

FOREST PRODUCTS MARKETPLACE:

Paper Industry Faces Challenges in the Northeast

By Peter Coutu

The paper industry in the northeastern United States is facing challenges on multiple fronts. Wood fiber and energy are two of the highest costs in paper production, and Northeast mills have felt pressure from both this winter season. Procurement managers have struggled to build fiber inventories due to challenging weather conditions and a lack of logging capacity available to meet demand during the winter inventory build-up.

Colder-than-average temperatures and above-average snowfall totals in the Northeast have challenged logging production during the 2013–2014 winter season. Because frozen ground presents fewer environmental concerns, the winter

were about 10 days below what they were in December 2012. Mills were not able to maintain the expected increase in hardwood inventory seen in the fall through the end of the year. Softwood inventories were modestly lower systemwide in fourth quarter 2013 versus fourth quarter 2012 as well.

Although this past winter season was colder and snowier than average, logging production should have been able to make up for the shortfall in inventories brought on by an extended spring last year. However, a lack of logging capacity available to build inventory when supply-chain disruptions occur has contributed to ongoing supply issues.

In a sense, the diminished capacity to meet demand surges in the wood fiber

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season is typically a time of high logging production in the North as mills look to rebuild the inventory they work down during the wet spring.

Inventory data out of the Lake States region provide a reasonable comparative for inventories in the Northeast, and Forest2Market data for the Lake States show hardwood inventories in December 2013

supply chain mirrors that seen in the energy supply chain. Rising energy costs — a result of cold winter temperatures and a lack of pipeline capacity from northern New York to New England — have hurt the paper industry. Early this year, Great Northern Paper and Verso Paper both cited the high cost of natural gas when they stopped production at mills in East

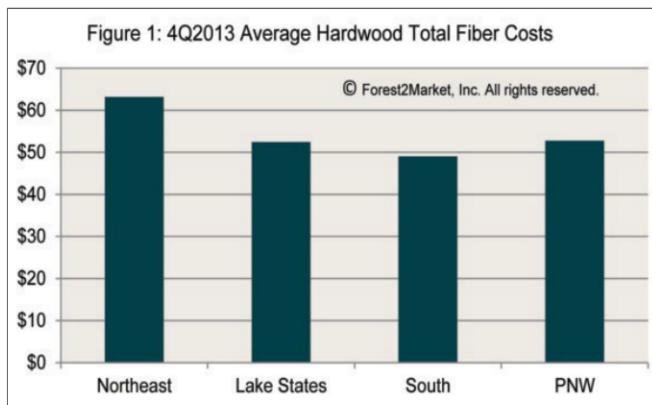


Figure 1. Data from Forest2Market's Delivered Price Benchmark.

Millinocket and Bucksport, Maine, respectively. Great Northern Paper stopped production for 16 weeks in late January and has since laid off more than 200 employees. Verso's Bucksport mill shut down for two weeks.

Lincoln Pulp and Tissue has reduced its operating capacity since a recovery boiler explosion at its mill in early November 2013. That explosion has reportedly led the mill to purchase 4,000–5,000 metric tons of (mostly hardwood) pulp per month to replace virgin fiber.

Looking ahead to future winter seasons, there is some hope that natural gas supplies will improve. It has been reported that government officials are collaborating on ways they can add natural gas–pipeline capacity to the region, though improvements are unlikely to be felt prior to 2016.

As the energy supply chain adjusts to meet demand, mills are still left to contend with increasing fiber costs brought on by a rise in competition for a limited amount of available fiber. In the Northeast, where

ages were more than \$4 per ton higher than the Lake States, more than \$16 per ton higher than the South, and more than \$8 per ton higher than the Pacific Northwest (see Figure 2).

Forest2Market's analysis shows that the Northeast's higher fiber costs are generally showing up in the form of higher stumpage costs, where they are almost 50 percent higher than the Lake States. While landowners benefit from the higher-value stumpage, rising costs make it more difficult for the pulp and paper industry to remain competitive in the face of growing competition domestically and globally.

The paper industry in the Northeast has responded to many challenges since it revolutionized papermaking in the early 1900s. Modern-day increases in fiber and energy costs, the structural decline in the white-paper segment of the industry, and falling paper prices present their own unique set of challenges. At the same time, the industry struggles to remain competi-

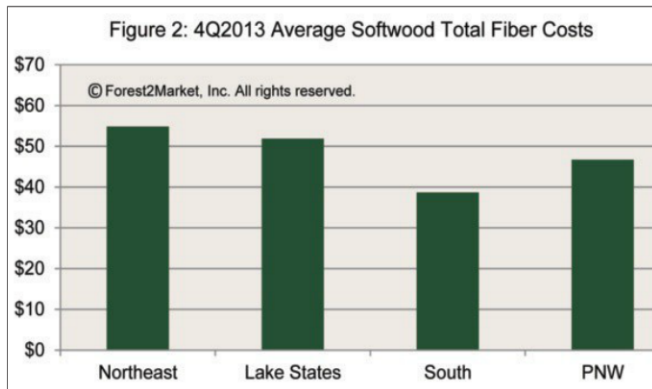


Figure 2. Softwood fiber costs in the fourth quarter of 2013 were higher in the Northeast than in other areas of the United States, according to Forest2Market.

the cost of fiber is well above that in other regions of the country, mills have felt this impact the most.

4Q 2013 Fiber Costs


According to Forest2Market's Delivered Price Benchmark, the Northeast average hardwood total fiber cost was more than \$10 per ton higher than the average hardwood total fiber cost in the Lake States and the Pacific Northwest and more than \$14 per ton higher than the average in the South. On average, prices are up about 2.4 percent since August 2013 (see Figure 1).

Softwood total fiber costs were also higher in the Northeast than in other areas of the United States. Fourth quarter aver-

age in the face of growing domestic and global competition.

To overcome these challenges, the entire industry — landowners and land managers, suppliers, and mills — need to pay close attention to just how uncompetitive the industry has become and work together on solutions that will enable a healthy industry to move forward in the Northeast.

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