

PPI Pulp & Paper Week

PAPER, PACKAGING AND FIBER MARKET NEWS AND PRICES FOR NORTH AMERICA

Big March expected for box shipments due to virus; domestic liner prices hold, export rises in two regions

A US corrugated market that came out of a flat year in 2019 has surged at least for the time being because of the coronavirus outbreak. Some contacts think US box shipments, after rising by 2% in January and February combined, may increase by 5% to up to double-digits in March, on a year-over-year basis.

One contact this week told of boxmakers who "can't make enough" boxes "fast enough" for products for Walmart and Costco stores. One national boxmaker was said to be experiencing a "booming" at least double-digit rise in e-commerce demand. Another national

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Graphic paper market OK so far amid Covid-19 but players fear big demand drop, transportation issues

North American graphic paper suppliers reported regular operations and business so far, but they fear that the Covid-19 outbreak may soon negatively affect their business. Demand, mill operations, and transportation are main concerns.

"Some customers ... are trying to build inventories, while others are cancelling orders because the end-user side is not doing well," a newsprint supplier stated.

The contact said that the insert flyer business is likely to be hurt.

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Q4 industry earnings plunge 24% to \$1.4 billion; FY 2019 profits drop \$1.7 billion from 2018 level

Twenty-nineteen was a year best forgotten by North America's pulp, paper, and forest products industry. With most commodity markets under pressure from weak demand and pricing both at home and abroad, a repetition of 2018's blowout results was not anticipated. But neither was the scale of the reversal.

Executives on earnings calls repeatedly referenced the "challenging" global demand conditions that triggered an almost 4% fall in US paper and board production, the biggest sequential drop since the Great Recession. Combined with lower pricing, sales and earnings

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Recovered paper

WM suspends services, centers in some US states, including MRF closures in California

Waste Management (WM), the largest US generator of recovered paper, has suspended some operations in several US states, and shut down select buyback centers and material recovery facilities (MRFs) in California that collect recyclables, including mixed paper and old corrugated containers (OCC), "until further notice" as it responds to changes due to the coronavirus. The company has suspended all residential contact centers nationwide. Business contact centers are still in operation.

A WM official told Fastmarkets RISI's *PPI Pulp & Paper Week* on Mar. 20 that the company temporarily closed its Southern California MRFs and recycled collection "remains in place."

WM said service updates will be provided online at www.wm.com/alerts. As of Mar. 20, nine states were listed with affected services, including canceled/postponed bulk item pickups in Illinois, Iowa, Missouri, Nebraska, and Kansas, except for residents of Wyandotte County, KS. The MRF closures are in California.

Also this week, WM said it would delay its planned \$4.9 billion acquisition of Advanced Disposal Services (ADS). WM CEO Jim Fish previously called the deal "transformational." WM expected to complete the deal in the second quarter rather than in the first quarter.

This all comes less than one month after WM suspended

mixed paper collections in Broward County, FL, citing contamination and pricing.

Pricing for WM's main materials sold, OCC and mixed paper, slipped significantly and held at record lows, respectively, last year. US domestic OCC pricing hit rock bottom in fall 2019, to a record low \$22/ton US average, according to *P&PW*'s survey. Mixed paper never topped a positive-figure for its average in all of 2019, and has seen depressed pricing to start 2020 as demand cannot meet supply. OCC pricing has begun rebounding this year as US mills run strong, and demand has increased in first-quarter 2020.

California closures. In Southern California, WM's buyback centers are closed until further notice in Tehachapi in Kern County; in San Diego County in Carlsbad, El Cajon and Oceanside; and in Buellton and Santa Maria in Santa Barbara County.

In Northern California, WM said curbside collection continues in "all jurisdictions." Closures, however, were reported for several counties, including transfer stations and offices, and corporate offices. Its MRF in North Valley in Butte County will close Mar. 23.

In Tuolumne County, the Cal Sierra Recycle Buyback also will close Mar. 23, as will the Feather River Disposal Recycle Buyback center in Plumas County and the Fort Bragg Buyback Center is closed.

Contacts on the West Coast said they were "anxious" to find out WM's closures as they are expected to affect other MRFs in the region. It is also unclear if these closures will

continue throughout the USA amid the coronavirus concerns.

At the same time, another contact said mills are "stockpiling" or trying to stockpile OCC, due to the outbreak.

In Nevada, the transfer station in Lyon County will close Mar. 20.

In Colorado, collection services were delayed by at least one day in several cities. Weather was cited as a factor for the delays in Colorado.

Domestic sales up 30%. In just under three years, WM has increased its domestic sales of recyclables by nearly 30%, with 81.5% of its domestic volume share reported so far into this year, up from 62.9% in 2017 -- in a move the company's head of recycling told *P&PW* in mid-February that the company will continue to make going forward in anticipation of additional US paper mill capacity. (*P&PW*, Feb. 14, p. 9).

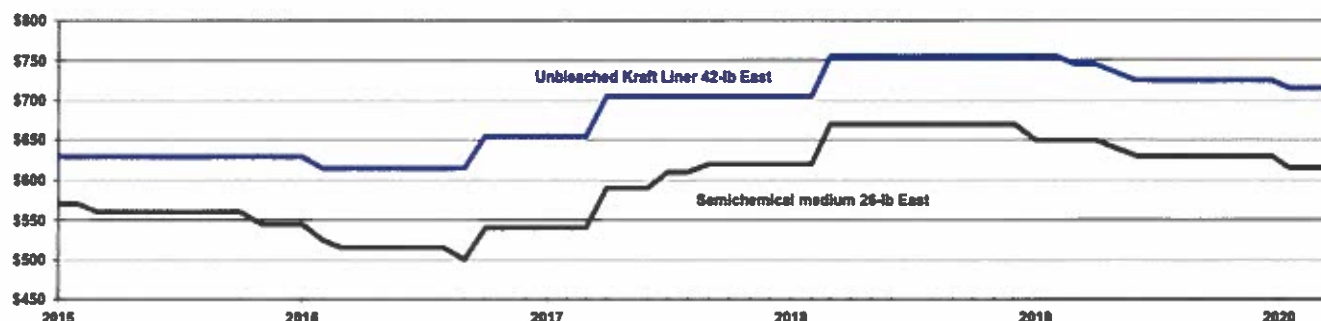
In 2019, WM's MRF volumes of both mixed paper and OCC increased. The company also has seen contamination rates drop to around 20% compared with 25% in 2018.

Despite this increase in domestic volume sales, the company reported a significant decline in recycled commodities' market prices, leading to a \$104 million year-over-year decline in revenue from WM's recycling line of business in fourth-quarter 2019. For the full year, recycling commodity revenue declined \$318 million.

WM's blended average commodity price slipped 43% year-over-year in fourth quarter 2019, to \$37/ton. It was \$44/ton for the year.

--by mworkman@fastmarkets.com

PRICE WATCH: Containerboard/Kraft Papers Domestic



Delivered, US\$ (unless otherwise noted)

Current months

Year-to-year

CONTAINERBOARD		Unit	Mar. 2020	Feb. 2020	Jan. 2020	Mar. 2019	% chg.
DOMESTIC OPEN MARKET PRICE							
Unbleached kraft linerboard (42-lb)							
East	sh. ton	\$710 - 720 *	\$710 - 720 *	\$710 - 720 *	\$740 - 750	-4.0%	
West	sh. ton	710 - 720 *	710 - 720 *	710 - 720 *	740 - 750	-4.0	
High performance linerboard (35-/36-lb)							
East	sh. ton	720 - 730 *	720 - 730 *	720 - 730 *	750 - 760	-4.0	
Recycled linerboard (30-/31-lb) ¹							
East	sh. ton	630 - 640 *	630 - 640 *	630 - 640 *	660 - 670	-4.5%	
West	sh. ton	630 - 640 *	630 - 640 *	630 - 640 *	660 - 670	-4.5%	
White top linerboard (42-lb)							
East	sh. ton	950 - 960 *	950 - 960 *	950 - 960 *	960 - 970	-1.0	
West	sh. ton	950 - 960 *	950 - 960 *	950 - 960 *	970 - 980	-2.1	
Corrugating Medium (26-lb semichemical)							
East	sh. ton	610 - 620 *	610 - 620 *	610 - 620 *	645 - 655	-5.4	
West	sh. ton	610 - 620 *	610 - 620 *	610 - 620 *	645 - 655	-5.4	
EXPORT LINERBOARD - Unbleached kraft							
175-g+ Southern Europe (CIF)	tonne	€ 420 - 440 ^{**}	€ 405 - 425 *	€ 405 - 425 *	€ 540 - 550	-21.1	
175-g+ China (C&F) ²	tonne	520 - 550 ^{**}	520 - 550 *	520 - 550 *	650 - 670	-18.9	
42-lb Laredo border/Mexico (FOB)	tonne	600 - 610 ^{**}	600 - 610 *	600 - 610 *	660 - 670	-9.0	
42-lb Central/South America (FAS)	sh. ton	510 - 520 ^{**}	500 - 510 *	500 - 510 *	580 - 590	-12.0	
KRAFT PAPERS							
Unbleached							
Extensible multiwall sack, 50-lb	sh. ton	1,280 - 1,300 *	1,280 - 1,300 *	1,280 - 1,300 *	1,320 - 1,340	-3.0	
Natural multiwall sack, 50-lb	sh. ton	1,125 - 1,135 *	1,125 - 1,135 *	1,125 - 1,135 *	1,165 - 1,175	-3.4	
Grocery bag, 30-lb	sh. ton	1,310 - 1,330 *	1,310 - 1,330 *	1,310 - 1,330 *	1,350 - 1,370	-2.9	
Bleached							
Grocery bag, 30-lb	sh. ton	1,640 - 1,650 *	1,640 - 1,650 *	1,640 - 1,650 *	1,640 - 1,650	0.0	

NOTES

*Discounting has been reported below price shown.

