Pulp: A New Route to Revenue-Backed Project Finance?

Pulp producers are in one of the toughest parts of the current commodity cycle. Capacity growth has outpaced demand, leaving prices under pressure and margins thin across the value chain.

Unlike energy or metals, pulp projects have seldom used futures as a foundation for project finance. Most producers sell at negotiated floated or spot-linked prices, which leaves revenue, debt service and investment plans exposed to every downward move in the market.

What other industries already do

In oil and gas, mining and power, commodity risk management is built into how projects are financed. Lenders test price assumptions, hedging arrangements and debt-service capacity before committing capital. Oil and gas lenders often require part of production to be hedged, lenders to mining projects commonly ask for hedging where a market exists, and power projects rely on long-term offtake or fixed-price structures to create revenue certainty.

The principle is simple: lenders lend more confidently when future revenue is less volatile. Pulp has lacked a practical, internationally accessible way to apply that logic at scale.

The financing opportunity

China is the world's largest importer of pulp, and Chinese prices increasingly shape the economics of producers worldwide. NOREXECO provides international access to China-listed pulp futures through a financially settled contract linked to the Shanghai Futures Exchange. This creates a single liquidity pool connecting global producers, consumers and financial participants to Chinese price discovery. For pulp producers, this brings the same financing approach within reach.

Predictable revenue does more than smooth quarterly earnings. By hedging a defined share of future pulp sales, a producer can give lenders a clearer view of debt-service capacity and reduce the earnings volatility that typically weighs on financing terms.

That can support:

- **Lower financing costs:** greater revenue visibility may improve the pricing and terms available on project or corporate debt.
- **Higher leverage capacity:** a more stable cash-flow profile may support a higher share of debt at financial close.
- **More capital for growth:** reduced exposure to price swings can free equity and internal cash flow for maintenance, expansion and new investment.
- **Improved credit resilience:** a steadier earnings profile may strengthen the financial standing presented to lenders and rating agencies.
- **Protected investment plans:** producers may be less likely to delay or cancel attractive projects after a market downturn.

Hedging with a benchmark contract does not remove every risk. Differences in grade, region and currency mean the producer's realised price will not always match the futures price, so basis risk must be understood and managed. Lenders will expect this, and a clear hedging policy that addresses it is part of a credible financing case.

Handled well, the result can be a virtuous cycle: better revenue visibility lowers the cost and widens the availability of capital, which in turn funds the next stage of growth.

Takeaway — In a market where prices can't be controlled, the producers who can document their revenue are the ones who will secure the capital to grow.

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