

PPI Pulp & Paper Week

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

OCC domestic pricing rises in every region in February for first time since July 2017; mixed paper falls further

Pricing for domestic old corrugated containers (OCC) in the USA increased in every US region in February 2020 for the first time in 2 ½ years, since July 2017, according to Fastmarkets RISI's Feb. 5 PPI Pulp & Paper Week pricing survey.

After a year of volatile recovered paper markets mostly caused by a dramatic decline in demand that pushed down the national average pricing for OCC to a historic low of \$22/ton at the FOB seller's dock, the bulk grade's US average increased \$8/ton in February to \$32/ton.

Recent data from the American Forest & Paper Association (AF&PA) showed that US recovered paper exports totaled 16.457 million »» continued on page 4

BSK producers steady on \$40 US hike, as China BSK reverses and slower Asian growth seen due to outbreak

Chinese market participants remained sidelined by the coronavirus outbreak this week after government officials ordered workers to stay home, but as the world's biggest telecommuting experiment began, sources working from their homes told Fastmarkets RISI's PPI Pulp & Paper Week that February prices would likely reverse as business resumed on Feb. 10.

As concerns grew about the virus' economic impact, Asian sources said they expect a short-term pricing decline, slower economic growth, and supply chain log-jams going forward. »» continued on page 11

December box volume ends year softly, while RISI forecasts 1.1% growth in 2020 actual shipments

US corrugated box shipments in 2019 did not grow in volume, ending a five consecutive year run-up that totaled almost 9% growth, but Fastmarkets RISI forecast a rebound this year with growth of 1.1%.

That 1.1% growth, if true, would follow almost exactly the six-year growth per year in shipments, which is 1.2%.

This week, Fastmarkets RISI's packaging economist Ken Waghorne told PPI Pulp & Paper Week that "my new forecast shows shipments climbing to 1.1% to 396.8 BSF (billion ft²) in 2020, then 2.0% to 404.7 BSF in 2021." »» continued on page 13

In this issue:

Pricing: US domestic, export RCP **3&4**

UFS: Domtar on shuts, trade case **2**

RCP: China import licenses way off **7**

Liner: WestRock shuts Charleston PM17

Strategy: Coker is new Sonoco CEO **18**



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Uncoated freesheet

Domtar again sees potential to convert half its papermaking capacity if it needed to, CEO says

No. 1 North American uncoated freesheet (UFS) paper producer Domtar with 2.8 million tons/yr of capacity and a 34% market share still sees potential to "repurpose" half of its paper capacity in the mid-term, pres/CEO John Williams

said during the company's quarterly conference call.

"Our ability to quickly adjust to market conditions [last year] reflected the agility of our team as well as the optionality of our assets. We identify optionality of half of our remaining paper capacity," Williams told analysts on Feb. 7.

The executive said that Domtar took 300,000 tons of market-related downtime in 2019 to match its UFS paper production to its customers' demand, and permanently shut down 204,000 tons or 7% of its capacity.

In fourth-quarter 2019, Domtar took 92,000 tons of market-related paper downtime and closed one 170,000 tons/yr UFS machine

» continued on page 16

Month in statistics

US paper and paperboard production declined by nearly three million tons and by a total 3.8% in 2019 vs in 2018 in what was the largest decline year-to-year sequentially since the Great Recession.

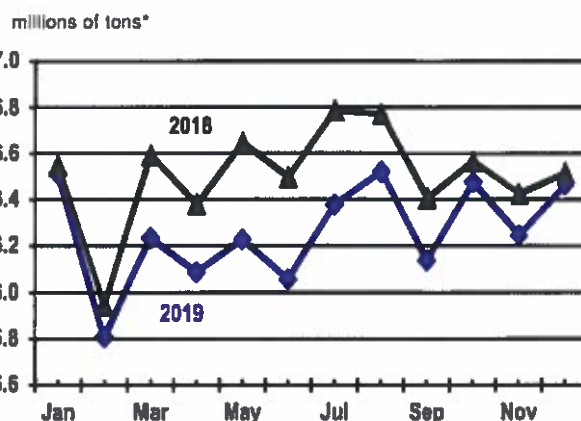
The 2.98-million-ton decline was mainly a result of a 1.4-million-ton drop in linerboard production. US linerboard output declined from lower export linerboard and domestic corrugated box demand in 2019 that caused extensive downtime on machines. Overall US containerboard production dropped in 2019 for the first time following five consecutive years of production increases.

The total paper and board production for 2019 was 75.134 million tons, down from 78.114 million in 2018. Paperboard production dropped to 50.3 million tons, from 51.86 million in 2018, and paper production dropped to 24.8 million from 26.25 million in 2018. The US mill operating rate average last year across the grades was 90.5%, down from 93.7% in 2018.

In the month of December, paper and paperboard production declined by 0.8% at 6.466 million tons compared with December 2018's 6.5-million-ton total.

The only individual grades followed by Fastmarkets RISI's PPI Pulp & Paper Week that increased production in 2019 compared with 2018 were tissue paper, by 0.8% and 58,000 tons, and liquid packaging and food service boxboard by 1.3% and 42,000 tons.

US paper and paperboard production



* Not seasonally adjusted.

PAPER & PAPERBOARD PRODUCTION

		Current Month	same month year ago	% chg. 2019/18	YTD 2019	YTD 2018	% chg. 2019/18
Newsprint	Dec.	64	99	-35.4%	926	1,057	-12.4%
Uncoated mechanical	Dec.	57	66	-13.6	750	891	-15.8
Coated paper	Dec.	360	400	-10.0	4,473	4,966	-9.9
Uncoated freesheet	Dec.	567	545	4.0	6,676	7,384	-9.6
Tissue	Dec.	667	651	2.5	7,719	7,661	0.8
Unbleached packaging papers	Dec.	138	147	-6.1	1,673	1,823	-8.2
Total paper	Dec.	2,065	2,111	-2.2	24,807	26,252	-5.5
Linerboard	Dec.	2,346	2,333	0.6	25,781	27,176	-5.1
Corrugating medium	Dec.	977	936	4.4	11,060	11,066	-0.1
SBS boxboard	Dec.	169	174	-2.9	2,006	2,046	-2.0
Liquid packaging/food service board	Dec.	259	269	-3.7	3,191	3,149	1.3
Recycled boxboard	Dec.	158	165	-4.2	2,046	2,059	-0.6
Total paperboard	Dec.	4,400	4,404	-0.1	50,327	51,862	-3.0
Total paper and paperboard	Dec.	6,466	6,515	-0.8	75,134	78,114	-3.8

n.a. = not available. SBS: solid bleached sulfate. Linerboard and medium totals are for both virgin and recycled contents.

Note: Figures in 000 short tons. Unbleached kraft paper has been changed to unbleached packaging paper by the American Forest & Paper Association.

n.a.=not available. Source: American Forest & Paper Association.

PRICE WATCH: Recovered Paper - Domestic

February 5, 2020

US\$ per short ton for open market purchases by mills, FOB seller's dock, for delivery this month. (Further specifications below.)

Incorporating Official Board Markets

	Northeast						LA-SF		
	New England	New York	Buffalo	Midwest (Chicago)	Southeast	Southwest	LA	SF	Pacific NW
MIXED PAPER									
Mixed Paper (54)	-10 - -5 (-5)	-10 - -5 (-5)	-10 - -5 (-5)	-5 - 0 (+0)	-10 - -5 (-5)	-5 - 0 (+0)	-5 - 0 (+0)	-5 - 0 (+0)	-10 - -5 (-5)
BROWN GRADES									
Boxb cutt (4) - OBM*	20 - 25 (+5)	20 - 25 (+5)	20 - 25 (+5)	25 - 30 (+5)	15 - 20 (+5)	25 - 30 (+5)	15 - 20 (+10)	5 - 10 (+10)	10 - 15 (+10)
OCC (11) - OBM*	30 - 35 (+5)	30 - 35 (+5)	30 - 35 (+5)	30 - 35 (+5)	35 - 40 (+5)	30 - 35 (+5)	30 - 35 (+15)	20 - 25 (+15)	30 - 35 (+15)
DLK (13) - OBM*		45 - 50 (+5)		45 - 50 (+5)	45 - 50 (+5)	45 - 50 (+5)	40 - 45 (+15)	30 - 35 (+15)	35 - 40 (+15)
GROUNDWOOD									
Sorted Residential Papers & News (56) *	5 - 10 (+0)	5 - 10 (+0)	5 - 10 (+0)	15 - 20 (+0)	15 - 20 (+0)	5 - 10 (+0)	5 - 10 (+0)	0 - 0 (+0)	5 - 10 (+0)
	Northeast						LA-SF		
OMG (10)		30 - 35 (+0)		40 - 45 (+0)	40 - 45 (+0)	45 - 50 (+0)	40 - 45 (+5)		40 - 45 (+5)
CGS (44)		30 - 35 (+0)		40 - 45 (+0)	40 - 45 (+0)	45 - 50 (+0)	40 - 45 (+5)		40 - 45 (+5)
SCN (58)		80 - 85 (+0)		80 - 85 (-5)	85 - 90 (+0)	90 - 100 (-5)	75 - 80 (+0)		65 - 70 (+0)
WBN (24)		210 - 220 (+0)		200 - 210 (+0)	195 - 205 (+0)	215 - 225 (+0)	190 - 200 (+0)		160 - 170 (+0)
HIGH GRADES									
SOP (37)		85 - 90 (+5)		85 - 90 (+5)	85 - 90 (+5)	90 - 95 (+5)	95 - 105 (+10)		80 - 85 (+0)
CBS (43)		85 - 90 (+5)		85 - 90 (+5)	90 - 95 (+10)	90 - 95 (+5)	95 - 100 (+10)		85 - 90 (+5)
SBS heavy print (45)		100 - 110 (+5)		100 - 110 (+5)	90 - 100 (+5)		105 - 115 (+5)		
SWL (40)		165 - 175 (+0)		145 - 155 (+0)	165 - 175 (+0)	180 - 190 (+0)	160 - 170 (+0)		130 - 140 (+0)
MWL (41) *		175 - 185 (+0)		150 - 160 (+0)	170 - 180 (+0)	190 - 200 (+0)	165 - 175 (+0)		140 - 150 (+0)
SBS light print (45)		170 - 180 (+0)		140 - 150 (+0)	155 - 165 (+0)	165 - 175 (+0)	155 - 165 (+5)		
PULP SUBS									
SBS unprinted (47)		235 - 245 (+0)		230 - 240 (+0)	240 - 250 (+0)	245 - 255 (+0)	230 - 240 (+0)		
HWS (30)		240 - 250 (+0)		245 - 255 (+0)	260 - 270 (+0)	270 - 280 (+0)	255 - 265 (+0)		
HWEC (31)		270 - 280 (+0)		280 - 290 (+0)	280 - 290 (+0)	300 - 310 (+0)	285 - 295 (+0)		245 - 255 (+0)

