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# Greenfield Wave Reshaping Pulp Capacity

**Hardwood Availability to Increase**

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## Introduction

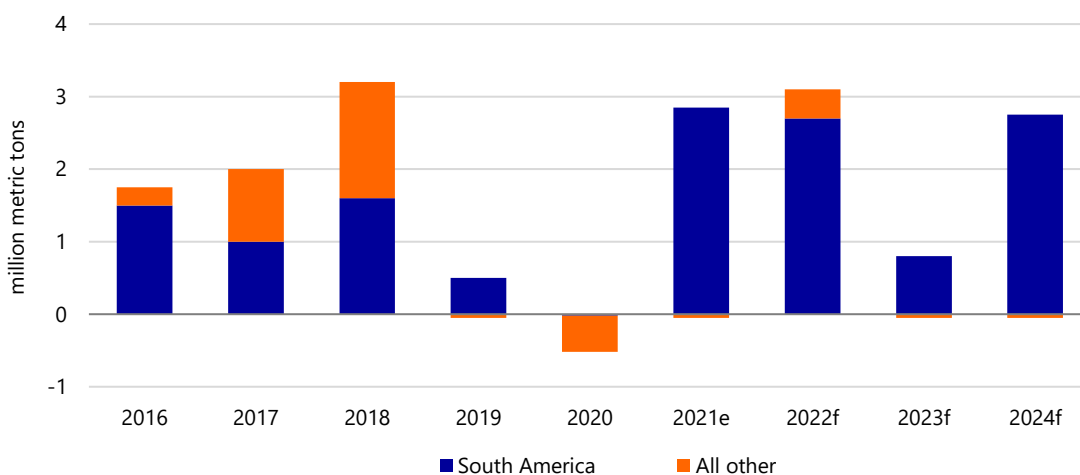
A new wave of very efficient greenfield pulp projects will come online in South America between 2021 and 2025. This capacity will increase the availability of hardwood in market pulp. Meanwhile, softwood projects are limited, opening space for sustainedly high price gaps between grades.

## New Wave of Pulp Capacity

The global pulp sector has continued investing in additional capacity in recent years, and a new wave of key greenfield projects will reach completion between 2021 and 2025. Availability of hardwood fiber in South America, along with favorable conditions for low-cost, state-of-the-art mills, is driving capacity expansion in the region and elevating its importance in the industry (see *Figure 1*). South America remains one of the few places with ideal conditions for large-scale pulp investments, when considering forestry assets, climate, and infrastructure. The main projects that are nearing completion and that will add capacity in the coming years include:

- Royal Golden Eagle/Bracell (Brazil, 2021)
- Arauco's MAPA project (Chile, 2022)
- UPM's Paso de Los Toros (Uruguay, 2022)
- Klabin's Puma II Project (Brazil 2022-2025)
- CMPC's Guaíba expansion (Brazil, 2023)
- Suzano's Cerrado Project (Brazil, 2024)

