

PPI Pulp & Paper Week

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

Verso sees price pressure on coated printing and writing papers in the near term in North America

North America's coated printing and writing paper prices remained flat in February, after dropping \$20/ton in January, but remained under pressure, according to Fastmarkets RISI's *PPI Pulp & Paper Week* contacts.

Coated freesheet (CFS) premium 80-lb sheets are unchanged at \$1,400-1,500/ton in February, while No. 3 50-lb rolls remain at \$1,045-1,090/ton. On the coated mechanical (CM) paper side, prices for No. 4 50-lb are also holding at \$920-960/ton.

"The supply side still overhangs, the operating rates are weak, and imports are still heavy. We see price pressure in the near term," continued on page 7


US NBSK, SBSK rise as tariff exemption buoys spot market, China exports; coronavirus drag seen on logistics

North American pulp markets encountered a choppy month of prices as uncertainty peaked surrounding the impact coronavirus would have on global markets, and two key grades of bleached softwood kraft (BSK) increased \$15-20/tonne – at most, half of what producers announced on February business. Despite \$40/tonne price increases going into effect on Feb. 1, producers throttled back attempts at implementation, with some lifting prices case-by-case and others not following through at all with mid-sized to large customers, industry sources told Fastmarkets RISI's *PPI Pulp & Paper Week*.


Benchmark northern bleached softwood kraft (NBSK) continued on page 15

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Greif splits converting from its CRB mills with sale of seven carton plants to Graphic for \$85 million

Graphic Packaging entered into a definitive agreement to acquire Greif's Consumer Packaging Group business including seven folding carton plants, and not any paper mills, for approximately \$85 million.

The deal will continue Graphic Packaging's ongoing expansion of its converting system and includes a long-term supply deal with Greif for 90,000 tons/yr of paperboard from its remaining three-mill system that produces coated recycled board (CRB), a Graphic executive added.

Greif confirmed the planned sale in its earnings call with analysts on Feb. 27, the day after reporting its first-quarter 2020 continued on page 12

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Recovered paper

South Korea is next to toughen up importing rules -- with 100% inspections being considered

South Korea has some US exporters scrambling this week as it is the next major export destination for US recovered paper to push out import restrictions focused on quality a few years after China first alerted of a 0.5% contaminant limit on recovered paper imports and its ban on mixed paper imports.

The South Korean government issued a letter Feb. 19 alerting Korean paper mills that starting Feb. 21, all imports of recovered paper would be inspected, according to several contacts in the US and South Korea. It was not clear as of Feb. 28 if this change to 100% inspections was fully implemented, with one contact telling Fastmarkets RISI's *PPI Pulp & Paper Week* on Feb. 26 that this is a "currently pending issue."

In addition, the Feb. 19 letter at first noted that the prohibitives level on recovered paper, including old corrugated containers (OCC), old newspapers, and mixed paper, could not exceed 0.5% -- the same restriction level China set in March 2018 -- yet, several contacts this week said it has been revised to a 3% contaminant limit.

The two initial primary targets by the government are mixed paper and news grades, a contact said. In the last few years, mixed paper and old newspaper (ONP) volume was about half the about one million tonnes/yr of shipments the US exported to South Korea, based on US government statistics.

'Huge loss.' One US exporter said this week that his company had 60 containers on the water that a South Korean paper mill asked to be diverted. With purchase orders in hand, the exporter said the South Korean paper mill declared force majeure. The exporter has "some interest" from other countries for the diverted news tons, as well as new "huge financial costs."

"It's a mess," the US exporter said. "To divert 60 containers is not chump change. It's a huge loss for us."

He added: "I asked them to share the financial costs and (the paper mill's) stance is, 'If you want future business from us, then you'll figure this out.'"

Another exporter said his company had about 10-20 containers of news grades on the water to South Korea "that could be problematic," citing the contaminant limit.

Added the second exporter: "In my opinion, some MRF (Material Recovery Facility) No. 11 (old corrugated containers) may run into trouble, but industrial No. 11 and No. 12 should not be an issue. I think the biggest change will be single-stream Nos. 7/8 that was shipping to Korea will have to find a new displacement home."

Contacts this week described the restriction and inspection changes as the South Korean government's effort to protect its domestic recovered paper collections, much like in China. Packers in South Korea complained that their mills weren't buying material from them, one contact said.

"About three months ago the government told all the mills to do less imports and support the domestic market," a contact said.

Jail time? He added that importers in South Korea were threatened if recovered paper imports continued in strong volume, and without meeting these new rules. *P&PW* reviewed the Feb. 19 letter, where it is noted that violators could receive up to five years in prison.

"Some of these guys said, 'Divert, divert! I don't want to go to jail,'" an exporter contact said. "I don't know how serious they're going to impose it, otherwise all CEOs (in South Korea) will be arrested because material is already on the water."

Coronavirus impacts Korea.

Also like in China, recovered paper collection has nearly stopped in South Korea due to the coronavirus, a US exporter said. The *South China Morning Post* reported Feb. 27 that the "number of new (single-day) coronavirus cases in South Korea (topped the number in) China."

The exporter said of South Korean paper mills: "Right now because of this coronavirus, in Korea, there's nobody walking around the streets, no collections. They're hungry for paper right now and it's just going to get worse."

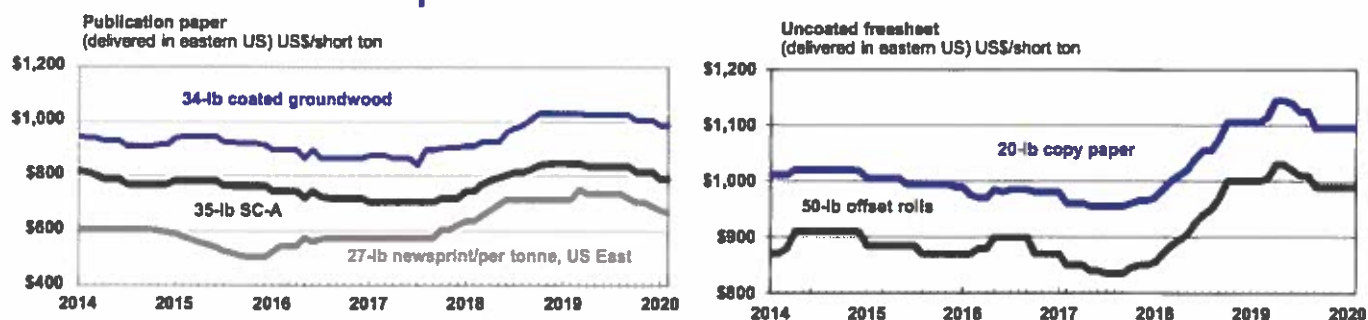
"It's a combination of things, and the coronavirus is not helping," the exporter said.

Imports decline 12% in 2019.

South Korea's buying of US recovered paper slipped in 2019 from the year prior, and was up in 2019 vs 2017: At 991,530 tonnes in 2019, South Korea imported 12%

» continued on page 14

PRICE WATCH: Paper



Delivered US\$/short ton (unless otherwise noted). Ranges represent the range of prices in which the bulk of transactions have taken place. However, there is significant tonnage that transacts at prices outside of this range.

