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# European Paper Packaging Braces for Impact of Ukraine Crisis

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The European paper packaging sector is seeing huge uncertainties related to energy. This – together with the supply and prices of raw materials and disruptions in transport and logistics – is causing margin pressure for paper packaging producers. This pressure will be felt via additional paper packaging price increases in the already stressed downstream supply chain.

## Sector Finds Itself in the Throes of an Energy Crunch

While the total impact of the Ukraine crisis on the European paper packaging industry is yet to be seen, it is certain that its effects on the supply and price of energy loom large. The price impact is already being felt, raising concerns not only about paper packaging prices, but also about packaging paper supply disruptions, which might subsequently lead to a paper packaging shortage.

### **An Energy-intensive Sector With Significant Capacity in Countries Dependent on Russian Gas**

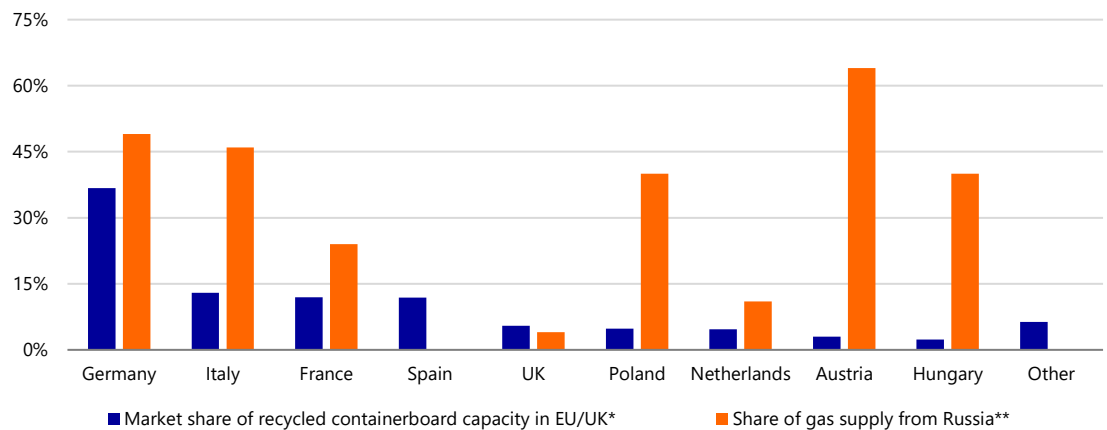
Packaging paper production is an energy-intensive industry that consumes energy in the form of power as well as fuel.<sup>1</sup> This is especially the case for the production of recycled grades, the share of which is significant in Europe. For the containerboard segment, for example, recycled grades account for about 80% of total European production; and in a stable market situation, energy represents about a third of production costs.

At the beginning of 2022 we saw fiber and energy prices stabilizing somewhat after months of increases. But the current Ukraine crisis reversed the direction of change. The industry is in a situation where, for some players, current energy costs are higher than the full sale price of paperboard a year ago. And we are not yet in the ‘what if the gas deliveries stop?’ scenario, when even hedging instruments will not help.

Russian gas makes up around a third of all natural gas used in Europe. Locally, energy prices and availability might be further impacted by the dependence of certain countries on the supply of Russian gas. The lion’s share of European packaging paper capacity is in countries highly dependent on Russian gas (*see Figure 1*).

<sup>1</sup> For example, paper production (all grades) accounted for about 9% of industrial energy demand in Germany in 2008.

**Figure 1: EU and UK recycled containerboard capacity in 2021, plus share of national gas supply from Russia**



\*Note: Total EU and UK recycled containerboard capacity is 30.5m metric tons.

\*\*Note: The figure features the latest data available per country. 2019: Germany, France, the Netherlands, and Austria. 2020: Italy, Poland, and Hungary. 2021: UK. Data from Spain is unavailable, but the share of gas from Russia is small.

