

# Soaring pulp prices to push paper costs higher

## News analysis

Chilean earthquake and Finnish dock strike have added pressure, write **Andrew Ward and Anjli Raval**

Global pulp prices are heading towards record highs, threatening higher paper and packaging costs, as supply disruptions in some of the world's biggest producing countries coincide with a recovery in demand.

The simultaneous disruptions in Chile and Finland, which together account for more than 10 per cent of the world's pulp market, have tightened the market just when Chinese consumption is soaring, analysts say.

"There is a squeeze on the pulp market," says Linus Larsson, at SEB Enskilda in Stockholm.

Pulp is the raw material used to manufacture newsprint, fine paper, magazine paper, and cardboard and analysts forecast that paper and packaging rates will increase soon.

The price of European benchmark pulp last week rose to \$875.62 per tonne, up

more than 50 per cent over the past year, according to Foex Indexes, a Helsinki-based consultancy. "Pulp markets continue to be extremely tight due to continuing disruptions in supply in several producing regions and due to some pick-up of global paper demand," Foex says.

Much of Chile's pulp capacity has been shut since the country was struck by a devastating 8.8 magnitude earthquake last month. Meanwhile, several Finnish mills have been brought to a standstill by the country's longest dock strike for two decades.

The cost of pulp is fast approaching the \$900 a tonne peak hit in 2008 and nearing the \$1,000 a tonne all-time high set in 1995.

Mr Larsson says that in paper markets linked to pulp the rise is "causing a cost push effect on prices".

Mikael Jafs, an analyst at Crédit Agricole, adds that paper companies with their own integrated pulp facilities are not yet feeling the impact of rising raw material costs, but non-integrated companies that have to purchase the pulp before making paper are being hit.

"But in time, even the integrated companies will

be hit," he says, adding that European producers such as UPM have announced a 15 per cent price increase for office A4 copy paper in the second quarter of 2010.

Cardboard and paper account for almost 40 per cent of the \$430bn packaging market, so any increase in their price will also lift packaging prices.

The rise in packaging prices in 2007-08 contributed to higher food and beverages prices, as it accounts for almost 15 per cent of food retail prices, according to data from the US Department of Agriculture.

On the other hand, analysts believe that newsprint and magazine paper prices are unlikely to rise because of falling circulations and reduced pagination.

Mr Larsson says there was a "very steep drop in demand for newsprint and magazine paper" in 1990. The market has stabilised since but has not improved significantly.

"The oversupply means we have not seen a hike in prices in these paper grades," he says.

The extent of any price increase in paper and cardboard will depend on the length of the supply disruptions in Finland and Chile.

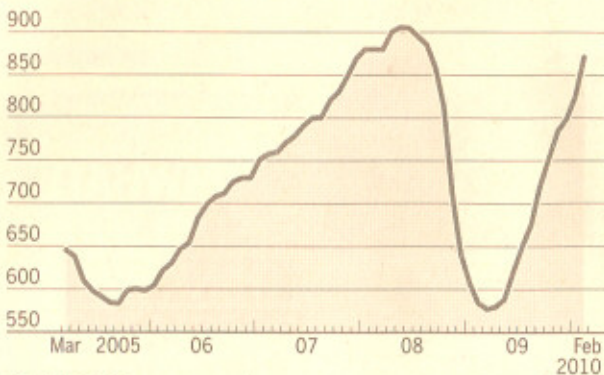


Finnish pulp producers have been hit hard

Bloomberg

## Pulp price rises more than 50% over the past year

\$ per tonne



Source: Bloomberg

But analysts warn that even before the supply problems hit the market, pulp prices were rising as European producers took action to cut long term over-capacity in the industry. Pulp prices hit a bottom of \$577 a tonne in mid-2009.

The price spike has brought relief for the forest industry after a difficult few years, but Chile and Finland risk missing out on the bonanza as orders are shifted to other big pulp producing countries such as Canada and Germany.

Finnish dock workers have been on strike since March 4 in a dispute over severance pay and job security, halting most pulp exports from the country.

On-off negotiations between the transport workers' unions and port operators' association have

so far failed to resolve the industrial conflict.

The strike is causing an estimated €110m (\$150m) a day in losses to Finnish exporters, with pulp producers such as UPM and StoraEnso among the worst hit.

"The strike has come at a very bad time just as we were starting to see the first signs of the market improving," said UPM.

The pulp industry is more concerned about the Chile disruption as mills in the Latin American country have been telling their consumers that they do not know when they will be able to restart production. Some of the worst affected companies saw their pulp factories and sawmills swept out to sea by giant waves following the quake.

Additional reporting by Javier Blas in London.