

Uncoated Groundwood Continues to Gain Ground in Labor-Troubled Markets

But growth could slow in the next couple of years as new capacity comes online and strikes end. — **By Harold M. Cody, Contributing Editor**



While strike related issues—notably the lockout in Finland and its impact on mills producing SCA grades—have substantially altered the picture, North American uncoated groundwood markets were doing fine even before labor related issues con-

stricted supplies. A strike at Canada’s largest lightweight coated mill has further tightened paper supply in many key groundwood markets.

Thus, at roughly the halfway point of 2005, the near term outlook remains very positive. While most observers think it unlikely the Finnish strike would last more than a few months at most, strike related downtime has already led to further price gains. It’s also made it nearly impossible to make any reasonably reliable price projections. That said, prices are likely to spike this summer, but how long and how high they stay there depends on whether mills are operating.

Prices have already moved up, with increases in the spring being gradually passed on, but an extended strike

would lead to more significant price gains. In fact, a second round of price increases has been announced for SC-A grades, even before the initial round of increases enacted in the spring worked its way to customers—many of whom are protected under contract. The second increase would have been much more uncertain without labor strife.

Demand Still Growing. Last year uncoated groundwood demand continued to expand, growing nearly 6%. SC shipments to North American markets rose to 3.1 million metric tons, versus just under 3 million tons in 2003.

In contrast to strong gains in 2004, overall North American printing and writing paper demand has been sluggish so far in 2005, and for the year may not post a gain of much more than a couple of percentage points due to weakness in freesheet grades and LWC shipments. Uncoated groundwood papers are an exception, as North American demand for all SC grades through April 2005 is running 15% ahead of 2004, based on shipment data from the SC Council.

UCGW Shipments to North America

January - April 2005 (000 Metric Tons)

PRODUCERS		CAPACITY	SC-A	OTHER	TOTAL	% GRAND TOTAL
North America:						
<i>Sub-Total</i>	2004	2,672	449.3	339.2	788.5	83.6
	2005	2,903	487.8	437.4	925.2	85.4
Europe:						
<i>Sub-Total</i>	2004	4,834	128.0	27.0	155.0	16.4
	2005	4,930	137.0	21.0	158.0	14.6
Grand Total:						
	2004	7,506	577.3	366.2	943.5	100.0
	2005	7,833	624.8	458.4	1,083.2	100.0
% Increase	—	—	8.2	25.2	14.8	—

Note: The above includes every manufacturer of SC paper produced both "in-line" and "off-line" delivered to North America. Source: SC Council.

Much of this increase is due to continued growth in other SC grades. SC-A shipments are also up 8% over the prior year level, but this appears to be partly due to LWC supply limitations rather than strictly market-related growth since SC-A shipment growth has been slowing in the past couple of years.

Outlook for UCGW. The mid-to-long term outlook is for moderate growth in the overall uncoated groundwood markets to continue. In fact, they will grow at among the fastest rates in the printing paper sector. Lightweight paper markets have expanded more strongly recently but this isn't expected to be a sustainable trend and has in part been due to grade substitutions.

Solid growth will continue in the high-brightness uncoated groundwood segment, which accounted for much of the gains in 2004, but it doesn't appear likely the extremely rapid growth of 2004 can continue at quite the same pace over the long term. As noted, the big surge in SC-A ship-

ments this year has been driven by supply growth and LWC capacity restraints to some extent.

Additional capacity is finding its way to market via machine conversions and mill restarts (Katahdin and Irving Paper), and later this year one huge new SC machine in Europe. Thus, growth is likely to slow over the next couple of years.

While the long term outlook may be tempered by the fact that only modest gains are expected in mature markets such as inserts, the remainder of the year is expected to be a memorable one for uncoated mills. Once the supply situation stabilizes, pricing pressures will ease, but in the near term, things could be exciting if you need to buy paper. Until the Finnish mills go back to work, not only will paper be harder to find, it will cost a lot more. ■

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