

Indian Paper Scenario – April 2008

Surging Newsprint (NP) prices and supply crunch have left the global newspaper industry gasping for breath. Even as publishers stay glued to MIS reports to determine the impact, the scamper for sourcing NP at economical rates from across the globe is also on at a war pace. After all, a 40% hike – from \$560 per ton to over 4780 per ton in 6 months flat in an industry plagued by excess capacity, is something no publisher had anticipated. Globally, the Chinese angle assumes importance as it continues to use more packaging paper and cartons for exports, besides supplying these internationally – all of which is creating a pressure on Chinese and global packaging paper and carton manufacturing units – who mostly use ONP as raw material. The China Pulp and Paper Report (CPR) shows import of ONP is increasing – going up by 15% from 5.2 million tons in 2006 to 5.77 million tons in 2007, with bleached pulp imports increasing 6% at 6.04 million tons during the same period. On the other hand, Chinese NP exports saw a decline of 32% to 28,870 TONS IN January 2008 from 42,230 tons in January 2007 even as Chinese Linerboard (Carton Exports jumped 24% from 16,800 to 23,900 tons during the same period. The result of galloping pulp and ONP prices, coupled with low ONP recovery rates of 60-80% (how much of ONP is recovered from fresh NP sold), resulted in rising NP prices. Sadly, there is no chance of relief as pulp and ONP are seeing heavy demand from packaging paper and carton-making units, even as total ONP recoveries get diminished thanks to many newspaper publishers using lesser newsprint by shifting advertising like classifieds to online, even as others are going for measures like folding up supplements, closing editions trimming down paper sizes (web-width reduction) and lowering NP thickness to 45 gsm from 48.8 gsm. Globally, the Chinese angle assumes importance as it continues to use more packaging paper and cartons for exports, besides supplying these internationally – all of which is creating a pressure on Chinese and global packaging paper and carton manufacturing units – who mostly use ONP as raw material. The China Pulp and Paper Report (CPPR) shows import of ONP is increasing – going up by 15% from 5.02 million tons in 2007, with bleached pulp imports increasing 6% at 6.03 million tons during the same period. On the other hand, Chinese NP exports saw a decline of 32% to 28,870 tons in January 2008 from 42,230 tons in January 2007 even as Chinese Linerboard (Carton) Exports jumped 24% from 16,800 to 23,990 tons during the same period. The growing demand for packaging and cartons have also led many international paper manufacturers shifting their product profile away from NP exports globally may reduce drastically as ONP prices increase and with the forthcoming Olympics, the situation will get worse due to increase in demand for news. A sampler of this is January 2007 March 2008 hike of 48% in US, followed by 43% each by US West Coast FOB and China CIF. That leaves us with energy, labour and freight. A look at US Crude (WTI Spot-FOB) the benchmark price for US manufacturers, shows a hike of 96% in just 15 months - \$54.5 per barrel in January 2007 to \$106.6 in March 2008. While, older mills with prior contracts were relatively unaffected, newer capacities in China, Korea and Europe bore the brunt, which also took its toll on all NP companies indirectly old or new irrespective by way of hike in freight rates – inflow and outflow. An idea to the extent of container freight hike can be seen from the whopping 108% jump in Baltic Exchange Dry Index in just a year 4,397 points in January 2007 to 9,143 points in January 2008.

The bad news for newspaper publishers – and there are over 40,000 newspapers in India – has just grown worse. The price of newsprint, imported or indigenous, is set to touch \$1000 per tonne, and this after a 23 per cent increase over the previous four months that took prices to \$760 a tonne in March. Factor in the April jump and newsprint

prices, which typically account for 50 to 60 per cent of production costs, have risen over 60 per cent over the last six months. To be sure newsprint prices touched \$1,000 a tonne in 1995 but the price rise was over 12 months, newspaper industry professional recall. The outlook for the rest of the year is bleak. The price rise has everyone worried. A Mumbai-based newsprint importer, who has been in the business for 35 years, admitted that good-quality paper, especially pink newsprint, is quoting over \$900 a tonne. Imported newsprint prices have been climbing since December, The prints for Gujarat. Local mills are milking the market simply because imported newsprint supplies have dried up. There is nothing available because manufacturing capacities in China and North America, which account for almost 40 per cent of global production, have closed for various reasons. Newspaper industry experts said local manufacturers are also raising prices because the larger Indian publishers are turning to them for sourcing newsprint.

The spurt in prices of newsprint have worried the newspaper publishing houses in the country. According to available information, during the last seven months the newsprint prices have gone up by over 35 per cent putting extra pressure on the publishing houses. Newsprint, most of it imported into India, used to trade at \$380 per tonne in 2002. It rose to \$560 in July-August and is now being sold at over \$760 per tonne. Several leading newspaper houses have been severely affected in view of the increasing prices of newsprint to cope with the situation, various newspaper groups are mulling a number of steps, including reducing of pages and discontinuing the use of expensive paper for their supplements. The total consumption of newsprint in the country is estimated at 1.8 million tonne. Local companies produce nearly 1 million tonne while the rest are generally imported from North America, Europe and Russia. Though the Indian mills have an installed capacity of nearly 2 million tonne, they are diverting their attention to other paper products. The experts who are closely monitoring the situation observe that the rising crude prices are also responsible for newsprint price hike. Another important fact is that the Chinese sellers, who used to sell newsprint to the local buyers, have stopped their business now. In North East India, the price hike of newsprint has also affected the regional language newspapers. "The costs of production have gone up and to meet the extra cost we have to take some urgent steps in this regard," senior officials of a leading paper house, who did not wish to be named, told this correspondent today.

STAR PAPER MILLS LIMITED: This mill is planning a private placement to fund the first phase of its expansion and modernisation plan, which will involve an investment of Rs. 6000 million. The company will raise the funds through internal accrual and debts. The company plans to hike its production capacity to 1,40,000 tonnes from 80,000 tonnes. The company will complete the expansion procedure after two years. It will utilise its existing facility and not look at other locations.