1. Fastmarkets RISI launched assessments of 30-/31-lb recycled linerboard in September 2019. A two year synthetic history was compiled by Fastmarkets RISI economists to coincide with the launch. These historical prices are meant as indicative levels only and should not be considered formal Fastmarkets RISI assessments.

2. From January 2018 the reference to Hong Kong was removed. This is a change in location name, not in methodology. Price includes all China parts.

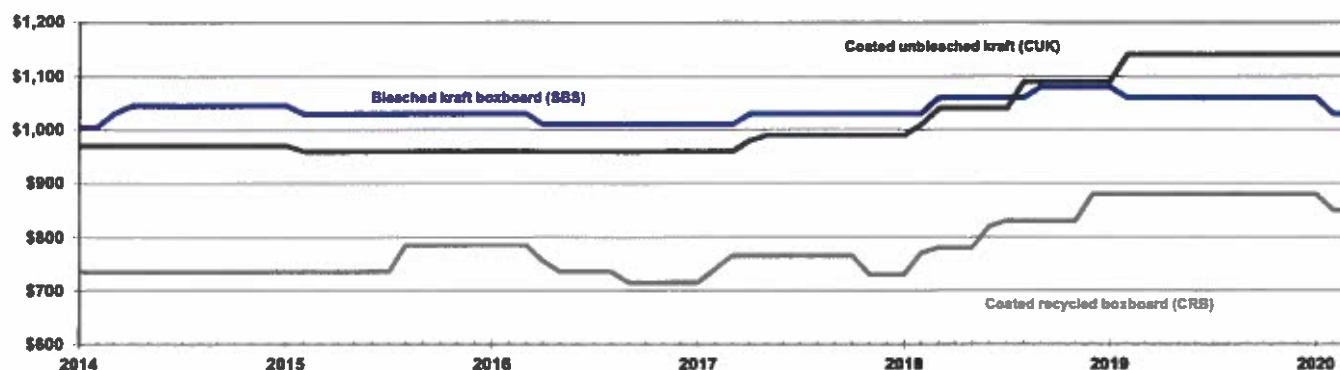
3. Future price increase announced by major producer (s) but not reflected in current data.

With the launch of new assessments for recycled linerboard, and lower basis weight assessments, Fastmarkets RISI has removed the footnote to this table containing indicative differentials for other containerboard basis weights and grades. As we add new assessments to our portfolio, we believe this footnote is no longer relevant.

DISCLAIMER

While the information contained in this report has been obtained from sources believed to be reliable, Fastmarkets RISI does not warrant or guarantee the accuracy and completeness of the information. All prices are best estimates of prices, and are composite prices as opposed to median or average prices.

PRICE WATCH: Boxboard



Delivered, US\$/sh.ton (unless otherwise noted)

	Current months			Year-to-year	
	Mar. 2020	Feb. 2020	Jan. 2020	Mar. 2019	% chg.
BOXBOARD					
SERIES B PRICES¹					
Solid bleached sulfate board (SBS)					
16-pt folding carton, C1S	1,010 - 1,050	1,010 - 1,050	1,040 - 1,080	1,040 - 1,080	-2.8
14-pt cup stock, PE2S	1,330 - 1,370	1,330 - 1,370	1,330 - 1,370	1,330 - 1,370	0.0
Coated unbleached kraft board (CUK)					
20-pt folding carton, C1S	1,120 - 1,160	1,120 - 1,160	1,120 - 1,160	1,120 - 1,160	0.0
Recycled folding boxboard (CRB, URB)					
20-pt clay coated news	840 - 860	840 - 860	870 - 890	870 - 890	-3.4
20-pt bending chip	690 - 710	690 - 710	720 - 740	720 - 740	-4.1

NOTES

* Discounting has been reported below price shown.

Future price increase announced by major producer (s) but not reflected in current data.

1. Boxboard prices above and below these levels have been reported.

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Linerboard

IP has shuts at two kraft liner mills, due to fire in Georgia, boiler problem in Louisiana

Three of four International Paper (IP) unbleached kraft linerboard machines appeared to not be operating on Mar. 17 at two mills in Georgia and in Louisiana, due to a fire and a damaged boiler, a company official and industry contacts told Fastmarkets RISI's *PPI Pulp & Paper Week*.

"On March 3, a recovery boiler at our Bogalusa (LA) mill sustained

damage. Currently, one paper machine is running, and we expect to have both machines on-line in the second half of April," the IP official said.

It's unclear which machine is down, but the machine is expected to be down for six to eight weeks.

"At our Rome (GA) mill, we experienced a fire at the building that houses the two paper machines on March 14; we are pleased that no structural damage occurred to either one of the paper machines. We are

still assessing the situation and will provide more information when we report earnings on April 30, 2020," the official said.

Industry contacts said that the two machines at Rome were not operating on Mar. 17. One contact thought that one of the machines might remain down for a "couple of weeks," but that claim was not confirmed by the company's response or other *P&PW* contacts.

The "ceiling collapsed!!" said one contact on Mar. 17.

"There's no telling ... how long they might be down," the contact claimed.

No IP employees were "seriously" injured in either incident, the company official said.

The combined capacity at Bogalusa and Rome is more than 1.6 million tons/yr, which represents about 4% of US containerboard capacity.

--by grudder@fastmarkets.com

Linerboard

Arkansas kraft project is officially canceled by China's Sun Paper, due to trade, virus

A massive unbleached kraft linerboard capacity project in Arkansas near Arkadelphia by a Chinese company is dead and canceled, following four years of consideration. China's Sun Paper made the announcement official this week after economic officials in Arkansas said recently

that they would look to find a new company for the property Sun was expected to build on for the kraft linerboard mill.

US containerboard contacts for the last month have surmised that the \$1.8 billion project was dead, even before this week's announcement.

Since 2016, Sun Paper has been working and negotiating with Arkansas and local officials, including making trips to China,

Major North American containerboard capacity expansion projects, 2019-2022

Company	Mill	Net capacity (tons/yr)	Grade	Startup date	Details
ND Paper	Biron, WI	255,000	RCB	3Q 2019	Converted coated PM and expects full production by 1Q 2020
Pratt Industries	Wapakoneta, OH	400,000	RCB	4Q 2019	New greenfield lightweight RCB mill with large adjacent box plant in central Ohio
North Pacific Paper	Longview, WA	110,000	RCB	2019	Committed to additional 100% RCB, kraft paper capacity on PM 1
McKinley (Bio-Pappel)	Port Angeles, WA	180,000	RCB/KP	1Q/2020	Convert idle two-PM directory mill to 180,000 of RCB & 60,000 of bag paper
Verso	Duluth, MN	95,000	RCB/KP	1Q 2020	Converted SC machine, with trials in 2Q 2019, full sales in early 2020
International Paper	Selma, AL	450,000	WT/CTB	2Q, 3Q	Conversion of PM 15 at Riverdale mill to bleached-WT/CTB from UFS
WestRock	Florence, SC	30,000	KL	1H 2020	New 710,000 PM, largest in North America, replacing three narrow, older PMs
ND Paper	Rumford, ME	120,000e	WT/RCB	4Q 2020	Convert coated p/w PM R12 to white top linerboard, specialty containerboard
New-Indy	Catawba, SC	400,000e	KL	TBA	Plans "ultra" lightweight kraft linerboard from converted former Resolute coated PM 3
Green Bay Packaging	Green Bay, WI	445,000	RCB	1Q/2021	New 300-in trim 685,000 PM to replace existing 240,000 RCB PM
CorrVentures	Albany, NY	300,000	RCB	4Q 2021	Hudson Valley Paperboard greenfield mill near Albany, NY, financing to close in 4Q
Crossroads Paper	Salt Lake City, UT	342,000	RCB	1Q 2022	Greenfield site. Likely in Salt Lake City area. Cellmark to sell mill's containerboard
Cascades	Ashland, VA	400,000	RCB	1H 2022	Purchased White Birch newsprint mill for \$34 million. May shut capacity for project
Total capacity		3,527,000	CTB		
Under study/consideration					
Domtar	Ashdown, AR	400,000	KL	2022-2023	Has studied UFS PM conversions; CEO Williams has cited Ashdown as a top choice
Pratt	TBA	800,000	RCB	2021-2026	CEO Pratt told Australian in Jan. 2020 that he wanted two new US PMs by 2026

CTB=containerboard; KL=unbleached kraft linerboard; RCB=recycled containerboard; WT=white top kraft linerboard; UFS=uncoated freesheet; CFS=coated freesheet; CM=coated mechanical; OCC=old corrugated containers; KP=kraft paper; SC=supercalendered; PM=paper machine. e=estimate. TBA: to be announced.

