

# A independent report on the tissue industry crisis in the UK, Ireland and Europe.

## Introduction

For the first time in over a decade we are experiencing a global shortage of tissue.

- Production surpluses no longer dominate the market.
- Stocks as percentage of usage reached record lows.
- Markets became demand-driven instead of supply driven.

The catalyst for this has been the lack of profitability of many tissue mills resulting in a reduction in capital investment in new and additional production facilities coupled with a high demand for tissue from emerging economies such as China, India, Russia and the former eastern block countries where the population is growing and living standards are rising.

In the UK annual consumption of tissue currently exceeds 1 million tonnes but production of raw materials (tissue reels) totals only 680,000 tonnes. Consumption of tissue is growing by approx 3.5% per annum and manufacturing capacity is reducing.

In Ireland annual consumption is approx 65,000 tonnes and there is no indigenous



manufacturing of raw materials on the island. Over 75% of all raw materials are sourced in Europe, South America and the Far East – the balance is purchased from England.

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*The majority of global transactions in pulp are traded in US Dollars. The current weakness of the Dollar against the Euro and Sterling has cushioned us against the true increase in pulp prices. If the US Dollar strengthens, the impact on upward prices will be immediate.*

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## Executive Summary

It is clear that the two island economies of England and Ireland depend highly on imports from Europe and beyond to fulfil their requirements and both are still dangerously exposed to a number of key factors which have impacted significantly on costs in Q1 and Q2 of 2008.

The supply and availability of raw materials will remain tight for the foreseeable future therefore **the laws of supply and demand** will force the price of tissue reels and converted products even higher during Q3 & Q4 of 2008.

# Why are tissue prices going up so fast?

In 1994/5 global tissue prices exploded to an unprecedented £900/MT driven primarily by demand from China for all surplus pulp stock which resulted in worldwide shortages and escalating pulp prices. ***The situation this time is much more complex driven by numerous factors including pulp fibre costs, energy costs, freight costs, chemical costs, exchange rates and raw material availability.***

## FIBRE COSTS

Pulp prices are currently extremely high and waste paper prices are moving upward on a weekly basis. Emerging countries led by China are prepared to pay premium prices for waste paper in particular and thousands of tonnes of this vital raw material are being diverted from the UK and European markets which is further compounding the cost of stock and putting increased pressure on availability.

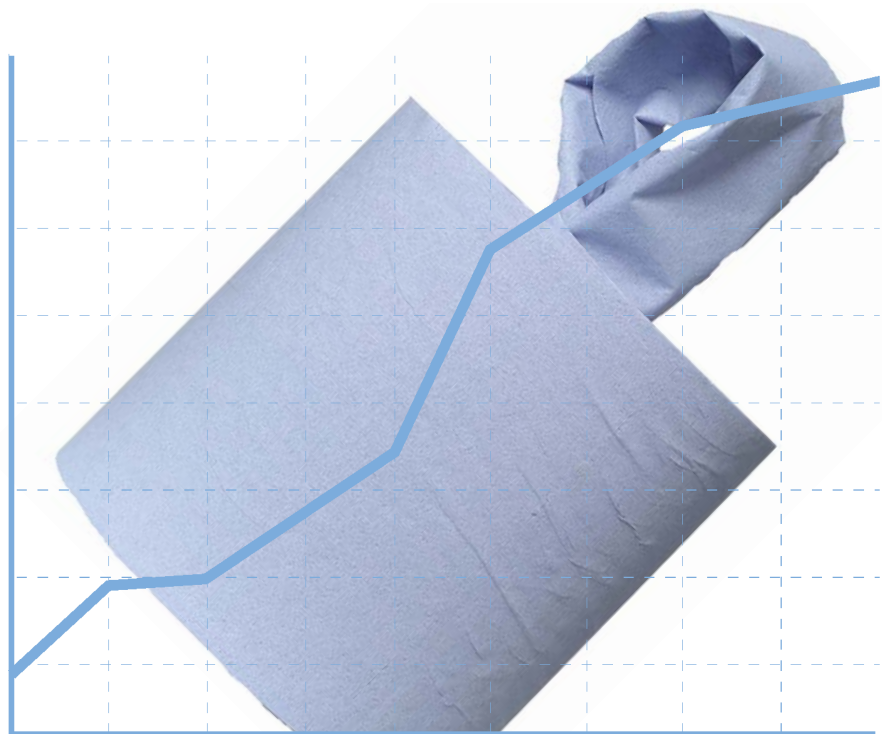
## ENERGY COSTS

Tissue mills have very high energy usage in respect of electricity, gas and oil - ***energy alone represents approx 30% of the total cost of manufacturing tissue.***

Energy costs have doubled in the past 6 months and the forecast for Q3 and Q4 is for further upward price movements fuelled by escalating oil prices and the belief that oil could break \$200 a barrel before Q4 2008.

