



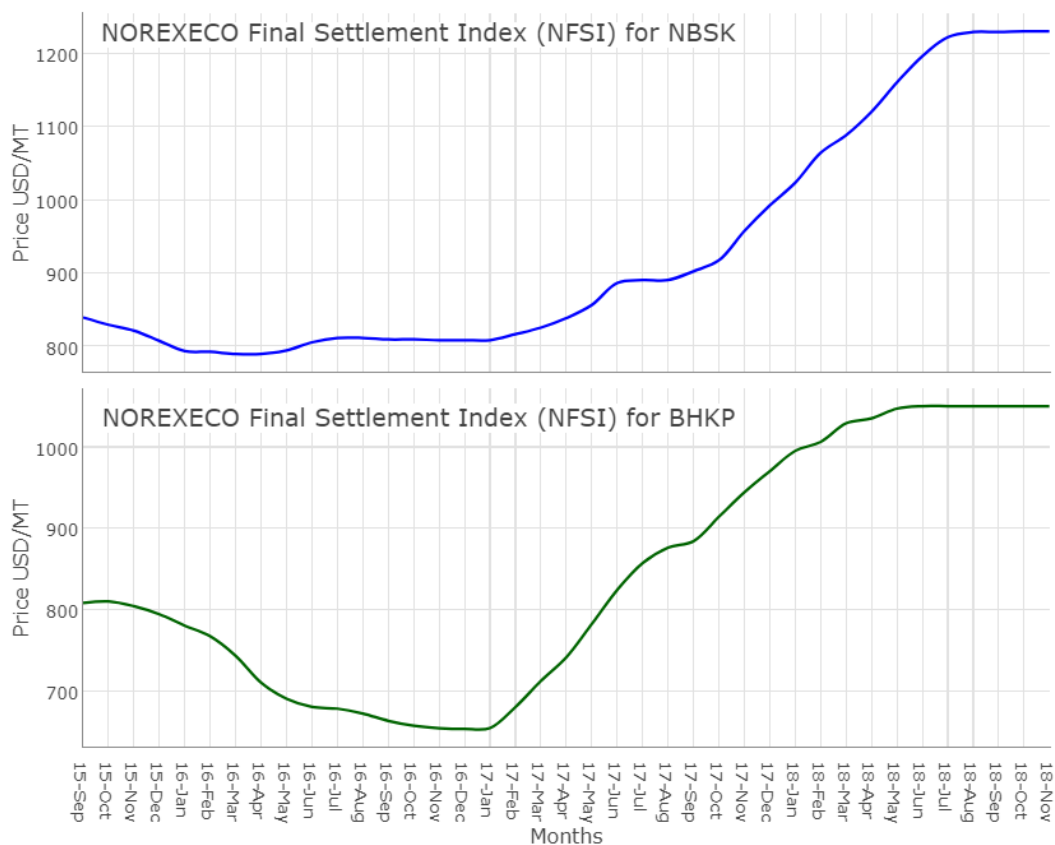
Pulp&Paper • News&Trends • Your December Newsletter

Navigator Will Increase Paper Prices in January

According to a statement from the company, the increases will be applied to all products and markets in Europe and will take effect in January 2019. The company justifies the measure with the increase in production costs. Navigator informed its customers in Europe of price hike ranging from 4% to 6% and in the Middle East, Africa and Turkey by €100/ton (\$115). This follows three previous increases in January, July and November.

Mellanskog Raises the Price of Hardwood Pulp

In November, Swedish forest owners association Mellanskog informed a price increase of SEK 30-35 / m³ on hardwood pulpwood.



Pulp Trend Still Rising in Most of North America

Pulp mills in five of the nine major pulp-producing regions of North America have seen their wood fiber costs go up over the past year, reports the North American Wood Fiber Review. In the 3Q18, average market prices for wood chips and pulp logs were highest in Interior BC and US Northwest, while pulp mills in the US South, Quebec, and the Maritime provinces had the lowest wood costs. Wood fiber costs for pulp mills in North America remained generally unchanged from the 2Q18 to the 3Q18 but were higher than in the 3Q17, according to the latest issue of the NAWFR. The biggest increases year-over-year came in British Columbia and the western US where prices for wood chips (the major fiber source for the two regions' pulp industry) increased by 25% and 23%, respectively.