		Current months			Year-to-year	
	Unit	Feb. 2020	Jan. 2020	Dec. 2019	Feb. 2019	% chg.
NEWSPRINT ¹						
45-g (27.7-lb) East	tonne	666	676	691	766	-13.1
45-g (27.7-lb) West	tonne	656	666	676	756	-13.2
UNCOATED MECHANICAL						
35-lb MF offset, 65 bright	sh. ton	740 - 760	740 - 760	740 - 760	770 - 790	-3.8
35-lb supercalendered (SC-A)	sh. ton	780 - 800	780 - 800	805 - 830	835 - 860	-6.8
33-lb supercalendered (SC-B)	sh. ton	720 - 770	720 - 770	740 - 790	765 - 815	-5.7
45-lb offset substitute, 83/84 bright	sh. ton	880 - 925	880 - 925	880 - 925	900 - 945	-2.2
COATED PAPERS						
Premium 80-lb sheets ⁴	sh. ton	1,400 - 1,500	1,400 - 1,500	1,420 - 1,520	1,440 - 1,540	-2.7
Economy 80-lb sheets ⁴	sh. ton	1,140 - 1,205	1,140 - 1,205	1,160 - 1,225	1,180 - 1,245	-3.3
No. 3, 50-lb rolls	sh. ton	1,045 - 1,090	1,045 - 1,090	1,065 - 1,110	1,085 - 1,130	-3.6
No. 3, 60-lb rolls	sh. ton	985 - 1,015	985 - 1,015	1,005 - 1,035	1,025 - 1,055	-3.8
No. 4, 50-lb gwd. rolls 78/80 bright	sh. ton	920 - 960	920 - 960	940 - 980	960 - 1,005	-4.3
No. 5, 34-lb roto, rolls	sh. ton	960 - 1,010	960 - 1,010	980 - 1,030	1,010 - 1,050	-4.4
No. 5, 40-lb offset, rolls	sh. ton	815 - 885	815 - 885	835 - 905	885 - 925	-6.1
UNCOATED FREESHEET						
20-lb copy paper, 92 bright	sh. ton	1,070 - 1,120 *	1,070 - 1,120 *	1,070 - 1,120 *	1,090 - 1,120 *	-0.9
20-lb copy paper, 30% PCW, 92 bright	sh. ton	1,130 - 1,180 *	1,130 - 1,180 *	1,130 - 1,180 *	1,150 - 1,180 *	-0.9
50-lb offset rolls, 92 bright	sh. ton	980 - 1,000 *	980 - 1,000 *	980 - 1,000 *	990 - 1,010 *	-1.0
24-lb white wove envelope rolls, 92 bright	sh. ton	1,030 - 1,070 *	1,030 - 1,070 *	1,030 - 1,070 *	1,040 - 1,080 *	-0.9
20-lb forms bond, stock tab	sh. ton	1,055 - 1,095 *	1,055 - 1,095 *	1,055 - 1,095 *	1,065 - 1,105 *	-0.9
50-lb trade book, offset, rolls	sh. ton	1,165 - 1,205 *	1,165 - 1,205 *	1,165 - 1,205 *	1,175 - 1,215 *	-0.8
SPECIALTIES ⁵						
48-g thermal POS non top coated ³	MSF	18.20	18.20	18.20	20.60	-11.7
40-lb SCK release liner label (2.5 mil)	MSF	10.40	10.40	10.40	10.40	0.0
13- to 16-lb carbonless CB, roll midrange	sh. ton	2,354	2,354	2,354	2,180	8.0

NOTES

(*) Some discounting below transaction prices. May indicate imported paper at lower price levels. PCW=postconsumer waste.

1. Newsprint 48.8-g (30-lb) assessments were discontinued in April 2019.

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

3. The 48-g is 12.8 lbs.

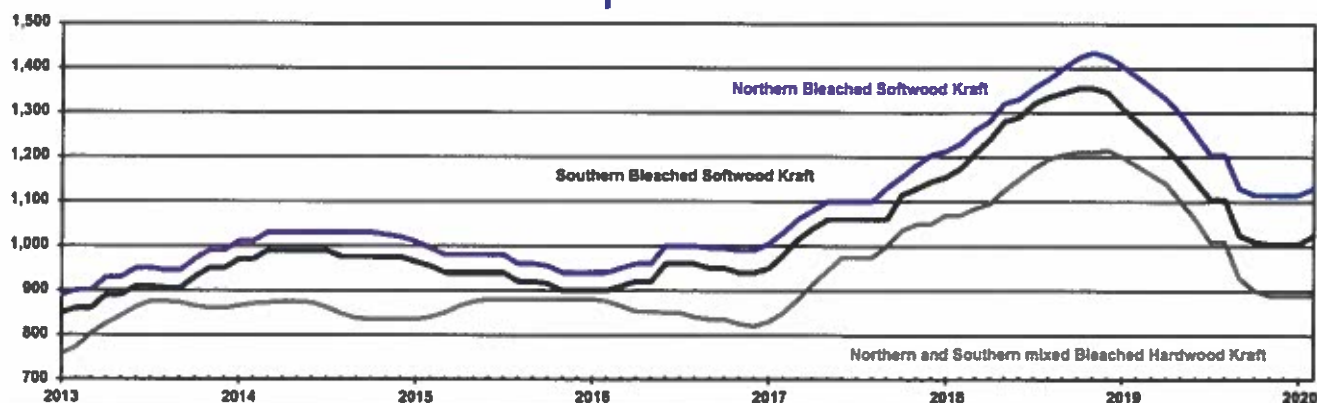
4. Premium sheets are equivalent to No. 2 and Economy sheets are equivalent to No. 3.

5. Prices represent printer list prices. Prices for large retail program tonnage will be lower.

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: Market Pulp



Effective list price before regular volume and customer discounts. US\$/metric tonne unless otherwise noted.

	Current months				Year-to-year	
	Feb. 2020 Final ¹	Jan. 2020	Dec. 2019	Q4 2019	Feb. 2019	% chg.
US (DELIVERED IN EAST)						
Bleached softwood kraft						
Northern (Canadian)	1,130	1,115	1,115	1,115	1,380	-18.1
Southern (US)	1,025	1,005	1,005	1,007	1,280	-19.9
Bleached hardwood kraft						
Northern and southern mixed (Canadian/US) ²	890	890	890	893	1,180	-24.6
Eucalyptus	890	890	890	895	1,180	-24.6
Specialty grades						
Unbleached softwood kraft (Canadian/US)	1,065	1,045	1,045	1,045	1,310	-18.7
Fluff (US southern kraft, untreated softwood rolls)	1,120	1,105	1,105	1,107	1,330	-15.8
Deinked (US air-dried and wet-lap, 100% post-consumer for printing/writing)	760	760	760	767	915	-16.9
Spot Markets³						
Northern Bleached Softwood Kraft	610 - 650	610 - 640	605 - 645	620	780	-19.2
Southern Bleached Softwood Kraft	535 - 575	520 - 560	500 - 540	520	670	-17.2
Northern and Southern Bleached Hardwood Kraft	480 - 520	480 - 520	470 - 510	490	695	-28.1
EUROPE (CIF)						
	Pending ¹					
Bleached softwood kraft						
Northern (Canadian/Nordic)	820	820	820	822	1,105	-25.8
Southern (US)	780	780	780	782	1,065	-26.8
Bleached hardwood kraft						
Northern mixed (Canadian/US)	640	640	640	643	948	-32.5
Southern mixed (US)	630	630	630	633	938	-32.8
Specialty Grades						
Fluff (US southern kraft, untreated softwood rolls)	1,113 - 1,128	1,105	1,105	1,107	1,330	-15.8
ASIA (CIF)						
	Final ¹					
JAPAN						
Bleached softwood kraft						
Northern (Canadian)	660	660	660	673	775	-14.8
Southern (US)	570 - 600	570 - 600	590 - 610	608	745	-21.5
Bleached hardwood kraft						
Northern and southern mixed (Canadian/US)	500 - 510	500 - 510	500 - 510	505	700	-27.9
KOREA						
Northern bleached softwood kraft	710	690	690	703	845	-16.0
CHINA						
Northern bleached softwood kraft - net ⁴	575	565	555	563	680	-15.4

SPECIFICATIONS

All prices are best estimates of list prices before regular volume and contract discounts and are composite prices as opposed to median or average prices. Actual transaction prices may vary. US prices include normal freight allowance for delivery to consuming paper mills. Export prices are CIF main European ports. Normal terms include a 1.5% discount for cash payment or 60 days. Prices may not reflect some existing contract discounts off list prices still in effect: in North America, typically 36-44%; in Europe, 22-30%; in Japan, 3-9%; in Korea, 13-16%; in China, 0% (from Canadian and European producers). BHK pricing varies according to species used for the pulp.

