



Midterm Outlook for Canadian Pulp And Paper Sector: 2011-2020

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Natural Resources
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Recursos naturales
Canada

Canada 

Outline



- Structure and Recent Trends of the Canadian Pulp and Paper Sector
 - Global Trade Patterns, Trends, and Drivers
 - Outlook for Canadian Sector, with focus on mechanical graphic papers and pulp
-



Pulp and Paper Industry Establishments, Sales, Exports,
Employment Trends

STATE OF CANADIAN SECTOR

HIGHLIGHTS: 2000-2009

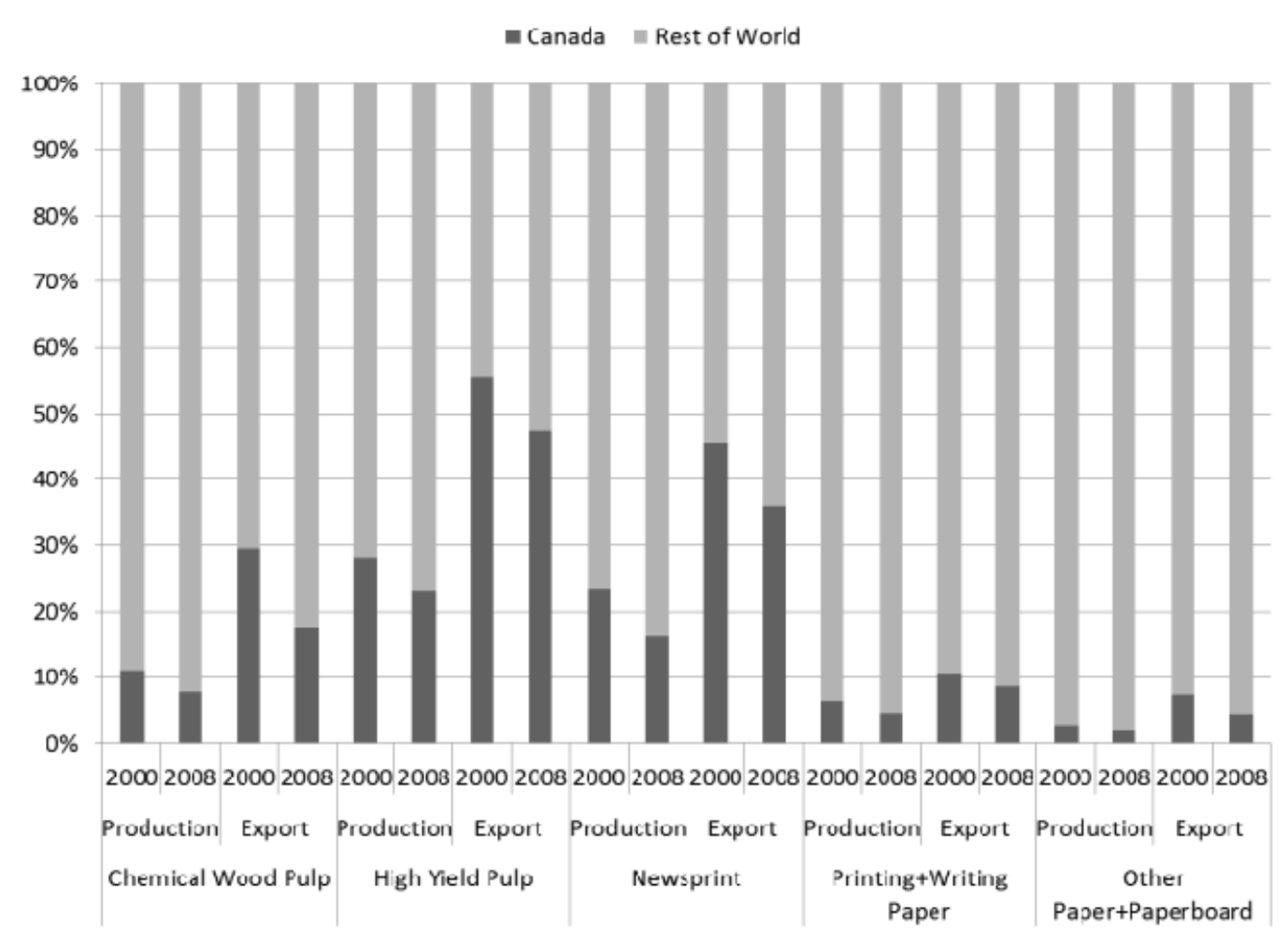


- Sales, Value Added, Number of Mills, Employment, Exports, have been in decline since 2000 - after steady growth in the 1990s
 - Recent Revival in pulp industry
 - Drivers: Waning US newsprint and pulp demand, Lower European demand for pulp, Increased Chinese demand for pulp
-

