



Triplewall Containers Limited

These are probably the most tumultuous times the Corrugation industry has seen in the last 40 years.

In fact, most people in the industry today are witnessing this phenomenon for the first time in their lives.

The price of Kraft paper kept increasing relentlessly till mid of December 2020 and had increased by Rs 11000 pmt within a span of 4 months.

Then we saw some stability from 15th December to 15 February. Slowly things started heating up and within the last 7 days we have already been intimated of an increase of Rs 4000 pmt and the direction we are headed in it looks like we will have to bear the brunt of another Rs 6000 pmt increase within the next 2-3 weeks taking the total to about Rs 21000.

The first Rs 11000 was increased in a span of 4 months but after the lull this storm is unprecedented where we will most probably see an increase of Rs 10000 pmt within a span of one month.

If we try to understand this situation at first glance it might seem bizarre but by doing a little research and understanding all aspects that can affect this situation things start to make sense.

Here I will try to give you're a perspective of why things are the way they are today.

The 6C effect.

1. COVID- 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 off waste has been severely affected and due to that exports to Asian countries has dried up.



Triplewall Containers Limited

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.

2. Climate- 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 very 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.

3. Containers- As explained in our previous updates the containers shortage has played a very big role in the spike of the price of waste paper as waste being a low value item any change in freight cost has a direct and huge impact on the overall price of waste paper.

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.

4. Change in the consumption pattern. -

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.



Triplewall Containers Limited

In Europe with 3 new 100% recycled paper mills starting production in 2020 an additional 3 million tons of waste paper 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 an change in the quality.

This has resulted in local waste paper 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.

5. Competition-

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 (this is due to large exports of paper pulp reels to China)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 waste paper. 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. China Factor- the last and most important factor is what is happening in China. Once China stopped importing waste paper 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.

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.



Triplewall Containers Limited

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

In effect Indian mills are behaving like garbage sorters as they are importing the worlds garbage, cleaning it and supplying the clean fibre to China with zero out through.

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.

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. This has created a tremendous shortage of fibre as imported paper constitutes about 40% or about 25 lac MT of the total 65 lac MT that we produce.

With imports almost remaining flat fibre is going out of the system and now after a year we are feeling the effects of it.

Due to the huge volume of KLB imports from all over the world the prices of KLB has increased by over 250 USD in the last 6 months and it's still climbing.

To summarise the situation, it seems that all the 6 factors are interlinked to China in one way or the other and unless all the 6 do not ease out the situation will not normalise.

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.

We foresee a surge in paper prices by another Rs 6000 pmt and then probably we will see some stability for a short period of 3-4 months.

If we are able to get the government of India to ban exports of paper (under process to give a petition), then we might see some correction in the price of paper to a more



Triplewall Containers Limited

realistic level but as governments take their own time in doing anything we don't expect any outcome for the next 2-3 months.

The biggest worry and most important point to understand is the immediate problem of fibre shortage. Most Indian mills did not book imported waste paper due to rising costs and uncertain delivery schedules because of container availability but now they are in a catch 22 situation where a lot of the mills are running out of waste and most of them are sitting on huge order commitments of export to China.

This is further driving up the local prices.

We foresee small as well as large corrugators defaulting on supplies to brands due to non-availability of fibre and the difference in the price of paper availability today and the increase received from the brands.

There will be stock out situation in the full supply chain starting from the paper mill to the brand owners packing section.

We hope we can continue to supply to you seamlessly and expect your support to do the same.