Source: RISI Mill Intelligence, company reports, and RISI contacts.

for building a 1.580 million tons/yr two-machine linerboard mill. The company's plan was to ship all or almost all of the output to China, where the packaging industry is being starved in a fiber crunch caused by Chinese government rules since 2017 that strictly manage imports of recovered paper. China is expected to ban all global imports of recovered paper in 2021.

Sun Paper officially canceled the project on Mar. 16, Arkansas economic officials said. The company cited the "new economic uncertainties brought on by the Coronavirus (Covid-19) and the ongoing trade dispute" involving the US and China, Commerce Secretary Mike Preston said in a statement to local media.

"It's a big disappointment for everyone involved. Lots of hard work, from the local community to our state partners, went into seeing this project succeed. It's important to note there have been no incentives paid to the company," Preston said.

Sun Paper's CEO first spoke in America about containerboard and implied capacity project about 15-20 years ago at a RISI International Containerboard Conference. That appeared to evolve into a pulp mill project announcement in 2016, following Sun's venture with International Paper in China from 2006-2015. The project focus later was changed to unbleached kraft linerboard.

The Sun Paper project gained environmental permitting from the state of Arkansas last year. The company then backed away from the project in Arkansas, citing the trade war that the

company said would increase its cost to build the mill.

In a letter this week to Arkansas Gov. Asa Hutchinson and the Arkansas Economic Development Commission, Sun Paper's international project dir, Andrzej Bednarski, wrote: "The current situation related to the coronavirus outbreak and continued political friction and economic instability make it impossible for us to proceed with the project within the timelines set forth in the environmental permit. With the likelihood of the project uncertain, it is also fair to allow the State of Arkansas to use its resources for other ventures that have less uncertainty in the medium term. At this moment, the collective uncertainties make it a better choice for both of us to abandon the project."

"We remain committed to the friendships we have made over the years with the state of Arkansas, and we are willing to cooperate in finding other suitable industrial partners for the project or the site," Bednarski wrote.

--by grudder@fastmarkets.com

Domestic liner prices hold

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told of nearly 10% first-quarter growth in square footage. A mid-sized boxmaker in the East running multiple plants reported backlogs through mid-April. In all, boxmakers told Fastmarkets RISI's PPI Pulp & Paper Week that their March demand was "strong."

Others told of taking overtime to make boxes and one told of

possibly keeping his plants open seven days in coming weeks.

"I think demand has jumped up because a fear of not being able to get (important food, house, and medical products) but that's not going to last," said one industry contact.

"It's just a shock to the supply chain that caused the surge," an industry boxmaker said.

No box plants or containerboard as of Mar. 19 contacted by P&PW reported coronavirus cases. But various industry contacts said that they have been talking with supply chain customers for the last almost two weeks about "what happens if you can't supply us."

"People are most concerned about if they have to shut a factory down because a worker has the coronavirus," a boxmaker in the East said.

"What plan do you have if someone tests positive?" another supplier explained, was the big question this week.

A supplier noted the importance of truckers or delivery drivers during the surge as efforts are made to manage the outbreak, saying that demand can stay elevated "as long as the drivers show up for work."

One boxmaker termed some customers as "hyper hysterical" about their need for boxes.

The flurry of activity occurred as box pricing moves seemed insignificant this week, and board pricing remained unchanged on kraft and recycled linerboard, and corrugating medium in the US domestic market, based on

US Containerboard/Box statistics – February 2020

	(000 tons)			
	Feb. 2020	% chg. yr ago	YTD 2020	% chg. 2018
Box shipments ¹	30,298	1.9%	64,242	1.9%
Average week		1.9		1.9
Containerboard consumption	2,516	2.3	5,333	2.4
Production				
Linerboard	2,103	10.0	4,423	7.3
Corrugating medium	904	9.2	1,859	5.0
Total containerboard	3,007	54.9	870	46.3
Exports/imports				
Linerboard exports	418	54.0	888	45.1
Containerboard imports	113	1.3	241	4.4
	Feb. 2020	Jan. 2020	YTD 2020	YTD 2019
Operating rates (%)				
Linerboard	92.3%	95.2%	93.8%	90.1%
Corrugating medium	96.0	95	95.5	94.3
Total containerboard	93.4	95.2	94.3	91.3
	Feb. 2020	Jan. 2020	Feb. 2019	Chg. (tons) prior month
Containerboard inventories				
Mill inventories	405	376	361	29
Box plant inventories	2,298	2,346	2,426	-48
Total inventories	2,703	2,722	2,787	-19

1. bsf=billion ft³. YTD=year-to-date, n.a.=not available.

FBA to release box shipment and inventory statistics Feb. 1 after annual audit.

Source: Fibre Box Assn, American Forest & Paper Association, US Bureau of Census (imports).

US containerboard inventories at box plants and mills

	2020		2019		2018		2017	
	Tons	Week's Supply	Tons	Week's Supply	Tons	Week's Supply	Tons	Week's supply
December			2,526	3.9	2,659	3.9	2,379	3.6
November			2,417	3.6	2,561	3.9	2,335	3.5
October			2,395	3.7	2,482	3.9	2,350	3.6
September			2,499	3.8	2,588	3.9	2,379	3.6
August			2,555	4.0	2,566	4.1	2,393	3.8
July			2,580	3.9	2,564	4.1	2,421	3.7
June			2,489	3.8	2,381	3.8	2,323	3.7
May			2,587	4.0	2,408	3.8	2,334	3.7
April			2,613	4.1	2,437	3.8	2,389	3.7
March			2,734	4.4	2,428	3.9	2,359	3.9
February	2,703	4.3	2,787	4.5	2,396	3.9	2,492	4.2
January	2,722	4.3	2,835	4.5	2,500	4.1	2,467	4.0

n.a.=not available.

Source: American Forest & Paper Assn, Fibre Box Assn.

the Bogalusa, LA, mill early this month caused the shut of one more machine until mid-April (see story, p. 6). One machine at Bogalusa was running this week.

Amazon's announcements this week appeared positive for corrugators. First, Amazon said it would hire 100,000 workers for fulfillment centers and delivery services. Second, Amazon -- feeling the strain on a slowed and oversupplied supply chain to meet dramatic consumer demand for "high demand" products such as medical and tissue products, diapers, hand sanitizers, cleaning products, and household staples including groceries -- told suppliers that these high-demand goods would be the only ones restocked at company fulfillment centers through Apr. 5.

Those not boxing high priority goods for e-commerce will be hit immediately, one industry contact claimed, indicating that an economic downturn was slowly beginning.

"Some industries will do well and others will not," the corrugated contact said.

It's unclear if the surge can outpace the anticipated decline in certain products being purchased at businesses affected by the shelter-in-place approach that puts employees at home rather than in the office or on the road over the next few weeks to months, contacts said. The US government is also planning to defer tax payments for some for several months and to provide Small Business Interruption Loans. Still, some industry contacts thought that some business may not survive.

the P&PW survey. US unbleached kraft linerboard export prices did increase in two out of four export markets, in what is the first increase in two years.

And in a key producer announcement related to

US containerboard supply, International Paper said three of four kraft linerboard machines representing about 3% of US containerboard capacity were down early this week. A fire shut two machines at Rome, GA, and a recovery boiler problem at

Restaurants and bars were closed by local governments in various states including California and New York for social distancing reasons, and one packaging company official claimed this would lead to an “uptick in QSR (quick service, fast-food restaurant) packaging” as well as at regular sit-down restaurants if they are able to remain open. But, overall, contacts said the restaurant/bar business would suffer. Some Detroit automakers also said this week that they would start shutting down their factories.

A National Association of Manufacturers (NAM) survey released last week revealed that more than 78% of manufacturers anticipate a financial impact and more than 35% of manufacturers are facing supply chain disruptions as a result of the Covid-19 coronavirus. It was unclear where most of the financial impact would occur and to which industries in the next few months, either on the negative or the positive side in terms of cash flow. Many mentioned having to find “alternative suppliers” and disruptions are expected to become more serious “if slowdowns continue beyond next quarter,” according to the NAM survey.

Walmart early this week said it adjusted operating hours so workers can restock and clean shelves. Grocers such as Kroger said they were hiring more workers.

“In the case of being busy, I love overtime,” said one boxmaker in East, even though running a plant on weekends costs more money per hour.

COVERAGE NOTE: Fastmarkets RISI publishes FAQs for proposed changes to US kraft paper assessments

San Francisco, CA, Mar. 20, 2020 (Fastmarkets RISI)—Fastmarkets RISI has published a list of Frequently Asked Questions (FAQ) to accompany the proposed launch of new price assessment for US kraft papers.

The FAQs can be found [here](#).

Fastmarkets RISI launched a consultation on the launch of new net price assessments for unbleached and bleached kraft paper prices on Mar. 5, 2020. If confirmed, these would eventually replace the current market assessments, which reflect the effective list price.