* OBM PRICES

Prices for grades designated "OBM" are a continuation of the prices originally published in Official Board Markets ("OBM", "The Yellow Sheet") and are reported on the same basis as published historically in OBM. See www.risi.com/RCPmethodology for a complete description of what has and has not changed about OBM prices. (Price not marked * are consistent with prices published historically in P&PW.)

SPECIFICATIONS

Prices represent open market board and paper mill purchases agreed to for delivery in the indicated month. Contractually indexed transactions are excluded. Specifications: baled; full-truckload quantities; exclusive of delivery charges, premium or distress lots, and of all subsequent charges for packing, handling, destination considerations, or other special charges. Grades and preparation requirements are as defined in the current ISRI Scrap Specifications Circular.

NOTES

1. Preconsumer.
2. The price on the low end of the range is for the Bay Area and the price at the top end of the range is for the Los Angeles area.
3. As of Oct 2012, these region names were changed from a city to a region (e.g. "Chicago" to "Midwest"). This is a change in title, not in methodology. All references to the new names (e.g. "Midwest") as they apply to each price series above are consistent with the legacy names (e.g. "Chicago").
4. ONP #8 can be replaced with SRP #56 in formulas used to derive ONP#6 price.
5. Change reflects the difference between the high of the current month and the high of the previous month.

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: Recovered Paper - Export

Open market transactions for delivery this month, US\$. (Further specifications noted at right.)

February 5, 2020

	Destination	New York ¹	LA ²	SF/Oakland
FAS port of origin (per ton)		Change ⁴		
Mixed Paper (54) ⁶	Asia	-3 - 0 (-3)	7 - 10 (+2)	2 - 5 (+2)
OCC (11)	Asia	77 - 80 (+10)	87 - 90 (+15)	82 - 85 (+15)
Double Sorted OCC (12)	China	97 - 100 (+12)	107 - 110 (+15)	102 - 105 (+15)
DLK (13)	China	107 - 110 (+15)	117 - 120 (+20)	112 - 115 (+20)
Sorted Residential Papers & News (56) ³	Asia	24 - 27 (+0)	24 - 27 (+0)	19 - 22 (+0)
CGS/OMG (44,10)	China	37 - 40 (+5)	52 - 55 (+5)	
SOP (37)	China	142 - 145 (+10)	152 - 155 (+10)	147 - 150 (+10)
SWL (40) ³	Asia	227 - 230 (+0)	232 - 235 (+0)	217 - 220 (+0)
CFR to destination port (per tonne) ^{7,8}				
OCC (11)	India	120 - 123 (+3)		
Double-sorted OCC (12)	India	142 - 145 (+0)		
DLK (13)	China	167 - 170 (+20)	172 - 175 (+20)	

SPECIFICATIONS

Prices represent open market purchases agreed to for delivery within 30 days. Contractually indexed transactions (i.e. transactions whose price is determined in whole or in part by a formula in a long-term contract) are excluded. Specifications: baled; full-truckload quantities; exclusive of premium or distress lots. Grades and preparation requirements are as defined in the current ISRI Scrap Specifications Circular (now PS-13).

NOTES

1. "New York" includes ports in Northern New Jersey
2. "LA" includes Long Beach and LA ports
3. SWL prices are for ports in South Korea, Indonesia, and Thailand
4. As of March 2018, the destination of Mixed Paper assessments was changed to Asia from China and Mixed Paper assessments CFR China were discontinued.
5. As of April 2018, the destination of Sorted Residential Papers & News assessments was changed to Asia from China and SRPN assessments CFR China were discontinued.
6. Change reflects the difference between the high of the current month and the high of the previous month.
7. As of October 2018, assessments of SOP CFR China and SWL CFR Asia were discontinued.
8. As of April 2019, assessments of OCC (11) bound for China, SCN (58) bound for non-China Asia and all grades FAS Chicago were discontinued.

OCC pricing rises by \$5 to \$15

metric tonnes, down 13.6% from the total in 2018. To China, US recovered paper exports in 2019 totaled 5.274 million tonnes, down 30.2% and by about 2.6 million and 2.8 million short tons.

To non-China Asia, US exports in 2019 totaled 8.010 million tonnes, flat vs 2018, the AF&PA reported. Along with the decline in exports, US mill consumption was down almost 800,000 tons last year.

Domestic mills across the USA are reportedly running well as contacts told of placing orders and moving material easier than much of 2019.

"We've got movement with consistency on long orders that we haven't seen in a while, while honoring our current contracts – a lot of good movement," a Midwest contact said.

Pricing for boxboard cuttings and new double-lined kraft corrugated cuttings (DLK) followed OCC's pricing hike in every US region as strong demand was reported, especially for DLK. These bulk grades bumped up in price by \$5/ton across the USA, and surged by \$10-15/ton on the West Coast, where export demand was solid in February.

With most mills reporting decent inventories for February, mills in the Pacific Northwest (PNW)

reportedly are short on inventory and seeking OCC in strong orders. Pricing for domestic OCC increased in the PNW by \$15/ton.

"Port Townsend is back up running now after the refit and they need tons. McKinley is starting to test and buy tons for February. All of these things combined are creating a perfect storm," one trader said.

McKinley is in the process of starting up a recycled kraft paper machine in late January in Port Angeles, WA. It's a converted printing paper machine. It was unclear if the restarted machine is actually making kraft paper.

For DLK, a mill contact in the South said mills are seeking DLK to "sweeten up the quality of their fiber" as quality continues to be a top priority in trading recovered paper. "Dirty OCC is not moving," a trader said.

ND DLK demand. Adding to the strong DLK demand is ND Paper, with its Biron recycled containerboard machine in Wisconsin Rapids, WI, "a big pull, a big draw" for DLK, according to contacts. One contact said the Biron mill is "not consistent yet from an operation standpoint," yet its demand for DLK has been consistent. The machine began making corrugating medium last summer and was said to be testing linerboard by the end of last year. The company has said it planned to be consistently making linerboard in the first quarter this year.

US Recovered Paper Price Ticker*

(FOB seller's dock per ton.)

2020	
February	\$95
January	93
2019	
December	\$93
November	96
October	101
September	103
August	108
July	113
June	118
May	129
April	140
March	150
February	\$156

* Ticker is the average from the combined US average domestic mill prices for mixed paper, sorted residential paper & news (SRPN), old corrugated containers (OCC), hard white envelope cuttings, sorted office paper, and sorted (postconsumer) white ledger. Effective in July 2017, the ticker includes new grades mixed paper (54) and SRPN (56). The SRPN replaces the retired ONP No. 8.

Source: PPI Pulp & Paper Week.

"The Biron mill is ... using a lot of double-lined now," a contact said.

"There's been a lot of activity request from China for DLK. A lot of companies export and domestic are looking for DLK," a mill contact said.

Southeast suppliers told of Northeast players pulling from their region, and Midwest contacts said the same. One supplier contact said it is "poaching season," saying: "We've got our competition going after our tons; the first indication was mills calling to increase their purchase orders."

The supplier continued: "You've got high generator accounts starting to look around, ... and we as suppliers, we've been spending a year protecting our sources and keeping our heads above water."

