

UTIPULP

Group of European Market Wood Pulp users

Answers to the questionnaire on the impact on pulp supplies

April 28, 2022

The objective of this questionnaire is to up-date the analysis of the covid-19 impact on the pulp supplies.

16 answers have been received (14 companies and 2 national association).

For all respondents, in comparison to September 2021, **the situation has worsened regarding pulp supply**, especially for hardwood pulp supplies. This situation is to be seen in a context where constraints (and costs) are high for many raw materials (and energy).

Reasons for this deterioration of the pulp supply are numerous:

- **Transportation** is still not back to normal. Many respondents report delays from Lat. Am and more generally, persistent problems in the global supply chain. Besides this issue of the late arrival of boats, a few respondents mention also that domestic transports became increasingly challenging. The lack of Ukrainian truck drivers and the strike of truck drivers in Spain are also additional constraints to consider.
- The **strikes** at UPM in Finland and Ence are also reported as substantial causes of the problems met on the supply side.
- The **war in Ukraine** has consequences on the pulpwood supply of Finnish pulp mills. The practical consequence of this situation is a low availability of some pulp grades (e.g: birch).
- Some pulp producers face difficulties to receive the needed volumes of some **chemicals**. This is particularly true for chlorate (one chlorate producer is on strike, and another had met technical problems).

Regarding the forecasts, **all the respondents see an improvement, but the question is “when”**.

Reasons for this cautious but positive forecast are the following:

- It cannot be worse!
- **Logistic** can worsen on the short term (lockdown in Shanghai) but **will improve** afterwards.
- **The strike at UPM will stop** [it materialized since the date we received the answers to the questionnaire].
- **New volumes will be available** thanks to the start of ARAUCO (Mapa) and Bracell. Moreover, fewer maintenance shutdowns are planned in Lat. Am.
- Besides these positive reasons, it is to be noticed that several respondents anticipate that **the high inflation rates will slow consumption**, meaning that the supply/demand equilibrium will improve (but for negative reasons).

Regarding the key changes that will influence pulp consumption in the EU, **analyses are more diverse** than above:

- Some don't see an increased pulp consumption, but others think a steady growth is to be considered. **Some new capacities of pulp mills are reported** (WEPA, KC, ICT, Shotton mill...).
- The main uncertainties will be the **consequence of the high energy costs**, that might result in temporary stops of production. On the energy side, a question mark is also the risk of severe gas curtailments, if the geopolitical situation deteriorates.

- When the customers of the paper mills will reduce activity, it will become much more difficult to pass the increased costs.
- The normalization of the global supply chains will **increase again the paper imports from Asia/China.**

BELOW SOME SELECTED COMMENTS RECEIVED FROM DELEGATES.

1. Regarding your pulp supply, has the situation improved or worsen since September 2021?

It has worsened, partly because of unexpected delays in the global supply chain, partly as well because of the strike at UPM and Ence. Next to overseas transportation, also domestic transports became increasingly challenging.

As Lorenzo also commented, not resulting into any imminent shortages yet, but certainly stretching our reserves.

Supply situation due to many late arrivals is worsening since end of February. On top of this UPM strike as well as wood supply (RUS to Finland) is causing new problems & shortages of supply.

Worsen, mainly short fibres. Due to international fret delays, UPM strike, direct and indirect consequences of the Ukrainian crisis (ban on Russian/bielorussian wood imports, lack of (Ukrainian) drivers...).

Situation has worsened significantly as a result of Covid and post-Covid logistics constraints, more severe than one could have expected: disruption of supply chain channels, strengthened by strike in UPM units, transporters' strike in Spain end of March / beginning of April, and last but not least war in Ukraine. Each and every of the above factors can be treated as black swan effects however accumulation of all in more or less the same time determines difficulties on the market with prevailing shortage and delay mode.

Generally concerns remain over logistics and supply chain constraints for all materials (both availability and cost) including pulps, paper for recycling, starches and chemicals. Some difficulties mentioned with birch pulps and in some product areas (for examples pulps and labels linked to the UPM Finland strike). Transport costs remain high.