The new price assessments would be based on open market net transaction levels after specific customer discounts. Our North American pricing team has been researching this change for the kraft paper prices since last year. We’re interested in comments from the market about this potential change. Please send your comments to pricing.risi@fastmarkets.com by Mar. 31st, 2020, mentioning “US Kraft Paper” in the subject-line of the email.

After considering comments, Fastmarkets RISI expects to announce if the new prices will be launched at the start of May, with the new levels first published in *PPI Pulp & Paper Week*, Fastmarkets RISI online portal and mobile app on May 22. They would run alongside the existing price series until the end of 2020. From 2021, the existing price series would be discontinued, leaving only the new net series.

For more information on Fastmarkets RISI’s methodology for North American packaging paper and board, including the new assessments, please see [here](#).

For other Fastmarkets RISI coverage notes please see [here](#).

Others told of some workers needing time off because schools are closed for their children. One told of juggling schedules for three shifts as a result.

Contacts have told *P&PW* that demand was better than expected to start the year and especially in March thus far, citing some customers that rebuilt stock, and also as the shelter-in-place panic-buying began around Mar. 11-14. This led to cleared-out shelves for some products like tissue and to some degree for meat, bread, water, milk, and eggs, and some stores unofficially tried to ration some “essential” food staples among

customers. By the middle of this week, one industry traveler told of “ghost towns” at airports with only four to six people on flights.

“The scary part is what (demand) is going to look like in three months,” said an industry veteran in packaging. “It does resemble what happened on 9/11.”

“Maybe there will only be three or four weeks of where the supply chain continues to get filled as it is now. I mean the grocery stores are going crazy: Campbell Soup, Cheerios, and toilet paper,” said an industry packaging supplier. “After the next three or four weeks, things will get very

interesting in terms of supply and demand at that point and time."

"It's anyone's guess," said a producer, referring to the uncertainty about how the US economy might progress under the strain of the virus and the outbreak.

Another contact countered that "consumer demand will be pent up or for three months or whatever it may be" from the shutdowns and sheltered-in-place approach.

Demand "will spike like crazy when this is over," the contact added.

• **Export prices increase.** US kraft linerboard prices increased Euro 15/tonne to southern Europe (Italy and Spain) even as the outbreak worsened in Italy and caused a virtual shutdown of the country of 60.5 million residents. Pricing for US kraft linerboard also increased \$10/tonne to South/Central America, with increases noted as being \$10 and \$20 in Ecuador and \$10 in Chile, contacts told *P&PW*. There were a few reports of some higher pricing in Mexico. To China, contacts said US kraft linerboard producers were ready to raise prices next month. A US contact who sells to China told of reduced imports from China and that manufacturing has partly been picked up in the USA as a result, thus also increasing corrugated demand. And with the phase-one agreement duties now allowed to be exempted, companies in China were gaining exemptions for imported kraft linerboard, a contact said on Mar. 20. In January, the US shipped 63,000 tonnes of kraft linerboard to China, after average shipments for 2019 were 35,000 tonnes/month. China's

recycled containerboard prices declined over the past two weeks following spikes last month, *PPI Asia* reported on Mar. 20. *PPI Asia* reported that logistics issues eased and recovered paper supply was moving to board mills. In addition, in Hubei province, where the outbreak began, **Shanying International's** 550,000 tonnes/yr Jingzhou mill resumed production last week and **Long Chen Paper's** 1.15 million tonne/yr Songzi mill was to restart, according to *PPI Asia*.

• **Green Bay Packaging** is moving ahead with its large new recycled containerboard machine project in Wisconsin. "At this point, we have put appropriate safety and health measures in place and we continue stay on schedule for a 1Q 2021 startup," a company executive told *P&PW* on Mar. 18. Green Bay Packaging is on track to install a 685,000 tons/yr machine that will replace a smaller 240,000 tons/yr machine.

• As expected, **US recycled linerboard** production was up 12.7% year-to-date through February at 1.071 million tons. This was a 121,000-ton increase for the two months and if that increase level remained for the rest of this year would advance recycled linerboard production by 720,000 tons in 2020 from the 2019 total. Recycled linerboard capacity is estimated to grow by more than one million tons in 2020 from 2019 from the startup of six machines.

• **The Fibre Box Association (FBA)** canceled both its 80th Anniversary Annual Meeting scheduled for Apr. 27-29 at The Montage Laguna Beach in California, and the FBA Executive Conference scheduled for Apr. 26-27. **RISI's International**

Containerboard Conference for Latin America set for this month in Mexico City was canceled. The event was set for Mar. 25-27.

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Kraft paper

No change on domestic pricing levels as demand appears to be picking up

Kraft paper spot pricing for unbleached natural multiwall sack bag paper appeared to be down in some cases, but buyers and sellers said overall pricing for the overriding majority of the sack bag paper market in North America was unchanged this month, according to Fastmarkets RISI's *PPI Pulp & Paper Week* survey.

One contact told of some increased export demand for kraft paper. Export prices consistently declined last year.

The coronavirus was said to have increased domestic demand in the last two weeks, especially for bagging food products, industry contacts said.

"Some (kraft paper mill) backlogs are well into May," one contact said, "due to the surprise buying (of consumer products)" and general "panic-buying."

On the spot market in the last two months, several suppliers told of prices being down in some cases by \$10/ton or \$20/ton. One claimed that the entrance of white print paper producers with print machines converted to unbleached kraft

paper were "cruising the market looking for opportunities."

"Coronavirus is terrible for the (health of the) human species but a benefit so far to packagers," said a contact with one small producer of kraft paper.

US industry players this week told *P&PW* that they expected increased demand in the short-term from fast-food companies like McDonald's, which they said will likely see increased drive-through traffic, and from e-commerce, as Amazon has continued to reestablish and lessen its packaging footprint by no longer double boxing corrugated and in some cases using alternatives like kraft paper, and increased grocery bag consumption from the "panic buying" at grocery stores that seemed to start around Mar. 11. There also was an expectation that restaurant take-out activity would increase and could slightly benefit kraft paper, the contacts said.

• **WestRock** hired **ABB** to replace its dry-end drive system, including an upgrade to its Longview, WA, machine No. 12 drives, motors, and the installation of the ABB Ability System 800xA control system, the companies reported. Installation and commissioning of the project is to be completed by yearend 2020. The new ABB drive system will require minimal parts, the companies said. "With our aim of improving reliability and productivity, without the need for extensive downtime during installation, ABB offered a practical approach to achieve our goals," said WestRock project mgr Rick Siragusa.

--by grudder@fastmarkets.com

Print paper sees virus impact

>>> continued from page 1

"Who needs to advertise right now? You just go to the supermarket and get what you need. Nobody is looking for ads now," the newsprint supplier said.

A coated paper supplier said demand was still OK this week, but orders should drop sharply in the coming weeks, mainly because printers are in a shaky financial situation.

For uncoated freesheet (UFS) paper, one distributor said that print runs for retail and services industry into April and May have already been canceled. Roughly 30 million Americans work in offices and various companies have directed employees this week to work at home.

"I have started hearing that UFS demand ... [may possibly] decline by 10-15% due to the Covid-19," an exporter reported.

A key segment where demand may be hit is the largest and most profitable one: cutsize office/copy paper, which is actively used in offices and public buildings yet still is used at homes on printers as well.

"Label-related demand is good," one industry contact said.

"Packaging grade demand is high (and the) linerboard business should be fine too as people are ordering more online. As long as the government does not stop factories, we should be OK."

"We haven't seen any delays in shipments or manufacturing due to the virus," another print paper industry contact said.

"But the situation is fluid, and I suspect if more restrictions are placed on people movement around the US, manpower to drive the trucks will be an issue."

One large UFS producer said it is still too early to know the impacts of the outbreak on paper demand. The contact mentioned that all paper segments will be impacted and his company is preparing for different contingencies.

"We've been lucky so far, in terms of our operations. We are not facing any issues with transportation either. As for demand, I think direct mail could pick up, and a demand spike on envelopes may happen too. All depends on how long this virus situation lasts," the contact said.

Increased direct mail would benefit UFS offset paper and envelope paper. Offset paper overall represents about 20-25% of UFS demand in the USA.

With sit-down restaurants and most stores closed or closing, there are concerns that receipt paper demand will drop.

"That's true, but on the other hand the takeout and Uber Eats businesses are booming now. Paper is still necessary, but in a different way," a thermal paper producer commented.

"By taking China as a good example, the consumption of thermal label increased sharply in both logistics businesses and supermarkets. Also, even though people don't really eat out ... they still use the internet, so consumption increases," a paper exporter added.

Further, contacts have said that some people are trying to extra-order prescriptions, in which labels are used on tablet capsules.

Also, however, with reduced travel and entertainment, paper tickets and tags for airlines, subway or bus travel, or event tickets likely will decline at least in the short-term, contacts said.

Mill operations. A big concern among paper players is if a worker at the mill is infected by the virus.

"Is the mill going to shut down?" a contact asked.

So far, most print paper mills in North America seemed to be running normally, according to Fastmarkets RISI's interviews this week.

Verso reported that its US mills were all operating.

"Due to the number of paper machines within our four-mill system, we have the flexibility to manufacture products on multiple machines in the event one of our mills is impacted. If one of our facilities were to be impacted, it is doubtful that any significant disruption would last for an extended period, and we currently have ample finished goods inventory readily available at our mills and warehouses," Verso said this week.