US Recovered Paper National Averages – Dec.19-Feb.20

(FOB seller's dock levels)

US average	Feb. 2020	Jan. 2020	Dec. 2019	Feb. % chg. year ago
Mixed paper	-\$5	-\$3	-\$3	n.a.
Boxboard cuts OBM	20	13	13	-67.7
OCC OBM	32	24	22	-42.8
DLK OBM	43	34	32	-42.6
SRPN	9	9	9	-66.6
OMG	42	40	40	-63.7
CGS	42	40	40	-63.7
SCN	82	84	84	-32.2
WBN	200	200	200	-17.7
Unprinted SBS	241	241	241	-33.1
HWS	259	259	259	-31.3
HWEC	282	282	282	-29.1
SOP	90	85	85	-50.8
CBS	91	84	84	-50.2
Heavy print SBS	104	99	99	-48.8
SWL	163	163	163	-40.9
MWL	170	170	170	-38.8
Light print SBS	\$162	\$161	\$161	-38.4%

Notes: Pricing is based on levels to mills and numbers are rounded. PPI Pulp & Paper Week legacy national average prices, except for OBM national averages for boxboard cuttings, old corrugated containers, and new double-lined kraft corrugated cuttings. Added in July 2017 were the new mixed paper and sorted residential papers & news (SRPN), which replaces the retired old newspapers No. 8. n.a.=not meaningful.

Source: PPI Pulp & Paper Week.

China demand down overall, up in Feb. Getting recovered fiber containers on the water proved critical this week for Chinese mills as the deadly coronavirus has ceased collections in China, slowing down some mills in China beyond downtime for the Chinese Lunar New Year.

This slowdown in China caused a pickup in demand and pricing for US recovered fiber this month as Chinese mills placed orders to make up for its lack of supply. This demand is anticipated to be short-lived as uncertainty surrounds the impact of the coronavirus.

Pricing for No. 12 double-sorted old corrugated containers (DSOCC) increased \$15/ton FAS to China on the West Coast export market to \$107-110/ton out of Los Angeles/Long Beach

in California, and to \$102-105 out of the Oakland, CA, port. On the East Coast, DSOCC increased \$12/ton to \$97-100/ton. These increases come after a month of strong demand in January that pushed up pricing for DSOCC last month by \$12-15/ton.

"We've seen ACN (America Chung Nam), Ralison/Lee & Man, and Cyclelink, now come in and buy tons this week. They're out there sourcing fairly strongly right now to put tons on the water," a supplier said.

China purchased on average 327,000 tons/month of US OCC in 2019, for a total of 3.6 million tons in 2019 through November, according to US trade data. In 2017, China purchased 507,000 tons/month of US OCC. In two years, China's buying of US OCC slipped by 180,000 tons/month or 55%.

SE Asia strong demand. Hesitant to chase the market up, contacts said Southeast Asian, especially Vietnam and Malaysia, and Indian buyers "are being very cautious" and had strong demand for February orders of No. 11 OCC. Pricing for No. 11 US OCC to non-China Asia increased \$10/ton to \$77-80/ton out of the New York/New Jersey ports, and by \$15/ton on the West Coast to \$87-90/ton out of Los Angeles/Long Beach and \$82-85 out of the Oakland, CA, port. No. 11 OCC bumped up \$10-15/ton in January.

"Vietnam and Malaysia, they're paying very high prices for anything and everything they can get their hands on. ... Seemingly unlimited appetite," a contact said.

Indonesia continues to seek US OCC, although some sellers have avoided offers from Indonesia, citing the costly and timely inspection process. Its demand is mostly for OCC, which is the case for India as well.

India mixed 'pack-specific'.

With a 1% contamination limit on mixed paper imports into India, buyers in that country have upped their demand for US OCC as they scrutinize still-incoming mixed paper loads. This has left some East Coast players flooded with mixed paper. Pricing for mixed paper slipped out of the New York/New Jersey ports as few orders were reported.

India's buying of US mixed paper has become "very pack-specific," a trader who confirmed mixed orders to India for February said.

A contact explained India's demand for OCC as: "Most mills in India still prefer European OCC packs ... they are clean and do not have the contraries of low-grade mixed waste, which is effectively banned. US OCC needs to be cheaper to be attractive."

Higher pricing was reported on the West Coast export market for mixed paper, as mills in Southeast Asia demand this grade.

In the US Midwest, Pratt Industries' Wapakoneta, OH, mill is helping to keep mixed orders afloat. One contact said his company's mixed paper consumption is down 5% from what it was last year.

Said a supplier: "If you can't go into Pratt or Caraustar (you're out of luck) – it is dependent on quality. They're taking it to landfill. These guys still stuck

with contracts are just trying to hang on right now."

Pricing slipped for mixed paper on the domestic side as the demand-supply imbalance continues. Mixed is in negative pricing territory in the Northeast, Southeast, and Pacific Northwest, at \$-10-(-5).

Mixed paper is in oversupply in the USA, and supply is sitting on floors on the East Coast and continued to be landfilled as it has been for a few years now. One contact told *P&PW* that it is paying a mill company to take its paper.

"We put all our eggs in one basket with export," the contact said. "We don't even know how to charge for mixed paper."

SOP. Domestic sorted office paper (SOP) increased in price as demand is in high order for February. SOP bumped up by \$10/ton on the export side, increasing in price the first two months of this year. In 2019, SOP's pricing decline began in January 2019 – a trend that occurred 11 months last year save October (yet, other deinking grades did decline in pricing in October) – and held in pricing at the start of January 2020 after hitting rock bottom.

"Tissue mills in Green Bay are offering bigger premiums than we've seen in 36 months," a contact said this week as one example of pricing upticks.

Demand for ledger grades, especially sorted white ledger (SWL), cited since October when International Paper first pulled back on its demand for the grade, is still flat. SWL continues to be packed with SOP. Stronger demand was reported for heavy print solid bleached sulfate in

February, increasing pricing by \$5/ton for the grade across the USA.

Georgia-Pacific has upped its demand as well for coated book stock (CBS) instead of SOP, several contacts said. CBS rose in price in every region by \$5-10/ton.

--by mworkman@fastmarkets.com

Recovered paper

China's 3rd round of import quotas down 42%; coronavirus stalls in-country collections

China's Ministry of Ecology and Environment (MEE) issued a new round of recovered paper import permits this week amounting to 22,750 tonnes, bringing the total so far for 2020 to 3.21 million tonnes, a 42% decline from the 5.53 million tonnes allocated in the first three batches of 2019.

This week also saw the near stoppage of recovered paper collections in China as the deadly coronavirus has kept workers at home and slowed down mills beyond downtime planned for the Chinese Lunar New Year (CNY). The CNY has been extended to Feb. 9, a week and a half after its scheduled Jan. 30 end. Additionally, students cannot report back to school until Feb. 17.

In the central province of Hubei, where the virus originated, Fastmarkets RISI sister publication *PPI Asia* reported that non-essential enterprises have been ordered not to reopen before Feb. 14. Hubei saw total paper and board production of 4.16 million tonnes in 2019, ranking its industry 7th out of 31 provinces, according to preliminary data

from the National Bureau of Statistics of China.

Contacts from the affected producers in China told *PPI Asia* that they highly doubt whether the facilities will be able to resume operations on Feb. 14, as the number of confirmed cases of the coronavirus is still surging in the province and mandated lockdowns are expected to continue.

In China, the coronavirus "crisis," as one contact said, is "demolishing China's manufacturing industry and consumption." If the virus is not controlled soon, "we can forecast economic slowdown" in China, the contact added.

More than 600 people have died due to the coronavirus and more than 28 countries have been affected.

"No one has gone back to work in China," a trader said Feb. 4. "Mills aren't running at all because employees aren't there."

Nine Dragons has not shut down any machines beyond its scheduled downtime for CNY, several contacts said on Feb. 4. One US supplier claimed that Nine Dragons, like other Chinese mills, was asked to slow its operations.

Concerns all around. Mills in China are "concerned," a large US exporter to China said.

"It's causing a lot of difficulty for recyclers there," the contact said.

Domestic corrugated was at \$300-320/tonne in China, according to contacts.

Outside of China, mills in Taiwan are frustrated that their recycled pulp shipments into China were asked to be postponed due to slowdowns and shutdowns at ports as well as tighter transportation controls, another exporter said. US suppliers, too, voiced their concerns, saying pricing for old corrugated containers (OCC) and double-sorted OCC was up \$10-15/ton.

This slowdown in China caused a pickup in demand and pricing for US recovered fiber this month as Chinese mills placed orders to make up for its lack of supply, according to *P&PW's* Feb. 5 pricing survey (see story, p. 1). This demand is anticipated to be short-lived as uncertainty surrounds the impact of the coronavirus on the population, businesses, and business overall.

Another contact noted this week that "some vessels" avoided Chinese ports due to the virus. The Institute of Scrap Recycling Industries (ISRI) issued a release on Feb. 6 noting that news reports indicate that ship calls at or through major Chinese ports have fallen 20% since Jan. 20, "as measures to control the coronavirus outbreak cut into international supply chains." The slowdown could cut Chinese port volumes by 6 million containers, ISRI said.

ISRI said the slowdown could last until March.

A larger US trader to China on Feb. 3 questioned why China's MEE would not release more import permits to help mills buy more recovered paper for their furnishes to arrive in the next six to eight weeks.

A third batch of quotas for this year was released on Feb. 6. Yet, the 22,750 tonnes of import licenses were issued to just two companies, Shanxi Qiangwei Paper Co. and Wuxi Rongcheng Environmental Protection Technology Co.