Canada's Place in the World



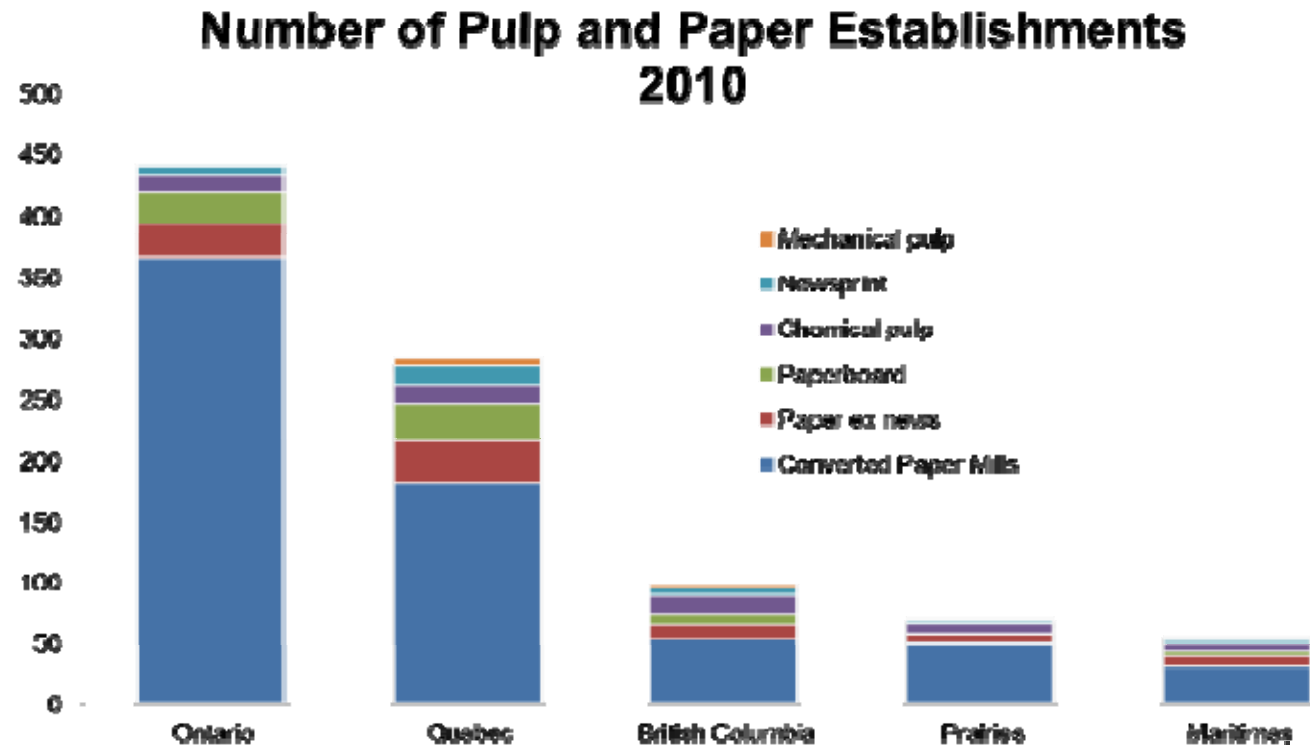
- Canada still a significant pulp and paper trading nation
- However market shares declining



The Canadian Sector



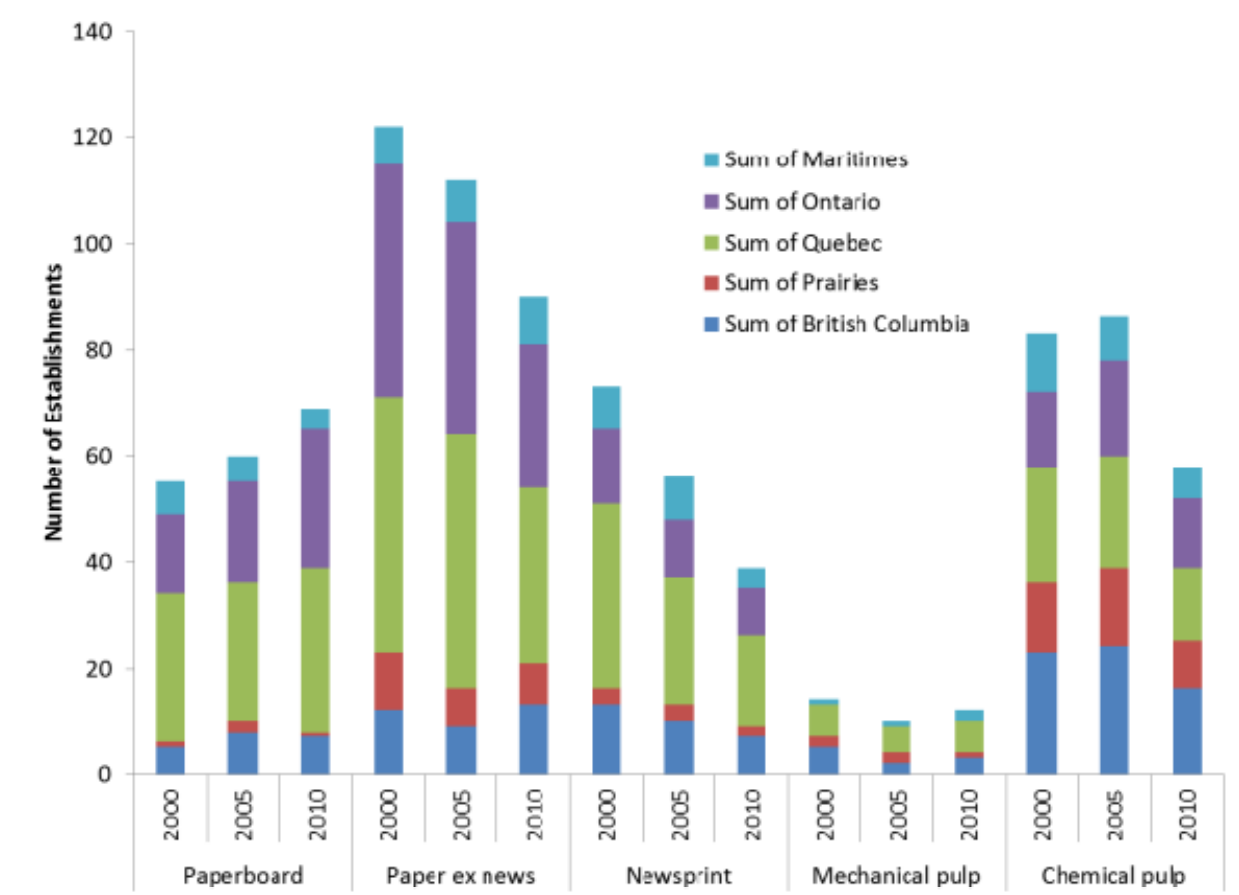
- Largest concentration of primary paper and pulp mills in Quebec
- Ontario has largest group of converted paper mills