Verso also said that it has appointed an internal cross-functional "pandemic preparedness team" for workforce issues.

Resolute Forest Products said it formed a vigilance

committee to collect and share relevant information, as well as recommend preventive measures and corrective actions, related to the virus and its employees.

"At this time, we continue to operate our facilities in Quebec, Ontario and in the United States. We have implemented restrictions on travel; canceled non-required visits by external suppliers and other outside support services; increased safety measures for visits by service technicians, truck drivers and delivery personnel, as well as others." Resolute reported in a statement that was generally mirrored by others businesses in North America and globally.

Domtar said on Mar. 20 that its pulp and paper mill operations are running normally right now.

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"We continue to monitor developments in the spread of coronavirus (Covid-19). Leaders in every area of our business are meeting regularly to ensure our preparedness regarding supply chain, manufacturing, transportation, customer service, finance and technology," the company stated.

Sources reported that Paper Excellence (PE)'s paper mills in British Columbia should be running soon, even though some of the IT malware issues continue to linger. The company has not released any information about its paper operations this week.

PE CEO resignation? One industry contact also told P&PW that PE CEO Brian Baarda and the CFO resigned. P&PW was not able to confirm from the company if this is true.

Port Hawkesbury Paper (PHP) in Nova Scotia will stop buying wood in April and scale back planned deliveries in May as it deals with ongoing market decline, compounded by the effects of the coronavirus. PHP makes about 396,000 tons/yr of supercalendered paper. PHP said the wood fiber curtailment will not have an impact on deliveries of paper to customers.

Lecta stops Garda mill. In Europe, Lecta shut down its Riva del Garda mill in northern Italy for one week starting on Mar. 19, "due to the difficulties caused by the spread of Covid-19 in Italy, and the consequent impact on industry in Europe as a whole."

During the downtime, the Garda mill's converting and shipping areas will continue to operate. The Garda plant produces coated two-side (C2S) paper in 60- to 100-lb weights

North American printing/writing paper statistics February 2020

(000 tonnes)

	February 2020	% chg. year ago	Year-to-date 2020	% chg. year ago
Uncoated mechanical				
Shipments	145	-11.8%	308	-10.5%
Operating rate (%)	81	84 ¹	82	83 ¹
Imports	15	-36.2	29	-43.8
Demand	160	-14.9	336	-14.8
Uncoated freesheet				
Shipments	497	-8.9%	1,005	-9.0
Operating rate (%)	94	94 ¹	92	91 ¹
Imports	38	-38.6	75	-43.3
Demand	535	-11.9	1,080	-12.6
Coated freesheet				
Shipments	167	0.3%	354	-2.1
Operating rate (%)	93	83 ¹	95	86 ¹
Imports	62	-7.3	127	-13.9
Demand	228	-1.9	481	-5.5
Coated mechanical				
Shipments	104	-5.4%	217	-9.2
Operating rate (%)	78	79 ¹	78	81 ¹
Imports	32	-12.3	65	-16.0
Demand	136	-7.1	282	-10.9
Total printing & writing				
Shipments	913	-7.5%	1,884	-8.0
Operating rate (%)	90	89 ¹	89	88 ¹
Imports	147	-22.2	296	-31.9
Demand	1,059	-9.8	2,179	-11.3

Mill inventories (000 tonnes)

	February 2020	January 2020	February 2019	Tonne change	
				from month ago	from year ago
Uncoated mechanical	137	128	168	9	-31
Uncoated freesheet	598	611	607	-13	-9
Coated freesheet	389	371	424	18	-35
Coated mechanical	97	95	94	2	3
Total printing & writing	1,221	1,205	1,293	16	-72

Source: Pulp and Paper Products Council (PPPC).

In sheets and rolls for North American customers. The plant has capacity to produce 345,000 tonnes/yr of coated freesheet paper on two paper machines.

Lecta said it makes other basis weights of C2S for North American customers at its mills in Spain and France, which are operating close to normal, according to the company. Lecta added that its specialty

paper facilities are operating on a normal schedule as well.

Transportation: Verso said it did not expect any short-term supply chain interruptions.

"We source our raw materials primarily from domestic suppliers. While we do source some chemicals from outside of the US, we have an abundant

supply of these materials available," Verso said.

A US newsprint producer told P&PW that "so far, we have no issues. But this is today, we don't know about tomorrow."

Another newsprint producer mentioned there are export shipment issues.

"It's been hard to get containers, bookings are also complicated," the source commented.

One European paper exporter said "in general, transportation is fine, but some destinations in the USA are more problematic than others."

Imports. North American printing and writing paper imports through February 2020 declined by 27.5% when compared with January-February 2019 imports, according to the Pulp and Paper Products Council (PPPC).

"Paper imports have been lower in the last two months, and I think they're going to stay low because of the coronavirus problems (ships, containers, etc.)," a local supplier said.

"In February, everything stopped in China, so we may expect the quantity exported from Asia to overseas will drop sharply in March, April, and May. On the other hand, since Chinese producers started to resume production in the beginning of March (and) we may expect exports will come back to normal in June," a contact involved in the paper business in Asia said.

Expectations. The coronavirus outbreak in North American and its impact in the paper industry is

"something that few could have imagined only a couple weeks ago," a market player told P&PW.

"Even in the most positive view, the impact on the economy from the virus will be felt. The next few weeks will be very interesting (and) something none of us have ever been through before," another contact said.

"We may see the market being punched by the economy recession from now on," another industry contact said. "Things will become very bad in the year, and it will resume gradually after the vaccine for curing this disease is created."

• **Flambeau River Papers** (FRP) may restart its Park Falls, WI, UFS paper and pulp mill in April, market contacts reported. FRP was acquired by property development company **Niagara Worldwide** in November 2019 and is now being run by a company named **Park Falls Development**, according to Park Falls mayor Michael Bablick. Bablick told P&PW that FRP is now asking locals to apply for jobs at the mill. Besides UFS paper, the Park Falls mill can take liquor derived from its pulp production to make Xylitol used in sugar-free gum as well as other chemicals. LignoTech is one of the potential buyers of FRP's pulp mill byproducts.

• **CCL Industries** reported increased label business related to the outbreak. KeyBanc analyst Adam Josephson told investors on Mar. 20: "Home & Personal Care is doing as well as it is because its global CPG customers are running 'full bore' owing to high demand for products such as hand sanitizer, detergents, and disinfectants and because

people are washing their hands so frequently, while Healthcare & Specialty is doing well partly because it makes labels for Purell in the U.S." Josephson said CCL's food and beverage label business "isn't seeing any major impact from Covid-19, as people aren't necessarily drinking any more than before and given that CCL doesn't make labels for products for canned goods, which people are stocking up on."

--by rmercante@fastmarkets.com

Trade

US/Canada border closed to non-essential traffic, remains open for trade, leaders says

The US and Canada on Mar. 18 agreed to temporarily close the border between the two countries to "non-essential traffic" due to the coronavirus pandemic, President Donald Trump and Prime Minister Justin Trudeau said. The closing will impact tourists and up to 200,000 people that cross daily -- but not affect trade, officials said.

The timing of the closure was to be detailed soon, Trudeau said this week.

The US/Canada border is the world's longest between two countries at 5,525 miles.

Canada on Mar. 16 closed its borders to non-citizens with US citizens exempted. The European Union on Mar. 17 closed its internal borders to non-citizens.

American Forest & Paper Association (AF&PA) pres/CEO Heidi Brock thanked leaders of

both countries for recognizing the importance of cross-border trade.

"In 2019, total US-Canada trade in pulp and paper products totaled \$12.8 billion. Now more than ever, it is imperative that AF&PA members are afforded the ability to continue manufacturing our essential products for consumers and businesses globally," Brock said.

- The **US Federal Reserve** reduced the target federal funds by one percentage point to 0-0.25% on Mar. 15. The reduction was done because of the coronavirus outbreak. The federal open market committee of the Fed also approved buying \$700 billion in treasury securities.

--by jmclaren@fastmarkets.com

Tissue

Demand 'booming' on consumer side from rush-buying while AfH business is 'concerned'

Tissue demand "is booming" on the consumer side in the short-term while Away-from-Home (AfH) business has market players "concerned" as millions stay home to slow down the spread of the coronavirus, contacts told Fastmarkets RISI's *PPI Pulp & Paper Week*. Concerns ahead see a supply-side shock as sorted office paper (SOP) and other raw materials used to make recycled tissue products come in short supply as offices, schools, and other generators close in unprecedented moves to social-distance in the USA. These changes mirror moves made in China beginning in January, and then Italy and other

countries as the coronavirus cases started to spike.

"Everyone is at home, so I'm concerned," said a trader in the AfH business. "But the frenzy has begun with people wanting huge prices."

Recovered paper pricing updates for tissue mill grades were not provided this week. For end tissue products, one executive for a North American producer last week told of no plans for raising prices for his company's tissue products, even with the demand run for bathroom tissue occurring at stores.

A mill contact in the East, said related to raw material: "Our inventories are good for now, but might look quite different in the next few weeks. I am hearing many mills in the industry that can use pulp are starting to buy or at least inquire about pulp availability."