Similar to 2019, the allocated import tonnages continue to decline with each batch released in the first quarter. Last year, China's MEE had released the third batch by Jan. 18. At 60,420 tonnes, the third round of import quotas issued in 2019 was small compared with the substantial 5.47 million tonnes it had issued in the first two batches. The MEE released a fourth batch of quotas on Feb. 22, 2019, amounting to 9,720 tonnes.

For 2020, the first batch of 2.78 million tonnes was approved on Dec. 23. The second round was released Jan. 8, totaling 407,410 tonnes. This third round of import quotas issued the first week of February is off 94% from the second round released in January.

China is expected to approve just seven million tonnes of import quotas globally in 2020, down from the 10.7 million tonnes issued in 2019, and off significantly from the 18.2 million tonnes in 2018. The US's largest buyer of recovered fiber for years has implemented import restrictions ranging from a 0.5% contaminant limit, adding pre-inspection procedures, banning mixed paper as well as building up its domestic paper collecting and recycling.

• Ban or no ban in China?

Several contacts this week said they have been told that China's

MEE will not completely ban recovered paper shipments at the end of 2020, and instead will **declassify these materials as solid waste** as they are now identified by the MEE. Contacts said this is following suit with other scrap grades, like high-grade copper and aluminum, which will no longer be identified as solid waste by China this year. Double-sorted old corrugated containers, new double-lined kraft cuttings, and some old newspaper grades will be able to be imported after this change, contacts said.

-by mworkman@fastmarkets.com

Recovered paper

Mexican board mills take January downtime as contacts await Gondi's demand schedule

Several Mexican board mills took downtime at the start of 2020 in what contacts described as "uncertainty in the market," and the extensive roles its economy and politics play today. One executive said the downtime was maintenance related.

The downtime extended from two weeks to the entire month of January, according to contacts. The mills included Mexican packaging company Empaques NOVA, down for all of January; Grupak, for two weeks; a Grupo Gondi mill for three weeks; Bio-Pappel in Monterrey for two weeks; and at least one more board mill.

Additionally, contacts are concerned about Grupo Gondi's demand for recovered fiber. Gondi's 400,000 tonnes/yr recycled containerboard

machine in Monterrey, Mexico, is expected to start up paper trials in May, and the new PM, which will be the largest recycled containerboard machine in Mexico, will run on old corrugated containers (OCC) from both Mexico and the US Southwest, contacts said.

In addition, some contacts in Mexico were concerned in November and mid-December about slower-than-expected economic growth and consumer spending in Mexico for this year. Fastmarkets RISI's *PPI Latin America*, a sister publication to *PPI Pulp & Paper Week*, has reported about the Mexican packaging sector's dependence on industrial and economic activity. The sector suffered from the overall slowdown in the country's gross domestic product and challenges faced during the transition of the new federal government, which took office at the end of 2018.

However, the recent approval of the new United States-Mexico-Canada Agreement (USMCA) provided some optimism.

"With the commitment on the new trade agreement between the US, Mexico and Canada, there is hope things will get moving better in Mexico," a contact said this week. "A lot of companies were expecting it so they could define their strategy. Now, they should be able to."

Mexico buys big. Mexico was the third largest buyer of US recovered fiber in 2019, through November 2019, behind China and India, according to US government trade data. Mexico purchased 1.55 million tonnes of US recovered

fiber, averaging 140,670 tonnes/month in 2019, save December.

In January, a contact who sells to Mexico said: "Most mills have seen a considerable drop in sales and Mexican materials are available and prices are weakening. There is, though, uncertainty in the market as to what Gondi will do; this first semester of 2020 will be interesting."

Strong demand reported in Feb. This unannounced downtime aside, when collecting data this week for US recovered paper pricing, several contacts told of a pickup in demand from Mexico that they had not seen in a few months. Mexico purchased in strong orders sorted office paper (SOP) and other deinking grades, pulp substitutes, groundwood grades, including old magazines and coated groundwood sections, and OCC.

"Some Mexican and American competitors are still looking for some extra volumes, mainly SOP," a contact said.

Added another: "You got Mexico pulling out of Texas for the first time in awhile. They shift half their tons in Texas and mills getting their tons have to start buying at spot pricing. It's pulling up the spot tons there."

- A large mill company in Mexico reportedly switched its source of recovered fiber from its longstanding relationship with the USA to Europe, citing cheaper container rates to Europe, according to contacts. It is not clear if this is a permanent or temporary move.

--by mworkman@fastmarkets.com

Paperboard

Eagle Materials reviews 3Q results helped by low OCC; updates on Lawton project

Eagle Materials highlighted low recovered paper furnish costs that offset lower pricing in its gypsum wallboard business in its third quarter fiscal results ending in December, and discussed its ongoing investment in its Republic Paperboard mill, that included an extended outage in the quarter to install new equipment.

Amid industry speculation, local press in Oklahoma has reported Republic Paperboard is undertaking a \$94 million modernization at its gypsum wallboard paper mill in Lawton, OK. The company has sought local tax incentives to support the project (*P&PW*, Sept. 20, p. 12). Those incentives, called a tax increment financing district, would allow Republic to not be taxed for the project work that is to be done at the mill, according to a local media report.

Industry contacts told Fastmarkets RISI's *PPI Pulp & Paper Week* this week that the Republic mill will take downtime for project work for two weeks in March. The industry contacts said the project involves installing technology that is to help the mill apply a clay-coated top onto brown board as well as increase production capacity by roughly 20%. The mill, started up in 2000, has for years run on pulp substitutes for the white content, industry contacts said.

In its third quarter, Eagle Materials reported total revenue was up 5% to \$350.2 million, with a net loss of \$114.6 million from a

\$57.7 million profit a year ago. In Eagle's "Light Materials" business, its gypsum paperboard segment revenues were down 1.4% to \$22.6 million in the quarter while gypsum wallboard revenues were down 4.4% to \$125.1 million.

Eagle Materials' "Heavy Materials" business includes cement, concrete, and aggregates.

Wallboard headwinds. The company said it had a "solid quarter," driven by increased cement and wallboard shipments, and improved cement pricing. Wallboard demand remains healthy and shipments were up 2%, CEO Michael Haack told analysts.

"However, soft pricing in wallboard was a headwind affecting operating earnings for the segment this quarter," he said, according to a transcript.

Gypsum wallboard sales volume was 669 million ft³ (MMSF), up about 2%, while the average wallboard net sales price declined 8% to \$146.46/MSF.

Paperboard sales volume for the quarter was up 8%, and the average paperboard net sales price in the quarter was \$460.65/ton, down 11%, primarily as a result of the pricing provisions in long-term sales agreements. Eagle Materials CFO Craig Kesler explained that most of its paperboard volume is contractually sold including inflators and deflators based on the price of inputs.

Benchmark US average old corrugated containers (OCC) furnish prices were at a record low of \$22/ton in December, down 68% from a year earlier, according

to Fastmarkets RISI's *PPI Pulp & Paper Week* survey, Eagle's paperboard operating income in the quarter was up 20.6% from a year ago at \$9 million.

"And so, there's the price and the major one being OCC or recycled fibers and as that price comes down, the price we charge to customers comes down with it, so it's been pretty consistent," Kesler said.

Operating costs during the quarter declined primarily due to lower energy and recycled fiber costs.

"In connection with the planned expansion of our paper mill, we had an extended outage during the quarter to install new operating equipment. This outage reduced production and led to increased costs of approximately \$1.5 million during the quarter," Kesler added.

World-class operation. Haack said the "significant" project at the Republic Paperboard operations was aimed at expanding production capacity by the roughly 20%. That could mean an additional 55,000 tons/yr of output, based on the machine's capacity today.

"The goal of this expansion is to meet market demand, lower current costs and minimize future cost exposure to white fiber," he said.

He added that the project entails installation of "proven technology," that is new to gypsum wallboard paper manufacturing. He provided no further specifics.

"Republic is a world-class operation and the talented team there will utilize this technology to further extend our competitive advantages on paper performance," Haack said. "The project is expected to be completed this spring and we expect to begin ramping up paper production in the second calendar quarter of 2020."

Haack added: "It will come up in March/April time frame. It takes a little while to line out the machine. And then over the next several months, we'll begin to move it into the market, but, yes, it will be—it will ramp over a broader period of time."

The Lawton wallboard paper mill has capacity of 316,995 tons/yr.

--by jmclaren@fastmarkets.com

Kraft paper

With refinancing done, UP Paper plans capital improvements, capacity add at Manistique mill

UP Paper said it completed a refinancing and with it looked forward to capital spending this year to increase 100% recycled unbleached kraft paper output at its mill in Manistique, MI.

The refinancing included an allocation of Federal New Markets Tax Credits from Michigan Community Capital, along with conventional term and revolving credit facilities with JPMorgan Chase.

With the refinancing completed, UP Paper CEO Lars Dannberg said in a release that "we will conclude several high-impact

investments early in 2020. These projects will increase our capacity to 120,000 tons/yr of 100% recycled lightweight kraft paper."

UP Paper expects to complete the acquisition of process equipment and real estate associated with the paper mill in Manistique; fund several projects that will improve quality and productivity while reducing operating costs; and consolidate debt on "very favorable terms."

