said the expiry of the measures would result in the continuation of dumping and injury to the EU industrial sector or the recurrence of dumping and injury. □

Demand in packaging segments returning to normal levels in Germany

Prices for cartonboard and RCCM unchanged in May

Things have quieted down again on the market for corrugated case material in Germany. As of early May, it appears that prices will remain unchanged. Demand is also returning to normal. But amidst declining consumer sentiment, there are fears that demand for packaging could drop off significantly and thus lead to lower order intake in the corrugated case material segment as well. This could put pressure on paper prices in the near future.

The market for fresh-fibre based cartonboard remains very tight in Germany. The price trend for GC board nevertheless calmed down as of May. Supplies of recycled board are even scarcer and additional volumes are not available. Yet even cartonboard producers are seeing a slight slowdown in incoming orders. For now, volumes are still heading out to customers, but there have recently been increasing reports of an uptick in inventories.

Demand for CCM remains good despite high inventory levels

Observers do not expect much price movement for recycled corrugated case material (RCCM) in May in Germany. After prices surged by another €100/t following the explosion of energy costs set off by the war in Ukraine, unchanged prices are expected in the current month for both brown and white recycled corrugated case material grades. The kraftliner substitutes might be the only segment to see price changes, since an additional adjustment of €50/t was negotiated for brown kraftliner to complete the total mark-up of €100. But it appears that this second step is already off the table in many cases, according to industry insiders.

Paper mills continue to have good activity levels, though the corrugated industry complains about declining order intake and generally has well-filled paper warehouses. Still, most corrugated case material grades are definitely more readily available than they were in the past.

Nevertheless, RCCM producers report that the majority of their customers are ordering their usual volumes. This raises the question of whether the orders for paper actually correspond to consumption. EUWID respondents suspect that converters are trying to keep their inventories high in light of the uncertain conditions, especially with regards to energy supplies, and that some of the orders are attributable to supply chain effects. However, it appears that economic growth is slowing and consumer sentiment is deteriorating. The true level of demand might then become apparent in June/July.

If it becomes clear that packaging demand is falling significantly – a few customers, for example in the automotive industry, are already not producing at full capacity – the price trend could reverse quickly. Back in March, some converters believed that prices had peaked, but then the outbreak of war in Ukraine changed everything. “We see dark clouds, but it is not raining,” commented one EUWID respondent.

Players still see good export opportunities, but the availability of containers and freight capacity remains challenging and could worsen. Respondents expect the supply chain problems could intensify and plague the industry for a long time. Forecasting is more difficult than ever and companies must conduct business cautiously and day by day.

Consumer demand is the unknown factor in cartonboard market

The volume of virgin-fibre board that can no longer be delivered to Russia due to the war in Ukraine is becoming apparent on the domestic market – but not at every converter. Interviews with market participants revealed that larger buyers are more likely than smaller converters to get their hands on volumes. The assessments of the market thus

vary accordingly: While some producers of folding cartons see better opportunities for sourcing spot volumes and thus take a more positive view of the situation on the GC board market, other producers still describe the market as tight with very long delivery times. Nevertheless, none of the players reported any real easing in the GC board segment. Following the adjustment in April, prices have stabilised for now. All respondents surveyed in early May said there were no new announcements on the market.

There are also no new price announcements in the recycled board segment, but this is always subject to change based on future developments. Players were unable to gauge whether these developments would cause prices to rise or fall. There was not enough clarity about the factors recovered paper and energy, not to mention the unpredictability of consumer behaviour.

At the moment, the ongoing extremely tight supply of GD and greyboard are supporting price stability on the market in Germany, respondents say. There are still no additional volumes available and suppliers cannot even consider taking on new customers – even though “numerous inquiries” have been received. Various cartonboard producers are said to be fully booked for the rest of the year.

Since April, however, some cartonboard producers are seeing a slight slowing in order intake, which they attribute to their customers’ long planning horizons and corresponding disposition. A few respondents from the folding cartons industry believe the reduction in incoming orders is not due to a change in ordering behaviour but rather a result of high inventories throughout the supply chain. For now, volumes are still moving out, but even during the previous market survey, players were reporting an uptick in inventory levels. Overall, respondents reported in early May that the market is still moving sideways at a high level.

The industry is currently struggling with other problems disrupting the supply chain. One of these is tight freight capacity, which is a regular cause of customer complaints. In addition, there are problems with non-deliverable printing plates and shortages of auxiliary materials. □