Primary Mills: 2000 to 2010



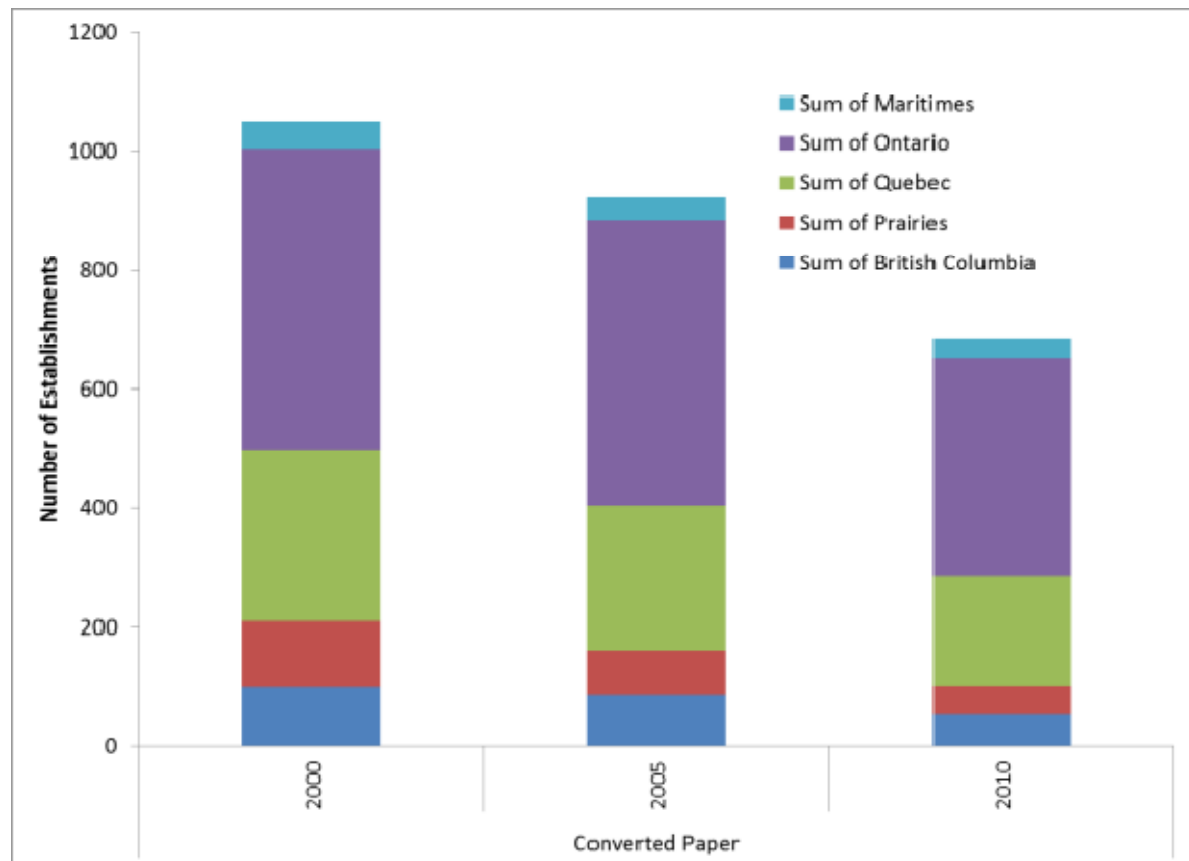
- Number of primary mills has decreased in all regions
- Number of paperboard mills bucked the trend



Converted Paper Mills: 2000 -2010



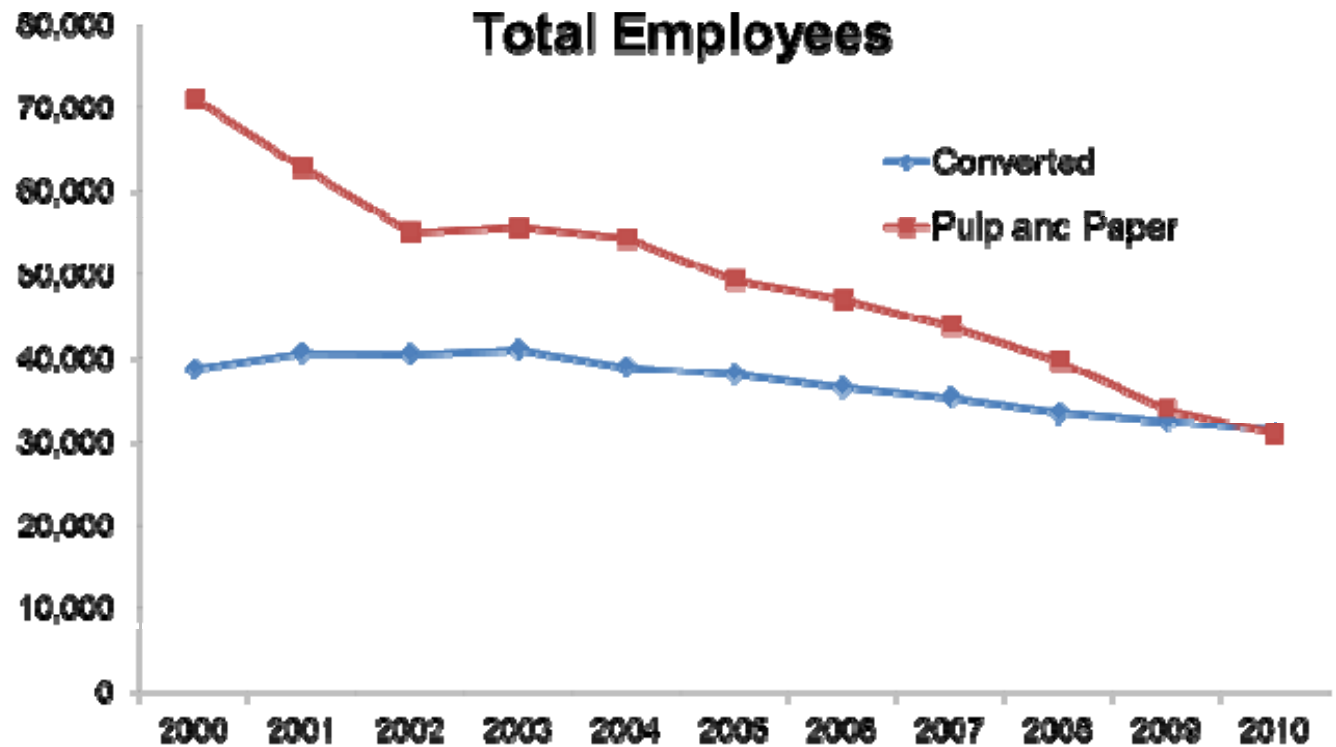
- Number of secondary paper mills decreased steadily over the decade
- All types of mills closed: box board to tissue to treated paper



Employment



- Largest employment losses within primary industry
- Despite large number of mill losses converted paper employment holding for now.