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NOTES

1. Preliminary and final prices: US - Mid-month PPW effective list prices shown are preliminary prices. End-of-month final prices published in PPW and World Pulp Monthly supersede these preliminary prices. Full details at: www.risi.com/PulpPriceChanges. Europe - Originally published in PPI Europe. Pending indicates prices are not available at the time of publication. Final prices are published in the next Price Watch issue. The exception is European fluff price assessments, which follow the same publishing schedule as US pulp, and are formally tied to US fluff price assessments. Asia - Final prices are reported at the end of the month. 2. Effective January 2016, NBHK and SBHK were merged into a single assessment. See www.risi.com/PulpPriceChanges for details. 3. Spot prices are mid-point weighted averages for biweekly orders up to the publication date. Prices are net delivered with 0% discounts. 4. As of January 2020, NBSK net China reflects the last price assessment for NBSK from North America/Scandinavia CIF China (imports) as published in PPI Asia. As of end-Feb 2020, Canadian NBSK and Nordic NBSK were trading at \$570-\$600/tonne. r = revised

Operations

Paper Excellence curtails paper output after malware attack; Crofton operating 'manually'

Paper Excellence's (PE) Crofton, Port Alberni, and Powell River paper mills in British Columbia have been operating at reduced capacity since Feb. 19 because of what was reported as a technology malware hacking attack that hindered email and computer activity, and led to paper machine shutdowns.

PE said on Feb. 25 that the company's pulp production has not been affected.

"While pulp manufacturing continued unabated throughout the period, paper operations were curtailed as orders could not be planned and manufactured because of the systems interruption," the company said in a press release.

On Feb. 25, PE said that it resumed normal papermaking operations at the Crofton mill as it ran the machines with "manual fulfillment techniques."

"Plans will be developed in the coming days to restart papermaking activities at Port Alberni next week and Powell River beyond that once the manual fulfillment methodologies are proven out," PE added.

PE's VP of environment, health and safety and communications Graham Kissack told CBC News that the infected software communicates to the mill machines how much paper they need to produce and in what dimensions it needs to be cut.

The affected software also produced paperwork for orders that have to go through border customs, as well as staff payroll.

Kissack said the company has reached out to its customers to let them know about the reduction in production and potential delays in deliveries.

The Crofton mill makes newsprint; Port Alberni makes coated mechanical (CM), uncoated mechanical (UM), and uncoated freesheet (UFS) papers; and Powell River makes UM and specialty papers.

Attack investigation. Since the attack happened, the company's IT officials alongside third-party advisers assessed the impact of the technology problem and sought solutions. The incident was reported to the Royal Canadian Mounted Police (RCMP), PE noted.

Other issues. Last week, PE announced that it will temporarily stop pulp and paper production at its Crofton mill for the entire month of March due to lack of wood fiber. The mill has capacity to make about 380,000 tonnes/yr of northern bleached softwood kraft (NBSK) pulp and 310,000 tonnes/yr of newsprint.

In January, PE's 280,000 tonnes/yr Northern Pulp pulp mill in Nova Scotia stopped producing market pulp. Its shutdown occurred about three weeks earlier than expected after it was ordered by the provincial government to close on Jan. 31 due to environmental issues.

--by rmercante@fastmarkets.com

Newsprint

Pricing down another \$10 this month; more capacity should shut, contacts anticipate

Newsprint prices declined again this month with shipments continuing to decline in North America and exports are also down, Fastmarkets RISI's *PPI Pulp & Paper Week* contacts reported.

The 27.7-lb newsprint price fell by \$10/tonne to \$666/tonne on the East Coast and \$656/tonne on the West Coast. Both prices are down by \$100/tonne compared with the levels in February 2019.

"Pricing pressure continues and demand remains weak. We expect the same in March," a newsprint producer said.

"The market is still not good ... and I don't know if it's the end of it," another supplier stated.

"Paper is readily available ... but we hear that publisher inventories are down," a printer commented.

One paper producer mentioned that demand in January continued to fall by around 10%.

"We are making as much newsprint as we have orders. Orders are the ones that are shrinking, and we are reducing our production level to meet the lower demand," the contact said.

Newsprint demand declined 14.2% in January 2020 compared with January 2019 demand, according to the Pulp and Paper Products Council (PPPC) figures. Shipments to North America were 12.7% lower year-over-year and overseas exports fell 9.4% in the period.

Newsprint statistics – January 2020

NORTH AMERICA	(000 tonnes)			
	Current month		Year-to-date	
		% chg.		% chg.
	2020	2020/19	2020	2020/19
Operating rate, % (adj. for idled)	86%	85%	86%	85%
Shipments to North America	182	-12.7	182	-12.7
Shipments to USA	152	-12.1	152	-12.1
Shipments to Canada	30	-15.6	30	-15.6
Overseas exports	92	-9.4	92	-9.4
Imports	0	-91.5	0	-91.5
Total demand	183	-14.2	183	-14.2
Mill inventories	257	2.0%	-	-

1. Operating rate, not year-over-year percentage change.

Note: Consumption and user inventory data is no longer available.

Source: Pulp and Paper Products Council.

Rayonier, which has a 215,000 tonnes/yr newsprint and uncoated mechanical (UM) paper mill in Kapuskasing, ON, expects that newsprint prices will remain challenged this year.

Global market, exports.

Indeed, the export markets no longer have many opportunities for North American newsprint producers, building even more oversupply pressure in North America, contacts said.

In 2019, North American exports declined by 6% to 1.1 million tonnes. In January, they were down 9.4% compared to a year ago, with volumes to Latin America falling by 35.6% and to Western Europe by 16.1%.

Fastmarkets RISI forecasts that the global newsprint capacity will be reduced by 9%, or about 2 million tonnes, to 20 million tonnes in 2020, while apparent consumption will decline by 1.5 million tonnes to 17 million tonnes.

International Paper (IP) has recently announced that it will discontinue newsprint production on one 112,500 tonne/yr machine that also makes UM paper at its Kwidzyn mill in Poland by the

end of the first quarter, to focus on "more attractive segments" including kraft papers.

UPM has announced plans to close its Chapelle 240,000 tonnes/yr newsprint mill in Grand-Couronne, France.

Late in 2019, Norske Skog closed and sold its newsprint mill in Albury, Australia, to packaging group Visy, reducing its newsprint output in the region by 265,000 tonnes/yr.

"A lot is going on, but probably not enough to balance the global market," a North American producer told *P&PW*.

North America capacity reduction. Market contacts believe that more capacity will be shut in North America. Fastmarkets RISI forecasts that a further 300,000 tonnes of newsprint capacity will leave the North American market in 2020. Meanwhile, demand should slide by about 260,000 tonnes this year.

Demand dropped 14%, or 377,000 tonnes, in 2019 while capacity declined 57,000 tonnes, according to Fastmarkets RISI economists.

Resolute Forest Products closed its 214,000 tonnes/yr Augusta, GA, mill in November, but the mill was already operating at low capacity, market sources said.

In addition, Kruger continues shifting its Bromptonville, QC, mill out of newsprint into packaging specialties. The company should complete the conversion of a 100,000 tonnes/yr machine at Bromptonville this year.

Norpac is also making changes at its Longview, WA, mill, but it does not involve newsprint capacity reduction, according to the company. Norpac has switched newsprint production from paper machine (PM) No. 1 to PM No. 3, where UFS grades were being made, keeping newsprint capacity at 100,000 tonnes/yr at that mill.

Operating rate. In 2019, the North American mill operating rate fell to 84% from 94% in 2018, according to Pulp and Paper Products Council statistics. In January, the operating rate was at 86% compared with 85% a year ago.

