

Q3 PAPER OUTLOOK -- Paper Thin Market

BY MARK SMITH

On paper, the interplay of supply and demand looks like a straightforward model for the forces that shape a **market**. When it comes to predicting the outlook for paper, though, lately it seems as if one might be better off reading tea leaves.

Paper makers have gone to great lengths in a collective attempt to rationalize the supply. Unfortunately, the demand side of the equation hasn't performed in the way that was hoped. The industry also has been buffeted by developments beyond any company's control.

Quarterly financial reports from major manufacturers have included a mixed bag of earning declines, losses and slight improvements, depending on the company and whether one compares year-to-year or successive quarter results. They've also offered pessimistic projections for the remainder of the year, which is good and bad news for printers. While their costs may not increase, or at least not by as much as some feared, the outlook for growth in print sales is sluggish at best.

Stora Enso's CEO, Jukka Harmala, warned that worldwide demand for paper would likely be down for the rest of the year because of overproduction and declining demand in Europe. Harmala holds out some hope for a turnaround in the U.S. **market**, driven by a recovery in advertising spending with the war in Iraq coming to a close.

International Paper pointed to higher energy and fiber costs, as well as weather-related operating problems at U.S. mills, as reasons for the disappointing performance of its Printing Papers operation. Bowater Inc. also cited higher energy prices, along with the cost of converting a South Carolina plant to produce coated papers, in explaining its quarterly loss.

Overall, the Pulp & Paper Products Council reports that North American printing and writing paper demand actually increased by 3.3 percent in the first quarter of 2003. It says mill inventories closed the quarter at 2.6 million tons, having increased by 72,000 tons in a month.

Europe-based Foex Indexes Ltd., an independent publisher of pulp and paper price indexes, says "small rays of hope can be detected in the U.S., with consumption and production numbers up from early 2002." The **market** research company claims several price increase attempts have had partial success, and it also sees the end of the war in Iraq providing some relief in the U.S. advertising sector.

All things considered, "unsettled" might be the best way to describe the outlook for the paper **market**.

Stopping the Presses

A lack of solid information and price stability led Perry Judd's Inc. to suspend publication of its "The Paper Mill" quarterly customer newsletter, reports Bill Orndorff, vice president of materials management for the Waterloo, WI-based printing organization. The company hasn't issued a new edition since the fall of 2002.

"It's a matter of having information of good value to disseminate in the newsletter," Orndorff says. Given the sometimes crazy things going on with pricing, he doesn't see any point in making statements about the outlook in a quarterly publication. "We're dealing with **market** realities as they happen and now disseminating information to customers through other, more immediate, means," the printing exec says.

Perry Judd's customer base and capabilities dictate that he focus on web paper grades. In that segment, Orndorff says a recently announced bid to raise prices by \$3 a ton resulted in about 30 percent of the paper companies actually instituting the full increase and being able to hold it. Others backed down and instead tried to institute a \$1 or \$2 price increase, he notes.

"The day after the price increases were announced, you could still source spot work just as aggressively as you could three weeks before it was announced," the materials manager reveals.

Orndorff is hesitant to make any predictions about the outlook for paper, other than to say that he believes prices will remain stable throughout the summer and it will continue to mostly be a buyer's **market**. That's assuming buyers behave sensibly.

"Some people like to order paper early (re: hoard)," notes the printing exec. "We discourage that practice because there is a cost to doing business that way. I believe people who buy and use paper as they need it come out ahead of the game in the long run."

The opposite behavior is the only cause for availability concerns, Orndorff adds. "Some people have fallen into bad habits in the last two years. This includes waiting until the last minute to buy paper and expecting to turn it really quick. If people would follow the rule of allowing six to eight weeks for delivery of good paper, there is not going to be any problem with availability," he asserts.

The Perry Judd's exec has also noticed a broader change in print buyer behavior during the current downturn in the **market** and general economy. "In the past, when there was good paper availability at declining prices, buyers upgraded the stocks they used," he says. "Today, they continue to look for the best deal and frequently downgrade their choice of stocks. Publishers and catalogers used to try to come in on budget for the year, but now they want to come in under

budget. They're banking any paper savings rather than investing it in a stock upgrade."

Paper buyers looking for a bargain, or those just interested in adding a new source to their list, can find a growing volume of paper offered online. One of the more unique sources is Go2Paper, which enables printers (as well as traditional paper suppliers) to **market** their excess paper inventories to other printers and print buyers.

Sellers can utilize the Website's ([target=" blank">www.go2paper.com](http://www.go2paper.com)) general "Paper Marketplace" or establish a "Private Web" with password-controlled access. Mail-Well Inc. recently signed up for the latter option, joining such recognized names as RR Donnelley and Quebecor World.

"Go2Paper offers a great solution for us to maximize revenues from our excess paper," asserts Larry Catani, vice president of purchasing at Mail-Well. "We are looking forward to expanding this service to all of our printing plants, allowing them to free up working capital and provide faster inventory turns."

Earlier this year, the service was expanded to handle sheet grades in addition to web rolls. The stocks offered cover the standard grades, ranging from coated freesheet to uncoated groundwoods, reports Mike Conran, CEO of Go2Paper. "It's mostly prime paper and in great condition (i.e., still mill wrapped), but offered at a discount," he says.

Conran contends such resources will actually become more valuable to printers as the paper **market** tightens up.

Paper Goes Digital

In another development on the digital front, papiNet—the global electronic standards initiative of the paper and forest products industry—has released six additional business documents within the XML-based standard. The messages added include Product Quality, Product Performance, Complaint, Complaint Response, Planning and Availability. Additionally, the Information Request message has been updated to include the ability to request Availability information.

These messages join the existing 16-message suite that is designed to enable the paper industry and its customers to electronically communicate business transactions involved in the procurement, order fulfillment and inventory management processes. As an organization, papiNet reportedly will now focus its efforts on increasing implementation of the standard beyond the 80 companies currently using it. Complete documentation, along with the schemas for the published messages, is available on the papiNet Website, [target=" blank">www.papinet.org](http://www.papinet.org).

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