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March 2018 price rise

With a heavy heart, I find myself writing to you, only four months since my last letter regarding industry-wide price increases.

Having set up Cumberland Packaging up over 30 years ago, I have not seen market conditions like these; the price of paper has risen by 40-60% in just 18 months. With demand for containerboard (i.e. the paper used to make corrugated boxes) continuing to outstrip supply, the mills have seized the opportunity to implement yet another unwelcome price increase, which we have no choice but to pass on.

Hence prices for finished goods will rise by 9% for all deliveries with effect from 1st March and sheet board will go up by 12% on the same date.

In previous communications we've suggested looking at alternate grades of material – this option may now be worth giving serious consideration to if not already implemented. Please do not hesitate to get in touch with your regular sales contact to explore options that may potentially mitigate this increase.

For a full run down on the market forces at work please see below editorial comment from **Know It All** – who publishes a monthly newsletter to the packaging trade, written by Raj Bhardwaj, at the beginning of January.

Please be assured that your business is greatly appreciated and never taken for granted.

John Watson, Managing Director

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For the first time that I can remember in our industry (i.e. 26 years years), the price of containerboard is going UP in January. Counterintuitively, prices are set to rise despite a major input cost going down. The Chinese containerboard market is currently weak, which in turn has softened global OCC prices. Hence the main input cost for paper-making is deflationary. However, solid demand in North America and Europe is building a head of steam in terms of upward momentum on prices:

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(77,900 tons). The US corrugated industry is forecasting 2-3% growth in 2018, so there will be little in the way of exports to Europe from this route.

- Some European Kraft liner buyers are indicating 10-20% more demand in 2018, but suppliers do not have more capacity to give. Not everyone will grow at these rates, but the underlying rate of growth is still hefty. By way of example, German corrugated demand is forecast to grow by 5.6% in Q1 2018...and that's 5.6% of an awful, awful lot.
- Recycled containerboard makers are not waiting until the Spring, with DS Smith leading the way and asking for a €60/tonne mainland European increase and a £70/tonne UK increase with effect from the 1st of January. Smurfit Kappa has announced an increase of €60/tonne on all recycled and Kraft liners with effect from mid-January. SAICA has followed suit on its testliners and SCA is increasing its Kraft liner prices.
- In terms of recycled containerboard, I understand that the UK price rise is settling around £50/tonne during the course of January, with the new rate taking effect everywhere by the time we get to February.

There are currently two schools of thought on what's going on here:

1. One set of buyers believe that paper makers are trying to get prices up before deflation sets in when the four new / refurbished European paper mills start producing in earnest by quarter two. They also point to lower OCC prices and are sure that paper mills can then accommodate lower prices whilst still making more than enough money. Aficionados of Twitter would use the hash tag #Wishful-thinking methinks.
2. Another group assess that we are going through a long period of sustained paper price inflation and that we have another 2-3 price rises to cope with in 2018. Perhaps more beyond that. When you can't make enough of a commodity, you keep shoving up the price until sufficient folk stop buying it to bring the market closer to equilibrium; or more capacity is attracted in by higher returns. However, price increases of 40-60% over the last 18 months (depending on your starting point and whether you're an independent) do not seem to have taken the edge off demand – the elasticity of demand has not yet been stretched to breaking point. Also, OCC will rise – the current lull is a temporary situation (arising from Chinese government policy) and is giving paper mills a short term windfall. These guys look at the global situation and see a market that looks like remaining as tight as a drum.

Whichever of the two scenarios comes to pass, the current containerboard price rise (on Kraft and testliners) is sailing through without too much friction; it remains a sellers' market. The magnitude is such that sheet board and box suppliers will have no choice but to pass on what looks like being a double-digit price rise of their own.

It's also worth noting that mainland European suppliers need a larger increase for the UK to offset the impact of the recent circa 15% devaluation in sterling and higher transport costs. As a result, they are being harder on UK buyers during negotiations.

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market sector is growing strongly (by 14.2% across Western Europe and Poland in 2017) and that the UK is the biggest online retail market in this region. It's also worth noting that online retail sales in the UK now represent 15% of all retail sales.

	Online sales (£bn) 2016	Growth 2015-16	Online sales (£bn) 2017	Growth 2016-17	Online sales (Euro bn) 2017
UK	£60.43	12.6%	£67.38	11.5%	77.63 €
Germany	£54.21	18.3%	£63.09	16.4%	72.69 €
France	£37.00	16.7%	£42.11	13.8%	48.51 €
Spain	£9.94	18.8%	£11.85	19.2%	13.65 €
Italy	£7.62	16.9%	£8.78	15.2%	10.11 €
Netherlands	£7.11	16.5%	£8.32	17.0%	9.58 €
Belgium	£4.83	15.3%	£5.46	13.2%	6.29 €
Austria	£4.77	13.5%	£5.41	13.4%	6.23 €
Switzerland	£5.78	11.6%	£6.38	10.3%	7.35 €
Sweden	£4.98	11.6%	£5.70	14.5%	6.57 €
Poland	£5.23	17.8%	£6.14	17.2%	7.07 €
Europe	£201.90	15.6%	£230.62	14.2%	265.68 €

This is having three notable effects on the corrugated market:

- Online sales are changing the profile of the retail market by causing fragmentation of pack sizes. Whereas traditional retailers use one way trip multi-packs to benefit from economies of scale, online sales are causing fragmentation. This leads to more square metres being required.
- The typical pack design required for online sales often requires quick-erect functionality (e.g. a crash lock base, seal tape) to optimise the productivity at fulfilment centres. Conversely, conventional retailers have an increasing requirement for point-of sale packs...so the type of box plant meeting the demands of the online sector is very different from mainstream retail.
- It used to be said that if you didn't receive your boxes by October then your product would not be on the shelves in December. However, e-commerce is making this wisdom redundant and bumping up corrugated demand in November and December further-still. Box plants targeting the online retail sector will need to dramatically increase their reliable capacity to be able to cope with the peak of quarter four. That means having a lot of latent capacity in the first three quarters of the year, unless you can target other seasonal work too (e.g. produce and drinks – which tend to peak in the summer).

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- We are certified for BRC/IOP as well as Ethical Trading.
- We passed our FSC audit in January 2017.
- We're also a member of the Sheet Plant Association.

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