As the hospitality industry closes operations, contacts this week said the AfH business "is still moving pretty well," yet, most believe it is short-lived.

"The only potential bright spot for the AfH segment is increased consumption by the medical care industry, but this is a rather small AfH application," wrote Fastmarkets RISI's Principal Economist on Tissue Esko Uutela in a Mar. 19 Viewpoint story.

"In summary, we expect disparate trends for consumer and AfH tissue. Consumer tissue is likely to experience a slower second half, offsetting the peak demand during the first half, while the AfH business could see a rebound in the last half of the year," Uutela added.

SOP supply shock. Market players have cloudy views ahead for SOP supply. "Some people are predicting volume down as much as 50% to 75% over the next month or so," a mill contact said this week regarding SOP supply that mainly is collected from offices.

In terms of the surge-buying of toilet paper nationwide, one report, citing Nielsen data, showed toilet paper sales rose 60% in the week ending Mar. 7, rising retail prices on the store shelves as well. At drugstores and major retailers, a report from IRI highlighted that toilet paper prices at stores jumped 8.6% in the week ended Mar. 8, an 18% increase in cost to consumers compared with the same week in 2019.

Paper mills respond. From New Jersey to Wisconsin to Oregon, paper mills across the USA highlighted the consumer tissue demand uptick, and anecdotes abound.

In Wisconsin, Georgia-Pacific (GP) saw orders for household tissue products toilet paper and paper towels double, while demand for products at airports, hotels, and other public venues softened, according to a local report. GP said its mills and distribution centers operated at 120% of capacity.

"You can just load and unload so fast," GP said in a statement on its efforts to produce and ship products.

The company said it anticipates AfH activity to decline "as business travel and vacation plans change."

Industry support. This “spike” in consumer demand for tissue products in the USA, as American Forest & Paper Association (AF&PA) pres/CEO Heidi Brock said in a Mar. 16 statement related to the uptick, has caused a “highly dynamic and changing daily” situation that “the industry is working diligently to respond to.”

Brock continued: “Rest assured, tissue products continue to be produced and shipped – just as they are 52 weeks each year as part of a global market.”

--by mworkman@fastmarkets.com

Fluff pulp

Rayonier AM slates \$20 increase, effective Apr. 1

Rayonier Advanced Materials (Rayonier AM) announced to customers in North America, Europe, and China that it will increase fluff pulp transaction prices \$20/tonne, effective Apr. 1 until further notice, industry contacts told Fastmarkets RISI's *PPI Pulp & Paper Week*.

Rayonier AM did not state a list or net price in the three markets. The firm, which sources said had previously announced a \$20 fluff increase on March business, became the first known market pulp producer worldwide to announce an April price increase.

Rayonier AM has 1.2 million tonnes/yr of market pulp capacity, including high-purity cellulose, high-yield pulp (BCTMP), and fluff pulp. It is the world's biggest producer of high-purity cellulose,

or specialty dissolving pulp (DP), and produces fluff pulp at its 575,000 tonnes/yr specialty DP and fluff pulp mill at Jesup, GA.

Competitors in global fluff pulp markets such as Domtar, International Paper (IP), and Resolute Forest Products earlier announced \$40/tonne price increases on January, February, or March business in key global markets. IP, North America's largest market pulp producer, announced back-to-back \$40/tonne increases in North America and Europe, or an \$80/tonne fluff price increase attempt over the course of two months. That's the same increase Resolute later announced to customers.

Domtar, the first fluff producer globally to slate a price increase in 2020, initially announced a \$40 increase for January but the increase didn't stick, according to market buyers and sellers. The firm moved the increase to February, when market prices began to increase. With price increases only half implemented, Domtar wasn't one of the firms announcing a new March rise, but instead focused on finishing the first one, according to industry sources.

Industry sources said that fluff demand has strengthened, but prices aren't up nearly as fast as producers announced.

“I hate to sound bullish in this economic environment, but our fluff order book is strong and we're sold out through mid-second quarter,” said a fluff producer contact.

US and European fluff prices are up a combined \$25/tonne over the past two months, with North America and European preliminary March effective list prices rising to

\$1,120-1,140/tonne, according to P&PW polling (P&PW, Mar. 13, p. 1). In China, sources this month said prices increased \$20 to \$580-600 net CIF. However, sources in Japan said US fluff producers have lowered prices by \$20/tonne. Those prices are coming down from higher levels, though, contacts said.

• **Arauco**, the world's second largest market pulp producer, is delaying until April the startup of a DP swing line at its 550,000 tonnes/yr Valdivia mill in Chile. The kick-off of DP production, initially scheduled to begin by the end of 2019, was postponed due to lower water flow in the Cruces River, Fastmarkets RISI's *PPI Latin America* reported on Mar. 17. Once it starts up the swing line, Arauco expects DP output at Valdivia to total 220,000 tonnes in 2020, while the remaining 330,000 tonnes/yr of capacity will produce bleached eucalyptus kraft.

--by bryan.smith@fastmarkets.com

Market pulp

Flush with woodfiber, Paper Excellence's Crofton NBSK mill returns to full production

Paper Excellence (PE) restarted its 382,000 tonnes/yr northern bleached softwood kraft (NBSK) market pulp mill at Crofton, BC, earlier this month, and is running at full capacity, industry contacts told Fastmarkets RISI's *PPI Pulp & Paper Week*. The ramp-up reversed plans to idle production for the entire month of March due to a lack of wood fiber. Now, Crofton has enough woodfiber to run at full capacity for the rest of 2020, sources said.

The change occurred in the wake of a malware attack, which forced Paper Excellence to idle paper production at its British Columbia mills on Feb. 17. Because the firm's facilities at Crofton and Port Alberni didn't need to consume woodfiber to make paper, the firm redirected woodchip supplies to feed Crofton's market pulp production.

Some paper production at PE is now running, but not necessarily at full capacity. In addition to market NBSK, Crofton has 310,000 tonnes/yr of newsprint; Port Alberni has 340,000 tonnes/yr of coated mechanical, uncoated mechanical, and uncoated freesheet paper capacity.

"After the malware attack, the situation basically negatively affected the paper mills, so Crofton and Port Alberni on the paper side. But pulp is running," an industry contact said. "The idea of the March curtailment was so (Crofton NBSK) could have enough inventory of wood to run the rest of the year. So with the shutdown of paper production, it allows Crofton pulp to run for March (and the rest of 2020)."

Between Crofton's NBSK downtime and days running at below capacity during the time it pushed towards full production, Crofton lost a total of five days of market NBSK production, an industry source told *P&PW*. Had Crofton's NBSK mill stayed idle for the full month of March, it would have resulted in 31,500 tonnes of lost NBSK production.

The looming shutdown helped key a \$10-20/tonne pricing rally in China in February, sources said at the time. Instead, the mill's

five days of production shed an estimated 5,300 tonnes of market NBSK output. About 80-90% of the mill's annual NBSK production is exported to China and other Asian markets, sources have said.

In addition, another Paper Excellence-owned pulp mill that idled production on Jan. 12 after the province of Nova Scotia rejected an effluent treatment plant at the mill remained idle (*P&PW*, Jan. 31, p. 1), contacts said at mid-week this week. The 280,000 tonnes/yr Northern Pulp mill has been mothballed and Paper Excellence officials continue negotiating for a possible restart.

In Canada, Paper Excellence has 1.6 million tonnes of capacity at five mills, including Northern Pulp.

• **Eldorado** is taking regularly scheduled maintenance downtime at its 1.75 million tonnes/yr bleached eucalyptus kraft Trêš Lagoas Brazil mill for the first time since 2018. The mill idled from Mar. 9-19. Eldorado didn't carry out annual downtime in 2019 because Brazil passed legislation requiring that maintenance work at recovery boilers occur once every 15 months.

--by bryan.smith@fastmarkets.com

4Q industry margin falls

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skidded in all the major product sectors other than tissue.

Packaging has long been the main engine driving the industry's financial performance with the top three containerboard firms by revenue -- International Paper (IP), WestRock, and Packaging Corp of America (PCA) -- responsible for well over half (60%) of its annual sales and two-thirds (69%) of its earnings, excluding special items. So the industry was disproportionately impacted in 2019 when shipments of packaging papers and specialty packaging fell 6%, and the overall mill operating rate average was 90.5% for all paper and board grades, from 93.7% in 2018.

Depressed global pulp prices in 2019 hurt producers like IP, Domtar, Verso, and Canfor's pulp unit, while companies with additional exposure to shrinking graphic paper markets such as IP, Domtar, and Verso suffered a double whammy. Verso's full-year earnings were down 15% excluding items, IP's were down 20% and Domtar's were down a whopping 37%. But at least those firms ended the year in the black, whereas multi-million-dollar losses

COGS as a percentage of net sales 4Q 2019

Company	(\$ million)	(\$ million)	% share
	Sales	COGS	
International Paper	5,498	3,666	66.7%
West Fraser Timber	855	628	73.5%
Canfor	837	629	75.1%
Packaging Corp of America	1,720	1,337	77.7%
Greif	1,232	973	79.0%
Sonoco	1,309	1,062	81.1%
WestRock	4,424	3,615	81.7%
Graphic Packaging	1,520	1,248	82.1%
Cascades	929	774	83.3%
Domtar	1,244	1,053	84.6%

Source: Company reports, Pulp & Paper Week.

were experienced by West Fraser Timber (-\$16 million), Resolute Forest Products (-\$46 million), Canfor (-\$73 million), and Rayonier Advanced Materials (-\$110 million).

