

Market Update

Facilitating informed decisions

What's Changed Recently?

8% of European Kraft capacity has closed



Hence Kraft prices have risen twice since Autumn 2012



Recycled containerboard is in tight supply across Europe



There have been three testliner price increases since Autumn 2012



OCC prices have risen since Autumn 2012



The pound has fallen



General UK inflationary factory input costs are running at 5%



Hence recycled price increases this Spring and Autumn

Kraft Paper Prices Have Risen Twice

- Following the closure of some 8% of European Kraft capacity last year...
- Kraft liner prices rose circa £40/tonne last Autumn
 - No subsequent movement in box or sheet board prices at the time
- Kraft liner prices rose a further circa £40/tonne this April
- That's a cumulative 15% increase in Kraft prices since last Autumn

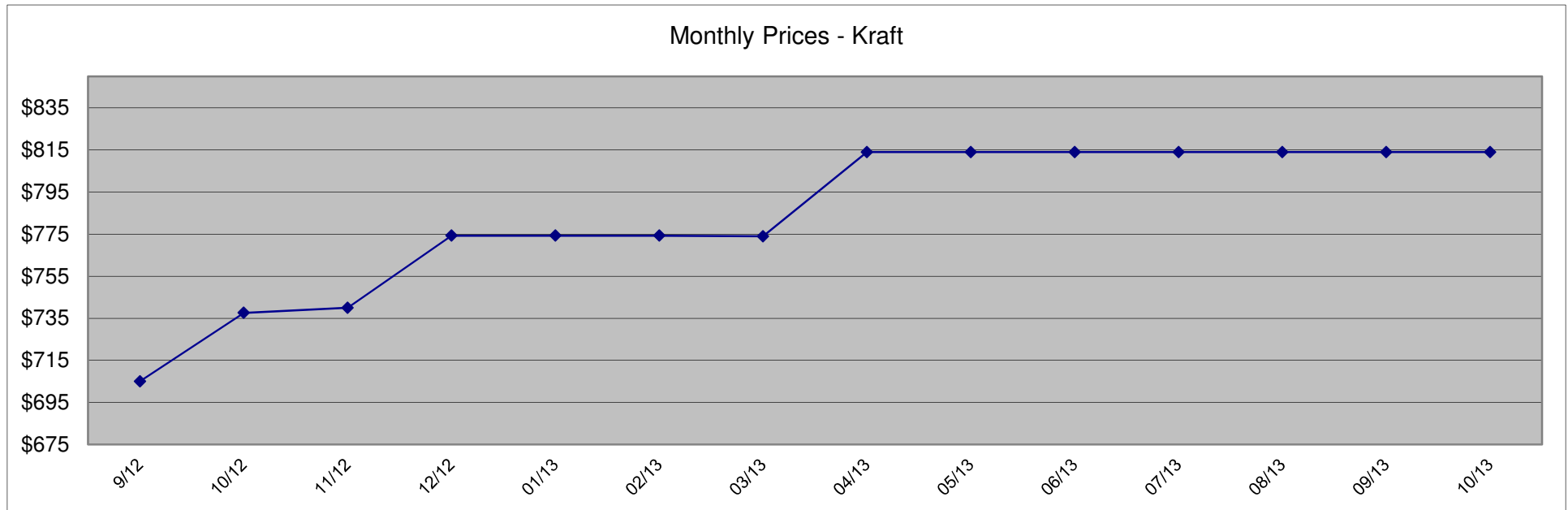
Testliner Supply is Tight

- As well as typical planned downtime, ten unplanned maintenance shutdowns this summer
- A lot of old and inefficient European capacity has been taken out
- A significant minority of brown testliner capacity has been switched to white testliner
- Increase in the amount of Kraft substitution – raising demand for testliner
- Smurfit Kappa were losing millions per month at their Townsend Hook paper mill
 - They've closed the two paper machines which produced 240,000 tonnes (equivalent to 15% of UK demand)
- European paper stocks have fallen by 63,000 tonnes to 486,000 tonnes (below the 500,000 mark signifying a shortage)
- July saw mills running at an overheated 102-109% and turning away requests for higher volumes