2. In S2 2022, according to your forecasts, will the pulp supply improve or worsen? Please speciy the reasons of your forecast

I expect improvements because:

- *More fibres availability thanks to overall Logistic improvements*
- ❓ *I guess that Logistic can worsen in the short term end Q2 due to Shanghai's lockdown ... but than it should restart the improving mood of beginning of this year*
- *Fewer planned maintenance shutdowns in LatAm*
- *MAPA start-up*
- *Strike at UPM will finish sometime ... making more market pulp available*
- *... and maybe less demand form paper makers due to economy slowdown*

It should gradually improve, but I don't expect a meaningful jump. It will take rather long before global supply chains normalise and besides the fact that it is unclear still when exactly additional capacity is ramping up, the dominating restriction will remain the ability to transport. The UPM strike will be overcome sooner or later, but the Russian conflict and trade restriction will hinder birch pulp production in particular. The mills might swing to NBSK and so will many consumers.

- *Fibres availability looks likely to be improved, still there is a lot of concern about logistics in ports around the world.*
- *Papermills in EU will not be able to rebuild pulp stocks in Q3.*

Should improve thanks to the new volumes brought by Bracell and Arauco (Mapa) but remaining risks in logistics (especially with "lockdown treatment" of pandemic in China) and maybe global decreasing demand due to (very) high inflation.

Current time in particular Q2 seems to be the most critical market momentum, can be still expanded to Q3 due to market dynamics and should stabilize around Q4 this year. Quite important in such analysis is the level of expected price increases now in Q2 which will have an impact on predicted demand. To simplify - higher increases now will accelerate quicker market stabilisation.

Due to new impact to global supply chains (Ukraine war, China Covid lockdown) together with still strong demand in Europe it will need longer to have a balanced s/d situation. But it will change and later in y 2022 the quantity offer in terms of volume will improve (delayed starting up Arauco MAPA, UPM comes back on track after long strike in FIN).

We expect only at very end of quarter 2 improvement with reduced unexpected capacity curtailments. Order situation still very strong!

Europe will hold the balance in the next months

- *Overall Logistic improvements*
- *Strike at UPM will finish sometime*
- *Less maintenance shutdowns*
- *higher demand in Asia/China*

If we look at the evolution of pulp price futures, one might think that there would be a relative easing of pressure in this market. However, as a result of the current economic situation caused by the invasion of Ukraine, it is difficult to see any such relief in the short term.

3. What key changes will influence pulp consumption in your country during the 12 coming months (new paper mill capacities/closures, stops of production due to high energy costs, stops due to a shortage of chemicals...)

I don't see increase in pulp utilization respect past years, but on the other hand there could be risks of shutdowns due to energy costs or market related if there will be a general slowdown of economy.

Depending on the RUS/UKRAINE conflict will be impacts on demand. Q3 will be lower in production than last year (-5/10 %) because of increased paper prices as well.

In case of an energy shortage, e.g gas management by government it will come to stops in production. Also if the tight situation in regards of chemical supply will continue or aggravate.

Gas availability seen as biggest threat to limit product and commercial general development. Debates for final products energy surcharge create high stress level in customer supplier relationship. Hallein pulp mill coming back into production after long stop followed a fatal accident. So far only short term stoppages due to high energy costs.

Pulp consumption in Europe could decrease again

- *less demand for paper volumes due to economy slowdown (less orders)*
- *Paper Volume reductions due to high energy costs or lack of Chemicals*

Paper Imports from Asia/China will slowly increase again

We might generalise to all markets; pulp consumption was and will be in the near future strongly conditioned by the vertiginous increase in the cost of production factors. The impact is obvious and rational. We are already witnessing the shutdown of many paper machines throughout Europe, a fact that will strongly condition the pulp market. The year 2022 will also be marked by the "adaptation" of economic agents to the new reality. At the current economic and social moment, to make great predictions seems quite risky. Much will depend on the new energy policy adopted by the EU, bearing in mind that it will take "its time" to be implemented.

At present, price increases on paper are being successfully implemented, but when customers will slow down, the paper business will be impacted. There is also the credit line aspect, concerning paper mills with a too low envelope and no cash flow which could quickly find themselves in a situation where the envelope is no longer sufficient for the desired volume because the price has increased, filling the credit line more quickly.

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