PE downtime. In the first quarter so far this year, a large volume of newsprint may be eliminated from the market as Paper Excellence (PE) is taking 30 days of downtime at its Crofton, BC, 310,000 tonnes/yr newsprint mill in March due to lack of wood fiber.

"Even though this announcement of around 30,000 tonnes is roughly 10% of the monthly North American capacity, we will need more than that to balance out the market," one industry contact said.

"It's a little hard to know how much newsprint they're making at the Crofton mill. They are relatively small players in the USA, and there are not many opportunities in the export markets either," a contact on the East Coast commented.

"The PE downtime announcement has not affected our market, at least on the East Coast," another source stated.

Last week, PE also announced that it suffered a hacking attack and had to curtail production at its Crofton, Port Alberni, and Powell River paper mills in British Columbia (see story, p. 5).

- The **New York Times Co** reported fourth-quarter revenue increased 1.1% to \$508.4 million, compared with its revenue in fourth-quarter 2018. Subscription revenues increased 4.5%, and advertising revenues decreased 10.7%. Total digital revenues were \$800.8 million in 2019. Pres/CEO Mark Thompson said: "2019 was a record-setting year for The New York Times (Co's) digital subscription business, the best since the company launched digital subscriptions almost nine years ago."

- **McClatchy** has commenced a voluntary restructuring under Chapter 11 of the US Bankruptcy Code following the solicitation of a plan of reorganization. The Chapter 11 filing provides immediate protection to the company, which will continue to operate in the ordinary course of business as it pursues approval of the restructuring plan with its secured lenders, bondholders, and the Pension Benefit Guaranty Corporation (PBGC). "McClatchy remains

a strong operating company with an enduring commitment to independent journalism that spans five generations of my family," commented chm of the board Kevin McClatchy, great-great grandson of the company's founder, James McClatchy. McClatchy reported 2019 revenues at \$709.5 million, down 12.1% from 2018 with advertising revenues of \$337.1 million and audience revenues of \$321.8 million.

- The **Miami Herald** media company, **owned by** McClatchy, is moving its printing operations from Doral to Broward County in spring. In late April, the South Florida *Sun Sentinel* will start printing the *Miami Herald* and *el Nuevo Herald* at its Deerfield Beach plant. Seventy workers, around half fulltime, will lose their positions. The *Sun Sentinel* may bring on as many as 18 Herald employees to help cover the jobs handling the papers and other products.

--by rmercante@fastmarkets.com

Coated paper levels hold

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term, especially on coated mechanical and less on uncoated freesheet (UFS)," Verso's pres of graphic and specialty papers Michael Weinhold stated on the company's fourth-quarter 2019 financial results conference call on Feb. 27.

"We see some additional pressure on CFS program prices; spot prices are definitely going down. Everybody is trying to sell volumes," an industry contact told *P&PW*.

"In CM there is also price pressure, and we see more people moving to lightweights. So, higher weights have very low prices," the contact added.

"Prices have not moved this month, but paper surplus is still an issue. Mills are quietly taking downtime in an attempt to improve the market balance," another source said.

Verso announced on its conference call that it will take maintenance downtime at the Wisconsin Rapids, WI, mill during the second quarter and at the Escanaba, MI, mill in the third quarter.

Import pressure. Weinhold added that imports add pressure on the coated paper market supply/demand condition in North America.

"Imports gained share last year and are still holding," he said.

In January 2020, CM imports accounted for 54% of US consumption; in January 2019, they accounted for 49%, according to statistics from the American Forest & paper Association (AF&PA). The import volume in January 2020 reached 90,100 tons and was 0.9% higher than a year ago.

For CFS paper, imports last month were 15.4% lower than in January 2019, at 69,100 tons, and accounted for 23% of US CFS consumption. A year ago, imports accounted for 25% of the US CFS paper consumption.

"CFS demand seems to be a little bit better for us, even though European shipments of CFS sheets to the USA were down

North American printing/writing paper statistics January 2020

(000 tonnes)

	January 2020	% chg. year ago	Year-to-date 2020	% chg. year ago
Uncoated mechanical				
Shipments	163	-9.3%	163	-9.3%
Operating rate (%)	82	83 ¹	82	83 ¹
Imports	14	-49.5	14	-49.5
Demand	176	-14.6	176	-14.6
Uncoated freesheet				
Shipments	510	-8.9%	510	-8.9
Operating rate (%)	92	88 ¹	92	88 ¹
Imports	39	-43.6	39	-43.6
Demand	549	-12.7	549	-12.7
Coated freesheet				
Shipments	186	-4.5%	186	-4.5
Operating rate (%)	99	89 ¹	99	89 ¹
Imports	63	-22.3	63	-22.3
Demand	249	-9.7	249	-9.7
Coated mechanical				
Shipments	113	-12.4%	113	-12.4
Operating rate (%)	78	83 ¹	78	83 ¹
Imports	33	-19.3	33	-19.3
Demand	146	-14.1	146	-14.1
Total printing & writing				
Shipments	972	-8.6%	972	-8.6
Operating rate (%)	89	87 ¹	89	87 ¹
Imports	149	-31.9	149	-31.9
Demand	1,120	-12.6	1,120	-12.6

Mill Inventories (000 tonnes)

	January 2020	December 2019	January 2019	Tonne change	
				from month ago	from year ago
Uncoated mechanical	128	134	163	-6	-35
Uncoated freesheet	611	595	615	16	-4
Coated freesheet	371	371	396	0	-25
Coated mechanical	95	86	81	9	14
Total printing & writing	1,205	1,186	1,255	19	-50

Source: Pulp and Paper Products Council (PPPC).

43% in January," an importer said. "Actually, January 2019 is a bad month to compare because it was a very strong month, and then things got pretty bad in the following months."

Domestic suppliers reported slow demand for both CFS and CM.

"CFS (is) in the traditional slow seasonal period coming off the

fourth quarter, but we expect to see more activity pickup going into March," a paper trader said.

In Fastmarkets RISI's latest issue of *Paper Trader*, RISI economists said that although CM pricing was stable in February, operating rates remain clearly unsupportive.

"Producer inventories for coated mechanical have been on a

modest downward trend since mid-2019, suggesting that producers are reacting to the lack of capacity closures with extended downtime rather than flooding the market with tonnage... Prices will almost certainly continue to erode," according to the *Paper Trader* report.

In Europe, producers recently announced plans to raise their export prices.

On Feb. 11, Sappi Europe announced that it would increase CFS by 5-8% with immediate effect; on Feb. 18, Lecta announced a 5-7% increase on its CFS 2-sided effective immediately, and on Feb. 26, Burgo Group said it would increase CFS by 5-7% in all markets (Europe from April deliveries and overseas for all new orders).

"We see producers in Europe busy now, because of the effect of the Stora Enso Oulu and Sappi mill closures. Backlogs are strong, but it is more related to supply than demand," a supplier said. "Even though they announced price increases on exports, it is not for the USA; US prices are much higher than in other places."

Conversions, capacity closures.

Verso's Weinhold said that conversions from CFS and CM are starting globally, and will help to balance supply and demand, and increase operating rates.

In January, the CM operating rate in the USA was at 85.2% compared with 89.1% a year ago. The CFS operating rate was 91.2% last month from 90.2% in January 2019.

"There are at least two or three significant conversions

announced in 2020-2021 that will help the overhang supply situation," Weinhold stated.

Weinhold mentioned Stora Enso's Oulu mill project, which involves the conversion of its CFS mill in Finland to unbleached kraft linerboard by the end of this year along with conversions by ND Paper in Wisconsin and New-Indy Containerboard in Catawba, SC. New-Indy Containerboard has not publicly announced when the conversion would start and be completed in Catawba, SC, of a 340,000 tons/yr CM paper machine to virgin containerboard. Nine Dragons' ND Paper conversion at Biron, WI, from 114,000 tons/yr of CM to recycled containerboard that started last summer and is expected to be completed as soon as possibly the end of the first quarter or early in the second quarter.