Figure 1: Pulp capacity changes by region, 2016-2024f

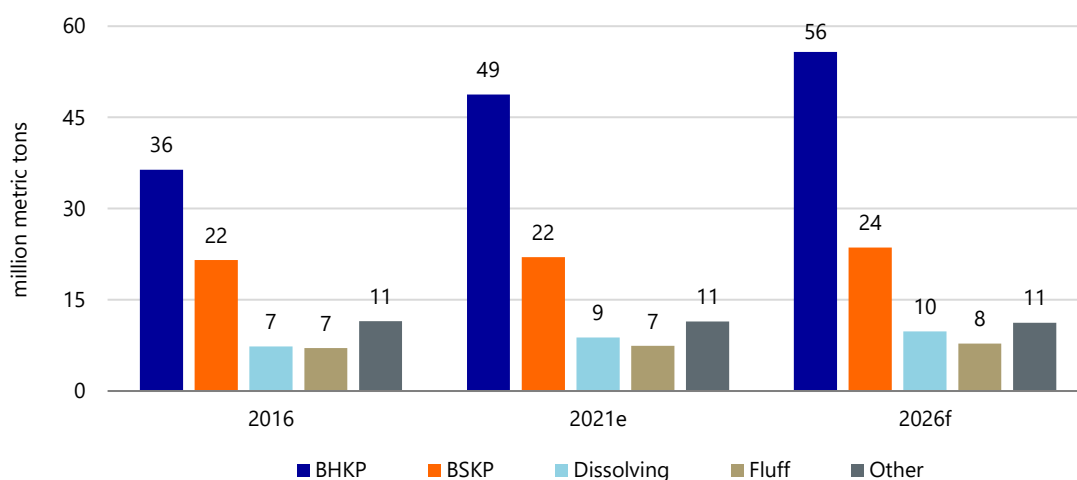


Source: Fastmarkets RISI, company websites, Rabobank 2021

At the same time, softwood availability is limited, and northern hemisphere regions like North America and northern Europe are seeing limited capacity expansion and high costs. According to estimates by Fastmarkets RISI, total planned capacity additions in softwood could reach a maximum of 4m metric tons in the next five years, while hardwood projects could reach a

maximum of 14m metric tons in the same period. However, some of these projects are still in preliminary/planning stages, and not all will be completed. When considering the firm projects that are already advancing toward completion, it becomes apparent that overall capacity will be far more reliant on hardwood in the coming years. Bleached hardwood kraft pulp (BHKP) capacity will end 2021 at around 49m metric tons and is expected to increase to around 56m by 2025, a jump of 20m metric tons in under ten years (see Figure 2). Meanwhile, bleached softwood kraft pulp (BSKP) capacity has remained largely unchanged but might increase to around 24m metric tons. Other grades combined are advancing modestly from 28m metric tons in 2021 to 29m by 2025.

Figure 2: Global pulp capacity by grade



Source: Fastmarkets RISI, company sources, Rabobank 2021

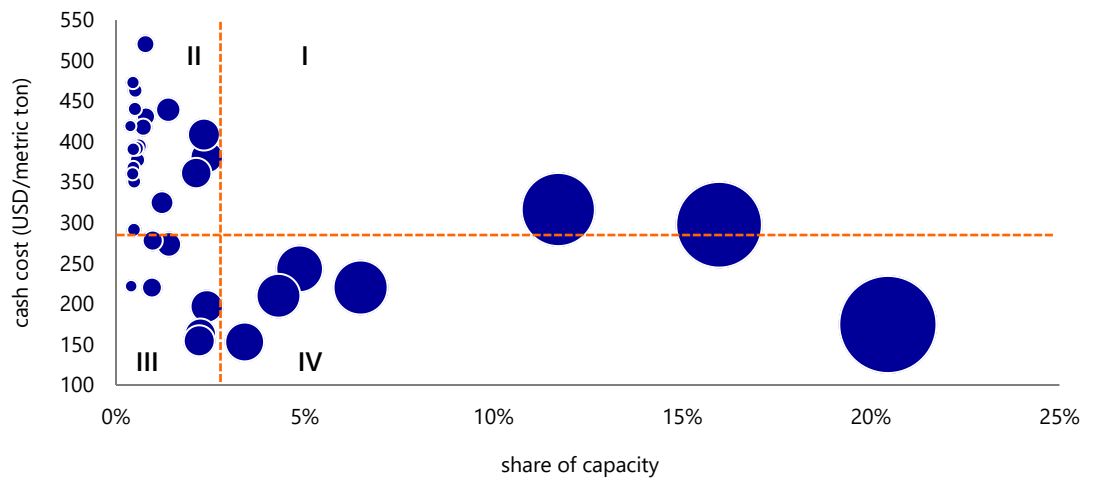
## Company Positioning by Size and Cost

A new wave of capacity in the lowest-cost region (South America) will increase overall market efficiency and bring some additional volatility to pulp prices, as more production is directed toward the open market. According to Rabobank estimates, the average weighted cost of BHKP capacity globally could decline from USD 271/metric ton in 2021 to around USD 260/metric ton in 2025, when considering the impact of the new mills and assuming no closures of older mills in that period.

Most of the additional capacity will be processed into other products like kraftliner and packaging grades, but most of the projects coming online in South America between 2021 and 2025 will aim at market pulp demand. So, as the market digests more volume, it is natural to expect volatility in pulp prices going forward. And in a more competitive environment, weaker players will be more exposed to fluctuations. Also, the growing dependence on the Chinese market, which today represents over 36% of market pulp consumption and could reach 40% in five years' time, is another factor that warrants consideration. China seems to be entering a phase of higher uncertainty and market intervention in certain parts of its economy, which makes it a less predictable market. The most recent restrictions to industrial activity during 2021 are having a negative impact on pulp consumption in China. This is an example of what market intervention can do to the most important market pulp consumer without warning.

