

Why are paper prices rising?



There has been a huge change in the consumption pattern of waste in the world. Till a year or two back most of the waste was sent to China and other Asian countries to be recycled into paper.

In the last couple of years especially after the announcement of the Chinese government to ban import of all kinds of waste into China from 1st January 2021 a lot has changed.

In south East Asian countries Chinese paper groups have bought out or put-up new paper mills to produce paper or pulp reels to export back to China.

In Europe with 3 new 100% recycled paper mills starting production in 2020 an additional 3 million tons of wastepaper will be consumed internally leaving a large vacuum in the export market to south East Asian countries including India.



In the USA Chinese companies have invested into very large paper mill capacity to export to China and have taught the Americans that blending recycled paper with prime wood pulp to make KLB make better commercial sense without too much of a change in the quality.

1 This has resulted in local wastepaper consumption increasing in the USA and whatever is left over for export due to the lower quantity availability a demand supply gap has been created increasing the price of DS OCC to 325 USD today from the levels of 120 USD about one year back.

2. The containers shortage has played a very big role in the spike of the price of wastepaper as waste being a low value item any change in freight cost has a direct and huge impact on the overall price of wastepaper.

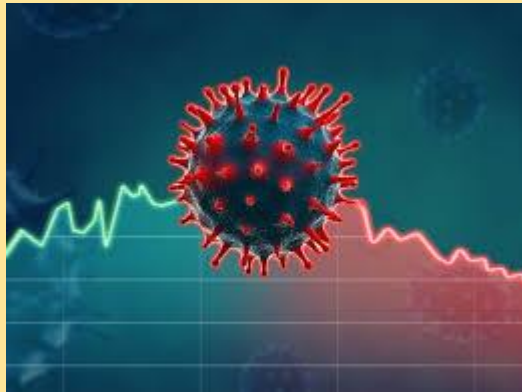
With freight cost increasing between 3-6X the effect on the price of waste is drastic.



Most shipping lines have experienced higher profits due to this scenario and are now wary of introducing more ships and containers into the market as that will result in an balancing of the demand supply situation and resulting in lower prices.

Under the current circumstances it looks like the container situation will not change at least for the next 2 quarters and therefore keeping the prices at current levels in terms of freight.

3. we are all aware the havoc COVID has created the world over but interestingly if we notice most of the Asian countries that were initially impacted by COVID have fared relatively better than the western countries of Europe and Americas. The two most important Asian economies, China and India have V shaped recoveries, and this has created a huge surge in demand whose side effect is the spurt in prices of all commodities across the world.



As all leading economies are interlinked, because the western and most advanced economies are still battling COVID we find that due to sporadic shutdowns the collection of waste has been severely affected and due to that exports to Asian countries has dried up.

Waste from Europe to India has almost come to zero levels and waste from USA the best source of good quality fibre is almost dwindled to very low levels again due to lower levels of collection, non-availability of containers, and increase in self consumption.

4. This year along with COVID the erratic behaviour of the climate across the world has also played spoilsport. USA is experiencing a very severe winter and temperatures are down to abnormally low levels. This has resulted in extremely poor collection of waste and has thus created a shortage which has impacted the price due to the demand supply gap.

In fact, Texas which is a southern state bordering Mexico having a very warm weather has experience very heavy snowfall which has created havoc across the state with electricity down and water pipes bursting and cattle dying due to this unprecedented change in weather. This has disrupted wastepaper availability to certain extend.

5. In the last few years the overall capacity to produce Kraft paper in India has increased significantly due to many new plants coming up with higher technology as well as capacity.

This has created a situation where when there is a shortage of local waste. Partly the reason for this is that new export avenues have now permanently opened up and the mills have started competing with each other to source local waste so that they can continue to run their plants to optimum capacities and in the process the local waste supplier is taking advantage of the situation and increasing the pricing of wastepaper on daily basis. The mills to protect their margin in turn immediately increase the price of finished paper which is a commodity and not a custom-made product like the Corrugated box.

6. The last and most important factor is what is happening in China.

Once China stopped importing wastepaper there was a huge short fall of Kraft paper availability in China to manufacture Corrugated boxes to pack for its export requirements and local consumption.



countries like India. They import very low-quality paper from India with reasonable fibre quality which is directly pulped to make better quality paper in China to meet their demand.

The Chinese started paying Indian mills USD 270 pmt last June and today they are paying USD 510 for the same. From zero exports of paper to China today India is exporting close to 15 lac tons per annum to China in the form of pulp reels and this is expected to go up to 20 lac MT in 2021.

China used to produce close to 28 million tons of Kraft paper a year and not export anything as its self-consumption was very high.

They imported the highest qty of waste in the world to manufacture Kraft paper.

Once the ban came into effect the available local waste was not enough to meet the requirements of paper and we anticipate a short fall of about 15 million tons of paper per annum.

This is now being filled by KLB imports from across the world and import of pulp reels from

This constitutes 30% of our local requirement. With this kind of new demand all mills in India are over booked with orders and there is a big gap in the demand supply with demand out stripping supply.

Secondly with so much paper being exported we are losing that much fibre from the system. As the fibre recovery cycle in Indian continues to be very poor and we continue to rely on Imported waste to fill the void that has been created.



With the Indian economy expected to grow by 12-13% in coming years this gap in demand and supply is going to persist for months to come.

To summaries the situation it seems that all these points converge in China! China in one way or the other and unless all these points do not ease out the situation will not normalize.



The chances of that happening is very bleak this year and till the world market does not reach the equilibrium with the Chinese markets this situation will persist. With the paper prices in China at their highest this is very worrisome.