Boost from acquisitions. The only moneymaking companies that performed significantly better in 2019 than in 2018 either boosted results through acquisitions

(Sonoco and Greif) or were tissue producers (Kimberly-Clark and Cascades). Cascades ticked the box in both categories with its acquisition of tissue maker Orchids Paper, to which the firm credited a 16% improvement in full-year earnings and a second consecutive year of record performance.

But with more than half the 17 companies reporting full-year results that were less profitable last year than the year before, those upside accomplishments were vastly outweighed by the overall industry downslide. As a result, overall earnings excluding items in 2019 by the publicly-traded North American companies tracked by Fastmarkets RISI's *PPI Pulp & Paper*

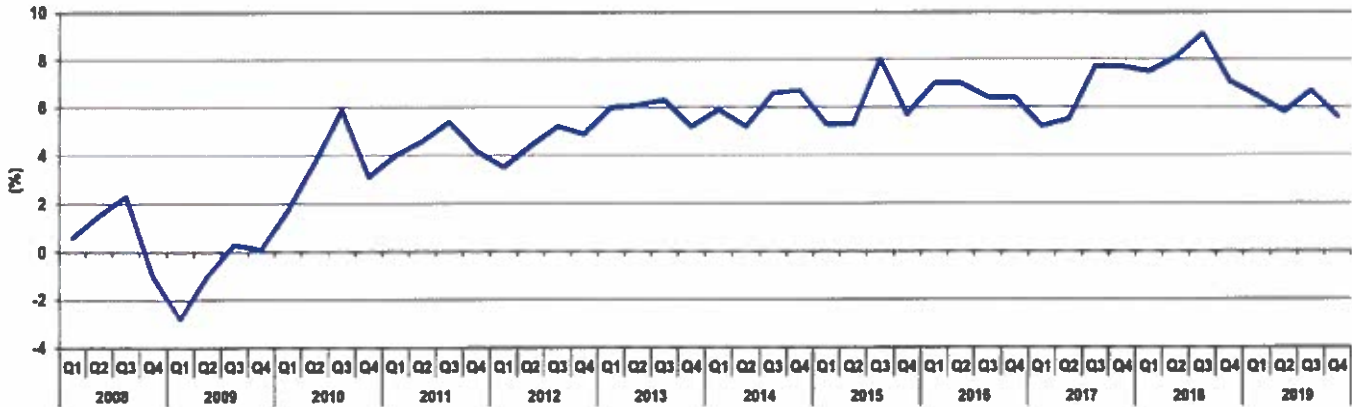
US paper/forest product sales & earnings -- fourth-quarter and full-year 2019

(\$ million)

	----- Sales -----		----- Earnings -----		----- Sales -----		----- Earnings -----	
	Q4	% chg.	Q4	% chg.	FY	% chg.	FY	% chg.
	2019	2019/18	2019	2019/18	2019	2019/18	2019	2019/18
International Paper*	5,498	-1.2	430	-35.8	22,376	-3.9	1,768	-19.7
WestRock*	4,424	2.2	152	-29.4	n.a.	n.a.	n.a.	n.a.
Packaging Corp of America*	1,720	-1.5	163	-20.8	6,964	-0.7	726	-4.5
Graphic Packaging*	1,520	0.6	67	-3.4	6,160	2.1	256	1.7
Kimberly-Clark	1,511	1.0	281	35.7	5,993	-0.3	1,007	15.0
Sonoco*	1,309	-3.4	76	-10.4	5,374	-0.3	357	4.8
Domtar*	1,244	-10.5	2	-98.0	5,220	-4.3	184	-36.7
Greif*	1,232	24.7	73	14.1	4,595	18.6	234	12.1
Cascades*	929	2.5	115	34.5	3,782	7.4	414	15.8
West Fraser Timber*	855	-11.3	(8)	n.m.	3,692	-20.2	(16)	n.m.
Canfor*	837	7.4	(6)	n.m.	3,526	-7.6	(73)	n.m.
Resolute Forest Products*	668	-28.3	(53)	n.m.	2,923	-22.1	(46)	n.m.
Verso Paper	587	-15.5	33	-22.9	2,444	-8.8	31	-15.2
Rayonier Advanced Materials*	468	-2.7	(49)	n.m.	1,775	-9.2	(110)	n.m.
Clearwater Paper*	436	1.6	6	-14.2	1,762	2.1	(4)	n.m.
Sappi North America*	370	5.4	0	-88.4	n.a.	n.a.	n.a.	n.a.
KP Tissue	264	-3.1	0	n.m.	1,086	4.6	(1)	n.m.
Schweitzer-Mauduit*	239	-4.1	25	-3.0	1,023	-1.8	110	2.8
Neenah Paper*	214	-11.3	10	59.0	939	-9.3	43	-12.3
Eagle Materials	148	-4.0	48	-6.8	n.a.	n.a.	n.a.	n.a.
Total	\$24,470	-3.4%	\$1,365	-24.1%	79,634	-2.4%	4,881	-26.5%
Profit margin (earnings/sales)			5.6%				6.1%	

n.m. = not meaningful due to loss. Full-year table excludes Eagle Materials, Greif, Sappi North America, and WestRock, which operate on a separate fiscal year. Note: earnings represent net income, unless noted. Only major non-recurring items listed in footnotes. () = loss. * = represents after-tax income from continuing operations, before special items. Results above were converted from C\$ to US\$ at an average exchange rate of \$0.757 for 4Q 2019, \$0.756 for 4Q 2018, \$0.768 for FY 2019, and \$0.771 for FY 2018. Canfor: 4Q results exclude \$23 million net in items. FY results exclude \$126 million net in items. Cascades: 4Q results exclude \$58 million in special items. FY 2019 results exclude \$57 million in items. Clearwater: 4Q results exclude \$4 million net in special items. FY 2019 results exclude \$2 million net in items. Domtar: 4Q results exclude \$36 million net in closure, restructuring, and pension settlement costs. FY 2019 results exclude 4Q items plus \$64 million net in additional pension and closure related costs. Eagle Materials: Sales and operating profit of Gypsum Wallboard and Paperboard Group only. Fiscal Q3 2020 ending Dec. 31. Graphic Packaging: 4Q results exclude \$34 million net in special items. FY 2019 results exclude 4Q items plus \$33 million net in additional items. Greif: Fiscal Q4 ending Oct. 31. 4Q results exclude \$8 million net in various charges. FY results exclude \$63 million net including \$46 million acquisition and restructuring costs. International Paper: 4Q results exclude \$258 million net in items and FY 2019 results exclude \$543 million net in items. KP Tissue: 4Q results exclude \$1 million accounting adjustments. FY 2019 excludes \$4 million accounting adjustments. Kimberly-Clark: Sales and operating profit of Consumer Tissue Group only. Neenah Paper: 4Q results exclude \$2 million net. FY 2019 results exclude \$2 million net. Packaging Corp of America: 4Q results exclude \$39 million net, primarily from debt refinancing. FY 2019 results exclude 4Q items plus \$4 million net asset disposal and restructuring costs. Rayonier Advanced Materials: 4Q results exclude \$8 million net in items. FY 2019 results exclude \$9 million net in items. Resolute Forest Products: 4Q results exclude \$18 million net in closure related items. FY 2019 results exclude \$47 million in pension credits that offset 4Q items. Sappi N. America: Sales and operating profit for fiscal Q1 2020 ending Dec. 31. Schweitzer-Mauduit: 4Q results exclude \$5 million net in items. FY 2019 results exclude \$25 million net. Sonoco: 4Q results exclude \$32 million net in items including \$22 million restructuring and asset impairment charges. FY 2019 results exclude \$8 million net in items. Verso: 4Q results exclude \$8 million restructuring charges and \$117 million tax benefit. FY 2019 results exclude \$52 million restructuring charges and \$117 million tax benefit. West Fraser Timber: 4Q results exclude \$23 million net in various charges. FY 2019 results exclude 4Q items plus \$75 million additional charges. WestRock: Fiscal Q1 2020 ending Dec. 31, 2019. Results exclude \$13 million net in items.

Quarterly margins for us paper/forestry firms – 2008-fourth-quarter 2019



Note: The number of companies included in the survey varies due to merger and acquisition activity, consolidation, and company's withdrawal from publicly traded stock markets.

Source: PPI Pulp & Paper Week.

Week tumbled 26.5% to \$4.881 billion, wiping \$1.766 billion from their \$6.647 billion level in 2018.

Sales too slipped last year with 12 firms reporting lower revenues. But the sales decline was nowhere near as bad as earnings, with combined full-year revenues of \$79.634 billion last year dipping only 2.4% from 2018's \$81.671 billion. And thanks to the North American industry's focus on efficiencies in recent years, its 2019 profit margin, represented as combined annual earnings excluding items as a percentage of combined annual sales, also held up moderately well, even though at 6.1%, it was still the lowest since 2015.