The relative strength of each player in the market can be assessed by looking at its cash cost of production as an indication of efficiency and its relative size compared to peers as an indication of its scale. Using these two variables, one can map the supply base (top 35 players) for both BHKP and BSKP (see Figures 3 and 4).

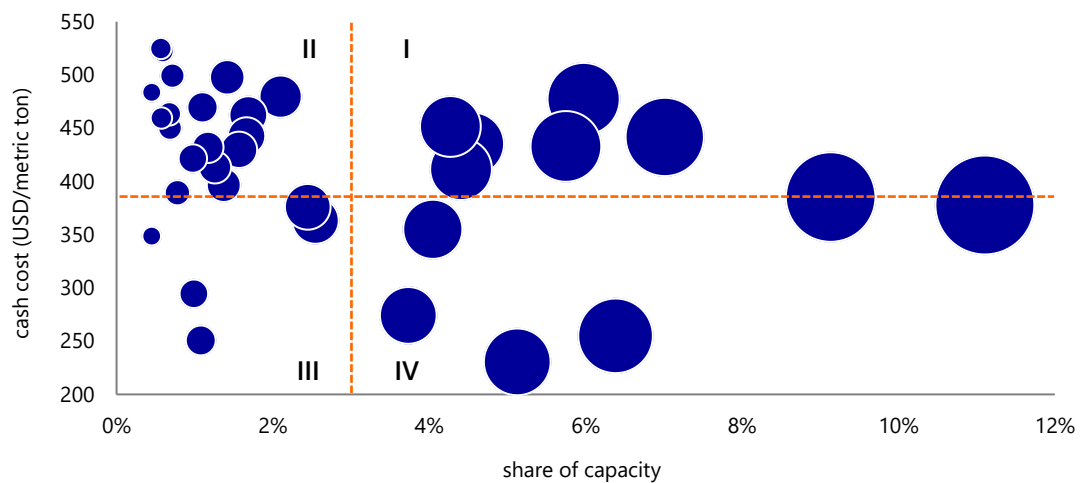
**Figure 3: BHKP suppliers by capacity and cash cost, 2021**



Source: Fastmarkets RISI, company sources, Rabobank 2021

The result of this exercise shows that 36% of global BHKP capacity is in the strongest quadrant (IV), with companies that have a lower-than-average cash cost of production (USD 271/metric ton) and a larger-than-average size (the average market share of the largest 35 pulp players is 2.7%). On the other hand, 28% of global BHKP capacity rests in the weakest quadrant (I), with companies that have higher-than-average cost and lower-than-average size. Theoretically, those in quadrant I could be more vulnerable to a sustained period of low prices due to less-efficient capacity and lower market share, which could result in weaker bargaining power with buyers and higher variable costs from lower-scale production.

**Figure 4: BSKP suppliers by capacity and cash cost**



Source: Fastmarkets RISI, company sources, Rabobank 2021

Meanwhile, the same mapping exercise for BSKP indicates that 40% of capacity already resides in the strongest quadrant (IV), while around 18% is located in the weakest quadrant (I). Therefore, that 18% of BSKP capacity is more vulnerable to prolonged periods of price downside, while around 40% is better prepared to withstand market volatility by having lower-than-average cash costs and larger-than-average scale.

## Pulp Capacity Could Disrupt the Market in 2022-2026

We can conclude that the next five years will help transform the global pulp sector into a more efficient one that relies more heavily on hardwood pulp, with large greenfield projects helping to lower industry-average cash costs. Large/efficient players already account for 36% of hardwood supply and 40% of softwood supply, and in the next five years, they will extend their advantages compared to the rest of the market. For the very same reason, smaller companies with high costs of production will probably face more challenging times, particularly if additional capacity causes price volatility and longer periods of lower prices. This means that 28% of hardwood capacity is in a vulnerable situation (weakest quadrant), while an estimated 18% of softwood capacity is more vulnerable. Limited supply growth in softwood, and product requirements for short fiber in some categories, will probably mean a higher differential in favor of softwood pulp, which means that softwood players will probably see less margin erosion compared to high-cost hardwood players in the next five years as new capacity is added.

# Imprint

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