

23 April 2020

Synthesis of the questionnaire pertaining to the impact of the covid-19 crisis on market pulp supply

14 delegates have responded to the questionnaire (10 companies, 4 national associations)

1. Does the covid crisis have an impact on your market pulp supply?

7 respondents answered “No” and 7 answered “yes. Some of the respondents who said “no” nonetheless reported small impacts (mostly on logistics) analyze below, with the answers of those who mention a clearer impact.

2. If yes, could you specify the impact(s) (logistics, increased/reduced supply, shortages from suppliers...)

Before answering to this question, a few delegates give an analysis of the supply/demand situation. In short, ***the strong increased demand of pulp from tissue producers has balanced suspended production of graphic/specialty paper producers***, but the resulting equilibrium is not mentioned by delegates. More specifically, it is noticed that:

- Tissue demand (toilet paper, kitchen towels...) has surged as a consequence of the crisis. “At Home” tissue was indeed benefiting from “panic buying/stocking” in prevision and during the lockdown.
- On the other hand, due to office lockdown, the collection of higher grades of paper for recycling dramatically decreased, such material largely used by the tissue sector (Away from Home especially).
- One delegate estimates that, for his country, availability of higher grades of paper for recycling is reduced by around 50% from normal levels, potentially increasing the demand for virgin fiber to use as a replacement.
- Consequently, the combination of additional demand of tissue products and less recycled fibers has led to an increase in virgin pulp demand.
- In parallel to these evolutions on the tissue market, graphic papers demand has lowered significantly, as well as some specialty segments, especially the ones related to industrial goods (construction, automotive....).
- One delegate also mentions that the decreased collection of Paper for Recycling has resulted in shortages of Deinked Pulp.

Delegates consider that pulp availability is at this stage not a problem. It is nonetheless mentioned that lockdown in various countries has slowed down construction activities, leading to closure of sawmills in Canada. This is adding to an already tight wood chips market in British Colombia. This situation led to closure of NBSK capacities. In the same time, in Europe, more integrated pulp can now be found on the market.

The difficulties mentioned relate to logistics (reported by 6 respondents) but are manageable and have in general decreased over time. Some regions have seen small increases in lead times on logistics but nothing significant. One respondent mentions that

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some Canadian suppliers have announced delays in coming shippings. Another one reports increased container costs. Three respondents also mention congestions at border crossings.

3. In the coming weeks/months, is there risk of disruption to pulp supply chains that could lead to supply shortages?

Answers are split, as half of the respondents are confident that there is no risk of disruption, and another half is either worried or interrogative.

More precisely:

- Yes : 2 answers
- No : 7 answers
- Perhaps : 2 answers
- Don't know : 2 answers

Analysis of these various forecasts are provided in paragraph 6 below.

4. If there is a risk of disruption, is this a company specific problem, or should the pulp consumers come together to help address any problems?

As for the question above, ***answers are pretty diverse, but the vast majority of the respondents either consider that managing a disruption is a company specific issue (5) or have no clear idea at this stage on the answer to this question (6).***

2 respondents consider it would make sense to address a disruption problem in a collective manner.

- In one answer, the respondent mentions that his Government has expressed a strong preference for industry to work together if a supply problem actually develops.
- In another answer the respondent considers that in a situation of disruption, it could be helpful to get collective support, but that some legal advice would be needed in this case.

6 respondents consider that addressing such a situation is a company-specific problem. In most answers the reason put forward is "We think each company has to take the own responsibility". In one case, it is also reported that the company buys specific grades (DIP), not proper to a common approach.

6 respondents either do not answer (3), consider it is a difficult question (1) or consider the answer might depend of the nature of the disruption, if any (2).

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5. Is there a role for UTIPULP in summarizing business intelligence and disseminating to Members?

Answers are diverse. *Less than the half of the respondents see a role for UTIPULP (gathering information among members, collection information about the market). The other half either see no role for UTIPULP or has no idea of what UTIPULP could do. More precisely:*

- 6 respondents think UTIPULP could have a role to make some proposals (see below).
- 4 respondents consider it is not the role of UTIPULP to have business intelligence activity (as it is done by companies) and follow-up the development of the crisis.
- 4 respondents do not oppose to the principle, but are uncertain on the role that UTIPULP could have.

The ideas put forward by the 6 respondents who answered “yes” are the following:

- *“everybody is trying to verify the outcome of covid measures as some areas are positively influenced (tissue) and others are strongly negatively influenced. Sharing such evaluations could improve eventually the total picture.*
- *Would be helpful for UTIPULP to play this role if possible by providing anonymized updates on (say) a weekly basis.*
- *UTIPULP may summarize the potential risks on pulp shortage depending on the pulp mills activity. It may help to have a benchmark between the official suppliers’ information and the actual situation of each pulp mill.*
- *UTIPULP could observe international developments (especially in South America) and report potential problems or bottlenecks in delivery at an early stage. For example, if there were to be coronary closures of pulp mills or ports or transport routes.”*

6. Comments

Regarding the demand side

- On medium term, one delegate forecasts a big drop in prices due to a very low demand (approx -25% in 2nd half of 2020). On long term, it will be important to see how this low process will affect pulp companies; since some of them could shut down definitively.
- One respondent mentions that demand is expected to be down by 2 million t globally this year. He considers that as long as the liquidity is provided, there should be no disruptions. Some segments of p&p will be affected more than others and some will benefit from current crisis. This will change the pattern of demand for market pulp in the coming years
- The demand from tissue will be interesting to follow, as changing habits could lead to higher demand for wipes/rolls/hand towels etc.

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Regarding the supply side

Short term

- LatAm is moving into winter, which increases the risk of disruption.
- In Europe, the closure of sawmills may lead some pulp supplier to get higher price for wood, being forced to buy the full log instead of the pulp logs traditional used.
- Postponement of maintenance stops and difficult availability of specialists could create additional supply disruptions. Will a jam of maintenance stops in autumn restrict capacity?
- The PfR procurement might become increasingly difficult due to the decrease in commercial activity and restrictions in collection. That might have impact in some grades.
- The situation of the PfR collection will lead to DIP supply shortages

Medium/long-term

- One delegate expects shuts of pulp mills, as prices might remain too low for a too long period
- BSKP may be more impacted than BHKP on the supply side but it is not expected any big shortage, especially because demand to continue dropping further as the impact of the COVID gets more visible. Post COVID is still uncertain but for sure there will be impact as economies will struggle to recover
- In long-term, the covid crisis may have an impact, mainly due to sanitary situation in Brazil. If production is not affected, risks might be on supply-chain on road transport or ports handling.

Miscellaneous

UTIPULP should undertake more activity on common sustainability issues for p&p products, logistics, technical, uniting operations on pulp.