Source: Fastmarkets RISI, EU Agency for the Cooperation of Energy Regulations, Rabobank 2022

## Are We Facing the Risk of Declining Paper Packaging Availability?

Easing in energy costs is not expected in the foreseeable future. Current energy prices make paper production economically unviable. In early March we saw large producers announcing production stoppages due to high energy prices. Examples from leading recycled containerboard players in Europe include:

- Italian producer Pro-Gest temporarily stopped containerboard production (approx. 1m metric tons, 25% of the capacity in Italy). The production of boxes remained in regular production throughout. After one week of downtime, the company resumed production at mills where higher paper prices could be implemented.
- German producer Leipa Group shut down one of its containerboard machines (about 250 thousand metric tons capacity), cautioning that further shutdown measures cannot be ruled out if energy prices continue to rise massively.
- Italian producer Cartiere del Polesine suspended production at one of its mills (about 90 thousand metric tons). The mill resumed production after one week.
- German producer Delkeskamp Verpackungswerke announced plans to permanently close down paper production at its Nortrup site, but then reconsidered its decision. The mill will likely continue its operations.

Supply security is the main focus now, and paper companies also continue to pay high prices today, even if they are hedged. All this makes further paper price increases inevitable. In March 2022, one after another, paper producers announced price increases of EUR 100 to EUR 150 per metric ton. These price increases are very likely to be accepted by box producers, followed by offtakers, to avoid the risk of a paper packaging (boxes) shortage due to stoppages.

## How Self-sufficient Is the Market?

At first glance, in terms of packaging paper production and trade, the impact on the European market seems to be limited. However, the supply and prices of raw materials, combined with potential disruptions in transport and logistics, add another level of complexity.

## Trade

Europe is not really dependent on exports of paperboard packaging from Russia, Ukraine, or Belarus. Russia exports about 200,000 metric tons of virgin containerboard to Europe, but these volumes can potentially be offset by ramping up capacity in Europe and the rest of the world. At the same time, Russia, Ukraine, and Belarus – especially Russia – import significant volumes of cardboard, about 15% of European production. The fact that multiple cardboard producers (e.g. Stora Enso, Mayr-Melnhof, and Pankaboard) have suspended deliveries to Russia might provide some relief for current shortage in the European cartonboard market.

## Raw materials

The price and supply of raw materials like fiber, starch, and other chemicals is further escalating paper packaging production costs.

- Starch: Although starch is a small component in paper packaging production, its price and availability could have a big impact. The European paper and board manufacturing sector accounts for 30% of European wheat and corn starch consumption (see the Rabobank report [Global Starch Outlook: A Global Industry With Regional Flavors](#)). Wheat and corn supplies from Russia and Ukraine combined, which represent 30% and 20% of the global wheat and corn trade, respectively, are at risk. This puts upward pressure on global wheat and corn prices, and subsequently on starch availability and prices (see the Rabobank report [When Black Sea Wheat Is Caught in Conflict](#)). Potential starch availability issues might also disrupt European paper packaging production.
- Fiber: The recovered paper and pulp trade between the EU and Russia is quite balanced. However, European pulp production, especially in Finland, might be affected by a Russian ban on wood exports as a reaction to western sanctions. At the same time, the domestic recovered paper supply might be affected by disruptions in production, trade, and transport of goods.

## Transport and Logistics

Like other sectors, the paper packaging industry will see postponements, delays, and cost increases following new disruptions in the transport and logistics chains of European goods. The driver shortage, among other disruptions, could worsen. Many drivers employed by Eastern European transport fleets – which serve not only the local but also the German market – come from Ukraine.

## Impact To Be Felt Along the Chain

At first glance, the European paper packaging sector seems to be relatively unaffected by the Russia-Ukraine conflict, since the sector is not really dependent on paperboard packaging imports. However, there are massive uncertainties, especially related to energy. Current energy prices could threaten the existence of some European paperboard producers. At the same time, the energy crunch creates even greater pressure for the industry to find sustainable alternatives and will accelerate industry efforts in the energy transition.

The supply and prices of other raw materials, plus transport and logistics challenges, add to a negative near-term outlook. These developments are causing margin pressure for paper packaging producers and will inevitably lead to paper packaging price increases. These increases will, in turn, create additional price pressure in the already stressed downstream supply chain.

# Imprint

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