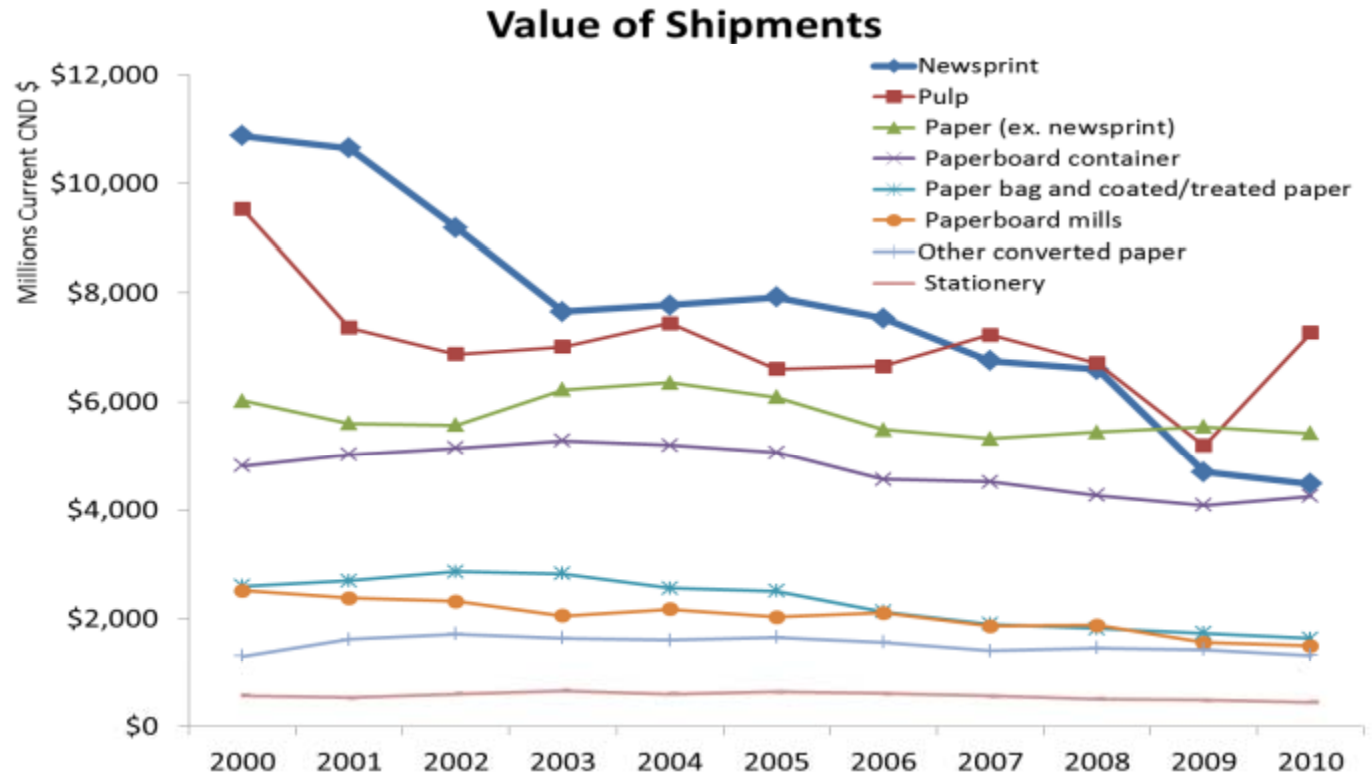


Source: Statistics Canada, Survey of Employment, Payrolls and Hours

Mill Shipment Trends



- Dramatic decrease in Newsprint
- Erratic pulp shipments
- Flat or declining for other mills