Testliner Prices Have Risen Three Times

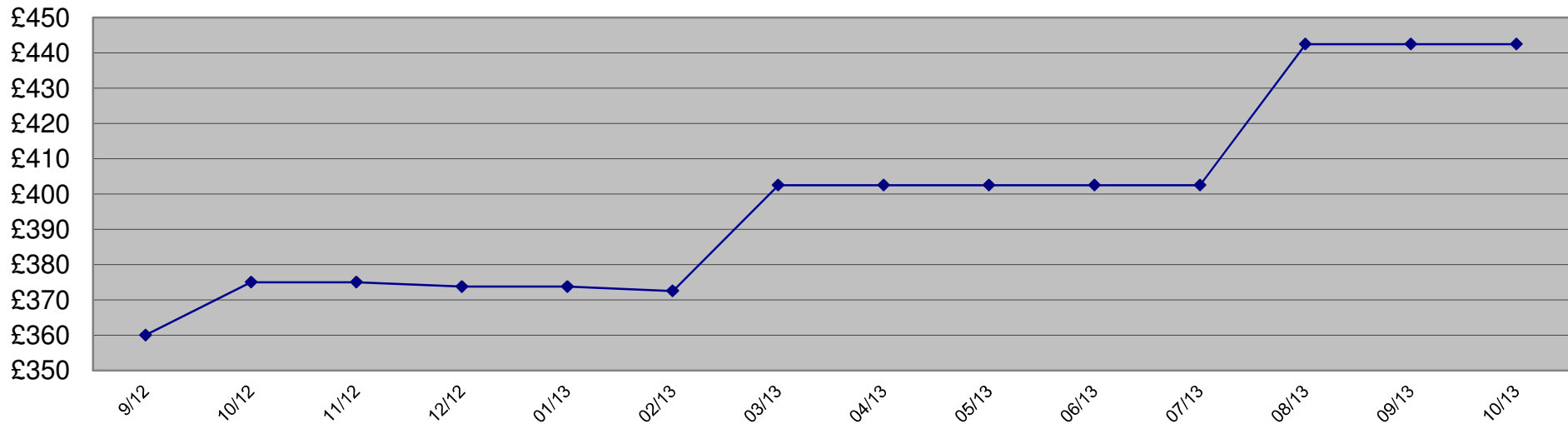
- Testliner prices rose circa £15/tonne last Autumn
- Up a further circa £30/tonne this Spring
- Up a further £40/tonne this August
- That's a 23% cumulative price increase since last Autumn for TL2, TL3 and waste-based fluting