Contacts said ND's Biron mill has not been making coated paper since May last year. The company also has plans to convert a 98,000 tons/yr paper machine at its Rumford, ME, mill from coated one-sided (C1S) paper to specialty packaging products including potentially white top linerboard this year, but its overall printing and writing paper capacity at Rumford will remain the same as it is today, as the company will increase capacity on the the other mill's machines.

Verso last year closed its Luke, MD, 450,000 tons/yr coated paper mill in May.

According to Fastmarkets RISI economists, if CM paper "shipments continue to drop 13% throughout the year, about 100,000 tons worse than our baseline forecast, producers will

likely be forced to close additional capacity before Catawba."

In Europe, Sappi on Feb. 11 started consultations regarding the future of paper machine No. 2 at its Stockstadt mill in Germany, in response to declining demand. The machine has capacity to make about 260,000 tons/yr of CFS paper.

"Graphic paper markets remain difficult. The conversions that we've made will help us well reduce our exposure, and we are still looking at our capacity in Europe," said Sappi CEO Stephen Binnie on the company's fourth-quarter financial results call on Feb. 5.

"The US market was under significant pressure in 2019. We believe that further capacity (reductions) will come from our competitors. And then within Sappi itself, obviously, we're ramping up on Somerset PM No. 1, which means we will be taking capacity out of the market," Binnie added.

Sappi has been converting its 350,000 tons/yr PM No. 1 at the Somerset, ME, mill to solid bleached sulfate (SBS) boxboard output.

"Our goal, in the short term, is to ensure that we keep our mills full. We continue to believe that substantial capacity will come out both in Europe and in the US," Binnie stated.

To adjust to the lower demand, European producer UPM has been reducing its graphic paper capacity in Europe.

Verso's plans. After completing the sale of its Androscoggin, ME,

and Steven Points, WI, specialty paper mills to Pixelle Specialty Solutions for \$400 million, market players and Verso's customers this week questioned the company's direction, contacts told *P&PW*.

"Looks like they will try to make the same papers they were making at Stevens Point and Androscoggin at other mills they have. But when they closed Luke, it was difficult for them to transfer Luke's paper to the other mills. Now customers are wondering if they will face the same issues to transfer these other two paper mills and production," a competitor said.

According to Verso, the company's 2019 revenue after the specialty mills sale to Pixelle came mainly from its graphic paper business, which accounted for 77% of Verso's total revenues in the year; specialty papers accounted for 15% of the revenue; pulp for 5%, and packaging papers for 3%.

"Our product mix (after the sale to Pixelle) will continue to include graphic papers, but we will focus on growing and high return markets to offset the decline in graphic paper demand," Verso CEO Adam St. John stated.

Verso now has four paper mills making almost two million tons/yr on seven machines.

Among the remaining mills, Escanaba, MI, is the largest one, with capacity of about 730,000 tons/yr of CFS, UFS, CM, and specialty and industrial paper, including coated one-side (C1S) labels, according to Fastmarkets RISI's Mill Intelligence. St. John noted that the Escanaba mill is now making "only almost specialty grades."

The Wisconsin Rapids mill makes 550,000 tons/yr of CFS and UFS, as well as 135,000 tons/yr of bleached hardwood kraft (BHK) and softwood pulp.

At Quinnesec, MI, Verso can make 430,000 tons/yr of CFS and 280,000 tons/yr of BHK.

At its Duluth mill, Verso has capacity of 270,000 tons/yr of supercalendered (SC) paper. The company is converting a portion of the Duluth mill into recycled containerboard and kraft bags, and is already making both grades.

"We're looking at different ways (at Duluth). We invested \$5 million in Duluth and we're making more kraft bags there. We're now testing the products in the market before we decide if we'll do a full conversion at that mill," St. John noted.

- **Meredith** reported revenues at \$811 million in the fourth quarter, compared with \$878 million in fourth-quarter 2018. Total advertising related revenues declined 1% to \$302 million. Digital advertising revenues grew 8% and accounted for 44% of total National Media Group advertising revenues, compared with 40% a year ago. Meredith's adjusted EBITDA was \$194 million, compared with \$232 million in the prior-year period.

- **R.R. Donnelley & Sons** reported fourth quarter net sales at \$1.6 billion, down 7.8% from sales in fourth-quarter 2018. Its marketing solutions segment grew 12.4% organically from higher volumes in direct marketing and digital print categories. Its business services segment was down 6.6% organically

due primarily to declines in commercial print and logistics, partially offset by growth in labels. Loss from operations was \$19.4 million in the fourth quarter compared to income from operations of \$90 million in the fourth quarter of 2018.

--by rmercante@fastmarkets.com

Containerboard/corrugated

IP sees 'north of 1%' Feb. box growth; WestRock reports export, domestic board improvement

International Paper (IP) CEO Mark Sutton said IP box shipments grew by a "little north of 1%" this month in a presentation late this week at the BofA Securities conference in Fort Lauderdale, FL.

US industry actual shipments increased 2% in January, compared with January 2018 shipments.

Also, at the event, WestRock CEO Steve Voorhees spoke positively of the company's first-quarter containerboard and corrugated performance.

"In our corrugated business, total containerboard demand is as we anticipated," Voorhees said. "We haven't taken any economic downtime (and) our inventories are where we expect them to be. We've seen stabilization and relative improvement in demand and pricing in the export markets, and some relative improvement in demand for domestic containerboard."

IP's Sutton emphasized the diversity required today at the

company's 200-plant corrugated converting system and the changing more complicated requirement for designing boxes.

"You have to be a supplier who never fails," he said.

He described the boxmaking today as a "little more complex and a lot more interesting to do." He said output must be "very quick" and "very precise," and he said employees at the plants work with much more technology today to do their jobs.

"We have to make a lot more changeovers now than we used to," he said.

Sutton said IP has an inventory of almost two million box designs. He said the company has some of its box employees "embedded" with customers for their corrugated design needs.

Enhanced color graphics. IP also generates more than \$500 million/yr from boxes with "enhanced graphics," which has become a growing segment in the corrugated industry especially in Costco stores and for e-commerce. This includes boxes with color on the outside or on the inside and digital printing. Amazon has even advertised new movie releases on IP e-commerce boxes that include color graphics and a picture of an actor. The \$500 million from enhanced graphics is more than 3% of the company's annual industrial packaging (containerboard and corrugated) revenue of \$15 billion. Sutton also said he expects 3% growth annually from enhanced graphics.

Sutton did not update IP's conversion project of an

uncoated freesheet machine at the Riverdale mill in Alabama. The project is expected to help the enhanced graphics business. Sutton this week identified the output from the Riverdale machine to be "high performance" white top linerboard. Previously he described the output as high-quality "bleached" white top linerboard. Along with white top, the Riverdale machine also would make containerboard, according to contacts.

For its box plant system, Sutton told attendees that IP spends more than \$200 million/yr at its converting facilities on equipment and upgrades.

As an example, in Mexico, IP operates corrugated plants in nine locations. Sutton said the IP Mexico plants generate \$500 million/yr and should grow 2-3%/yr. He told of IP starting a greenfield corrugated plant a little more than a year ago about 50 miles from Mexico City. He said that plant project has had a 16% IRR. IP fully integrates the Mexico City plant with US containerboard.

- **McKinley Paper** was testing production of recycled grocery bag kraft paper, as of Feb. 27, on a converted print paper machine in Port Angeles, WA. Industry contacts expected the company would start delivering bag paper to customers "shortly." McKinley plans to first start up the smaller machine at the mill to make the recycled kraft paper, and the company then plans to convert and start up a larger machine to make recycled containerboard. The company had planned that both PMs would be started by the end of this first quarter, contacts said. The mill's total

capacity would be 240,000 tons/yr, with 180,000 tons/yr of recycled containerboard.

