

Paper manufacturers hike prices, leave user industry fuming



Corrugated box makers see financial woes emerging

Prices of all types of paper in India have been increased since March 1, upsetting the user

industry. Corrugated or brown box manufacturers, who use kraft paper mainly, say they are the worst affected in view of frequent price hikes.

From March 1, prices of coated and uncoated papers have been increased by \$20 (₹1,456) a tonne. The user industry has been told that prices would be raised further by \$20 each at least four more times this month.

The industry, mainly the corrugated manufacturers, is worried as the economy is just recovering from the pandemic impact.

Corrugated or brown boxes are used in packing anything from electronics, white goods, electrical products to e-commerce items. Manufacturers of the boxes are worried as the price of their main raw material, kraft paper, has already gone up by at least 70 per cent since January 2020.

Impact on consumers

This will likely result in consumers paying a tad more for buying anything from a branded garment to fast-moving consumer goods (FMCG) to white goods to products bought through e-commerce.

“The corrugated box industry is reeling under the twin blows of sharp cost increases in a short span of a few months and raw material supply disruptions. We are not even able to pass on 50 per cent of the total hike to our customers,” said Sandeep Wadhwa, President, Indian Corrugated Case Manufacturing Association (ICCMA).

According to a veteran expert, the problem for corrugated box makers is that they are now having to pay higher labour charges, while the surge in steel prices has resulted in costlier wires and pins used in the boxes.

Wadhwa said manpower costs, starch, freight and other overheads have increased 60-70 per cent over the last couple of years.

“One should understand the problem of corrugated box manufacturers that they supply the brown boxes after having contracted orders at a fixed price. Such steep hikes will affect their bottom line. Most of these manufacturers are small and medium enterprises and they do not have deep pockets,” the expert said.

The corrugated box industry in the country comprises 350-odd automatic manufacturers and over 10,000 semi-automatic units, primarily micro, small and medium enterprises.

Material shortage

“One factor is the price rise. On the other hand, paper mills say they do not have the material,” said Wadhwa.

In a letter to its customers, a leading paper manufacturer said that the firm was forced to raise prices after pulp prices increased 70-100 per cent in the last 3-4 months, coupled with 200-500 per cent increase in ocean freight charges globally.

“Accordingly, we have been increasing prices in a stepwise approach instead of steep steps like Asian players in multiples of \$100 (₹7,280),” the company said in its letter, a copy of which *BusinessLine* has seen.

According to the expert, pulp prices are currently ruling at \$640-650 (₹46,600-47,300) a tonne. The rates have gone up from \$440 (₹32,000) in August last year.

Analysts predict prices could rise further, topping \$750 (₹54,600).

A paper industry watcher termed the situation as a “repeat of 1974”, while others said the user industry is passing through its “blackest” period in paper trade with “no one to listen, neither the Government nor the industry”.

“As corrugated box manufacturers have not been able to pass on their burden to end-users and brand managers, they have incurred losses in the past year,” said ICCMA Vice-President Harish Madan.

The kraft paper story

Paper prices, particularly kraft paper, have increased on two accounts. One is supply-side problems and the other is the availability of containers and ships.

“Kraft paper mills say prices of imported and domestic waste paper are rising due to supply woes as a result of Covid-led lockdowns and international logistics disruptions,” Wadhwa said.

China is another reason for the rise in paper prices as it has been importing a huge volume of kraft paper to meet its domestic demand. It all began with China banning import of all wastes, mainly paper, from January 1 this year.

The Chinese angle

China had been importing waste paper from across the world before the ban. This included all waste paper generated in the US, Europe and other developed nations. The waste paper was recycled to manufacture paper.

In view of the ban on wastes, Chinese paper mills were unable to get the main raw material and they began to import kraft paper from India. Kraft paper is recycled paper and Chinese mills use it as pulp or a fibre source to manufacture paper.

This has resulted in a manifold rise in kraft paper exports to China, leading to a shortage of the material for corrugated box manufacturers in India.

“There has been an abnormal increase in demand for kraft paper from China,” said Madan.

According to the ICCMA, exports of recycled pulp rolls by kraft mills is expected to touch about 2 million tonnes this year.

“This is roughly 20 per cent of the total domestic kraft paper production in India. This development, on the base of zero export prior to 2018, is a game-changer in supply-side dynamics going forward,” Wadhwa said.

Boost to exports

The Chinese ban on wastes has given a big boost to kraft paper exports, he added.

This has resulted in kraft paper prices rising by an average Rs 15 a kg. Prices of kraft paper depend on the BF, or bursting factor, which means the strength at which a bunch of papers bursts when hit with a hammer.

For users such as corrugated box makers, the latest hike comes at a time when there is a definite improvement in the demand for their products, following the gradual opening up of lockdowns.

“There is some amount of pent-up demand and some towards the growth in the economy,” ICCMA Vice-President Madan said.

Waste paper supply issues

There are also problems with regard to availability and prices for waste paper.

With educational institutes closed due to Covid-19, the use of notebooks and exercise books declined. This led to the demand for paper used for writing and printing dropping with the rough patch the publishing industry currently going through adding to the trend.

All these hit waste paper supplies. Besides, China has set up units in the US and South-East Asia to convert waste paper into pulp and send them home.

This has resulted in the domestic industry facing problems in sourcing waste paper and recycling it. The Indian industry can look at using eucalyptus for fibre but India does not have enough small forests or farms to supply it.

According to ICCMA, the second wave of coronavirus in Europe and the US has also impacted the collection of waste paper resulting in prices of imported waste cuttings rising.

Waste paper price hike

Prices of waste paper imports that cost \$150 (₹11,000) a tonne before the Covid-19 pandemic have now increased to about \$310 (₹22,575) a tonne.

“There has been a rise of 100 per cent in prices of domestic waste cuttings. Prices of imported waste paper are double compared with January last year,” Wadhwa said.

Justifying the hike in paper price, a paper manufacturing source said that the industry is not able to get raw material due to freight shortage.

Paper industry’s burden

“China, which has maximum containers, even imported rice from India to get back the containers. This has resulted in charges trebling,” the source said on condition of anonymity.

“Paper industry imports coal. The prices of the commodity have increased from \$35 to \$75 a tonne. The industry cut prices during the pandemic as demand dropped sharply. Some B grade mills even closed, and we got no help,” the source said.

Some paper mills had incurred losses and some faced bankruptcy. “The current hike is only to recover from losses,” the source said.

The veteran expert said that the user industry would have to unite and at least ask the Government to stop exports.

The corrugated box manufacturers, in particular, can point out that it is an eco-friendly industry recycling brown boxes as well as waste paper.

The ₹27,000-crore sector can also point out that the welfare of six lakh workforce with it was involved, while the industry was key to the Union Government’s “Make in India” programme.

As of now, the whole industry is looking up to the Union Government to intervene and sort out the current problems.