UP Paper formed in 2016. The company makes 25- to 70-lb unbleached recycled kraft paper at the Manistique mill.

Fastmarkets RISI's Mill Intelligence reports that the mill's one machine "is narrow at 3.76 m (147") trim but fast at 1,400 mpm (4600 fpm).

• **International Paper (IP)** will stop making newsprint on machine No. 3 at its Kwidzyn mill in Poland by the end of March to focus the machine on producing kraft paper, the company said. "Due to changing market conditions with fast declining demand for newsprint, we will focus PM 3 at our Polish Kwidzyn mill on more attractive segments," an IP official told Fastmarkets RISI. "This includes further developing and expanding our kraft papers business." PM 3's capacity is about 112,500 tonnes/yr.

• **Mondi** has launched a mobile app for its sack kraft paper business called "Go2Sack," which provides real-time calculations, product, and technical information about sack kraft paper, and "helps users to select the best paper grade for a specific product," the company

said this week. The app can be downloaded for free for iOS from the Apple Store and for Android from the Google Play Store, Mondi said. "In response to customer feedback we have designed this first-to-market mobile app to address the growing need for online product information in real-time," said Mondi Sack Kraft Paper Sales Dir Conny Josefsson.

Corporate strategy

More than 70% of Verso shareholders vote in favor of the sale of two mills to Pixelle

Verso stockholders approved the sale of the company's Androscoggin/Jay, ME, and Stevens Point, WI, specialty paper mills for \$400 million to Pixelle Specialty Solutions, according to Verso's 2019 annual meeting voting preliminary results.

Verso reported that more than 70% of outstanding shares voted in favor of the deal.

Verso expects the deal to become final in early February. After that, Verso said it will be debt-free and able will focus on its graphic paper operations. The company also is making recycled containerboard and recycled kraft paper on a converted printing and writing paper machine in Duluth, MN.

Stockholders approved the election of Robert Beckler, Sean Erwin, Jeffrey Kirt, Randy Nebel, Adam St. John, and Nancy Taylor to the company's board of directors.

Verso said that, in connection with the previously-announced

agreement between the company and its major shareholder Lapetus Capital, and affiliates of Atlas Holdings and Blue Wolf Capital Advisors, Marvin Cooper will be appointed to the vacancy on the board.

This means that three Atlas/Blue Wolf nominees are now on the Verso board. After first trying to acquire Verso in late 2018 and last year, Atlas/Blue Wolf then challenged Verso last year about its deal with Pixelle. Atlas/Blue Wolf also nominated its own slate of directors for the Verso board. At the annual meeting on Jan. 31 in New York City, Verso and Atlas/Blue Wolf reached an agreement related to the sale of the two mills to Pixelle and on the Atlas/Blue Wolf board nominees.

--by rmercante@fastmarkets.com

Virus having impact on pulp

»» continued from page 1

Since the Chinese Lunar New Year (CNY) holidays began, the World Health Organization declared coronavirus a global emergency and Beijing extended the CNY holiday by one week, effectively halting activity in China's international pulp market and ending a month-long pricing rally.

'Chinese canceling orders.'

Before the CNY holiday, buying activity had continued to swell as market participants sought to ink deals on February allocations, but over the past week many Chinese traders and direct buyers sought to cancel those orders.

"Due to the coronavirus, a lot of Chinese pulp buyers are

cancelling orders. So the price for both softwood and hardwood will suffer," said a Chinese market participant late this week. "I think most likely prices will move down next week after most traders are back to work. Some Chinese buyers who have closed deals before (CNY) but haven't opened LC (letters of credit), this week (and) they are trying to cut the price down."

No producers had backed off their last export China prices through Feb. 7, and sources said that Canadian producers that had sold "considerable volumes" at \$590 net to China were steadfast on it thus far. In January, Canadian northern bleached softwood kraft (NBSK) producers lifted international Chinese prices to \$570-590 net CIF, mostly up \$20/tonne, sources told P&PW, and a week ago they felt bullish about further lifting Chinese prices this month.

"In the lead-up to the Chinese New Year, we got a \$10 bump on NBSK for February. That was a layup. Then we thought in March we could have another chance to raise prices even more. The local resale price went up \$18/tonne more than the import price," said an NBSK producer source. "Then this coronavirus hit. ... Next week is our telltale sign on that."

Shanghai futures price skids.

While February export prices won't begin to get hashed out until Monday, this week pulp futures prices skidded on the Shanghai Futures Exchange (ShFE) due to coronavirus and its growing impact on China's economy. The bleached softwood kraft (BSK) futures price for its most widely-traded May 2020 contract dropped to RMB 4,390/tonne on

the ShFE early this week, down RMB 178 and a nearly 4% decline.

UBS Equity Research analyst Cadu Schmidt noted the BSK pulp futures price had dropped to its lowest level since the beginning of the May 2020 pricing series. The ShFE futures market has had a growing impact on international as well as local pulp price negotiations since its launch in November 2018, Chinese sources have said.

China paper mill downtime.

Chinese sources said in the Hubei province, which has reportedly seen 97% of all deaths from the coronavirus, tissue, paper, and board mills at producers such as Asia Pulp and Paper, Hengan International, and Vanda Group were taking downtime. However, sources believe that Chinese tissue producers will churn out as much output as possible starting next week because shoppers across the country have cleaned out consumer tissue products from stores in a bid to protect themselves from infection. An NBSK producer source expected the growth in tissue production could buoy NBSK consumption.

Meantime in North America, some pulp seller contacts acknowledged China might stall, but noted producers were moving ahead on the broadly-announced \$40/tonne US NBSK price increases that went into effect on Feb. 1. Producer sources said they remained firm about pushing through their North American price increases, believing that domestic supply and demand dynamics could stand up to uncertain Chinese price erosion and continued high inventories globally.

Chinese swings in pulp shipments are often the biggest single factor in global market pulp producer inventory swings—a factor that's continued to weigh on producers worldwide—and a dearth of new orders on the international market would almost certainly lead producer stockpiles to swell. Worldwide producer inventory data is still not available for December, and the Pulp and Paper Products Council is delaying the release of December statistics until Feb. 19 due to a delay in receiving Iba (Brazilian) data.

The coronavirus started in Wuhan -- the capital of Central China's Hubei province -- and has since spread throughout the country and abroad. Through Feb. 6, it surged to 31,161 confirmed cases on the Chinese mainland, 636 deaths, and 1,504 people discharged from hospitals, according to *The People's Daily* (China). Confirmed cases had more than doubled in the four days since Feb. 2, when total cases numbered 17,205 and 361 people had died.

- **China cut tariffs** by half on \$75 billion in US products, from 5% to 2.5%, effective Feb. 14, its Ministry of Commerce (MOFCOM) announced on Feb. 5. However, US woodpulp imports, which had dodged a rise to 10% back on Dec. 15 when MOFCOM decided to not double it, were excluded from the tariff reduction. China's import tariffs on US woodpulp remains 5%, Chinese and American sources told *P&PW*. MOFCOM officials did not reply to requests for comment.

- With many global firms banning employees from traveling to China, the annual **Shanghai Pulp Week** conference scheduled for Mar. 16-20, has been postponed until possibly as late as May. An

announcement from the event's host **China Paper & Pulp Industry Chamber of Commerce (CPICC)** wasn't immediately available. However, **Hawkins Wright**, which hosts an annual symposium during Shanghai Pulp Week, released a brief statement on Feb. 3: "We have been obliged to cancel Hawkins Wright Shanghai conference in 2020 due to the coronavirus," Hawkins Wright said. "We hope and expect that the Chinese authorities will bring the situation under control very soon, and we wish CPICC every success in their effort to host Shanghai Pulp Week at a later date."

- **Arauco**, which previously announced a \$20/tonne increase across three key grades of pulp in China, is pursuing a price increase for bleached eucalyptus kraft (BEK) pulp in Europe. The firm slated a \$20/tonne increase on its BEK price to \$700/tonne for February deliveries, Fastmarkets RISI Brussels reported.

- Fastmarkets RISI's Deputy Editor of Global Pulp, **Bryan Smith**, is at Twitter. For real-time market updates, breaking news, price polling schedules, and other topics, readers can follow him at: <https://twitter.com/BryanSmithRISI>.

--by bryan.smith@fastmarkets.com

Uncoated mechanical

Resolute CEO gives details on Kénogami SC mill investment; sees price pressure on papers

Resolute Forest Products pres/CEO Yves Laflamme explained on the company's quarterly call last week that as part of a C\$11

million machine modernization project at its Kénogami, QC, supercalendered (SC) paper mill, Resolute will concentrate all its SC-B production at its Dolbeau, QC, mill. The Kénogami mill will now be dedicated to SC-A+ and SCA-A++ paper production.

Laflamme pointed out that SC-B consumption is declining, while there is a better demand condition for the higher quality SC-A+.

"We think that by this investment we could have a quick payback on both sides," Laflamme said. "The first one being that getting more ... (of) the SC-A+, and the better return and extending the life of that paper machine (while) at the same time having the possibility to move more SC-B to have better results at the Dolbeau mill."

"The two mills are located in the same region ... (so) there is a kind of synergy between the two paper mills, and we feel pretty good about it," Laflamme added.