- **Cascades'** containerboard business margin declined to 23.5% in fourth-quarter 2019 from 25.5% in fourth-quarter 2020, RBC analyst Paul Quinn reported this week. The company's containerboard segment adjusted EBITDA was C\$106 million, with sales of C\$451 million, due to "lower-than-expected pricing and slightly lower-than-expected shipments," according to Quinn. The Cascades containerboard system has benefitted from low old corrugated container prices in the last year in North America. Further, the company's plans appear to have been delayed for converting a former **White Birch** newsprint machine in Ashland, VA, to a 400,000 tons/yr recycled containerboard machine. Contacts told *P&PW* that they now expect the machine to be restarted in first-half 2022.

- At its annual stockholders meeting this week, **Greif** said that its new, recently-started corrugated plant in Palmyra, PA, will help increase the company's own board-to-box integration and that the plant's 110-in corrugator already had "commitments in place for (a) majority of (its) volume." Further, Greif said the plant's output will penetrate "new markets." The 350,000 ft² plant operates the 110-in corrugator and a litho-laminator.

- **Welch Packaging** acquired **PAX Corrugated Products** from **Georgia-Pacific** and acquired **Tri-Lakes Container**. Both transactions were completed in the last month, according to Welch Packaging. PAX Corrugated

Products is based in Lebanon, OH, and Tri-Lakes in Pierceton, IN.

--by grudder@fastmarkets.com

Boxboard

US boxboard production mostly lower in January

US total boxboard production in January 2020 rose 6.2% from the prior month and was 2.2% below a year ago at 1.145 million tons, the American Forest & Paper Association reported.

Total solid bleached sulfate (SBS) production was 443,100 tons and was down 5.5% from a year ago, with SBS folding carton down 2.4% to 174,300 tons, food service down 11.8% at 152,900 tons, and liquid packaging was 6% lower at 258,700 tons. That includes cupstock which was down 14.8% in the month from a year ago at 70,900 tons.

SBS folding production for export was off 0.8% at 25,300 tons.

Unbleached kraft/gypsum board (CUK) production in January was down 11.7% from December and was up 1.8% from a year ago at 339,300 tons.

Coated recycled board (CRB) production rose 10.8% in January month-to-month and was down 1.2% from a year ago at 166,400 tons.

Uncoated recycled board (URB) production in the month was up 7.4% from December and down 1.7% from a year ago to 196,300 tons.

--by jmclaren@fastmarkets.com

Graphic to raise integration

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financial results. Clearwater Paper also reported financial results this week, filling out the four publicly-owned producers of boxboard in North America. Greif acquired the CRB plants and mills with the \$1.8 billion acquisition of Carastar in February 2019.

"This sale excludes the three CRB mills acquired in the Carastar acquisition in which we have multiyear supply agreements in place," Greif CEO Pete Watson told analysts. "Given our industrial focus, we are not the rightful owner of the Consumer Packaging Group business. This divestiture helps us de-lever our balance sheet, optimize our capital allocation plans and refocuses our business on our core industrial franchise and strategic growth priorities."

The sale is expected to be completed by the end of March.

Graphic said the carton business generated more than \$200 million in annual revenue. It is expected to generate about \$20 million in annualized EBITDA, including synergies, over the 24-month period after the successful completion of the acquisition, the company added.

"The transaction further diversifies our end-markets and enhances our service capabilities to growing mid-sized consumer goods and food service customers," Graphic CEO Michael Doss said. "The continued strategic investments we are making in our integrated mill and converting platform reflect our commitment to

existing and new customers to provide the industry's most efficient production of the highest quality paperboard into sustainable packaging solutions."

Integration. Watson told analysts Greif's three CRB mills were about 40% integrated with its carton system, and that will remain under long-term supply agreements. He said the sale of the converting business allows Greif to be a "non-conflict channel partner" with the folding carton industry.

"In regard to what we may do in the future, we have no concrete plans," he added to a question about the future of the three mills, located in Los Angeles, Tama, IA, and Austell, GA. Austell production includes CRB and some uncoated recycled board (URB). The company noted it has no restrictions on selling the mills.

Graphic said at yearend 2019 its nine mills were about 68% integrated overall, and integrated in the 80% range in coated unbleached kraft (CUK) and solid bleached sulfate (SBS).

The company's most recent converting acquisitions include Quad/Graphic's folding carton

plant in Omaha, NE, to be purchased for \$40 million, and two Artistic Carton plants in Indiana and Illinois that were part of the acquisition of the White Pigeon Paper mill in Michigan last year.

In a recent presentation Feb. 27, the company showed it accounts for 37% of all folding cartons in North America, as well as 30% of all paper cups in the USA.

With Omaha and the seven locations from Greif, the company will operate an estimated 62 converting plants in North America, based on a 2019 10-K report, as well as 18 global sites. Greif's carton converting locations include Pineville, Randleman, and Burlington in North Carolina; Chicago; Grand Rapids, MI; Kingston Springs, TN; and Los Angeles.

Greif results. Greif's paper packaging and services segment saw revenues more than double in its first-quarter 2020 ending Jan. 31 from a year ago to \$473.7 million, with operating profit down 8% to \$32.5 million. The company said a "solid" Carastar performance helped offset softness in its legacy business that included lower prices and economic downtime in its containerboard segment.

2019 Consumer packaging/paperboard financial results

(\$ millions)

	Revenues 4Q 2019	% chg 2019/18	Operating Income	% chg 2019/18
WestRock (1Q 2020)	1,536.9	-5.0	46.2	-40.0
Graphic Packaging	1,519.8	0.7	133.0	23.7
Clearwater Paper	204.9	-5.1	35.3	11.0
	YTD 2019			
WestRock *	4,937.2	0.5	253.1	-19.6
Graphic Packaging	6,160.1	2.2	534.1	16.5
Clearwater Paper	854.7	1.8	115.3	-11.9

Global operations, segment/operating income.

* WestRock YTD is through its 4Q 2019 ending in September.

Source: Company reports.

Consumer packaging/paperboard shipments 2019 (000 tons)

	Shipments 4Q 2019	% chg 2019/18
WestRock (1Q 2020)	939.9	0.8
Graphic Packaging	940.7	2.6
Clearwater Paper	202.1	-7.4
	YTD 2019	
WestRock *	2,830.9	-1.6
Graphic Packaging	3,833.9	0.7
Clearwater Paper	844.7	-1.7

* WestRock YTD is through its 4Q 2019 ending in September.
Source: Company reports.

"Caraustar outperformed our internal expectations during the quarter, which is a seasonal slower period for them," CEO Watson said.

Feb. 11 marked the first anniversary of the Caraustar acquisition.

Clearwater results. Clearwater Paper reported its fourth-quarter pulp and SBS (solid bleached sulfate) paperboard sales were down 5.1% from a year ago to \$204.9 million, with operating income up 11% to \$35.3 million. Full-year revenues in the segment rose 1.8% to \$854.7 million with operating income down 11.9% to \$115.3 million.

"We had a strong finish to 2019 due to lower input pulp and fiber costs in the fourth quarter, and lower maintenance costs and expense timing," outgoing CEO Linda Massman commented, referring also to the company's consumer tissue business. The decrease in paperboard was due to lower sales volumes partially offset by higher paperboard prices from previously announced increases.

SBS sales dropped 7.4% from a year ago to 202,100 tons and year-to-date were down 1.7% to

844,700 tons. The lower shipments reflected flat volumes reported earlier by leading boxboard producers Graphic Packaging and WestRock (see tables on p. 13).

The company said its large Idaho tissue and board mill

completed its extensive pulp optimization project without a maintenance outage but that was offset by an outage at its Cypress Bend SBS mill in Arkansas.

The company also cited lower energy, chemicals, and transportation costs.

"To be clear, we are enjoying relatively strong paperboard conditions with favorable backlogs compared to recent history for this time of year," Massman told analysts in the company's earnings call. "We believe the food service segment of the industry is positioned to benefit from the trend of boxboard away from polystyrene and single-used plastics. The longer term trend for bleach board remains positive as consumer products companies continue to look for more environmentally sustainable packaging alternative."