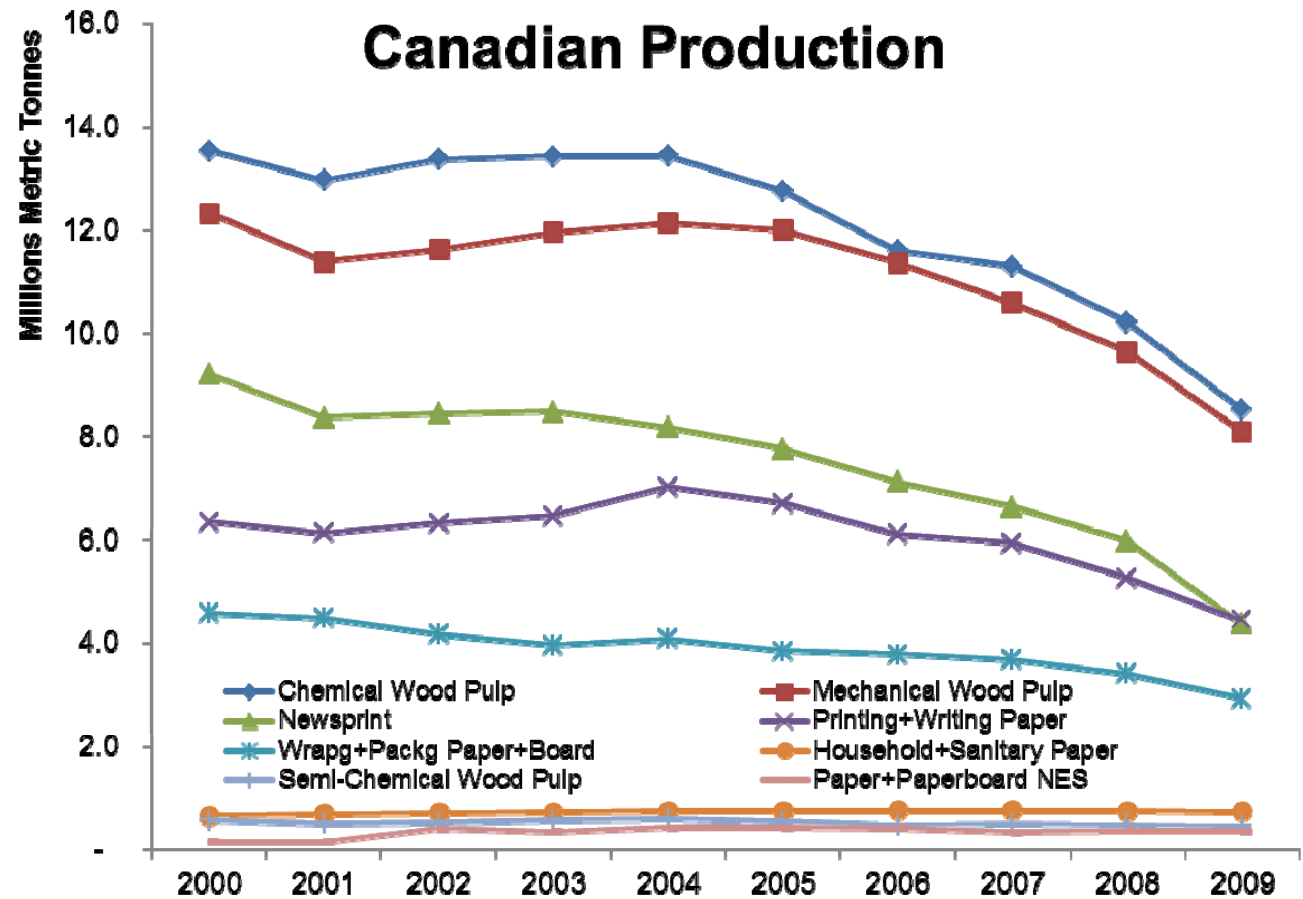


Source: Statistics Canada, Monthly Survey of Manufacturing

Production Volumes



- 2004 was a turning point for pulp and mechanical paper production

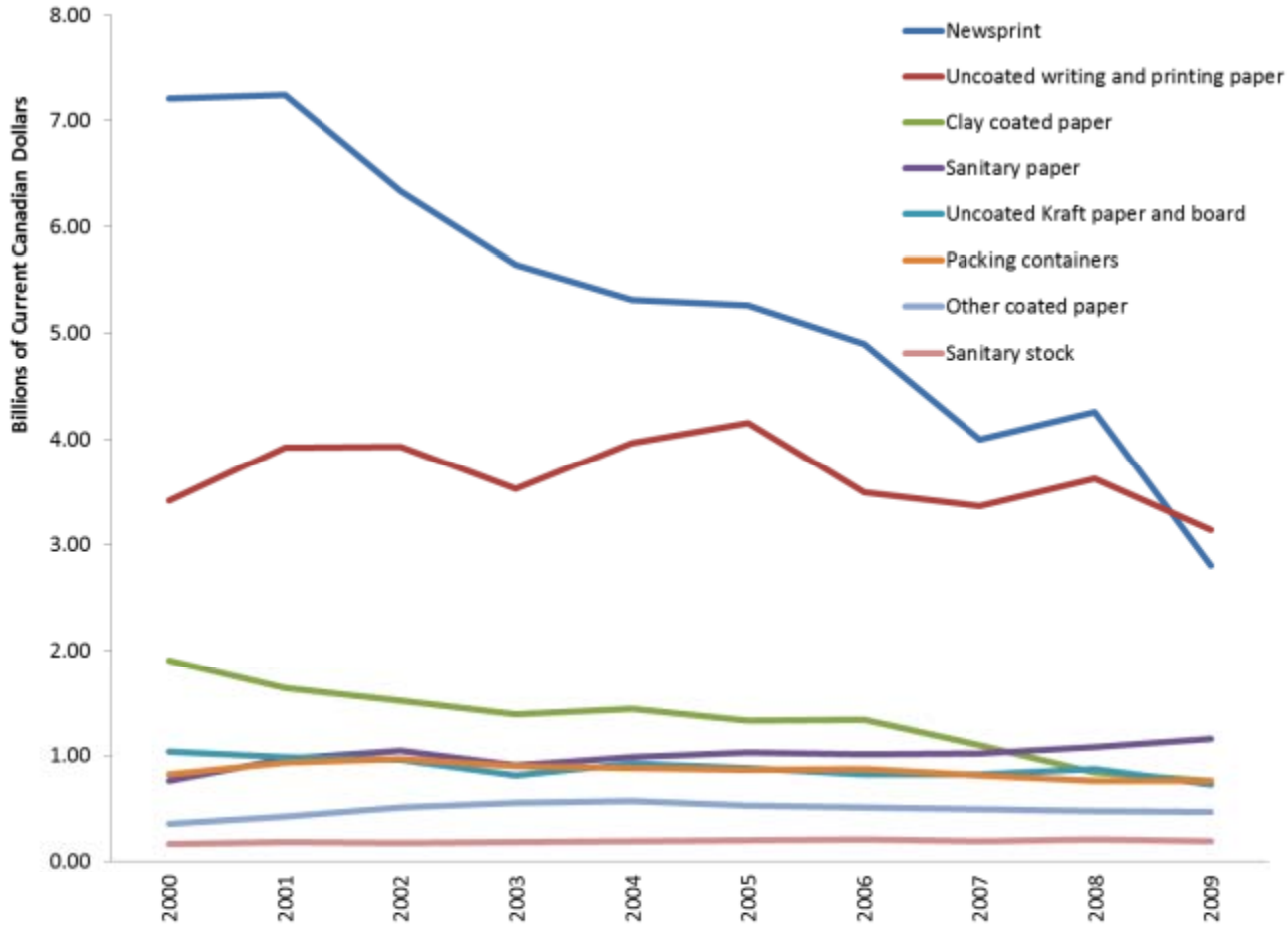


Source: FAO Forestry Statistics



Paper Export Values

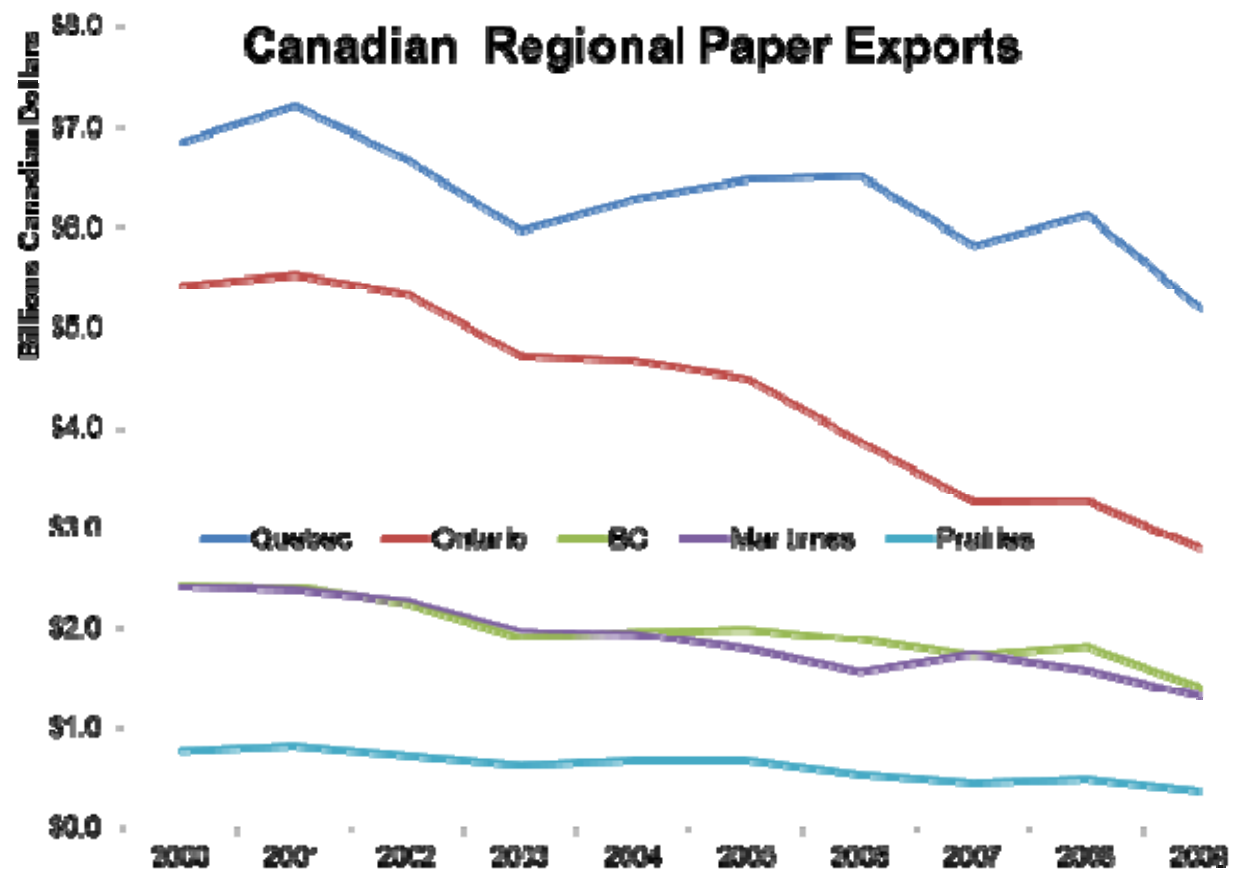
- Newsprint, Clay Coated papers exports declining
- Sanitary paper increasing
- Rest of paper grades stagnant.





Regional Paper Export Values

- Ontario paper exports decreased the most
- All jurisdictions have experienced losses



Source: Statistics Canada



Regional Paper Exports by Destination

- Large decrease in value and quantity of paper shipments to the United States.
- Bulk of non-US paper shipments is newsprint