Paper Price Dashboard

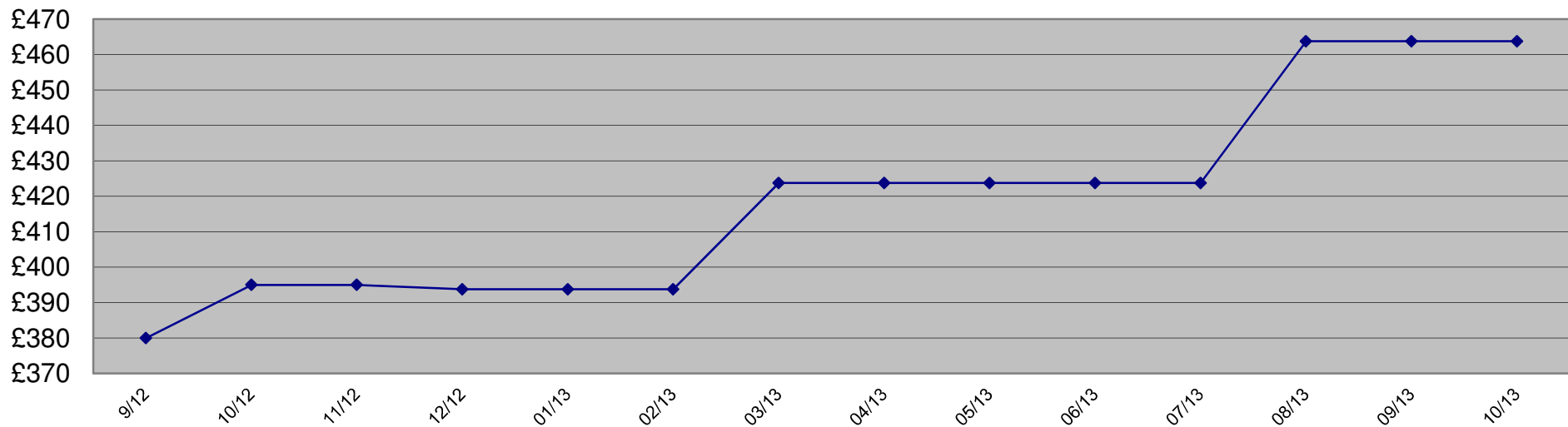


Paper Price Dashboard

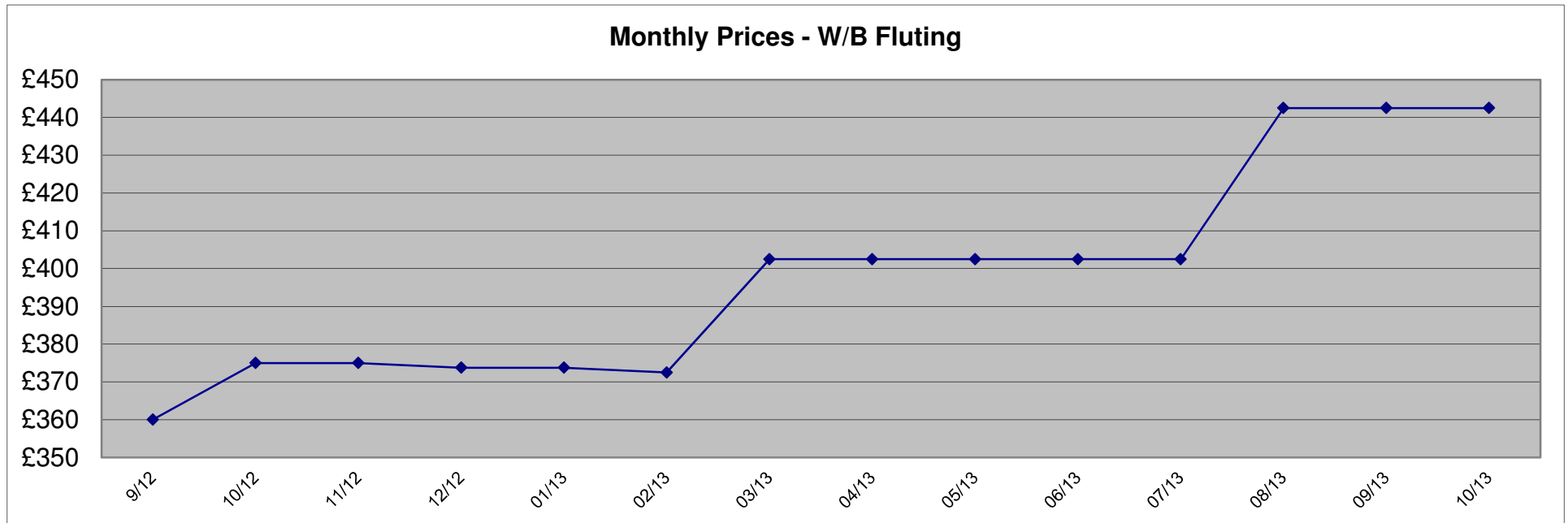
Monthly Prices - Test 3



Monthly Prices - Test 2

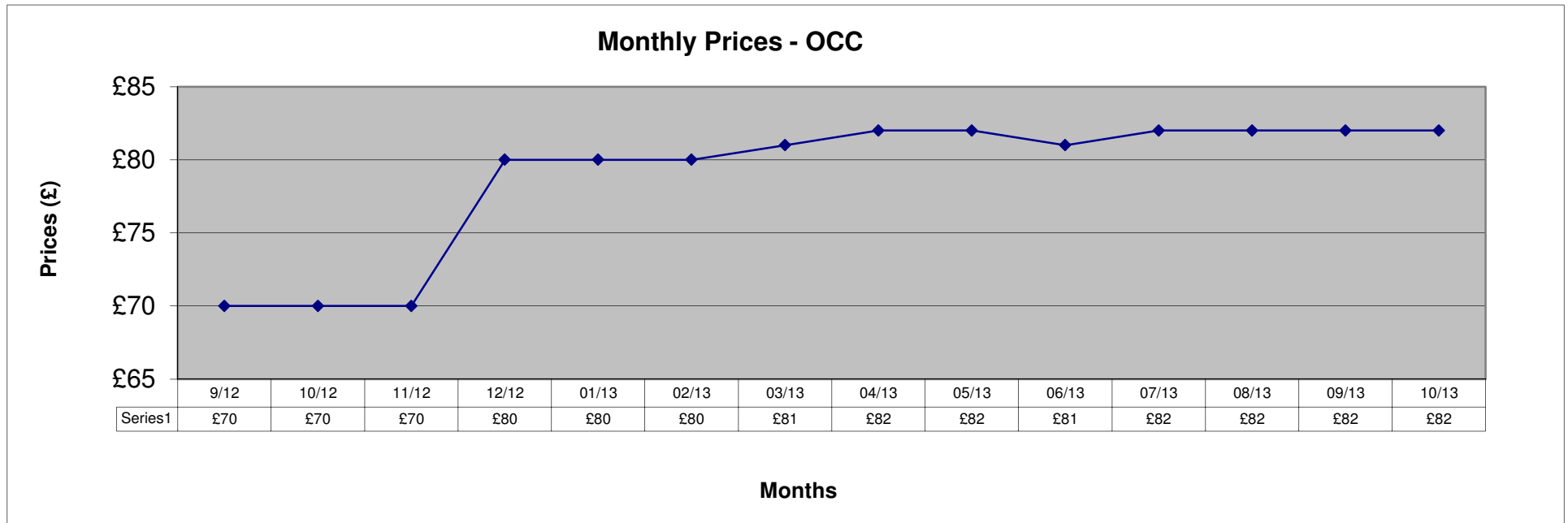


Paper Price Dashboard



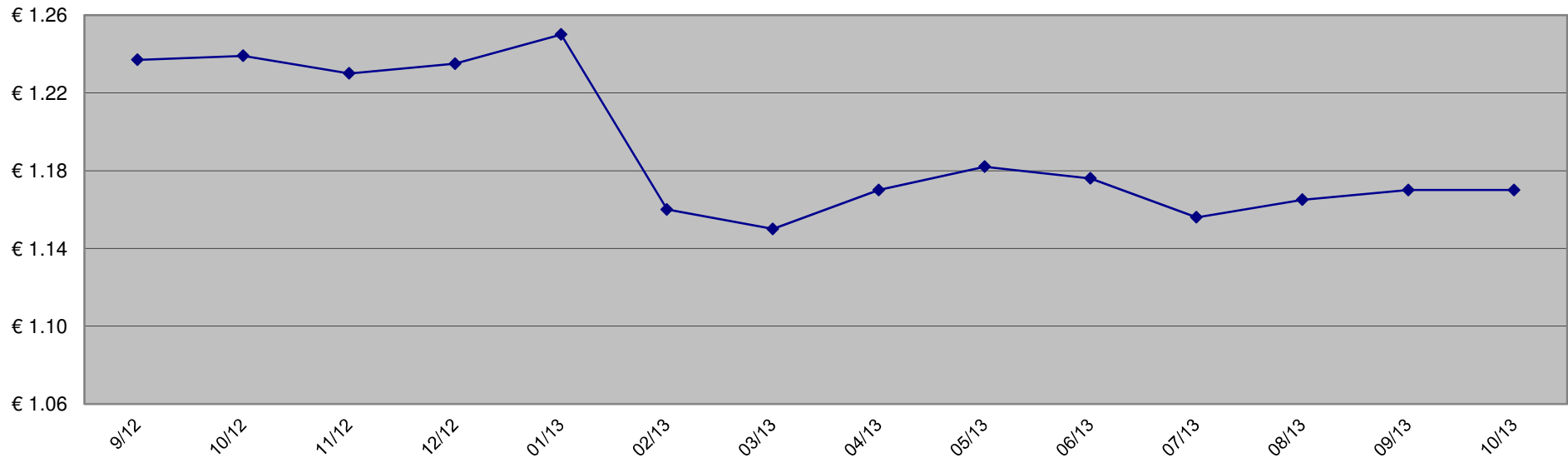
OCC Prices Have Risen

Hence a major input cost for recycled containerboard is up

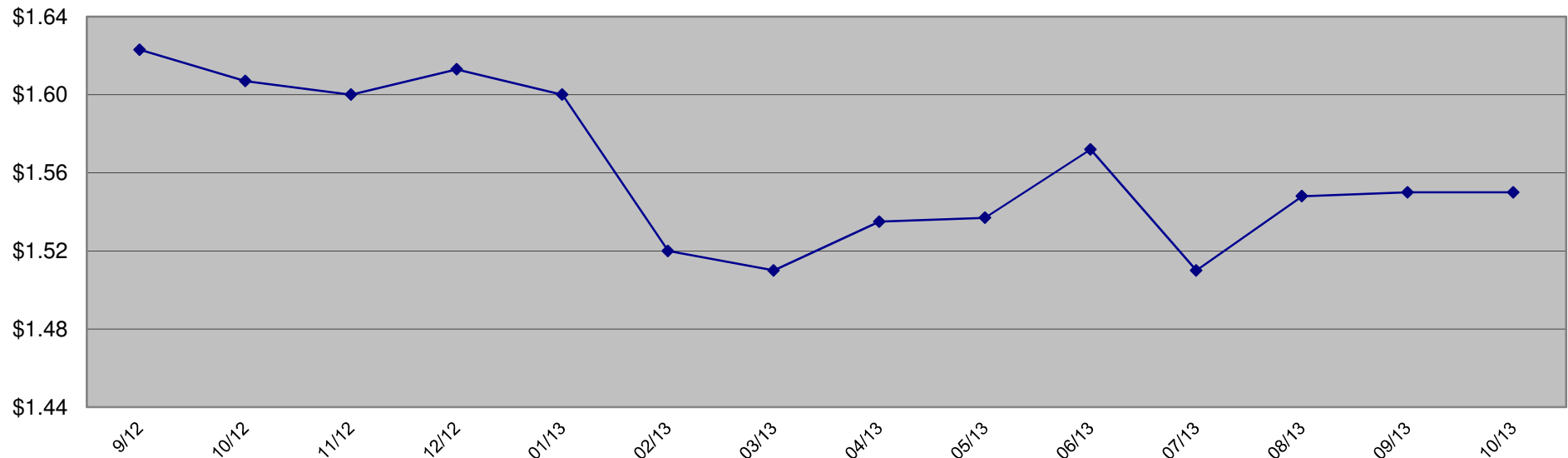


The Pound Has Fallen

Monthly Prices - Euro:Pound



Monthly Prices - Dollar:Pound



Counting the Typical Additional Paper Cost

| Type | Average tonnes recycled | Average tonnes Kraft | Total Tonnes |
|----------------------|-------------------------|----------------------|--------------|
| Sheet feeder | 80,000 | 20,000 | 100,000 |
| Integrated box plant | 40,000 | 10,000 | 50,000 |
| Sheet plant | 8,000 | 2,000 | 10,000 |

| Type | Additional recycled liner cost | Additional Kraft liner cost | Total Additional Cost |
|----------------------|--------------------------------|-----------------------------|-----------------------|
| Sheet feeder | £5,600,000 | £1,600,000 | £7,200,000 |
| Integrated box plant | £2,800,000 | £800,000 | £3,600,000 |
| Sheet plant | £560,000 | £160,000 | £720,000 |

Factory Input Inflation Running at 5%

- Output price 'factory gate' annual inflation for all manufactured products rose by 2% in the year to July
- Input price annual inflation rose by 5% in the year to July