Massman added the company's mix is equally distributed between SBS folding carton and SBS cupstock/food service grades.

• **Graphic Packaging** said it has expanded its Sneek folding carton plant site in The Netherlands as part of a \$25 million investment to meet increased demand for

sustainable packaging. The two-year expansion program has already included a 5,000-m2 state-of-the-art building extension, leading to the creation of more than 50 jobs and, most recently, the installation of a new flexographic printing press that replaced rotogravure presses and that almost doubled capacity at the site. The site will support UK and US customers by producing the majority of the innovative new KeelClip solution for food and beverage multipacks.

• **The Ellis Group**, the largest privately-owned folding carton manufacturer in Canada, has raised output by 30% after the installation of its fourth **Koenig & Bauer-Iberica** Optima die cutter at its Ellis Packaging location in Pickering, ON. "Our customers demand short turnaround," said company pres Cathie Ellis, who oversees the business along with her brother Dave. The Ellis Group also operates the Ellis Paper Box plant in Mississauga, ON, and Ellis Packaging West in Guelph, ON. The plants specialize in the food, confectionary, pharmaceutical, and beverage industries.

• **Boutwell, Owens & Co.** installed an upgraded **HP Indigo 30000 Digital Press** at its folding carton business in Fitchburg, MA. "Digital is a necessity in today's workflow," said Boutwell VP for sales and marketing Bill Hodges. "It's all about the interchangeability, with the HP Indigo 30000 delivering quality surpassing offset, and the ability to offer a wider array of services to our customers." The versatility package on the press provides more flexible paper handling, and increased versatility with a

synthetic kit for plastic cards, plastic packaging, plant labels, and other applications printed on PVC, PET, PP, and other synthetics. Privately-held Boutwell, Owens in April 2014 purchased the assets of Guynes Printing of El Paso, TX, and started up a new company, **Guynes Packaging and Printing**.

--by jmclaren@fastmarkets.com

Korea sets RCP import rules

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fewer tonnes of US recovered fiber, a difference of 133,621 tonnes, than the 1.125 million tonnes it imported in 2018. Its buying last year, though, was up from two years prior, by 12%, when it imported 883,759 tonnes of US recovered paper.

When comparing 2019 vs 2018, exports of US recovered paper to South Korea fell for most grades, except mixed: exports declined by 7%, or 41,692 tonnes, for OCC at 550,074 tonnes in 2019; declined by 25%, or 78,506 tonnes, for ONP at 236,753 tonnes; increased by 18%, or 26,776 tonnes, for mixed paper; fell by 43%, or 12,516 tonnes, for high deinking grades at 16,357 tonnes; and dropped by 66%, or 27,683 tonnes, for pulp substitutes at 14,283 tonnes;.

Despite this uptick in exports of mixed paper to South Korea last year, its buying of this grade has dropped considerably in two years. South Korea imported 262,750 tonnes of mixed paper in 2017. This declined by 34%, or 88,687 tonnes, to 174,063 tonnes in 2019.

Mixed. The changes out of South Korea follow in the footsteps of

other countries continuing to focus on quality in recovered paper shipments. Several Southeast Asian countries and India have upped their scrutiny on recovered paper imports, turning away tons that do not meet their revised quality expectations.

Taiwan, Indonesia, and India banned the import of mixed paper, while sellers and buyers in South Korea and Vietnam have avoided the grade as well, *P&PW* sister publication *PPI Asia* reported Feb. 21. Some US exporters say they are still shipping mixed to India, while some others report conflicting circumstances on Indonesian inspections requiring the breaking of two bales – some market players are still being required to do this while others say they are not asked to break bales, but to take more photos and documentation of the baling and shipping process.

The initial announcement by the South Korean government to enforce a 0.5% contaminant limit then swiftly deciding on 3% mimics the moves by the Indonesian government in 2019 that scared away some US exporters who stopped shipping to Indonesia for months. The Indonesian government first set a 0.5% contamination limit on imports of recovered fiber starting Apr. 1 last year and then a few days later postponed the startup of the new rule. Then in July, Indonesia was on course to implement some of the most severe import restrictions on recovered fiber worldwide with a “zero tolerance standard” for prohibitives. Imports into Indonesia are not to have contamination levels that exceed 0.5%.

• **Total Fiber Recovery** is to invest in a \$49 million recycled pulp production facility in Chesapeake, VA, Gov. Ralph Northam, D-Norfolk/Va. Beach, announced on Feb. 28. The mill would begin operating in 2021, and plans call for it to process and use 300,000 tons/yr of mixed paper and other recycled paper from the region’s MRFs. Virginia competed with Maryland and South Carolina for the project, a media report said.

• **Waste Management (WM)** CFO Devina Rankin said that the company plans to be or has started “piloting robotics across the network” at the company’s MRFs, at the BofA Securities conference in Fort Lauderdale on Feb. 27. In other WM news, local reports said the waste management company has **stopped mixed paper collection** in Broward County, FL, citing contamination and pricing. It was not clear if this is a move WM will continue in other cities. **Sonoco** also plans to use a robot at one of its recycling plants in two months. Rankin added that the WM recycling business continued strategically toward a “more efficient process” for processing and improving quality of recovered paper. She said the company has been informing customers what is recyclable, has and will invest in their MRFs and recycling program, is working with municipal customers on contracts that define contaminants and contaminant levels and charging fees if contaminants are too high, and is seeking new end market for recyclables.

• **Nine Dragons Papers** announced interim results for the second half of 2019, reporting sales volume up 13.3%

from year ago to 8.5 million tons. The company's total design production capacity for paper amounted to 16.5 million tonnes/yr and is to increase to 18.1 million tpa by 2021.

-by mworkman@fastmarkets.com

NBSK price up in China

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February effective list prices increased to \$1,130/tonne, up \$15 amid a dearth of spot market increases and unusually passive attempts at implementing a broadly-announced hike, according to *PPI Pulp & Paper Week* polling.

The lack of spot market traction comes as Canadian NBSK producer sources reported delays in US-bound shipments due to oil pipeline protests in Canada that targeted railways, and an ongoing shift among some buyers to replace NBSK with cheaper southern bleached softwood kraft (SBSK).

'A crazy start to the year.' "It's been a crazy start to the year: \$1,130 is not surprising, but I saw prices flat to up \$5-10," said a US buyer contact, adding that NBSK suppliers hadn't actively pushed for a bigger increase in regular contract markets.

Such passive implementation of a price hike could be due to concerns of losing market share to competing NBSK producers, or to US producers.

Added the source: "I'm not buying spot NBSK, but am buying SBSK."

US SBSK effective list prices increased \$20 to \$1,025 as an exemption period quickly approached on US exports to China, buoying demand for SBSK in China as well as US spot markets, sources said. The bigger month-over-month increase vs NBSK came because SBSK prices started at a lower level, and SBSK mills are attempting to bridge a much wider gap between SBSK and NBSK than the historical delta of about \$40/tonne. The difference today in the effective list price is \$105/tonne, while in US spot markets, it narrowed this month to \$85, according to *P&PW* data.

"Southern pine is so cheap compared to NBSK. We are pushing everyone up \$20 ... and we're getting it," said an SBSK producer contact regarding both spot and contract business in the USA.

While smaller than the announced \$40/tonne hike in SBSK and fluff, the source reported no difficulty driving through a \$20 rise because Chinese demand surged.

"We've been getting more demand from China. With the tariff exemptions, we went after that 5%," the contact said.

China BSK rises despite virus.

International BSK prices to China saw a surprising \$10-20/tonne bounce this month, with Canadian NBSK surging to \$580-590/tonne net CIF and SBSK rising to \$540-550 net, sources told *P&PW*. The newly-implemented NBSK net price in *P&PW*, which combines Canadian and Scandinavian NBSK to China, rose \$10 to \$575 net CIF. A two-month surge in SBSK narrowed the

delta between BSK grades to the historically typical \$40 in China.