Canadian Paper Export Markets

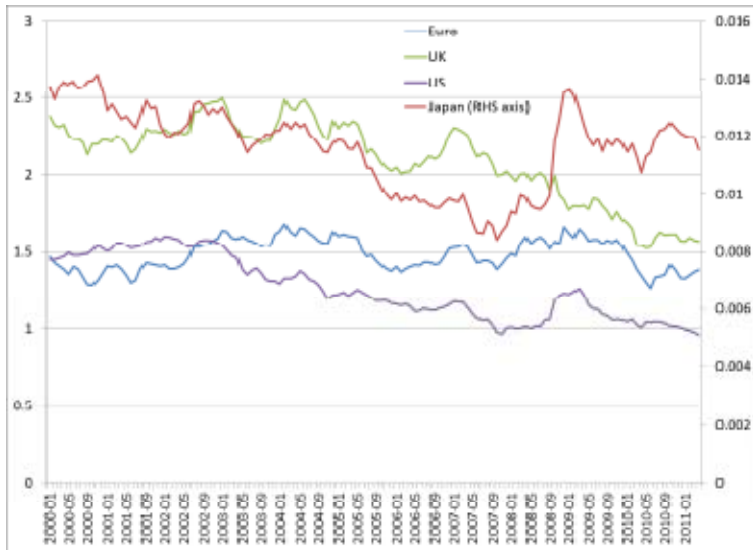


Source: Statistics Canada

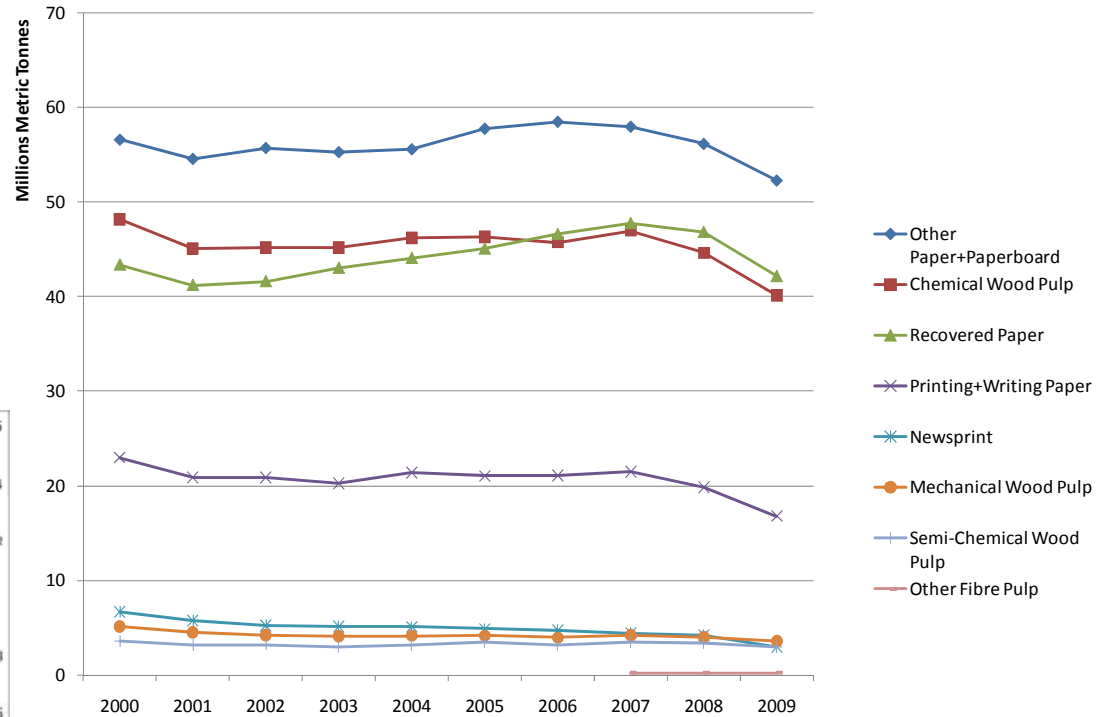
US Key to paper



- US growth?
- US/CND Rate ?



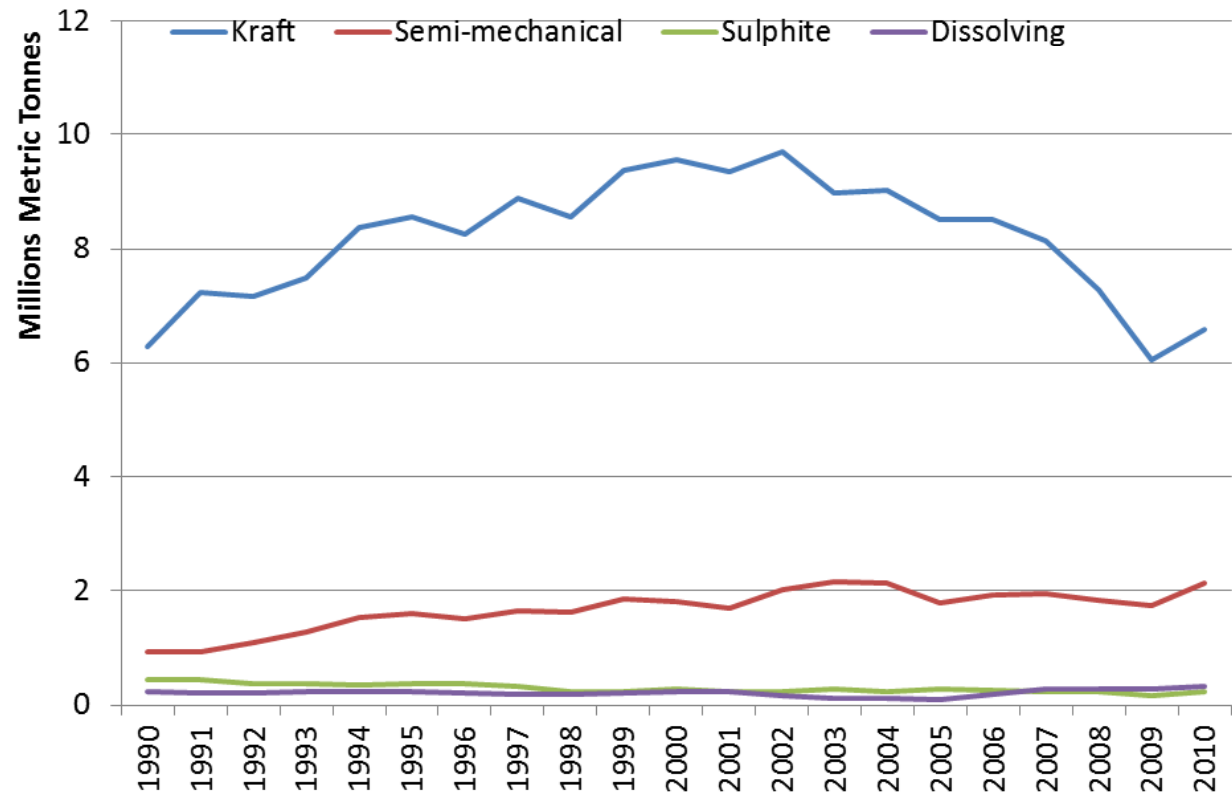
US Consumption



Canadian Pulp Exports



- The turning point for Kraft pulp was in 2002
- Bulk of lost exports softwood Kraft

