



By Harold M. Cody

# Hard Work by Mills Balance Supply to Shrinking Uncoated Freesheet Demand

For much of 2014, uncoated freesheet markets marched steadily onward despite the contraction in demand. Prices remained mostly stable following gains made early in 2014 on the heels of a major capacity reduction as producers continue to closely monitor supply. The 2015 outlook would appear to follow the same track, but a trade dispute has added a new wrinkle that could impact supply and prices.

Until late last year, the steady and ongoing trend at the heart of or driving most of the activity in the uncoated freesheet market — the continued contraction in U.S. demand for printing and writing grades including uncoated fine paper — was the main news. To a large extent, watching the market consists of monitoring the pace with which producers cut capacity or take market related



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downtime to keep the market in balance. And as a result of producer's efforts, prices have been stable for the most part and nothing too eventful was expected to happen. However, in late 2014, a new wrinkle suddenly came into play that could change this: a trade dispute centering on uncoated freesheet imports.

To review, North American printing and writing paper demand fell 4.1% in 2014 to 21.3 million tons and shipments dropped almost 5% to 18.7 million tons. All four major grades of coated and uncoated papers posted declines. N.A. uncoated freesheet demand fell 4.3% last year to 9.1 million tons, which was expected and in line with the aver-

age annual loss of 3% to 4% posted over the last few years. North American freesheet shipments dropped more significantly, off 7.9% vs 2013, but much of this was due to major reductions in capacity.

One important development last year was a major surge in uncoated freesheet imports which rose 33% to 1.1 million tons. Early 2015 data show the market continues to contract, with demand down 2.3% in January vs. the prior year and shipments off 2.6%.

## Capacity Curtailments

U.S. mill shipments of uncoated freesheet grades were off a little more than 9% last year vs. 2013 levels at 8 million tons. U.S. shipments improved dramatically in December after weak November output that saw shipments fall under 600,000 tons for the first time ever. However, as noted, the nearly double digit drop in output was driven by capacity curtailments rather than a steeper plunge in demand, as U.S. fine paper mills shut down about 1 million tons of uncoated freesheet capacity in a short span of time from late fall 2013 to early 2014. This included closure of the large 750,000 tpy Courtland, Alabama mill. The move to rationalize capacity

continued in late 2014 as Domtar reported plans to close 364,000 tpy of uncoated freesheet capacity in Ashdown, Arkansas, converting it to fluff pulp production.

### Consumption Down

The drop in uncoated freesheet consumption continues to be spread across most industries and end-uses as technology continues to impact the use of paper in a variety of applications. The major uses for uncoated freesheet grades include office reprographics — the largest market — which includes cut-size and other sheets used in everyday office printers and copy machines. Shipments to this end use were off by 10.4% vs. 2013 levels at 3.1 million tons. The second largest market, commercial printing, saw shipments drop by almost 11% to 1.7 million tons. Part of this market is driven by the use of uncoated freesheet in direct mail and promotional activity which continue to struggle. The two markets account for over 61% of shipments.

### Trade Action on Imports

In late 2014, however, a new issue entered the picture that could have either no impact or significantly influence the market depending on the direction it takes. Four of the largest North American producers and the United Steelworkers filed a trade dispute on imports of uncoated freesheet papers including cut-size grades from overseas, notably from China and Indonesia, claiming that they were selling at unfairly low prices. Countering this argument, several of the world's largest fine paper producers claimed that a nearly 10% reduction in capacity by U.S. mills was the cause for an import surge over the last year. The initial ruling in early March by the ITC supported the claim and the next step is to determine what duties if any are warranted.

There is no doubt, however, that a major surge in uncoated freesheet imports has occurred. The share of U.S. demand held by imports rose dramatically from 9% of demand in 2013 to 13% last year. Imports totaled an estimated 1 million tons in 2014, an increase of about 35% over 2013 levels, based on data through November. Most uncoated freesheet imports consist of cut-size grades. Imports had been rising steadily for several years but 2014 saw a notable increase. The rise in the dollar has also been a factor by making the market more attractive to offshore producers who net even better prices based on the exchange rate.



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The two largest sources, which alone accounted for nearly 500,000 tons, were Indonesia and Brazil, up 104% and 15%, respectively, over their 2013 tonnage levels. Imports from Portugal the third largest source at 162,000 tons through November were flat, while imports from China, Hong Kong and Australia, which totaled about 225,000 tons, were up over 50% from 2013 levels.

### Pricing Hinges on Supply

As mentioned, pricing was steady for most of 2014 although some minor weakness occurred in the fourth quarter as prices slipped a modest amount on some grades. Prices had moved up in early 2014, coinciding with news of the large withdrawal of the Courtland capacity, rising modestly on cut size grades with offset grades posting even larger increases. These gains followed a long period of flat prices which had lasted for more than 2 years.

So the outlook for 2015 is that demand is projected to contract an additional 3-4%, or 300,000 to 350,000 tons, and producers will continue to adjust output to match consumption. This would likely result in pricing moving up or down a modest amount depending on the exact timing of curtailments or short term market related downtime.

The trade dispute, however, has thrown a bit of a monkey wrench into the prognostication game. If duties are imposed, then prices may move up a bit more than expected. In addition, duties would make imports less attractive and this could also tend to reduce capacity curtailments that might otherwise occur. ■

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