However, March business to China could waver because the coronavirus (COVID-19) crisis has led to lower paper and board mill operating rates, imported pulp at ports and stored in bonded warehouses, and a lack of ocean vessels for producers to divert tonnes elsewhere.

"I'm trying to get my hands around (the impact to) pulp around the world. Coronavirus is such a significant issue now. This is a critical week for it with it spreading," added the producer source. "In 2008 (during the Great Recession), it was a housing crisis, but this is a health issue."

Coronavirus concerns weighed heavily on US stock markets this week, leading the Dow Jones Industrial Average (DJIA) down a whopping 3,400 points in its darkest week since the 2008 financial crisis. That heightened concerns about its impact to the global economy, available liquidity, and whether it marks a temporarily eroding situation or a full-blown global recession on the horizon.

Those concerns may outweigh several supply-side issues that have trimmed tonnes from global market pulp producers' inventory overhang: A Finnish labor strike that shuttered the country's pulp and paper mills and slashed about 200,000 tonnes of market pulp output now seems like ancient history; Northern Pulp's 280,000 tonnes/yr NBSK mill closure in Nova Scotia; a one-month shutdown at Paper Excellence's Crofton, BC, market NBSK mill; and 212,000 tons of

BHK downtime at Asia Pulp & Paper's OKI mill in Indonesia.

US spot markets mixed. In US spot markets, NBSK edged up to \$610-650 net delivered, up \$5/tonne in *P&PW* polling through Feb. 27. US spot markets often move in a similar direction as China, but anxiety over the mid- to long-term impact of coronavirus led to a less aggressive push on domestic prices. Also, in an unusual twist, US spot market activity declined in NBSK even as SBSK action heated up. US SBSK spot market prices surged \$15/tonne, bringing levels to \$535-575 net delivered.

US BHK prices unchanged. In US bleached hardwood kraft (BHK) markets, February effective list prices across three key grades held flat, with imported bleached eucalyptus kraft (BEK) and northern and southern BHK prices on par with each other at \$890/tonne, according to *P&PW* polling. Meanwhile, spot BHK markets were unchanged at \$480-520 net delivered, closing out a month of unusual stability considering the global challenges producers face.

Buyer: 'Crash coming.' US buyers continue to wait for a flood of spot tonnes to become available – expectations that might also have contributed to lower volumes of spot NBSK this month – and some buyers noted fresh deals in northern bleached hardwood kraft (NBHK) at \$10/tonne lower than a month ago. But most declines remained within the \$480-520 range.

"I've got mostly NBHK. Talking with my suppliers, they are

in North America because they ... can't ship it to China. They are trying to load it in North America at pretty good deals," said a US buyer contact. "If you're out buying spot next month, you're in a good spot. The US spot market will be pretty good in March and probably into April. Speculation is this thing will crash in the next two to three weeks. It will still take a while for Chinese mills to run full."

Sources said the 5% tariff exemptions on US imports in China could broaden in the coming months to include recycled pulp – a grade China initially excluded from a products list – and there was talk this week that US SBSK, fluff pulp, and recycled pulp tariffs that had already been paid could be reimbursed.

China tariff exemptions, refunds. China's Ministry of Finance (MOFCOM) published two product exclusion lists, comprising 65 items that will enjoy exclusion from the retaliatory duties, Fastmarkets RISI's Beijing bureau reported on Feb. 25. The exclusions will be valid for a year starting from Feb. 28 for the 55 products on the first list, including US BSK pulp, fluff pulp, and recycled pulp. In addition, the tariffs that had already been paid will be reimbursed, and all affected importers can apply for refunds within six months from Feb. 28, the report said.

In the week between MOFCOM's initial announcement that 5% tariff waivers were available and the updated exclusion list, some sources said China had not only moved up the effective

date on those tariff waivers from Mar. 2 to Feb. 28, but that exemptions possibly would go through automatically. One source active in China wasn't aware of refunds occurring, while another source in the Chinese market said talk of an automatic exemption was false.

"Nothing is automatic in China. The process is as an importer you have to apply for the exemption," said the market participant. "Eventually I believe all the tariffs will be removed but since it's a customer-by-customer basis, we can guess that the larger importers and the state-run companies will get preferential treatment. As a result, the process will not be even across all importers."

--by bryan.smith@fastmarkets.com

News briefs

US real gross domestic product (GDP) increased 2.1% in the fourth quarter of 2019, according to the "second" estimate released by the **US Bureau of Economic Analysis**. The 2.1% estimate is the same as what was estimated the first time. In the third quarter, US real GDP also increased 2.1%...

Canadian forest products rail freight was down 12.6% from a year ago in the most recent week ending Feb. 22, and was down 7.6% year-to-date, the American Assn of Railroads reported, as blockades continued across the country protesting a gas pipeline project in British Columbia. US production has also been affected by blockades against **CN** and **CP** railroads, with US

forest products freight down 9.8% in the latest week and 4.4% lower year-to-date. CN forest products traffic dropped 8% over the first two weeks after the blockades started around Feb. 6. On Feb. 28, Canada Prime Minister Justin Trudeau cleared an ongoing impasse with indigenous chiefs who agreed to meet next week because of the blockades. The blockades across Canada began after Wet'suwet'en Nation hereditary chiefs apparently opposed construction of a \$5 million Coastal GasLink pipeline project that they said crosses their traditional territory in northwestern British Columbia... **Georgia-Pacific** (GP) said it plans to spend \$15 million to upgrade its tissue paper machine mill in Camas, WA, the *Camas Post Record* reported this week. The capital project is aimed at lowering production costs for making paper towels and help the mill reduce water consumption. GP public affairs mgr Kristi Ward said the \$15 million is to pay for a package boiler that will "significantly increase (the mill's) steam generation and reduce emissions," and is also to pay for a project that will allow the mill to recycle more water and "reduce water consumption and wastewater discharge." Another project, expected to be completed in early 2021, is to improve the mill's wireless capabilities and internal network, the *Post Record* reported. Construction of the package boiler is to begin later this year and the boiler work completed in early 2021. The capital spend is to occur following GP's move in 2017 to shut down an uncoated freesheet machine and pulp

operations... **Cascades** grew its tissue business sales to C\$397 million in the fourth quarter, driven by "higher-than-expected" shipments of 167,000 tons, said RBC analyst Paul Quinn this week. Further, Cascades' tissue segment adjusted EBITDA of C\$35 million was well above RBC's \$21 million forecast. The company's average selling price was lower than expected, Quinn said. And the business' EBITDA margin was 8.8%, higher than Quinn's 5.7% forecast. Cascades recently completed the acquisition of **Orchids Paper**, which runs tissue paper machines and converting lines in the US South and Southwest. Last month, Cascades converted Orchids' new Barnwell, SC, tissue paper machine to conventional production, from Valmet's QRT through-air-dried-like format, Quinn said. The company also confirmed that it plans to close two tissue converting lines in March... **Clearwater** CEO Linda Massman said this week that the company's new tissue paper machine in

Shelby, NC, is "producing to quality specifications for both ultra and premium tissue." Clearwater's consumer products tissue business sales were \$231 million in the fourth quarter, up 8% vs fourth-quarter 2018 sales, because of "higher retail tissue volumes sold offset by slightly lower prices due to mix," according to the company. Clearwater's average tissue net selling price decreased 1.3% to \$2,593/ton in the fourth quarter. Operating income for the consumer products business was \$2 million, compared to \$1 million in the fourth quarter of 2018, and adjusted EBITDA was up 25% to \$20 million in the quarter... **Great Lakes Tissue Company** in Cheboygan, MI, plans to install new high-speed converting equipment to increase production. The company now makes nearly 700 cases/day of toilet paper. The new equipment will help the company produce about "four times our current production, up to five semi-truck loads a day," said Great Lakes Tissue VP Tori Beckett.

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