Thermal suppliers face 'unimaginable' situation, 'painful' consequences

Pulp & Paper Week, January 26, 2018

The turning of the calendar brought no relief for North American thermal paper players, as global markets remain roiled by a combination of higher costs for everything from pulp to freight coupled with chemical shortages and a growing scarcity of paper.

"Constantly escalating prices and a shortage of paper supply have made it very challenging to manage our day-to-day operations," US-based receipt and label solutions provider Iconex told customers in a message posted on its website Jan. 19.

"Paper supply is still very limited, the major chemical providers are not producing, and raw materials providers are still passing price increases and surcharges at unparalleled rates."

European producer Kanzan also took to the Internet, telling its customers in a Jan. 11 notice that "an exceptional and to this extent a previously unimaginable situation has arisen which has extraordinary and painful consequences for us all."

"The markets are a mess right now. Everyone is on allocation. Prices have gone up depending on grade 2% to 20% in the past month on thermal and carbonless," one US manufacturing contact said. "The more expensive the grade is to start with (top coated), the less of the increase. POS grades went up the most. Carbonless has gone up 6% so far this year."

The contact said SCK (supercalendered kraft) release liner products are also up 6% in January.

'No paper.' "People are probably paying a lot more but some multi-nationals are moving stuff from market-to-market, and, as the price goes way up, availability gets better, I guess," said contact with a base paper supplier.

Another contact, when asked if he also had knowledge of increases as high as 20% on thermal POS in January, replied: "Sure. There is no paper." The contact estimated supply curtailment to be in the order of 30-35%.

"Most if not all of the major thermal paper suppliers have had to take down time in the last 6 months and all of the suppliers that we deal with are managing their business through allocation," a converter contact said.

Root cause of the thermal turmoil is the shortage of leuco dye, which is used to coat thermal paper. The world's largest supplier, China's Connect Chemical, is into its fourth month of standstill, and, despite reports of renewed operation, nothing has been seen in the marketplace, sources said this week.

The No. 2 supplier, Chameleon Chemical, has been out of production since an industrial park explosion in early December, and is not expected to restart until after the Chinese lunar New Year festival that starts Feb. 16 and runs for at least a week. A third producer, Fukang, is producing the dye but not operating at full capacity.

"The length of each shutdown continues to put severe pressure on the availability of the dye. Based on the information that we have, even if these companies started producing chemicals today, it would be 90-180 days until paper supply would be back to normal globally," Iconex said. "As such, we are not expecting a normalization of supply within the thermal paper market until the second half of 2018 at the earliest."

A 'perfect storm?' Disruption from the dye shortage has been compounded by a 20-40% rise this past year in the cost of market pulp – a driver for thermal paper pricing – while contacts said higher freight rates could also add 20-25% to US transportation costs.

In the past two weeks, two of the three largest thermal paper suppliers to the North American market announced new

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price increases. Appvion set a second surcharge of $0.95/msf across all grades effective Jan. 29 and Koehler announced a 12-15% global price increase effective Apr. 1. "This surcharge is in response to the significant cost increases Appvion has incurred to produce these products due to the global shortage of colorformer," Appvion said.

Other providers had already slated double- digit increases to take effect in March, and hikes have spread to more product classifications, with Mactac setting a 5% increase effective with Jan. 15 orders of sheet and graphic products including labels andpressure-sensitive papers. Domtar and Glatfelter set increases late last year on various specialty grades, with Glatfelter's for its carbonless and security paper, and Domtar's for its unbleached and bleached food and medical packaging, industrial grades, coating base, and release paper. Domtar's increase was for Jan. 1 and Glatfelter's for Jan. 15.

"It is important to note that prior to the leuco dye issues, paper manufacturers had already passed price increases totaling 10- 15% that took effect in July and October," one contact said of 48-g POS. "Since that time, if you factor in actual price increases, surcharges, and announced increases that are currently being implemented, prices have increased or will be increased another 25-35%. So in total, prices since last July have escalated 35%-50%."

The US thermal market is about 360,000 tons/yr, with US producers supplying about 250,000 tons/yr, according to Pulp & PaperWeek estimates. For label, about half the 600,000 US market is in C1S and the other half uses uncoated.

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