



Uncoated Freesheet Market Balanced as Imports Ease and Demand Drop Slows

Tariffs slow imports, while there was a pleasant surprise last year as the contraction in demand slowed. With little push expected on the cost side from fiber or energy, prices may have a hard time moving up much, although the slowing of imports and upcoming capacity reductions could tighten supply.

By Harold M. Cody

Uncoated freesheet markets will likely continue to face challenges as the long term expectation is that demand will continue to contract in developed markets such as the U.S. However, the outlook for 2016 and into next year is reasonably positive as the market is largely in balance. A slowing of imports has certainly been a key factor in particular from a U.S. producer's viewpoint since it allowed U.S. shipments to pick up some slack. In addition, however, there was a very surprising development as U.S. demand for uncoated



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freesheet actually stabilized a bit last year, which is almost shocking in light of the demand trend line all graphic grades have exhibited for several years. Demand last year, instead of following the steady trend of a 3-5% annual drop, remained more level with 2014 demand levels.

U.S. uncoated freesheet demand slipped about 0.3% according to estimates, remaining near the 8.2 million-ton level, similar to the 2014 level. It could end up being a little larger allowing for revisions in year-end statistics and adjusting for inventory changes but it is nevertheless a stark contrast to the 5% decline posted in 2014. That drop is

equivalent to 400,000 tons or the capacity of a large paper machine or medium size mill. In addition, it runs counter to the direction of overall U.S. printing and writing paper demand, which fell about 5% last year, pulled down by double digit declines posted by both coated and uncoated mechanical grades coupled with a modest decline of a bit over 2% for coated freesheet grades.

As demand stabilized — or at least the decline slowed and imports eased — it had a positive

impact on operating rates and U.S. production. It is also pretty obvious that demand could return to its long term secular decline over the next couple of years. Nevertheless, it kindled hope that unlike coated paper and newsprint grades, underlying demand could be stabilizing or at least the decline has decelerated. There is no clear or overarching reason for this and this may just be a one-year fluke. The most likely reasons would seem to be that office paper demand for uses including presentations and other applications could be flattening in part due to painfully slow gains in employment.

It's not all rosy however, as uses for fine paper in some

sectors continue to fall due to the impact of technology. Another could be a slowing in the drop in direct mail use as advertisers fight clutter that is endemic with the spread of digital advertising. USPS standard mail weight fell by 1.6% in the last year (USPS fiscal year ending in September), but this compares to a 5.7% decline in 2014.

RECENTLY IMPOSED TARIFFS

As noted, the impact of tariffs enacted on imports of uncoated freesheet papers from areas including Asia, South America and Europe has likely had the largest impact on the current market and will be a major influence going forward. Tariffs were finalized in early 2016 on imports from several nations but the levels varied considerably. In some cases the impact on imports will be minimal and in others higher tariffs will have a more dampening effect. Imports of grades such as cut-size papers eased considerably in the second half of 2015 falling to a level representing about 10% of demand vs. prior levels of about 20%. While imports from Canada and Europe will be less affected, a drop from other areas make it likely that imports will continue to decline substantially this year and next. Some projections call for total imports to fall to half of 2014 levels which would be well under one million tons annually from levels that have approached 1.5 million tons.

So, the 64-dollar question is what happens this year and into 2017? A lower level of imports coupled with lower capacity from mid-2016 on is likely to sustain a balanced market even if demand returns to its recent trend line decline. The capacity change will result from Domtar's \$160 million investment to convert 364,000 tpy of uncoated freesheet capacity to produce 516,000 tpy of fluff pulp at the Ashdown, Arkansas mill. Domtar is the largest producer of uncoated freesheet in North America producing about 3.4 million tons of paper.

In 2015, freesheet prices ended the year down about 2% or \$25 per ton from 2014 levels as prices weakened mid-year.

It's likely that supply will be sufficient so that no major gain in prices will occur, but producers did announce a \$60/ton increase for April shipments. If partly enacted it would propel prices back to year earlier levels. Certainly there is a case to be made that lower imports, which came under fire as unfairly low prices, would contribute to a tighter market and could allow for a window of some positive price movement.

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