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Tissue Production - Who's the Best?



By Tea Tuuli, Product Manager, Cost Benchmarking, RISI

BRUSSELS, May 23, 2008 (RISI) - Although many paper grades are threatened by a growing public perception that "paper is waste", few people's environmental fervor extends so far as to advocate abandoning the use of tissue. So, in the height of hay fever season, let's wipe our streaming eyes with our trusty Kleenex and take a moment to examine a dynamic and growing market sector!

RISI's European Tissue Competitive Cost Benchmarking Studies analyzes over 4.7 million tonnes of retail (at-home) and 1.2 million tonnes of commercial (away-from-home) tissue production in Europe. Of this, 54% is bathroom tissue, 30% is towel, 9% is facial, 5% napkin and a further 2% is made up of other products, such as industrial wipes.

SCA Hygiene, Kimberly-Clark, Georgia-Pacific and Sofidel dominate European tissue production, accounting for 61% of the benchmarked capacity. SCA Hygiene's recent acquisition of Procter & Gamble raised the firm's total market share to 27% which is more than double that of its nearest rivals, which each hold a share between 10 and 12%.

The studies cover 155 machines in 82 mills. Of these, 54 were estimated to be swing machines which produce both retail and commercial grades. SCA Hygiene has the largest number of machines (34) followed by Georgia-Pacific and Kimberly-Clark, each with 16, and Sofidel with 15 tissue machines.

Retail versus commercial tissue products

On average, the weighted cash manufacturing cost for retail and commercial tissue varies 3-13%. For example the weighted average cash cost for retail bathroom tissue is \$1,092 per tonne and for commercial tissue \$1,017 per tonne. The biggest difference on average, \$1,026 per tonne for commercial versus \$1,153 per tonne for retail, is between towel grades, due to the high amount of retail TAD towel tissue produced. Another explanation is the fiber furnish, which varies a lot between high end retail towel and low quality recycled fiber based towel tissue.

Through Air Drying in Europe

The high quality and high performance through air dried (TAD) products have not taken off in Europe the same way as in North America, mostly due to less demanding customers, who are unwilling to pay

the premium for TAD products, as well as to higher energy prices needed in TAD production. RISI's European tissue studies benchmarked 13 TAD machines, producing approximately 690,000 tonnes of tissue per year. Average cash manufacturing cost for TAD products is \$1,223 per tonne, being 13% higher than the cash cost of normal tissue products, \$1,085 per tonne. The divergence is attributable to higher input costs for energy and chemicals.

Tissue geography

In the study, the four largest tissue-producing countries (Italy, Germany, United Kingdom and Spain) account for almost 66% of the total benchmarked production. The lowest cost countries are Russia, the Slovak Republic and Austria, due to heavily integrated wastepaper and low labor rates. The high-end countries are Italy and United Kingdom that operate mostly with market chemical pulp and have faced increased energy costs.

Comparing with North America

In North America, RISI benchmarks 7.2 million tonnes of tissue production with a weighted average cash manufacturing cost of \$893 per tonne, which is 19% lower than European cash cost. The difference is explained mostly by higher fiber and energy costs in Europe. In the case of fiber, the level of integration plays a crucial role: in Europe only SCA Hygiene Mannheim mill is partially integrated for wood, the rest of the mills purchase all their chemical pulp from the open market. In North America a far higher incidence of mills are integrated to wood. For recycled fiber, there are several integrated mills in both regions.

Only Russian mills are able to compete with the low cost structure of North American mills. This is obviously helped by the dollar-favoring currency exchange rate at the moment. The high cost producers are almost all European, with an exception of the highest cost mill being again North American.

Machine productivity in Europe and North America

Of the 155 machines benchmarked in Europe and 186 machines in North America, the European machines win the productivity contest, which in this case is defined as total machine capacity divided by trim width. The advantages of faster machines are demonstrated by the figures: the average European tissue machine has a productivity of 26.7 tonnes/day, while North America lags 4.5% behind with an average productivity of 25.5 tonnes/day.

Given that tissue is the one paper grade where North America is still thriving, a more profound outlook to tissue industry will be available once RISI's North American Retail and Commercial Tissue machine level studies 2008 come out this summer!

Tea Tuuli is a product manager for cost benchmarking based in RISI's Brussels office. This article is based on the results of RISI's European Retail and Commercial Tissue Machine Level Cost Benchmarking Study 2008. For further information about the study contact Matt Graves on +32 2 536 0747; or email: mgraves@risiinfo.com.

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