Pulp Friction: Pulp Futures Beaten on Shanghai Debut

The front-month ShFE pulp contract SSPM9, for delivery in June 2019, tumbled from a base price of 5,980 yuan (\$861) a ton right from the start and was already down 8% by the end of the morning session. Pulp futures endured a dismal trading debut on the Shanghai Futures Exchange (ShFE) on 27-Nov as a combination of weak demand and high inventory levels caused prices to plunge by the maximum permitted 10%. The pulp contract - like other ShFE futures contracts - is not open to international investors.

Increasing Demands on the World's Forests

Annual demand for wood alone is expected to triple by 2050 to more than 10B m3 - equivalent to 4M Olympic size swimming pools full of wood each year. Forests must be sustainably managed and used to meet demand in a responsible way, which means reducing climate change risks, providing critical ecosystems services that make life on earth possible, generating industrial wood and fibre for a wide range of traditional products and innovative bio-product solutions, providing food and renewable energy, sustaining livelihoods and delivering recreational benefits. The main benefits of sustainable forest management are social (affects the livelihood of ~20% of the world's population), conserving biodiversity, renewable energy and recycled products, the most effective and cost-competitive natural carbon capture and storage system, protect restore sustain water quality / flows / watershed health.



OCC Hedging Will Be Possible in 2019

Norexeco is preparing to offer recyclers and papermakers a chance to lessen their risk exposure to volatile OCC pricing. The value of the old corrugated containers (OCC) scrap paper grade can be as volatile as any currency and other commodity, yet hedging against that volatility has seldom been available. Wahlroos said the value of the euro versus the dollar fluctuates on average 10.3% annually, while pulp prices fluctuate by 13.8% pa on average. The value of OCC, meanwhile, fluctuates more than 25% each year. OCC price swings can cause mill owners or recyclers to see their profit margins sliced by €1M when a large monthly price rise or fall occurs.

Norexeco is poised in **2019 to offer a contract** that will allow such **hedging** to occur and will be offered in euros and designed initially for paper recyclers, containerboard producers and other buyers and sellers of OCC in Europe. Norexeco has been offering a pulp trading contract that still has room to grow, according to Husebye. He said while copper is traded on contracts globally at a rate 40 times its actual physical market size, and aluminum at a multiple of 30, activity on pulp contracts amounts to less than 10% of the size of the physical global market.

Recycling Association Launches China Approval System

A new approval system for the export to China of used cardboard and some other paper grades has been unveiled by the Recycling Association. It has been agreed in conjunction with the UK branch of the Chinese inspection agency, CCIC. The new scheme involves a quality control system at depot level. Simon Ellin, chief executive of the Recycling Association, mentioned “Although the new system is not compulsory, we do believe that it will offer exporters significant benefits when compared to the alternative of 100% physical inspections prior to shipment and the potential delays and costs this would incur.”

Will China's Recovered Paper Problem Become Your Problem?

When the ban on unsorted waste paper coming into the country was announced in 2017, along with a tightening of quality requirements for other types of paper, it resulted in a dramatic plunge on the amount of recovered paper imported by China and, on the other hand, a significant boost on the amount of pulp. Chinese imports of pulp have increased. However, they are nowhere near enough to offset the drop in the import of recovered paper (RCP) and the price for pulp in China has jumped almost 50% since July 2017. In 2016, China imported c. 12M tons RCP that represents c. 20% of the world's total supply of pulp.

China has significantly increased its demand for pulp in 2018 and the announced new capacity is above the trend for pulp supply. Producers of specialty grade, large volume grades like consumer tissue & towel and uncoated freesheet, are heavily sensitive to pulp market prices.