Summary

- Kraft liner prices have risen twice by a cumulative £80/tonne (15%) since last Autumn
 - Circa 8% of European capacity was closed last year
- Testliner prices have risen a cumulative £85/tonne (23%) since last Autumn
 - Margins are unsustainably low
 - Supplies are tight across Europe
 - Corrugated waste (OCC) prices are up since last Autumn
 - The pound has fallen, making imports of paper more expensive and exporting more attractive
- General UK factory input cost inflation is running at 4.2%
- **Hence sheet and box prices have to rise if the industry is to remain viable**

Supporting Information

Press Clippings and Copy Price
Rise Letters

SCA to increase unbleached Kraft liner prices

SCA Containerboard noted that the containerboard market remained strong at the end of 2012 and coming into 2013.

Hence the company intends to increase its prices for unbleached Kraft liner in continental Europe by €40/tonne and in the UK by £35/tonne with effect from 1st March.

Hamburger raises prices for brown and white recycled containerboard

Strong demand has resulted *"in a very good order book at the mills, whilst the profit situation remains disappointing despite several cost improvements made during recent years."*

The continuing decrease of European paper stocks indicates a strong demand for containerboard and therefore the company anticipates a quick implementation of its price increase."

Hence the company has announced an increase of €40/tonne.

Metsa Board to increase prices for white-top Kraft liner in Europe, the Middle East and Africa

Metsä Board will raise the prices of all Kemiart white-top Kraft liner grades by €50/tonne in Europe, the Middle East and Africa, effective for deliveries as of 8 April 2013. *"The price increase is needed to counter the effects of a continued rise in production costs,"* the firm said.

Mondi raises Kraft and semi-chem prices from April 1

Mondi has announced a price increase of €40/tonne for virgin containerboard grades in Europe with effect from April 1, 2013. The equivalent price rise for the UK market is £35/tonne. The increase will affect Kraft liner brown, white-top Kraft liner and semi chemical fluting grades. It has been prompted by an improved supply and demand balance especially in view of upcoming seasonal demand.

KNOW IT ALL

April 2013

Careo to raise recycled board prices by €50/tonne in Europe along with £50/tonne in the UK for all deliveries from April 29

It has been reported that Careo has begun informing its customers that the company will increase its prices for GD, GT and liner by €50/tonne (\$65/tonne) in Europe and £50/tonne (\$76/tonne) in the UK for all deliveries from April 29.

The company attributed the price hike to a sustained level of activity in those markets, challenging 2012 financial results and high input costs, particularly the high price of energy.

Careo is also considering a price increase for virgin board.

This is the second price hike announcement in the cartonboard market for the spring. Earlier this month, Smurfit Kappa said it will increase its prices for solid packaging board and WLC by €40/tonne in Europe from April 15.

It's valuable to know that buyers will be receiving letters and phone calls from cartonboard suppliers in the coming weeks...to addition to the likely communication about corrugated price rises.

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Smurfit Kappa Group to increase prices for brown and white-top kraftliner grades by Euro 40/tonne in Europe, effective April 2.

PARIS, Feb. 27, 2013 (Press Release) - [Smurfit Kappa Group](#) (SKG) has unveiled plans to raise prices for brown and white top Kraftliner grades by Euro 40/tonne across Europe. The increase will be effective as from 2nd April 2013.

SKG comments that the price increase is made necessary by a higher than expected surge in production costs.

Related stories:

- ▶ [Mayr Melnhof to hike GD and liner prices by Euro 50/tonne, grey board prices by Euro](#)

The price increase follows the successful implementation of price increases for recycled grades as of February across Europe. It will take place in a context of good demand growth for containerboard grades.

Hamburger Containerboard to shut its recycled containerboard PM II in Frohnleiten, Austria

Hamburger Containerboard is going to close down the recycled containerboard production of PM II in Frohnleiten by the end of March 2013.

The final closure will take place on April 22nd. Until this date the paper machine will produce only special grades for plasterboard. Consequently Hamburger Containerboard will take 170,000 tonnes containerboard out of the European market.