Quarterly filings broadly mirrored the full-year results. Combined fourth-quarter sales for the group of 20 reporting companies were \$24.470 billion, a 3.4% reduction from \$25.333 billion in the fourth quarter of 2018. Eleven firms reported negative revenue growth compared with the year-ago quarter.

As with the full year, earnings in the December quarter were more heavily impacted than

sales. Fourteen of the 20 firms were less profitable than the fourth quarter of 2018 with many reporting double-digit declines, including Sonoco (-10%), PCA (-21%), Verso (-23%), WestRock (-29%), IP (-36%), Sappi North America (-88%), and Domtar (-98%). Combined fourth-quarter earnings for the group were \$1.365 billion, a 24.1% decline from \$1.799 billion in the year ago quarter.

This resulted in a fourth-quarter profit margin of 5.6%, the industry's weakest for a fourth quarter since 2013, and significantly below its five-year average of 6.8%.

Packaging below par. Company executives on conference calls painted the brightest picture they could for analysts and investors from a palate of drab data.

IP CEO Mark Sutton noted that despite "a less favorable commercial environment" in 2019, the firm had increased its dividend for the 10th consecutive year and repaid \$1 billion of debt. The firm's EBITDA was \$3.9 billion and outstanding free cash flow was \$2.3 billion.

WestRock CEO Steve Voorhees credited the firm's 2018 KapStone acquisition for the December quarter's 6.4% growth in corrugated packaging sales to revenues of \$2.9 billion. WestRock generated \$453 million of adjusted operating cash flow, \$105 million more than the prior year, and, in fiscal 2019, its adjusted free cash flow was more than \$1 billion.

PCA CEO Mark Kowlzan said the firm's box shipments set quarterly records, and its paper segment EBITDA and margin were the "best ever" but lower prices and mix in packaging was a drag on overall results. Fourth-quarter income excluding special items was \$163 million (\$1.71/share) compared with a year ago's \$205 million (\$2.17/share), and 2019 EBITDA was \$1.45 billion compared to \$1.5 billion in 2018.

But for Domtar, challenging conditions in pulp, paper.. positioned the firm where there was "nowhere to hide," RBC Dominion Securities analyst Paul Quinn said.

CEO John Williams admitted that Domtar's fourth-quarter paper business fell short of expectations, with earnings excluding items plummeting to \$2 million from \$103 million a year ago. Full-year earnings were down 37% from 2018 at \$184 million.

Papermakers Verso and Sappi North America also suffered from the weak markets. Sappi noted that US coated paper demand in 2019 was down 16% from 2018, but said, thanks to market share growth, its comparative sales were only 4% lower. EBITDA in its packaging and specialty segment improved, but could not offset margin pressure from a 21% price decline.

Verso's fourth-quarter sales fell \$108 million or 16% while operating income dropped 84% to \$10 million. Its 2019 operating loss was \$37 million, down \$189 million from a \$152 million profit the previous year.

Results from West Fraser, Canfor, and Resolute Forest Products highlighted the unfavorable contrast between 2019's weak lumber and pulp demand, and 2018's record-high prices. All three firms were either extending losses or swinging from profit to a loss, although Canfor halved its fourth-quarter operating loss from the prior quarter.

"Our fourth quarter results reflect bottom-of-the-cycle conditions in market pulp, ongoing pricing pressures in paper grades and the slow pricing recovery in lumber," Resolute CEO Yves Lafflamme acknowledged in the company's filing.

Tissue on a roll. Cascades 17% (\$43 million) increase in tissue sales and 8% (\$6 million) growth in specialty products was partly offset by a 4% (\$16 million) reduction in

containerboard packaging sales. Pres/CEO Mario Plourde said the firm's "historic results" affirmed the "solid progress we are making with our growth, optimization and strategic initiatives."

A fifth straight month of growth in tissue boosted's Clearwater's fourth-quarter revenues, CEO Linda Massman said on an earnings call, but total sales growth was impacted by lower paperboard shipments, which had a challenging comparison with the year-ago quarter. Lower input costs for pulp and fiber, and reduced maintenance drove adjusted EBITDA of \$52 million, the firm's best result in over eight quarters and more than analysts expected. RBC Capital Markets' Paul Quinn increased his price target C\$7 to C\$27, but KeyBanc Capital Markets analyst Adam Josephson disliked the firm's high leverage and pension fund exposure.

Tissue giant Kimberly-Clark's \$1.5 billion fourth-quarter sales were up 1% on 3% higher prices offset by a 1% drop in volumes and a 1% impact from currency rate changes. Fourth quarter operating profit of \$281 million increased 36% on higher net selling prices, cost savings, and lower input costs.

--by ccook@fastmarkets.com

Transportation

North American forest products rail volume down; intermodal most impacted because of virus

North American forest products rail freight was down 3.7% in the latest week ending Mar. 14 from a year ago, the Assn of American Railroads reported.

Year-to-date North American forest products volume was 4.5% lower at 176,398 carloads.

The AAR commented that the coronavirus was particularly impacting intermodal volumes, as well as at West Coast ports due to disruptions in trade with China.

"Intermodal, rather than other rail sectors, is likely to see the earliest impacts from the coronavirus because large amounts of intermodal traffic go to or come from ports – roughly half of U.S. intermodal is exports or imports," said AAR Sr VP John Gray.

US forest products freight in the week was down 1.7% and year-to-date was 2.9% lower at 107,399 carloads. Canada volume was 6.6% lower in the week and year-to-date was down 7.2% to 68,622 carloads.

Mexico's small volume rose 6.3% in the week and year-to-date was up 67.6% to 377 carloads, the AAR reported.

North American total carloads was down 3.0% in the week and down 4.1% year-to-date. Through 11 weeks of 2020, coal was down 18.1%, chemicals were up 1.5%, and grain declined 7.6%.

Intermodal traffic declined 9.8% in the week and was 6.5% lower year-to-date.

"Unfortunately, extensive flooding and harsh winter weather last year at this time complicate comparisons between this year and last year. That said, the fact that overall intermodal originations last week were the lowest for the same week since 2013 is strong evidence that the coronavirus is

impacting intermodal volumes," Gray said in a press release.

"This is emphasized by the fact four of the five carriers of intermodal traffic from West Coast ports, the principal gateways serving the Chinese trade, saw declines in their intermodal business handled. Similar declines in the East also suggest that the problem has begun to spread to other regions of the supply chain," Gray added.

--by jmclaren@fastmarkets.com

News briefs

Related to the **Covid-19 coronavirus in the USA**, US Cybersecurity and Infrastructure Security Agency dir Christopher Krebs reported in a Mar. 19 letter that President Trump "issued updated Coronavirus Guidance for America. This guidance states that: 'If you work in a critical infrastructure industry, as defined by the Department of Homeland Security, such as healthcare services and pharmaceutical and food supply, you have a special responsibility to maintain your normal work schedule.'" One US packaging trade group also reported this announcement on Mar. 19 citing a connection to packaging... **The American Forest & Paper Association** (AF&PA) this week highlighted the need to classify the US recycling industry as "essential," according to US government standards, the AF&PA and Institute of Scrap Recycling Industries (ISRI) said in separate letters to Vice President Mike Pence... **UPM** said it is linking the pricing mechanism of a syndicated revolving credit facility to biodiversity and climate targets. The company said the

margin is tied to two performance indicators: achievement of a net positive impact on biodiversity in the company's own forests in Finland, and a 65% reduction of CO2 emissions from fuels and purchased electricity by 2030 from 2015 levels, in line with UPM's commitment to UN Business Ambition for 1.5°C. "Connecting UPM's sustainability performance to our financing demonstrates the importance of responsible business practices to our long-term value creation. Sustainable forest management plays an important role in mitigating climate change, as it ensures material long-term CO2 sequestration and improves adaptation to global warming," UPM CFO Tapio Korpeinen said. "Enhancing biodiversity is not only about preserving forests, but is also a crucial element in sustainable industrial use, taking into account a wide range of flora and fauna."... **Playboy's** Spring 2020 print magazine issue, on newsstands this week, will be its last, the company said this week. The 66-year-old magazine is ceasing regular production of its print edition and

moving to a "digital-first publishing schedule," CEO Ben Kohn wrote this week... **Costco** said it completed the \$1 billion acquisition of Innoval Solutions, a provider of third-party end-to-end logistics solutions with nationwide capabilities. Innoval was a subsidiary of Transform Holdco, which operates **Sears** and **Kmart** stores. Innoval has provided Sears and, more recently, third parties with "final mile" delivery, "complete installation and white glove capabilities for 'big and bulky' products across the United States and Puerto Rico," Costco said. Innoval's network offers coverage to nearly 90% of the US and Puerto Rico. Products transported by Innoval include major appliances, furniture, mattresses, televisions, grills, patio, fitness equipment, and wine cellars... **Monadnock Paper Mills** entered into a new distribution partnership with **WCP Solutions**, a privately-held wholesale provider of fine paper and board. WCP will inventory most items in its Sacramento location and distribute to all of Northern California.

PPI Pulp & Paper Week

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