If China holds firm on restriction, its producers will somehow need to replace theirs soon to be exhausted inventory. Purchasing costly market pulp is not a viable long-term option. Therefore, Chinese companies have closed purchasing deals with new pulp companies and could build virgin fibre mills where natural resources are available. However, the latter is a long-term project that would not help the short-term problem. **A faster alternative would be for Chinese companies to buy existing pulp suppliers, which is not just happening but also expected to continue.**

Finally, China needs products made from RCP, such as corrugated boxes for their exports, to keep its economy growing. **Will China be able to supply RPC domestically or will the ban be lifted?**

Kimberly-Clark to Call Off European Tissue Sale

Sale attracted some private equity interest but offers were well below \$1.2bn target. Thus, Kimberly-Clark has decided to call off the sale of its European tissue business, which includes popular household loo roll brand Andrex. It seems that Goldman consortium initially bid around \$1.4B for the unit but then substantially lowered its offer to below \$900M, citing a number of factors including the turbulence Britain's exit from the EU. The sale process was prompted by Kimberly-Clark's desire to exit less profitable businesses.

Orchids Extends Sale / Debt Deadline

The battered shares of Orchids Paper Products received a big boost Friday after the tissue manufacturer said it had bought some more time to find a buyer or refinance its debt and that a big retailer had signed a supply agreement. Orchids, which moved its home office to Brentwood from Oklahoma last year, has been on the clock to sell itself or some of its assets since this summer. The company's \$186M in long-term debt has been classified as current and its executives have had to amend their main credit agreement each quarter for more than two years. They recently also had to acknowledge that there is a **chance they will have to file for bankruptcy** in order to restructure their debts. Late Wednesday, they announced their latest debt deal amendment that lets them borrow another \$5.9M from a US Bank-led bank group that also includes JPMorgan Chase, SunTrust Bank and First Tennessee Bank. The latest

amendment also pushed to 14 Dec Orchids' deadline to sign a purchase agreement or a binding commitment to refinance enough debt to fully repay the lenders.

Price Fluctuation Hits Lenzing

Lenzing Group has posted a decline in revenue and earnings for the 3Q18 with the speciality fibre manufacturer adversely affected by a mix of lower prices for standard viscose, unfavourable exchange rates and price increases for key raw materials.

James Cropper Holds Interim Dividend Amid Pulp-Price Pain to Profit

For the year ended September 29, the company's pretax **profit fell 39%** to £1.4M from £2.3M the year prior; despite revenue jumping 6.1% to £50.3M from £47.4M yoy. "Paper sales have grown by 6% compared to the prior period but with pulp prices projected to add an additional £3.5M of costs compared to the prior year, our paper business is severely impacted," Mark Cropper (Chairman) added.

However, there are good news...

PG Paper is Set to Double in Size over the Next Two Years

PG Paper have ambitious plans to expand the business by branching out into new and emerging markets, including growing worldwide demand for tissue paper. In the firm's most recent accounts, turnover increased by over £13M to just under £36M, leading to a pre-tax profit of £1.4M - up from £573,000. But that is expected to rise even further when the latest set of financials are released next month. Last year the firm secured a £10M funding package from Santander to aid growth plans, which could see as many as 20 extra staff taken on. PG Paper now does business in over 50 countries across five continents. Traditionally, the firm has supplied paper for publications and packaging and is now branching out into tissue which is used in a wide variety of products such as toilet rolls, napkins and hankies.



Tissue Industry - What Will Happen?

The **global tissue industry** is facing **two problem areas** that will make the new few years considerably more challenging. These problems have to do with **new capacity** along with the **rising price of virgin market pulps**. The current pulp price stability is considered by some experts as temporary. There is a third problem area that has the potential of being a game changer if it is carried out globally and not confined only to the highly industrialised nations.