Resolute's Kénogami mill has production capacity of 146,000 tons/yr on one machine. The Dolbeau mill also has one paper machine with 157,000 tons/yr of capacity. The two mills are about 115-120 miles from each other.

Cellulose filaments. Resolute is also building a commercial plant specializing in the production of cellulose filaments (CF) at the Kénogami mill. The Kénogami CF will be sold by Performance BioFilaments, a Resolute and Mercer International joint venture.

"The CF is a pretty innovative product. ... We are optimistic about being successful with the SC-A+ project, the move

of SC-B to Dolbeau, and the CF project," Laflamme said.

Price pressure. Laflamme also told of ongoing pricing pressure in paper, including newsprint and uncoated mechanical (UM), as demand continues to decline.

"The average transaction price [for UM] slipped by \$30/ton in the fourth quarter, reflecting mostly weakness in the white paper market. Our quarter-over-quarter shipments, however, rose by 12,000 tons due to seasonality and inventory dropped to a new low of 40,000 tons," Laflamme said.

On newsprint, he said the average transaction price also slipped by \$30/tonne in fourth-quarter 2019, reflecting continued weakness in offshore markets, especially in Asia.

Due to weak demand, Resolute indefinitely idled its 214,000 tonnes/yr Augusta, GA, newsprint plant last November.

"While difficult, the decision allows us to focus production in our more competitive mills and to eliminate substantial fixed costs associated with the surplus capacity," Laflamme said.

Laflamme added that Resolute must continue to focus on maximizing operational performance and avoiding production disruptions across its network.

"We will also look to maximize the value generation from our existing assets, reduce cost and further strengthen our competitiveness, such as our project to modernize the paper

machine at Kénogami to produce high-grade SC-A+ paper," he said.

--by rmercante@fastmarkets.com

US 2019 box shipments flat

»» continued from page 2

Market contacts expect continued growth from gradually increased buying of consumer goods and food online in the next few years, as well as a return this year to more "normal" stocking by box buyers. Last year, contacts told of customers holding less inventory, citing the US/China trade war and other economic/political uncertainty. They also saw a better overall trade condition in 2020 that could benefit American consumers, citing the redo of the North American Free Trade Agreement and the phase-one deal involving the US and China. Some even saw a presidential election year as a benefit for the overall general economy, and ultimately positive government monetization policy, job growth, and consumer spending.

Boxmakers in the last two months told P&PW that they expected 0-1% growth in volume in 2020.

US corrugated box shipment full-year totals

(Annual shipments in billion ft².)

		% chg. YOY
2020	396.8 billion	1.1%
2019	392.6 billion	0.0%
2018	392.5 billion	1.7%
2017	386.0 billion	2.5%
2016	376.4 billion	2.1%
2015	368.6 billion	1.2%
2014	364.3 billion	1.2%
2013	359.8 billion	0.0%

Notes: 2020 is an estimate by Fastmarkets RISI.
Source: Fibre Box Association, Fastmarkets RISI.

Ending the flat shipment year in 2019, December US corrugated box shipments were negatively affected by a mid-week Christmas and, even with claimed holiday demand pickup from e-commerce, ended the year with the lowest per-day shipment total of second-half 2019 and a total that was 12.6% underneath the second-half's top volume month in October.

December's actual shipments were 31.260 billion ft², which were 4.4% better than December 2018 shipments of 29.935 billion ft². The 4.4% increase occurred because the Fibre Box Association (FBA) counted two more shipping days in December 2019 than in December 2018. On an average-week basis, December 2019 shipments averaged 7.8 billion ft², down 6.0% compared with December 2018 shipments of 8.3 billion ft².

Flat shipments in 2019 vs 2018. Full-year 2019 actual shipments totaled 392.632 billion ft², mostly flat with 2018's 392.490 billion ft². There were 251 shipping days in 2019 and the same number in 2018, according to the FBA.

In December just before Christmas, US boxmakers told RISI's *PPI Pulp & Paper Week* during its survey that they expected slow to weak demand in the three days from Christmas, which fell on a Wednesday, through to Friday. They expected their plants to not run the last two days after Christmas unless demand was strong enough. Those three days alone represented as much as 15% of the 20 FBA shipping days in December.

With slower demand at the end of December, US box plants ended the year holding additional

containerboard inventory. Box plant inventory was 2.118 million ton, up from November's 2.014 million tons. Some boxmakers told *P&PW* that they hoped for a slight pickup in January from end-users needing to rebuild stock. It's unclear how much or if that occurred. Overall,

containerboard stock at box plants and containerboard mills was 2.524 million tons at yearend 2019, up by 107,000 tons from November's 2.417 million tons.

The flat shipments for 2019 followed five years of dramatic

US containerboard/box statistics – December 2019

(000 tons)

	Dec. 2019	% chg. yr ago	YTD 2019	% chg. 2018
Box shipments ¹	31.260	4.4%	392.632	0.0%
Average week		-6.0		0.0
Containerboard consumption	2,566	4.9	32,300	0.5
Production				
Linerboard	2,346	0.6	25,781	-5.1
Corrugating medium	976	4.3	11,060	1.8
Total containerboard	3,323	1.6	36,841	-3.7
Exports/imports				
Linerboard exports	442	8.8	4,073	-14.8
Containerboard imports	111	8.8	1,341	-7.0
Operating rates (%)	Dec. 2019	Nov. 2019	YTD 2019	YTD 2018
Linerboard	93.9%	91.2%	90.0%	96.2%
Corrugating medium	95.7	97.2	95.4	96.6
Total containerboard	94.4	92.9	91.6	96.3
Containerboard inventories	Dec. 2019	Nov. 2019	Dec. 2018	Chg. (tons) prior month
Mill inventories	406	403	403	3
Box plant inventories	2,118	2,014	2,256	104
Total inventories	2,524	2,417	2,659	107

1. bsf=billion ft². 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

(000 tons)

	2019		2018		2017		2016	
	Tons	Week's Supply	Tons	Week's Supply	Tons	Week's supply	Tons	Week's supply
December	2,524	3.9	2,659	3.9	2,379	3.6	2,302	3.5
November	2,417	3.6	2,561	3.9	2,335	3.5	2,222	3.5
October	2,395	3.7	2,482	3.9	2,350	3.6	2,252	3.6
September	2,499	3.8	2,588	3.9	2,379	3.6	2,392	3.8
August	2,555	4.0	2,566	4.1	2,393	3.8	2,394	3.9
July	2,580	3.9	2,564	4.1	2,421	3.7	2,476	4.0
June	2,489	3.8	2,381	3.8	2,323	3.7	2,426	4.0
May	2,587	4.0	2,408	3.8	2,334	3.7	2,578	4.3
April	2,613	4.1	2,437	3.8	2,389	3.7	2,661	4.3
March	2,734	4.4	2,428	3.9	2,359	3.9	2,672	4.5
February	2,781	4.5	2,396	3.9	2,492	4.2	2,725	4.7
January	2,835	4.5	2,500	4.1	2,467	4.0	2,786	4.6

n.a.=not available.

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

growth. Actual shipments grew by roughly 1.7%-1.8%/yr during the five years from 2014 to 2018, and boxmakers pointed to second-half 2017 and second-half 2018 as prominent demand periods because of e-commerce surges. No surge occurred this past holiday season, boxmakers told *P&PW*. Some were not surprised, citing Amazon's Frustration-Free-Packaging initiative aimed at smaller packaging.

The flat shipment year in 2019 also occurred as US real GDP grew by 2.1% in both the third and fourth quarters, and as US industrial manufacturing declined in the second quarter and the US government was embroiled in a trade war with China the last 16 months that has resulted in import duties in both countries.

As expected, second-half 2019 box shipments were superior to first-half volume, according to FBA statistics. Second-half 2019 actual shipments were 199.287 billion ft², 3% better than the first half's 193.345 billion, according to FBA statistics.

On a calendar-day basis average, December US actual shipments were 1.008 billion ft/day, the 12.6% less than October's 1.154 billion ft daily average. The December average also was 5% less than November's per calendar-day average. The best shipment months in the second half were July, August, and October.

Kraft liner export down 11.6%.
The flat box shipments combined with reduced exports of unbleached

kraft linerboard to reduce total US containerboard production by 1.4 million tons in 2019, vs the total in 2018. Production last year dropped to 36.84 million tons from 38.24 million in 2018, according to American Forest & Paper Association (AF&PA) figures. US containerboard consumption at US box plants increased up 0.5% at 32.3 million tons last year. But exports of kraft linerboard were down 11.6% and by more than 500,000 tonnes at 3.84 million tonnes (compared with the 2018 total), according to trade data from the AF&PA and US government.

The exports were down by the 503,607 tonnes to 3.84 million tonnes compared with 2018's total of 4.343 million tonnes. The 503,607 tonnes equaled 554,000 short tons.

US kraft linerboard export shipments by region

(Year-to-date figures in metric tonnes through Dec. 2019.)

Through Dec. 2019

	2019 (000 tonnes)	% chg yr ago
Europe	640	-16.1%
Latin America ¹	1,808	-9.6
Mexico	782	-0.7
Canada	276	15.0
Asia ²	507	-13.9
China	459	-18.2
Other	150	-21.1
TOTAL	3,840	-11.6%

1. Includes Mexico. 2. Excludes China

Source: American Forest & Paper Association, US Bureau of Census.