## FREIGHT COSTS

Global freight costs have increased by a factor of x4 in the past 12 months. This is due to the major growth in shipping activity to fuel China's economic explosion and the shipping requirements of the military to support the re-supply of the wars



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*It is now uneconomic to ship tissue reels over large distances as demonstrated by the recent decision of 'Asia Pulp & Paper' (Indonesia) to stop shipping tissue to the UK.*

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in Iraq and Afghanistan. To put this rise in shipping costs into some kind of perspective, I have personal knowledge of a vessel shipping 1000MT of tissue from the USA to the UK costing \$280,000 2 years ago. An identical journey using the same vessel in December 2007 cost \$900,000 and today the same vessel is unbelievably commanding in excess of \$1 million.

## CHEMICAL COSTS

All tissue mills use a wide range of chemicals in the manufacturing process. Derived from oil, chemical costs have also escalated by a factor of x2 in recent months contributing significantly to the cost of tissue manufacturing.

## EXCHANGE RATES

The current strength of the Euro against the Pound has created a phenomenon in Europe where (for the first time in my 42 years in the paper industry) tissue prices in Italy are now more expensive than in the UK and Ireland.

***This means that Italy, Europe's largest supplier of raw materials and finished goods has become too expensive to supply the UK and Ireland.***

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*European tissue mills can now sell their raw materials and finished goods for higher prices in Europe, pay lower transport costs due to proximity and get paid faster than they do from the UK and Ireland.  
Think about it!*

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# Increasing Demand - Decreasing Supply

- The global demand for tissue products is increasing.
- The World population has grown by 23% in the last 10 years alone.
- Emerging economies are enjoying higher living standards.
- China and India will continue to consume higher levels of tissue products.



*In the future buyers might ask 'what do you have?' not just 'what is the price?'*

Availability of tissue reels in the UK has tightened up considerably over the past 6 – 12 months. The following information details some (but not all) of the factors associated with this.

- *'Freight costs' prompted APP's decision to pull out of the UK market – leaving a gap of approx 5000MT in the UK.*

- *In all probability 'Energy costs' were a significant contributory factor in the closing of the 3 mills owned by Karto Group in Italy who were producing over 150,000MT per year. The removal of this tonnage has created a huge void in the supply available in Europe which has had a direct impact on availability in the UK and Ireland. (Their mills in France and Germany are still producing 150,000MT per year with 'buyers pending' at the time of writing).*

- *Allegedly 'Exchange rates' prompted Dalle Hygiene (France) to withdraw from the UK marketplace in March 2008 closing the doors of one of the largest supplies of 1 and 2 ply blue towelling to the UK.*

*Dalle supplied approx 5000MT annually to the UK and Ireland.*

- *The Charles Turner mill in Bolton (which produced approx 30,000 MT PA) closed because it was unable to obtain prices high enough to cover its manufacturing costs. This mill had produced paper for over 100 years.*

- *Georgia Pacific recently closed their Outbridge mill in the UK which produced approx 30,000MT and at their Bridgend mill they closed one paper making machine which produced approx 20,000MT.*

- *Kimberly Clark closed 'numerous' mills in Europe which had become inefficient and required capital investment. It is uncertain what exact tonnage was withdrawn from the market as a result of these closures.*

In total I can detail a reduction of approx 240,000MT per annum – remember we need to import 320,000MT + PA just to sustain our domestic requirements.

## Has the world gone mad?

Back in 1985 tissue reel prices were approx 825? / MT and a case of centrefeed cost distributors between 20? - 25?. Today tissue reel prices are close to 1150? / MT whilst a typical price for centrefeed is between 10? and 12? per case. **Has the world gone mad?**

# The Outlook

The reluctance of buyers to accept price increases, in particular 'power buyers' from the multiple retailers, cash & carry groups and major AFH distributor groups have driven the tissue industry to a point where all major tissue producers are losing millions of pounds each year. (The only exception is KC on the back of their Andrex brand).

The following recently published Company Accounts confirms that at current pricing levels the tissue industry in the UK and Ireland is unsustainable.

| Company                   | Turnover | LOSSES   |
|---------------------------|----------|----------|
| Georgia Pacific           | £230M    | - £ 44M  |
| SCA                       | £404M    | - £ 23M  |
| Kruger                    | £ 30M    | - £ 6M   |
| Georgia Pacific (Ireland) | £ 43M    | - £ 5M   |
| SCA (Northern Ireland)    | £ 5M     | - £ 500K |



## In Conclusion.

*Distributors need to recognise that price increases are vitally important for the survival and continuity of their tissue supplies – 'buyer beware'.*

When you consider the facts and the current situation the tissue industry finds itself in, one can only conclude that things must change if we are to continue with a viable independent tissue industry here in the UK and Ireland.

If we do not collectively support the needs of the industry we will undoubtedly see tissue producers of all sizes going out of business which will take us back to 'the dark days' of the early 1970's when the big tissue producers dominated and controlled the market.

In these circumstances, buyers, distributors, end users and converters will all suffer.

*Graham Syddall. 18th May 2008.*

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***Good Business is when you protect  
and support your supply chain***

## About the Author

Graham Syddall has worked in the tissue industry for over 42 years and has held positions at both senior management and board level with many of the worlds leading paper mills in the UK and Europe.

During this time Graham has made extensive contacts

worldwide and has acted as an adviser on many strategic development projects including the installation of multi million pound tissue machines in the UK.

Graham is regarded as a leading expert in the tissue industry and his considered opinion is highly respected.

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