The global tissue industry has enjoyed a quarter century of unprecedented growth in total tonnage, sophisticated products, high tech forming machines and, most importantly, almost universal acceptance of tissue products as household essentials regardless of the family's economic standard of living.

There will be too much capacity coming on stream in too short a period of time. It is **scheduled 12M new tons of tissue capacity in the next three years, which represents a 33% increase. Will some plants shut down to bring the market back into balance? Which ones?** Who will volunteer? Will some mills cut prices to maintain market share while hoping that the higher cost competitors will be forced out of business?

In one year, NBSK has risen from c.800\$/admt to today's list of c.1250\$/admt. Thanks to discounts that are well into double digits for the major buyers of NBSK, which are typically based on quantity, length of the contract and fidelity. Industry observers believe price increases could go up for the next two years given the fact that there is so little new capacity coming on stream for softwood pulps.

Economy of scale has dictated that the optimum pulp mill today should have an annual capacity of at least 2M mt. This tonnage level will require no fewer than 4M mt/year of chips (c. 50,000 ha), which have to come from nearby. Can all this land be acquired at a reasonable cost? **The most recent mill to start up is the joint venture brethren Arauco and Stora-Enso in Uruguay. That mill was sold out the minute it was announced.**

The last but not least challenge is the **non-integration of most of the tissue producers**, with a few exceptions. They all must buy their long and short fibre pulps at arms length at whatever prices are prevailing at the moment of purchase. The next three years will be a challenge for many tissue producers and it's not unreasonable to expect some of the high-cost mills to go out of business. However, thus is not all bad since it will help to bring the demand/supply ratio back into balance. For the company who is successful in acquiring an older integrated mill and adapting it to its basic products, this could be a fantastic and survival opportunity.

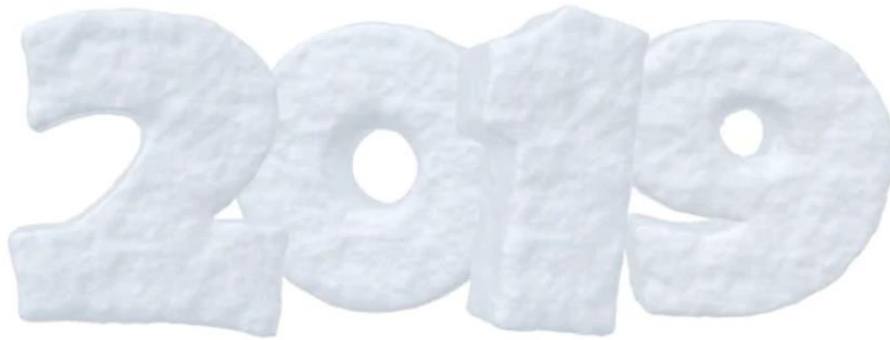
M&A Activity / Investments

- Belarusian company signs memorandums to sell sulfated bleached pulp to China
- Stora Enso to acquire forest assets in Bergvik Skog
- Canfor to acquire majority interest in VIDA Group of Sweden
- Arctic Paper to close paper machines in Grycksbo
- Andritz and BCNonwovens celebrate successful long-term partnership
- Smurfit Kappa acquired the largest integrated packaging business in Serbia
- WestRock completes acquisition of KapStone
- Reno de Medici completes acquisition of Barcelona Cartonboard
- Mayr-Melnhof acquires TANN Group for €275M
- Klingele Group acquires the Spanish company Ondunova

- Suzano says Fibria acquisition to be concluded on Jan 14

New Developments

- Valmet to supply OCC and containerboard lines for Mondi, Slovakia
- Andritz to supply a PM to Berli Jucker Cellox's mill in Thailand
- A.Celli to supply rewinder to Xinxiang Xinya Group - mainly produces white coated and printing papers, with a capacity of 800,000 tpy now but will reach 1M tpy in 2019
- Andritz to upgrade screw presses for Metsä Board
- Toscotec to supply a PM on a turnkey basis to C.A.S. Paper Mill in Thailand



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HAPPY NEW YEAR!

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