



# North American Tissue Markets Remain Healthy As AFH Sector Rebounds from 2003

*Retail demand for at-home tissue products continues growing, but away from home markets sag under economic pressures of 2003 before beginning recovery this year.*

*By KEN PATRICK, EDITORIAL DIRECTOR*

As the North American paper industry moves through the first quarter of 2004, tissue remains, by far, the brightest star in the sky, although a few other sectors such as coated papers and even market pulp are beginning to shine with a little more intensity these days. Pacing population growth in general, North American tissue markets have continued the steady growth trend of recent years, coming in just under 3% for 2003, representing some 7.5 millions tons overall.

In general, the at-home (AH) market did well last year, feeding a tempered (but still increasing) 22-kg-per-capita-consumption demand in the US, which is the world's largest at nearly twice the size of the next two largest (Japan and Western Europe). The outlook for AH continues to be good into the foreseeable future, although significant new capacity (300,000 – 350,000 tpy) has

come online recently or is scheduled to startup this year or 2005.

However, the picture was not so rosy for the away-from-home (AFH) tissue sector last year. According to Shaw Shahery, president of Convermat Corp. in Great Neck, N.Y. (specializes in sales of tissue parent rolls and specialty papers to more than 80 countries), and author of the "Tissue Watch" report in the annual AF&PA Paper Week Convention Daily, the away-from-home season in the U.S. never really materialized last spring. As a result, he reports, the U.S. AFH tissue market appears to have shrunk 3.0 – 3.5% in 2003. Several factors combined to cause this unexpected "anomaly" in the tissue sector.

## **Impact of Uncertainties**

First was the cloud of economic uncertainty that had settled over North America as 2003 dawned. At that time, the U.S. was in the middle of a well-defined downturn in the economy if not a full-fledged recession. Coupled with that was the anticipation of war with Iraq, which almost stopped business (and personal) travel dead in its tracks when it did occur a few months later, Shahery points out.

Also, company earnings continued to be poor going

into 2003, which caused further cutbacks in travel, and then more uncertainty followed the war into the fall and winter of last year. The AFH market reacted negatively to these pressures, and an excess supply over demand situation built, Shahery says, causing a scramble to maintain market share among the top producers and independent converters as well.

The common denominator was price, "which headed south," Shahery says. The fierce competition for market share eroded prices through the first three quarters of last year, having a pronounced impact on company bottom lines. Though the fourth quarter, which normally is a slow AFH period anyway, "wasn't so good either," Shahery explains, "things did begin improving as travel picked up significantly, in fact setting a new record in December."

This year looks much more positive for the AFH sector in the U.S., Shahery notes, as the economy continues improving and people (with more disposable income) are beginning to travel more frequently. Hotel occupancy rates have improved considerably in the first two months of 2004, and the away-from-home spring season hasn't even yet begun.

Shahery believes that although some price-increase announcements didn't stick last fall, there might be support for an increase sometime this year. Costs continue to go up for producers, for fiber, energy, transportation, etc., continually eroding their bottom lines.

"It's just a matter of how the market will perceive and support a price increase," he adds.

### **New Capacity on Schedule**

Most of the new tissue machine expansions and restarts announced for North America in the past year or so continue to be generally on schedule. The new/restarted machines are expected to boost supply capacity by more than 300,000 tpy, which should be easily absorbed by the expected population-driven increase in demand.

As part of a previously announced \$250 million tissue expansion, Georgia-Pacific started up a new 80,000 tpy TAD (through-air drying) machine in Port Hudson, La., in late 2002, which is being followed by the startup of another similar line at Wauna, Wash. The company

also restarted a tissue machine at Green Bay, Wisc., last year and is further expanding tissue operations at Halsey, Ore., and Palatka, Fla.

After acquiring Wisconsin Tissue Mills in 2001, SCA, as part of a \$240 million expansion, is on schedule to startup its new greenfield mill at Barton, Ala., to produce toilet tissue, towels, tablecloths, and napkins. The 110,000 tpy wet crepe machine is set to come online this summer, securing the company's position in the southeastern U.S. marketplace.

Potlatch is already up and running its 30,000 tpy TAD tissue machine in Las Vegas, designed to service the western U.S. markets. Kruger (Scott Paper Canada) is reportedly a little ahead of schedule installing its 33,000 tpy, C\$120 million tissue machine at the Crabtree, PQ, mill. Scott is also starting up the 110,000 tpy Memphis, Tenn., tissue plant it acquired from bankrupt American Tissue in 2002., one machine at a time.

After buying two tissue mills from bankrupt Plainwell in late 2001, Cascades Tissue Group acquired the St. Helens tissue machine lease at Boise, Idaho, in 2002 from bankrupt American Tissue, as well as the wet crepe towel machine in Mechanicsville, N.Y., which it now has online. This acquired capacity positions Cascades at the No. 4 player in North America with some 430,000 tpy of capacity. America Tissue's Neenah, Wisc., operations, with five tissue machines, was acquired by Cellu Tissue, which has now started them all back up.

After investing \$350 million to add two new TAD tissue machines (75,000 tpy each) in Mehoopany, Pa., which started up in 2001 and 2002, P&G is installing an 80,000 tpy TAD tissue machine at Cape Girardeau, Mo. First Quality Tissue is on schedule to startup its new 70,000 tpy TAD machine and converting operation at Lock Haven, Pa., in the fourth quarter of this year.

According to Shahery, the question right now is what will all of the new TAD capacity coming online do to the market, and will it replace any existing capacity, or will it all be absorbed by the market? Will the big players retire some older machines in the future, or continue running them all and somehow work a production balance? ■