



Downtime, Currency Play Out Role In SC Papers Market

Groundwood paper demand growth in 2006 is expected to be challenging, but SC grades should fair better than average. Groundwood prices may head up in lock step with increases on other grades if enacted.

By Harold M. Cody

In the column on SC uncoated groundwood grades last year in PaperAge, labor was a major issue, as the impact of a lockout in Finland was having a substantial impact on the SC papers market. That supply disruption, coupled with relatively good demand, resulted in a solid market for producers. It contributed to a successful price increase that was pushed through about mid-year which raised transaction prices from just over \$700/ton to about \$780/ton.

Similarly, a major supply disruption in North America has dominated the news on the SC market during the first six months of 2006. In late 2005, Stora Enso's SC and newsprint mill in Port Hawkesbury, Nova Scotia was shut down due to labor strife. In late June a settlement was finally apparently at hand, and at press time it was believed the mill was on the road to restarting. But the stoppage removed a huge part of North American high gloss SC paper supply, with the mill rated at about 380,000 mtpy, or about one-quarter of annual North American SCA shipments. Certainly these supply related problems were an impetus behind the push by producers for a price increase on SC grades of \$40/ton, effective with July shipments. The general thinking is to raise prices before the big printing season initiates beginning in late summer and into fall.

However, the outlook for pricing is a bit mixed right now. The addition of the Port Hawkesbury capacity will certainly improve the supply situation while at the same time the demand side of the equation is a bit dodgy, as overall demand is off during first half 2006. North American uncoated ground wood demand overall was off 4.6% through March, with shipment down 5.5%. North American demand for all printing and writing papers was off about 1% in the first quarter vs. last year. U.S. mill shipments of uncoated mechanical grades jumped 10% in May and were up 7.8% year-to-date, according to AF&PA. However, demand was down 0.4% from a year ago and

4.4% year-to-date due to lower imports. The gain in shipments and the drop in imports is a direct result of the Port Hawkesbury downtime. This is in contrast to last year, when overall North American demand for uncoated groundwood papers posted a modest increase, up 2.3%, as production surged nearly 5% (see table).

Uncoated Mechanical Statistics - Dec. 2005
(000 metric tons)

| | Current month | | Year-to-date | |
|---|---------------|--------------------|--------------|--------------------|
| | 2005 | % change 2005/2004 | 2005 | % change 2005/2004 |
| NORTH AMERICA | | | | |
| Production | 469 | -3.7 | 5,930 | 4.7 |
| Operating rate, % ¹ | 93 | 95 | 95 | 95 |
| Total shipments | 474 | -1.8 | 5,933 | 4.8 |
| North American shipments | 450 | -1.4 | 5,630 | 5.6 |
| Exports | 24 | -9.1 | 303 | -6.9 |
| Imports | 40 | -19.0 | 530 | -22.9 |
| Demand | 489 | -3.1 | 6,160 | 2.3 |
| Mill inventories | 199 | -3.3 | - | - |
| SHIPMENTS BY GRADE | | | | |
| SC-A, SC-A+ | 115 | -2.1 | 1,604 | 9.7 |
| SC-B, SNC+ | 54 | 2.7 | 618 | 9.1 |
| Standard grades | 222 | 3.2 | 2,788 | 3.0 |
| 1. Production/capacity current month and year ago Sources: Pulp and Paper Products Council | | | | |

North American Printing/Writing Paper Statistics
(000 metric tons)

| | March | | Year-to-date | |
|--|-------|-------------------|--------------|-------------------|
| | 2006 | % change year ago | 2006 | % change year ago |
| UNCOATED MECHANICAL | | | | |
| Shipments | 502 | -4.4% | 1,367 | -5.5% |
| Operating rate ¹ | 93 | 98 | 90 | 93 |
| Imports | 58 | 7.9 | 151 | 1.3 |
| Demand | 537 | -2.3 | 1,450 | -4.6 |
| 1. Shipments/capacity. Actual figure, not a percentage change. Source: Source: Pulp and Paper Products Council. | | | | |

Demand growth has been influenced by weak, or at best little growth in print advertising, and high paper and postal costs have also been major factors suppressing printing paper demand. Advertising continues to suffer from the siphoning of ad dollars to internet-based marketing and advertising.

Prices Pushing Historical Highs

With supply gaining and demand growth slowing a bit, traditional thinking would suggest that prices go down and not up. But as noted in last month's column on newsprint, pricing and demand don't always go in the same direction anymore.

SC prices may ride along on the coat tails of the rising tide of prices in some other printing and writing papers, notably those for uncoated free sheet papers. This would be the first increase in almost a year on SC grades. However, price increases in grades such as LWC have been hard to come by so it's not a sure thing. Also, prices are pushing up to levels not seen since 2001, and thus it's hard to see them moving up

much further in any case, and the more prices rise, the more it suppresses underlying demand. Supply disruptions in other grades such as coated papers, and the potential for the removal of additional capacity in Europe may also help support an increase. European mills are under the same pressures that have resulted in the closure of so much North American capacity, i.e. high costs and low efficiency at many older facilities. Thus the European industry continues to undergo considerable restructuring and mill closures as well.

The desperate need of Canadian mills to improve profits, in part due to the negative impact of the Canadian dollar, which jumped considerably to record levels in second quarter 2006 to over \$0.90 per CAD is one factor that will support a price increase. The skill with which the overall industry has been managing paper capacity to match demand continues to be exemplary and as has been the case in newsprint, prices may end up rising despite a solid underpinning in terms of strong demand. ■