Europac to raise Kraft prices effective from April 1

The Europac Grupo (Papeles y Cartones de Europa, S.A.) has announced a €40/tonne rise on Kraft liner from April 1st, that will be implemented in every market.

This measure has been taken in response to rising paper production costs and order book strength.

Peterson Closes 290,000 tonne Moss Mill

Peterson is closing its Moss Mill containerboard mill, with a loss of 290,000 metric tonnes of virgin capacity, which had succumbed after a history of financial difficulties.

Our research suggests that European market demand for Kraft is circa 5 million tonnes, in which case this closures represent a removal of circa 5.8%...which is a huge adjustment to the supply-demand balance if this capacity is not reopened.

When one considers the recent trading history of this capacity, it does seem likely that this loss of Kraft capacity will be permanent. European containerboard makers will hence be left with a strong case for higher Kraft prices, which are already being announced in North America.

Smurfit Kappa: Townsend Hook paper mill rebuild brought forward

We understand that Smurfit Kappa Group are pulling forward modernisation plans for the Townsend Hook mill and that its two recycled containerboard machines are likely to be closed from July 1st 2013, following a consultation period and assuming approval from their employees.

The two machines that are being de-commissioned have a combined capacity of 240,000 tonnes and it's expected that the new machine will be in operation by the fourth quarter of 2014, a little earlier than the anticipated beginning of 2015. The total investment is expected to be in the region of €114 million, which we understand is in addition to the €40 million which is being invested in Hoya mill, Northern Germany. These investments are expected to both increase productivity and reduce costs.

The reason for bringing forward their plans is to *"extend the training period for our workforce, advance the start-up of the new paper machine and increase the pace of the expected ramp-up"*. 18 months of training will doubtless make them amongst the best trained in the world!

Smurfit Kappa to increase recycled containerboard prices by €50/tonne in Europe

Smurfit Kappa Group have unveiled their plans to increase Recycled Containerboard prices in Europe by €50/tonne as of August 1. *"The increase is necessary due to unsustainable returns, continued high input costs and a strong market demand environment."*

DS Smith tickles up recycled containerboard by €50/tonne

DS Smith confirmed its intention to increase containerboard prices:

"In consideration of the strong improvement of the demand-supply balance of the CCM market and the continued pressure of high input costs, DS Smith Paper is announcing a price increase valid from August 1st of €50/tonne for all brown grades in all Continental European Markets and specifically for Italy €50/tonne for all CCM grades".

Hamburger announces price rise for recycled containerboard by €50/tonne

Austria's Hamburger Containerboard has announced a price hike from August 1 for its brown grades of recycled containerboard by €50/tonne. The producers cited strong demand and order flow as the main reasons for the hike. Hamburger said that it had seen European RCCM stocks fall sharply over recent weeks, with mills showing *"very good operating levels."*

The firm said that it plans to curtail 15,000 tonnes of production this summer due to maintenance.

Papierfabrik Peters report price hike for recycled containerboard by €50/tonne

Germany's Papierfabrik Peters has announced that it will raise the price for its brown and white grades of recycled containerboard by €50/tonne from August 1 across all European markets.

The producer said that the move is due to solid demand, strong order books and low stocks.

Saica to raise recycled containerboard prices by €50/tonne from August in Italy

SAICA has announced a price hike for its brown recycled containerboard grades by €50/tonne in Italy from August 1. The Spanish producer announced that the move is as a result of high input costs and good order books at its mills. The firm also reported that recycled containerboard prices in Italy are too low compared to the rest of Europe, which also prompted the decision.

Norpaper-Avot-Vallée to increase white and mottled testliner prices by €50/tonne

Norpaper-Avot-vallée is announcing a €50/tonne increase on their white and mottled testliner prices from August 19 in continental European markets.

"This move is due to the continuous pressure of high input costs and the erosion of the prices."

Emin Leydier to increase recycled containerboard prices by €50/tonne

Emin Leydier has announced plans to raise its recycled containerboard prices by €50/tonne from August 1. The increase will apply to all European markets except Spain and the UK. The firm cited decreasing paper stocks amid good market conditions as the reason for the move. It also said that the price increase is needed to restore currently insufficient margins.