For the US's largest kraft linerboard export markets, shipments to Mexico were down 0.7% at 781,598 tonnes for full-year 2019; shipments to China were down 18.2% at 459,036 tonnes; and shipments to Italy were down 1.8% at 282,093 tonnes. US shipments grew by 15% last year to Canada totaling 276,186 tonnes. Canada was the US's fourth largest export destination last year.

KLB tariff in China. China's government on Feb. 6 announced that a special import tariff implemented on Sept. 1 will be cut from 10% to 5% and 5% to 2.5% effective Feb. 14, an industry contact told *P&PW* said on Feb. 7. However, kraft linerboard is "not in the tariff reduction list," the contact said.

• **DS Smith North America** opened its new corrugated box plant in Lebanon, IN, in November, and the

Top US kraft linerboard country destinations

		000 tonnes	% chg. YTD
1	Mexico	782	-0.7%
2	China	459	-18.2
3	Italy	282	-1.8
4	Canada	276	15.0
5	Guatemala	237	-7.3
6	Costa Rica	179	-10.6
7	Ecuador	154	-21.1
8	Spain	133	-18.6
9	Turkey	107	-38.5
10	Dominican Rep.	96	14.0%

YTD: year-to-date.

Source: US trade statistics.

company remains quite interested in another plant in the USA and growing its US business. "We want to build a much bigger position in the US," CEO Miles Roberts told analysts on Dec. 5. "We know where we'll go (with another corrugated plant), how we'll go, with which customers will go, but today we focus on really getting that (Lebanon) factory up and running properly. Not just because of the return on capital of that (but) because it makes a statement into the US. It is giving our customers what they've told us they want and we want to prove that. ... I think we'll know over the next six months how well that's really come on and then I think that will unlock further opportunity for us in the US." Roberts added: "The stability of the market in the US has been much better than Europe and we need more exposure there. It's just because we haven't matured our model there. That's what it's about. It's just a timing issue (as to) how we can get hold of the greater margins in the US with our big customers who are currently giving us more work there. ... So I think: let's give it six months and I think we'll be talking then about our further opportunities. It's really very exciting. Very exciting indeed."

--by grudder@fastmarkets.com

Domtar reports 4Q downtime

»» continued from page 2

at the Ashdown, AR, mill and a 34,000 tons/yr UFS machine at the Port Huron, MI, mill. Williams said Domtar may increase pulp production at Ashdown.

The Ashdown mill is still running one 200,000 tons/yr UFS paper machine; the other machine

closed last year is being converted to make bleached softwood kraft and fluff pulp. The company also has previously mentioned the possibility that it might enter the containerboard market via the conversion of a paper machine.

"We are driven by the market we operate, which is UFS, so anything we think about repurposing [capacity] has to be seen in the context of how that market is performing. Obviously, we took a lot of downtime, we closed capacity, and in 2020 we feel supply/demand balance will be much better. But looking at conversions, we still see the optionality both in pulp and in containerboard," Williams explained.

The executive added that those options depend on the marketplaces Domtar wants to be in and reinforced that they want to keep their paper mills full, even if it means changing paper grades.

2019 results. Commenting on Domtar's full-year results, Williams pointed out that the company had strong cash flow generation and its solid financial position allowed it to continue to reward shareholders with a high free cash flow payout ratio, while strategically investing in its assets.

He added that "profitability in paper improved year-over-year despite challenging market conditions."

As for the fourth quarter, Williams stated: "Our results in the paper business fell short of our expectations. Shipments remained weak in the quarter due to seasonally slower demand and some customer destocking. As a result, we increased market-related downtime to better

balance our supply with our customer demand and reduce our inventory to more optimal levels."

Domtar reduced UFS inventories by 36,000 tons from October to December. Paper revenues were down 8% year-over-year as shipments declined by 9% in the period. Domtar's UFS prices in the fourth quarter were \$19/ton higher than a year ago and its EBITDA increased 30%.

2020 outlook. For 2020, Williams expect Domtar's paper volumes to trend with market demand, while pulp volumes should increase due to higher pulp productivity at their Espanola, ON, and Ashdown mills. Fastmarkets RISI forecasts a 4% decline in UFS consumption in 2020; in 2019, North American UFS consumption fell by nearly 8%

"With supply/demand in a good shape, this [UFS] is a profitable enterprise, an attractive place to be in terms of EBITDA you can generate. We have a strong position in this market as market leader, and because of that we've been able to differentiate our offer to our customer base. We have very interesting choices we can make in a world of capital intensity; we can make good money of those assets. We have the challenge of managing this declining market, but we have growth in pulp and personal care, so I feel good about that," Williams said.

Williams said that UFS demand in January was good.

"The inventory bubble that was built around the dramatic closure of G-P (Georgia-Pacific at Port Hudson, LA) capacity last year is now largely over. If you look at how much imports reduced, you will see we are back to a more balanced supply/demand market," he said.

• Williams confirmed market rumors of a possible **new UFS trade case**. He said a trade association is studying imports coming into the USA from Thailand, Finland, Germany, South Korea, Colombia, and Argentina. Those countries annually export about 200-230,000 tons to the USA, according to Williams. "But that [study] is in very early stages," he said.

--by rmercante@fastmarkets.com

Kraft linerboard

WestRock completes permanent shut of some kraft linerboard capacity at North Charleston mill

WestRock in early January permanently shut a machine and 288,000 tons/yr of unbleached kraft linerboard capacity at its North Charleston, SC, mill, company leaders confirmed.

The shutdown goes with WestRock's reconfiguration plan for the mill, which puts greater operational focus in terms of capacity on its two "high-value, differentiated" DuraSorb and KraftPak products, according to company leaders. Previously, the mill with three machines had kraft linerboard as its slightly-majority grade.

Estimates put the mill's annual capacity today at 605,000 tons/yr, with more than 60% for making the unbleached and uncoated folding carton kraft paper KraftPak, and the saturating kraft paper DuraSorb, which is used for decorative laminate and industrial uses. WestRock continues to make kraft linerboard at the mill.

The machine that was shut last month was the No. 2, a Beloit version that was installed in 1947, according to Fastmarkets RISI Mill Intelligence.

In addition, WestRock in the first half of this year is to start up a new kraft linerboard machine in Florence, SC. The 710,000 tons/yr PM will replace three smaller machines. The Florence mill is about 125 miles from North Charleston. WestRock acquired the North Charleston mill from KapStone Paper and Packaging in 2018.

WestRock expects the reconfiguration at North Charleston will increase its annual EBITDA by \$40 million by yearend.

The North Charleston shutdown comes eight months into a three-year 3.5 million tons/yr containerboard capacity increase that is projected in the USA, based on announced projects. From mid-2019 through yearend 2020, about half the 3.5 million is expected to be started up, based on company announcements and Fastmarkets RISI's *PPI Pulp & Paper Week* research. The WestRock shut at North Charleston reduces the 1.7 million to an estimated 1.4 million tons/yr of additional capacity by the end of this year in the USA.

--by grudder@fastmarkets.com

Containerboard

Smurfit Kappa announces, as did Mondi, DS Smith, Hamburger, on a recycled liner price increase

Smurfit Kappa Group announced a Euro 60/tonne price increase this week for its recycled containerboard in Europe,

effective immediately, the company reported on Feb. 5. Mondi, DS Smith, Hamburger and Schöllerhammer also announced recycled containerboard increases, with Mondi as the first.

There were no reports as of Feb. 5 on any others out with increases, but contacts claimed Progroup and Palm were likely to announce increases. Some of the increases will be effective Mar. 1.

US unbleached kraft linerboard producers also have told some customers of a Euro 20/tonne increase for March business in southern Europe (Italy and Spain), Fastmarkets RISI's *PPI Pulp & Paper Week* reported on Jan. 31. This would be the first US increase in southern Europe in nearly two years.

In its earnings report this week, Smurfit Kappa CEO Tony Smurfit said the company would see how the recycled containerboard increase proceeds before deciding on whether to announce an increase for virgin containerboard.

Smurfit did describe the kraft linerboard market in Europe as "extremely tight," and noted production shortfalls this month at the company's kraft linerboard mills in Sweden along with a strike in Finland that reduced kraft linerboard production.

"We are scrambling to get tonnes and we can't get them," Smurfit told analysts on Feb. 5.

About one-fifth of Smurfit Kappa's full-year revenue came from its business in the Americas as did the company's overall EBITDA. Smurfit Kappa's Americas business spans from the US and Mexico to South America.

"The Americas region continued to perform well, delivering an increased EBITDA margin of 17.5% up from 15.7% in 2018," Smurfit said in a company report. "Our three main countries of Colombia, Mexico and the US had strong financial performances with demand in Colombia particularly strong."

SKG US EBITDA margin rises.

Total Americas business revenue in 2019 was Euro 2.054 billion, up 1.5% compared with revenue in 2018 for the Americas business, and EBITDA was Euro 360 million, up 13.6%. Sales for the company in Mexico increased 10.6% to Euro 878 million, the company said. US EBITDA and EBITDA margin "continued to improve year-on-year due to a strong operational performance in our mill system and lower recovered fiber costs," the company said. The company's US mill is in Forney, TX.

