



## Forestry & Paper

### Mondi Russian Insights

**Key message:** We update list of F&P companies ceasing production in Russia. Mondi continues to operate. PEFC declares timber from Russia as “conflicted”, with limited direct impact on Mondi’s CEE operations. Logistics in Russia to tighten across the board (ocean, air, rail and road).

- **Ahlstrom-Munksj publishes statement on business related to Russia (2 March):** Ahlstrom-Munksj’s direct exposure to Russia and Ukraine is limited, while there is great uncertainty about the global repercussions, which in turn can be significant. Of Ahlstrom-Munksj’s 45 manufacturing and converting facilities globally, one is located in Russia, in the city of Tver. Russia represented 1.3% and Ukraine 0.1% of Group’s sales in 2021. Based on their current assessment, Ahlstrom-Munksj’s operations are neither directly nor immediately affected by the already announced sanctions.
- **Clariant (specialty chemical company) suspended business with Russia with immediate effect (4 March):** Clariant’s operations in Russia include a sales office and a laboratory in Moscow and contribute c.2% to the company’s annual sales.
- **UPM to cease its deliveries to Russia (3 March):** UPM will cease its deliveries to Russia for the time being. While the forest industry is not directly targeted by the international sanctions at the moment, sanctions against the financial sector may impact UPM’s or its customers businesses and transactions in Russia. UPM has employees, customers and suppliers in both countries but UPM’s exposure to Russian and Ukrainian markets is limited. UPM Raflatac has a distribution terminal in the Kyiv region with 13 employees. The terminal operations have been closed until further notice. In Russia, UPM employs 800 persons most of whom work at the Chudovo plywood mill. The operations are currently running as usual. UPM’s sales to Russia and Ukraine combined was c.2% of UPM’s sales in 2021. Assets in Russia are less than 1% of the group total. In 2021, less than 10% of UPM’s wood sourcing to Finland originated from Russia.
- **Metsä Group discontinues all operations in Russia for time being (4 March):** The operations of Metsä Group’s only production unit in Russia, the Svir sawmill, have been suspended. Wood procurement in Russia for the Svir sawmill and imports to Metsä Group’s Finnish and Swedish mills has also been discontinued.
- **IP to assess with JV with the Ilim Group (4 March):** IP is “actively reassessing” its 50-50 joint venture with pulp and kraft linerboard producer Ilim Group, based in St. Petersburg, Russia. IP and Ilim formed their JV in 2007 with an IP investment of USD 650mn.
- **Duni Group (functional products for table setting and take-away) stops all deliveries to its sales company in Russia (4 March):** Duni Group has stopped all deliveries to their sales company in Russia. Sales in Russia account for less than 1% of group sales.
- **PEFC BOD clarifies timber originating from Russia and Belarus as ‘conflict timber’ and cannot be used in PEFC-certified products (4 March):** ‘Conflict timber’ is defined as Timber that has been traded at some point in the chain of custody by armed groups, be they rebel factions or regular soldiers, or by a civilian administration involved in armed conflict or its representatives, either to perpetuate conflict or take advantage of conflict situations for personal gain. The PEFC will publish further guidance in the coming days. According to Mondi, the CEE market uses some imported wood from Russia/Belarus; however, this is not material for Mondi’s CEE operations.
- **Two of the world’s biggest shipping firms, Mediterranean Shipping Company (MSC) and Maersk, announced they were severing ties with Russia (1 March):** MSC said that it would halt all cargo bookings to and from Russia, aside from essentials including food, medical equipment and humanitarian goods. Maersk said that effective immediately, cargo bookings by ocean, air and rail to and from Russia would be suspended temporarily with a similar humanitarian exception.
- **Developments on the roads are also likely to squeeze the logistics chain:** According to the European Cargo Association of International Freight Forwarders (ELVIS), the leading association of truck haulage companies, there are “immense problems looming for the logistics industry in both Germany and Europe. “The war could exacerbate the driver shortage to an extent that many supply chains will not be able to withstand,” the association said.

**Date:** 9 March 2022

#### Analyst

Sean Ungerer CA (SA), CFA  
+27 82 319 3373  
[sean.ungerer@chronux.co.za](mailto:sean.ungerer@chronux.co.za)

