



Knud Wassermann

Paper Market Out of Control

Already last year, a confusing situation arose that caused the prices for paper, cardboard and corrugated board to go through the roof. There is still no relief in sight. I set out to find out how this turbulence on the paper market came about.

From all the people who are professionally involved with paper and board (manufacturers, wholesalers, printers, agencies and advertisers), one hears one and the same thing in unison: „I’ve never experienced anything like this in my professional career.“ One of them is Kurt Kribitz, CEO of the [Styria Media Group](#), who reports a substantial price increase around the turn of the millennium, but it was nowhere near as drastic. It didn’t last very long either, and ultimately there was an equally strong downward movement. Despite different general conditions, Kribitz expects the paper market to return to normal sooner or later. However, it will take some time until then.

Suddenly demand was greater than supply

Last year, a lot was brewing on the international pulp and paper market, which led to the exorbitant price increases. Paper mills were retooled for the production of board or corrugated base papers, as planned in the long term. At the same time, capacities were massively cut back during the first lockdown and were not ramped up again quickly enough after the end. The economy recovered more quickly than expected – and so demand was suddenly greater than supply.

In economics, this is known as the whip effect – but no one expected it to last this long. Of course, some companies have also started hoarding paper, which further exacerbates the

situation. At present, according to the paper trade, everything that can be bought is being bought anyway. Since even higher prices are being achieved in North America, some paper is also being exported from Europe, despite higher freight costs.

Exploding gas price and a strike

One argument of the paper industry that cannot be dismissed is the cost of energy – and in particular gas prices, which have exploded. The gas price index (ÖGPI) calculated by the [Austrian Energy Agency](#) was 600 percent higher in January 2022 compared to January 2021!

The current geopolitical confrontation is certainly one of the price drivers. There is great fear that security of gas supply in Europe could be lost. „A look at the current three-month EU-WID paper price index shows how the increased gas and electricity costs have already had an impact on the price of paper,“ emphasizes Alexander Frommer, who is responsible for the printing sites in Vienna, Salzburg and St. Andrä in Austria at [Mediaprint](#).

On top of this, the [UPM mills](#) in Finland have been on strike since the beginning of the year, which drastically reduced the availability of LWC and MWC papers, which are mainly used for magazine and catalog production. The strike was then joined by the dock workers, so that nothing was delivered at all. In the first week of February, an agreement was reached at least with the dockers. However, the strike at the UPM mills was extended until March 13.

Other industries discover the sustainability of pulp

In the course of the entire sustainability discussion, however, pulp is also becoming a highly sought-after raw material. There are plenty of examples of this: the packaging industry is trying to replace plastic with board where possible, and the textile industry is also developing some desire for the sustainable raw material.

At the moment, no one can say when the situation will ease. If at all, prices should stabilize in the second half of 2022. At present, the excess demand is simply too great, an industry expert assured me. If at all, the situation should ease somewhat in 2023 at the earliest.

Investigations initiated by EU Commission

Due to the situation on the pulp and paper market, the European Commission already initiated antitrust audits of various pulp producers in Scandinavia last October. Unannounced audits are a first step in an investigation of alleged anti-competitive practices such as price fixing or cartelization. Such reviews do not imply that the companies are guilty of anti-competitive behavior, nor does the Commission prejudge the outcome of the actual investigation, the competition authority assured.

Since there is no result yet, it seems that the Commission has not yet completed the reviews. „The manner of the paper industry’s market conduct is disconcerting. Partnership looks different.“ Kurt Kribitz speaks here of an oligopoly, especially among newsprint manufacturers, in which a few producers dominate the market.

The current situation naturally raises questions that challenge the system of globalization on the one hand and the philosophy of just-in-time delivery on the other. It is now becoming abruptly clear how fragile the global supply chain and its underlying trade relationships are. In this respect, warehousing will play a greater role again in the future, and paper wholesalers will once more play their role as buffers between manufacturers and producers to a greater extent.

The famous branch on which both sit

The situation is rather complicated. Printers cannot simply pass on price increases to their customers on a one-to-one basis. There are longer-term contracts – for periodicals or textbooks, for example. However, the many causes also show that there is no simple solution to the current situation. However, the fear seems to be justified. If print products can no longer be delivered as agreed and reliably, this reinforces the trend towards online communication.

At REWE Austria, one of the major food retailers in the Alpine Republic, the rising paper prices have not yet had a direct impact on the communication strategy. However, the general media strategy is continuously analyzed and validated with regard to efficiency and effectiveness. More serious than the price situation is the uncertain supply situation and thus the ongoing availability of paper.

„There is no getting around print in the overall media mix“

The press spokesman of the XXXLutz group, Thomas Saliger, also agrees with this view and formulates the „bugbear“ of the graphic arts industry: „As a company, you have to rethink your advertising commitment and additionally rely more on digital channels.“

Stephan Reyer from Porsche Media & Creative GmbH in Salzburg reports that as part of the first lockdown and the associated savings, two customer magazines were discontinued completely and the publication frequency of others was reduced. However, in order to maintain and further expand brand presence, there is no getting around print in the overall media mix, Stephan Reyer emphasizes.

„Unfortunately, print is losing flexibility“

Despite all the upheavals on the paper market, activities planned for the longer term can be implemented very well. However, it becomes more problematic with short-term campaigns, such as inserts with a circulation of several million copies. With the current availability of paper, with delivery times of six months and more, this is difficult to do, both organizationally and in terms of price. „As a result, print unfortunately loses a great deal of flexibility,“ says Stephan Reyer.

The quantities of paper needed to produce inserts was brought to my attention while reading an [article](#) on the Muller Martini website about German web offset printer [Fr. Ant. Niedermayr](#) clearly. On peak days, up to 350 tons of paper are printed. Over the year that adds up!

Limited flexibility

Print is now in danger of becoming an incalculable channel. This harms both sides – the manufacturers of print products as well as the paper suppliers. Once again, it's a question of the famous branch on which both are sitting. The paper industry has spent a lot of money in recent years to highlight the value of print in the media mix and has specifically emphasized the advantages of printed communication in numerous campaigns. One can only hope that this expenditure does not prove to be a stranded investment.

Advertisers and media makers point out that print still functions as a channel and that they want to continue to rely on it. However, they say that the current availability limits print's flexibility enormously, which will further fuel the trend toward digitization.

Yours

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