Colombia, Mexico, and the USA delivered about 84% of the Americas' earnings, according to Smurfit Kappa.

"The increasing focus on sustainable packaging solutions, together with the group's unique Pan-American offering, have continued to help strengthen relationships and drive growth in the region," the company said.

--by grudder@fastmarkets.com

Corporate strategy

Sonoco names veteran company exec Coker as new CEO as Tiede retires; 4Q guidance lowered

Sonoco this week made a major leadership change and

also announced lower fourth-quarter 2019 earnings guidance related to asset impairments, restructuring actions, non-operating pension costs, and acquisition-related expenses.

The company on Feb. 3 said its board of directors unanimously elected R. Howard Coker, a 35-year company veteran and Sr VP of its Paper/Industrial Converted Products segment, as its new pres/CEO, effective immediately.

Coker succeeds Robert Tiede, who has elected to retire from Sonoco after being pres/CEO for less than two years. Coker, 57, was also named to the board of directors, replacing Tiede.

"I'm honored by the confidence the board has shown in me and embrace this opportunity," Coker said. "I grew up in this company, so I am deeply connected to Sonoco, its culture and all the people who have helped build it into what it is today."

Tiede, 61, became Sonoco's CEO in April 2018 after he was Exec VP and COO from 2016, in addition to other senior leadership roles throughout his career with the company.

Hartsville native. A native of Sonoco's headquarters location in Hartsville, SC, Coker joined the company in 1985 after graduating from Wofford College with a BA in business administration. He received an MBA from Wake Forest University in 1990.

He has held a number of sr leadership positions in Sonoco businesses serving consumer and industrial markets. Prior to being named pres/CEO, he was Sr VP, Global Paper/Industrial

Converted Products, where he led all of Sonoco's Industrial-related business, including Industrial Europe/Australia/New Zealand; Tubes and Cores, US and Canada; Paper/Adhesives, US and Canada; Sonoco Recycling; Conitex/Asia; Reels; and Industrial Latin America and Brazil.

4Q 2019 update. The company said it expects fourth-quarter 2019 sales to be about \$1.3 billion and GAAP net income attributable to Sonoco to be between \$0.43 and \$0.45 per diluted share, from \$1.33 billion implied earlier. The quarterly results are expected to include net after-tax charges of about \$0.31 per diluted share. Sonoco previously provided GAAP earnings guidance of \$0.54 to \$0.64 per diluted share, which did not fully anticipate the final amount of restructuring and acquisition-related costs as well as certain non-cash asset impairment charges incurred in the fourth quarter.

Base net income attributable to Sonoco for the fourth quarter is expected to be between \$0.74 and \$0.76 per diluted share from \$0.72 to \$0.76 per diluted share.

"We aren't surprised by the sales shortfall given all the weak economic data we've seen and weak 4Q earnings reports," commented KeyBanc analyst Adam Josephson.

Sonoco's third-quarter 2019 sales were \$1.35 billion, down 0.7% from a year earlier.

Sonoco has expanded in plastic consumer packaging and in its industrial paperboard business. Recent acquisitions include Thermoform Engineered Quality

for \$187 million, and Corenso America for \$110 million, in 2019; its remaining 70% stake in Conitex for \$133 million, and Highland Packaging Solutions for \$150 million, in 2018; and Clear Lam Packaging for \$170 million, and Peninsula Packaging for \$230 million, in 2017.

Sonoco will release its fourth-quarter and full-year 2019 financial results before the market opens on Feb. 13.

• **Sonoco's Alloyd Div.** introduced its first, all-paper retail blister package, EnviroSense PaperBlister, that it identified as an alternative to thermoformed plastic blister packages.

--by jmclaren@fastmarkets.com

News briefs

Industry analyst **Chip Dillon** retired on Feb. 5 from **Vertical Research Partners (VRP)** after 34 years as a Wall Street analyst. VRP, which is in its 10th year, also ceased coverage of packaging and forest products companies. "I look forward to traveling with Margaret to visit our five adult children spread across the US as well as working with nonprofits we are involved with," Dillon said in his last research note. Dillon joined VRP as a partner in 2011 after positions with **JP Morgan** on the buy-side, as well as with **First Manhattan, Salomon Brothers/Citigroup, Credit Suisse**, and VRP on the sell-side. "When I picked up the space in the spring of 1987, most sub-

segments of the Packaging and Forest Products industry were highly-fragmented and prone to boom and bust cycles," Dillon said. "The busts would typically be drawn out periods of below cost-of-capital returns caused by overcapacity followed by shorter bursts of strong profits (that would inevitably succumb to the next round of over expansion)." "Today, the industry is in a much better place, even if certain sub-segments (paper) are in secular decline," Dillon said. "The improvement in the industry's structure is captured in **International Paper's (IP)** recent slide presentation (issued with 4Q19 results) showing 10-straight years of producing above the cost-of-capital returns. Prior to recent years, such a performance

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was unthinkable – yet IP’s stock price performance shows the market remains quite skeptical.” Dillon added: “Please accept my heartfelt thanks to all in the investment community and the industry that have made this a wonderful career. While the Street is constantly changing, it offers those willing to work hard and think independently the opportunity to grow and succeed.”... **Central National Gottesman (CNG)’s Spicers Canada** div acquired **All Graphic Supplies**, expanding its position in the distribution of wide format and digital equipment, the company announced this week. Privately-owned and headquartered in Mississauga, ON, All Graphic Supplies operates seven locations across Canada and the Caribbean (Trinidad and Tobago), and since 1992 has sold products to multiple printing segments, including sign graphics, textiles, digital label, and industrial ultraviolet (UV), CNG said... The US **Environmental Protection Agency** said it lodged an amended consent decree with **Georgia-Pacific’s (GP)** chemicals and consumer operation in Crossett, AR, that is to resolve alleged violations of the Clean Air Act. The amended decree revises the terms of an earlier one lodged in December 2018. Upon approval by the US District Court, GP would pay a \$600,000 civil penalty and perform alternative supplemental environmental projects (SEPs) “that enhance the emergency response capabilities in the local community and reduce the potential for harmful air emissions from the facilities.” The SEPs require GP to replace their vacuum pump system to collect waste gases, construct a storage tank to reduce the risk

area of a hazardous air pollutant in the event of a release, and purchase a long-ladder fire truck for the city. GP would spend at least another \$1.8 million for the projects at the tissue paper mill, local press reported. The company had already done a \$2.9 million filter project that was written into the settlement. GP operates tissue paper machines and converting line complex at Crossett... **US Postal Service (USPS)** delivery of packages declined 4.6% and by 84 million pieces in the USPS’s fiscal first quarter of 2019 from October through December (vs the pieces delivered in first-quarter 2018). However, revenue for the USPS from package deliveries increased by \$146 million, or 2.3%. USPS First-Class Mail volume declined 571 million pieces, or 3.8%, in its fiscal first quarter of 2019 and marketing mail volume declined 1.7 billion pieces, or 7.9%. “The majority of volume declines in marketing mail were due to high levels of political and election mail in October and November of 2018, that were not replicated

during the same period in 2019,” the USPS said in its release. The USPS reported total revenue of \$19.4 billion in the quarter, a 1.8% decrease of \$363 million... **Amazon** said it will open its first fulfillment center in Iowa in the city of Bondurant in late 2020... **Costco Wholesale** reported an 8% increase in net sales to \$11.57 billion in January, which for the company’s calendar schedule lasts officially to Feb. 2.

People news

WestRock said that former **Colgate-Palmolive Company** executive Suzan Harrison was elected to the company’s board of directors. During 36 years at Colgate-Palmolive, Harrison was pres of Global Oral Care, pres of Hill’s Pet Nutrition North America, a VP for Marketing for Colgate US, and VP and general mgr of Colgate Oral Pharmaceuticals, North America, and Europe. Harrison is also an **Archer Daniels Midland Company** board director.

PPI Pulp & Paper Week

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Editorial Staff

Greg Rudder, Managing Editor, containerboard-kraft paper, tissue grudder@fastmarkets.com; 628.232.0438
 James McLaren, Sr. News Editor, boxboard jmcclaren@fastmarkets.com; 628.232.0312
 Bryan Smith, Deputy Editor, global pulp bryan.smith@fastmarkets.com; 628.232.0446
 Renata Mercante, Sr. News Editor, printing and writing paper rmercante@fastmarkets.com; 315.791.4467
 Megan Workman, Editor/Price Reporter, recovered paper mworkman@fastmarkets.com; 212.224.3934
 Teresa Wann, Director of Production twann@fastmarkets.com; 628.232.0477
 Paul Blackwood, Digital Publishing Specialist pblackwood@fastmarkets.com; 781.734.8935

Editorial office

315 Montgomery St., 10th floor, #1012, San Francisco, CA 94104, fax 781.734.8998.

Subscriptions and customer service

Call 866.271.8525 (US & Canada) or 32.2.536.0748 (outside the US & Canada); visit risi.com/ppw (new subscriptions); email info.risi@fastmarkets.com; fax 781.734.8998, or mail to PPI Pulp & Paper Week, 1 Van de Graaff Drive, 6th Floor, Burlington, Massachusetts, 01803-5176 USA.

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