#### What we know already

- **Stora Enso to stop all production and sales in Russia until further notice (2 March):** Stora Enso announced that the company will stop all production and sales until further notice. All exports and imports into Russia will be stopped. A mitigation plan has been activated to secure availability of input materials from other sources. Stora has 3 corrugated packaging plants and two wood products sawmills in Russia, employing c.1,100 people. Stora Enso’s sales in Russia comprises c.3% of total Group revenues. The impact on Stora Enso’s sales and EBIT is not material.
- **Kemira to discontinue deliveries to Russia and Belarus until further notice (1 March):** Kemira has decided to discontinue deliveries to Russia and Belarus starting March 1, 2022 until further notice due to the ongoing situation in the region. The decision to discontinue deliveries will primarily impact pulp and paper customers in Russia. In 2021, Russia represented c.3% of Kemira’s total revenue. Kemira is a global leader in sustainable chemical solutions for water intensive industries.
- **Sylvamo (spun out from IP) to suspend operations in Russia (7 March):** Sylvamo is beginning an orderly suspension of operations (the Svetogorsk mill in Russia, at the border with Finland) in Russia. The mill has capacity of 643ktpa of market pulp (24%), paper (UWF: 58%) and paperboard (18%). The mill comprised 15% of 2021 total revenue, with more than 70% of its volumes sold in Russia and the CIS. Sylvamo is the #1 supplier in Russia for UWF (# 3 in Europe), with capacity in the first quartile. Sylvamo will continue to assess various options for its operations in Russia, which could include a sale or exit. The company will continue adhering to imposed legal restrictions and government sanctions. The announcement does not imply that Sylvamo is initiating any bankruptcy or liquidation proceedings in Russia.

## Russian and Ukraine P&B, and Pulp Insights

- **According to RISI, Ukraine produces c.1.2mtpa (750kt of containerboard) of P&B, this equates to 2% of European supply:** The country's biggest producers include the Kyiv Cardboard and Paper Mill, which accounts for c.30% of Ukraine's total P&B output, and the Rubezhansky Cardboard and Packaging Mill, a DS Smith JV.
- **Russian invasion of Ukraine will heighten instability in trade and business relations (CEPI: 4 March):** According to Cepi data, Finland, Germany and Poland together represent c.50% of EU paper and board exports to Ukraine. When it comes to pulp, Germany and Sweden account for 55% of EU pulp exports to Ukraine. As for Russia, Finland accounts for 54% of all EU P&B exports to the country, followed by Germany, Poland and Sweden, with much lower volumes. Close to 70% of EU pulp exports to Russia come from Finland and Sweden. Pulp, paper and board trade between the EU and Belarus is very limited. Ukrainian P&B exports to the EU consist mostly of cartonboard, wrapping paper and sanitary and household paper, 75% of which goes to Poland, Romania and Bulgaria. Of the 700ktpa of Russian P&B exports to the EU, 67% are packaging grades, with containerboard accounting for 43% of all exports. Italy, Germany and Poland together account for 50% of Russian P&B exports to the EU. Belarus, Russian and Ukraine account for close to 75% of all EU wood imports. In the context of high demand for wood in Europe, Cepi noted that it is important to remember that these imports have been affected by a series of wood export restrictions imposed by each of the countries in recent years which have significantly impacted EU wood markets and wood availability.
- **Russian P&B trade flows:** Russia imports c.800-900ktpa of P&B, mostly boxboard and coated graphic papers from the EU (Russia's import demand share is over 30% for boxboard and c.25% for graphic papers). If trade restrictions cut off P&B coming to Europe, there is a possibility of some ST paper shortages in certain segments on the European market, kraftliner in particular. Russia usually exports c.180-200ktpa of kraftliner to Europe. Russia does export to many other regions, with a big chunk going to China and other countries in Asia. Russia accounts for c.4% of global exports, with China the main destination (2021: 60% of its exports). However, with Russia accounting for c.22% of the global trade in softwood lumber and pulpwood logs, wood supply could become an issue.

**Disclaimer:**

This report is not investment, financial, accounting or tax advice and is provided for information purposes only. In preparing this report we did not take your specific needs and investment objectives into account. Any prices or quotations provided are indicative only and may not be used or relied on for any purposes, including valuation purposes. Opinions expressed in this communication may change without any notice. This communication is not a solicitation to buy or sell any product. To the extent permitted by the law, Chronux Research Pty. Ltd. and/or the author(s) accept no responsibility or liability (in negligence or otherwise) for loss or damage resulting from the use of or relating to any error in the information provided. This information has been prepared in good faith and is based on information obtained from third party sources. Any modelling, scenario analysis past or simulated past performance (including back-testing) contained in this information is no indication of future performance. This product may not be eligible for distribution in all jurisdictions and is directed at institutional investors who have professional experience as defined by the applicable law and/or regulation in the relevant jurisdiction. It is not for retail investors and may not be distributed into any jurisdiction where the information is not permitted. This communication is for the intended recipient only and if you have received this communication in error or in an unlawful manner the report must be destroyed, and the author notified immediately. These disclaimers and exclusions shall be governed and construed in accordance with South African law. If any provisions of these disclaimers and exclusions shall be unlawful, void or for any reason unenforceable then that provision shall be deemed severable and shall not affect the validity and enforceability of the remaining provisions. © Chronux Research Pty. Ltd. All rights of Chronux Research Pty. Ltd are reserved.