



# PULP & PAPER

## CURRENT TRENDS

- The decision to implement a tariff on Canadian uncoated groundwood paper was reversed in late 2018; however, a 25% tariff still applies to imports of many Chinese paper products.
- North American Pulp Prices have been falling throughout the course of 2019, based on weak demand for newsprint as well as reduced demand and pricing for containerboard products.
- Depressed global demand for U.S. recovered fiber drove lower pricing in early November 2019, with decreasing export prices on every grade.
- Demand for U.S. recovered fiber is down from China, India, Indonesia, and Mexico for 2019, leading to supply exceeding demand domestically and resulting in lower prices year over year for grades including old corrugated containers.

## PROJECTED VALUES (12-MONTH OUTLOOK)



## APPROXIMATE NET RECOVERY ON COST

**55-65%**  
distributors

**50-60%**  
paper mills

**55-65%**  
packaging

## PRODUCER PRICE INDEX FOR PULP, PAPER, AND ALLIED PRODUCTS: WOOD PULP



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**PULP AND RECOVERED FIBER DEMAND AND PRICING DOWN:** North American pulp markets declined in October 2019 due to the ongoing push from U.S. buyers to drop contract prices closer to the net levels seen in domestic spot markets. Prices over the course of 2019 have dropped from a high of \$760.00 to \$800.00 per metric ton (MT) in January to \$470.00 to \$510.00 per MT in November (Bleached Hardwood Kraft Pulp – Eastern U.S.). There is sentiment in the market that a floor may have been reached following further weakness in the fall after hurricane-forced pulp mill downtime in the southern United States, but that has yet to be proven.

Depressed global demand for U.S. recovered fiber drove lower pricing into early November of 2019, with market seeing lower prices on the export side for every grade, including double-sorted old corrugated containers (DSOCC). The price for No. 12 old corrugated containers (OCC) decreased by \$25.00 per ton free alongside ship (FAS) on both the east and west coasts, with some No. 12 grocery tons in the east selling at No. 11 levels, based on supplier feedback.

With tons of additional export product remaining in the United States, domestic OCC prices decreased in the Northeast and West, as supply far exceeded demand. Industry data indicates that the U.S. national bulk grade average price was \$22.00 per ton as of early November 2019 compared to \$30.00 per ton in November 2008. China's pullback in demand as well as lower demand from India, Indonesia, and Mexico is making it more difficult for suppliers to confirm orders. Industry operators have recently indicated that demand for China has reached capacity for this year, indicating a much slower winter 2019 season for paper recycling this year as compared to 2018.

Paper industry capacity utilization has dipped in 2019 compared to 2018 levels, with the October 2019 Federal Reserve capacity utilization for U.S.-based paper mills running at 84.1 percent of capacity, versus 87.1 percent in the October 2018. Historically, these levels of utilization are fairly robust, running above the trailing 20 year utilization rate of 83.3 percent.

**TARIFFS CONTINUE ON CHINESE PAPER IMPORTS:** In late 2018 the U.S. International Trade Commission reversed a Trump administration decision to impose heavy tariffs on paper products imported into the United States from Canada. The tariffs, which totaled up to 20 percent, would have impacted uncoated groundwood paper, which is the grade used to make paper for both books and newsprint. Not so fortunate were importers of paper products from China, which saw tariffs raised in May 2019 through the Trump administration's executive action through the section 232 tariff process. Many categories of paper were impacted when the Trump administration increased tariffs from

10 percent to 25 percent on \$200 billion worth of Chinese goods, further escalating the U.S.-China trade war that began in early 2018. Categories hit with tariffs include wood pulp products as well as imported newsprint, writing paper, carbon paper, self-adhesive paper, cigarette paper, envelopes, paper tablecloths and handkerchiefs, folders, and even toilet paper.

*The New York Times* recently noted that tariffs are hitting consumers in two ways. Businesses that were already passing on the lower cost of the 10 percent tariffs will now have to pass on a higher cost. Conversely, businesses that previously tried to shield customers from the lower tariffs will find it difficult to avoid passing some (or all) of the 25 percent tariffs on to American consumers of these paper products. Lenders should expect it to take approximately six months for the higher tariffs to work through the paper industry and be fully included in most inventories' cost basis, meaning most should be fully realized as of the end of the first quarter of 2020.

**PAPER TYPES AND CHARACTERISTICS:** There are multiple types and grades of paper for a variety of uses ranging from newsprint to fine stationery. Grades are reflective of manufacturing cost and subsequent wholesale and retail pricing, with more refined paper types at the higher end.

Generally speaking, if paper is pre-colored for a specific purpose, it will have a lower recovery value than plain white paper. Following are the four general categories of paper on the market.

- Groundwood paper, such as newsprint, is made from mechanically ground wood pulp that contains impurities left from the tree.
- Free sheet paper is made from pulp that is heated and chemically treated to leave it free of impurities.
- Text (derived from texture) paper is free sheet paper that comes in a wide variety of colors and surface patterns. There are many kinds of free sheet paper; all are created to appeal to graphic designers and others who utilize paper to create unique looks for brochures, presentation folders, and other printed collateral.
- Uncoated book paper is general-purpose paper used for everyday printing. It is widely used in publishing and direct-mail advertising. This type of paper can be rough- or smooth-surfaced, and comes in a variety of colors, although less than for text paper. The terms "uncoated book" and "offset" are used interchangeably to denote this category of paper.

### The Expert: Alex Sutton



Alex Sutton oversees the production of Gordon Brothers' Industrial inventory valuations. With over 22 years of valuation and liquidation experience, he has directed inventory appraisals across a wide range of industries including aerospace, chemicals, food processing, and building products. Read his full bio [here](#)



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