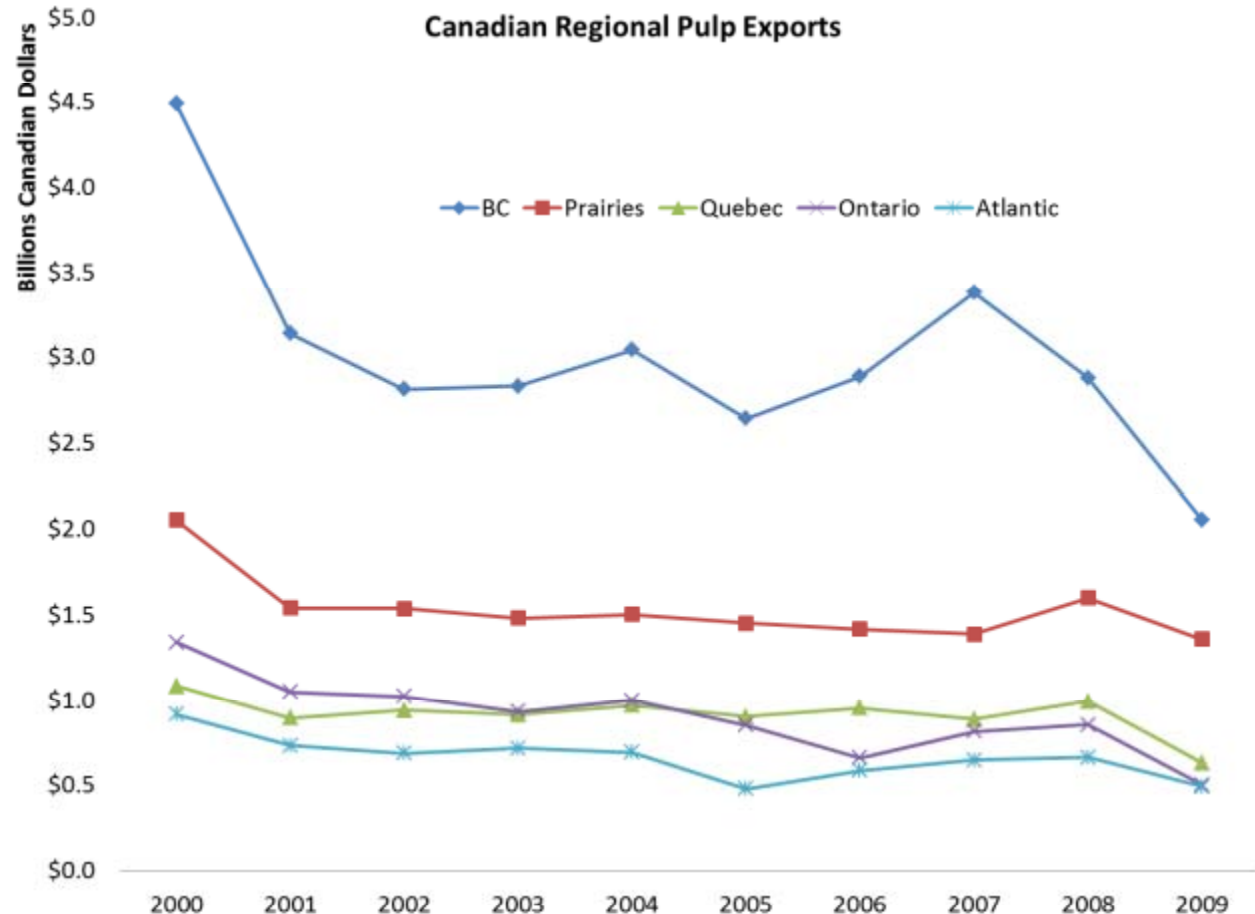


Sources: Statistics Canada; UN Comtrade

Regional Pulp Exports



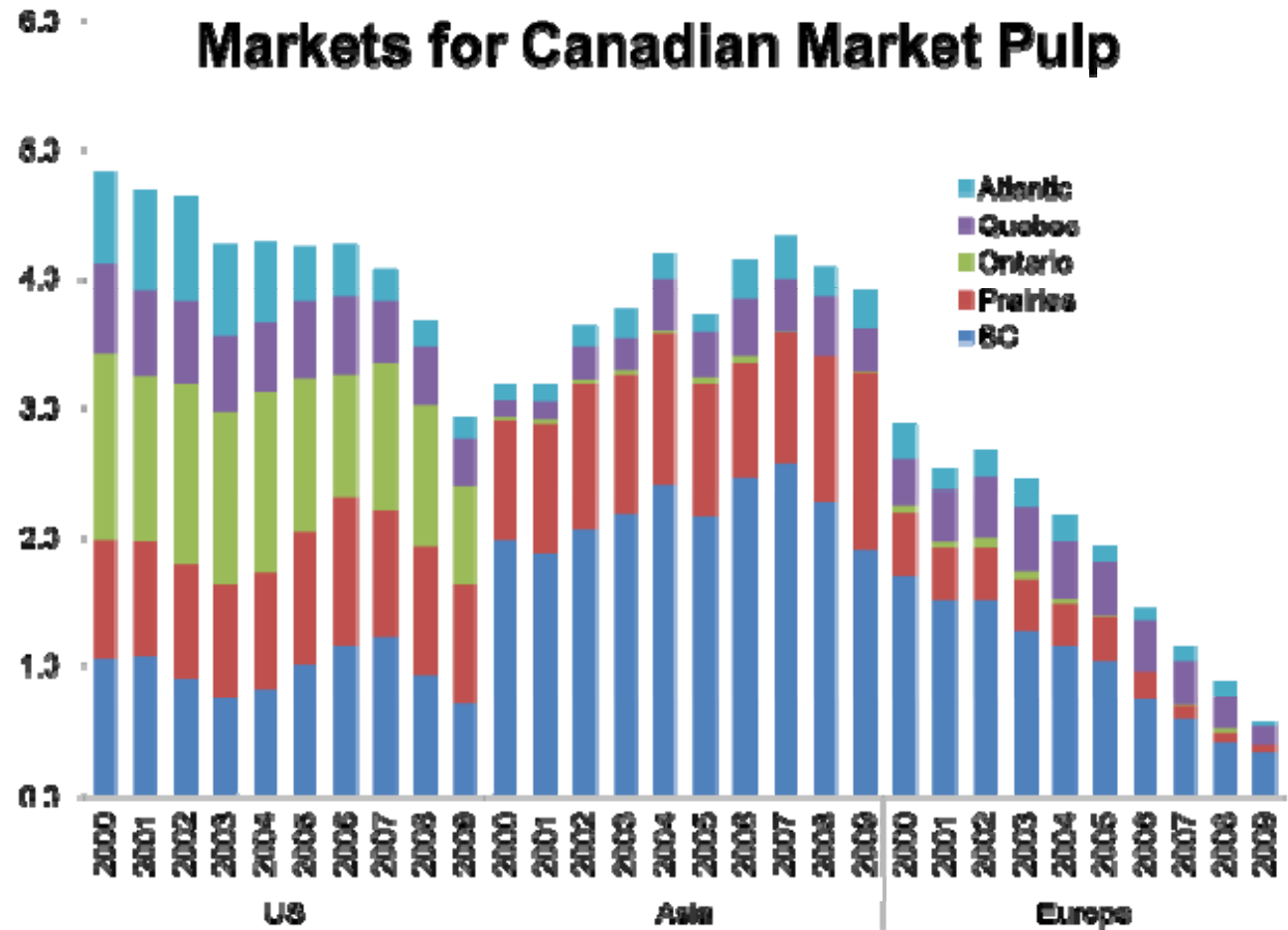
- BC pulp exports fell the most in terms of value and volume
- A small rebound in 2010 in volume and value



Canadian Sector



- Increased export to Asia, mainly China
- Not enough to overcome export losses in US and Europe
- European drop mainly to Germany, Belgium, UK and Italy





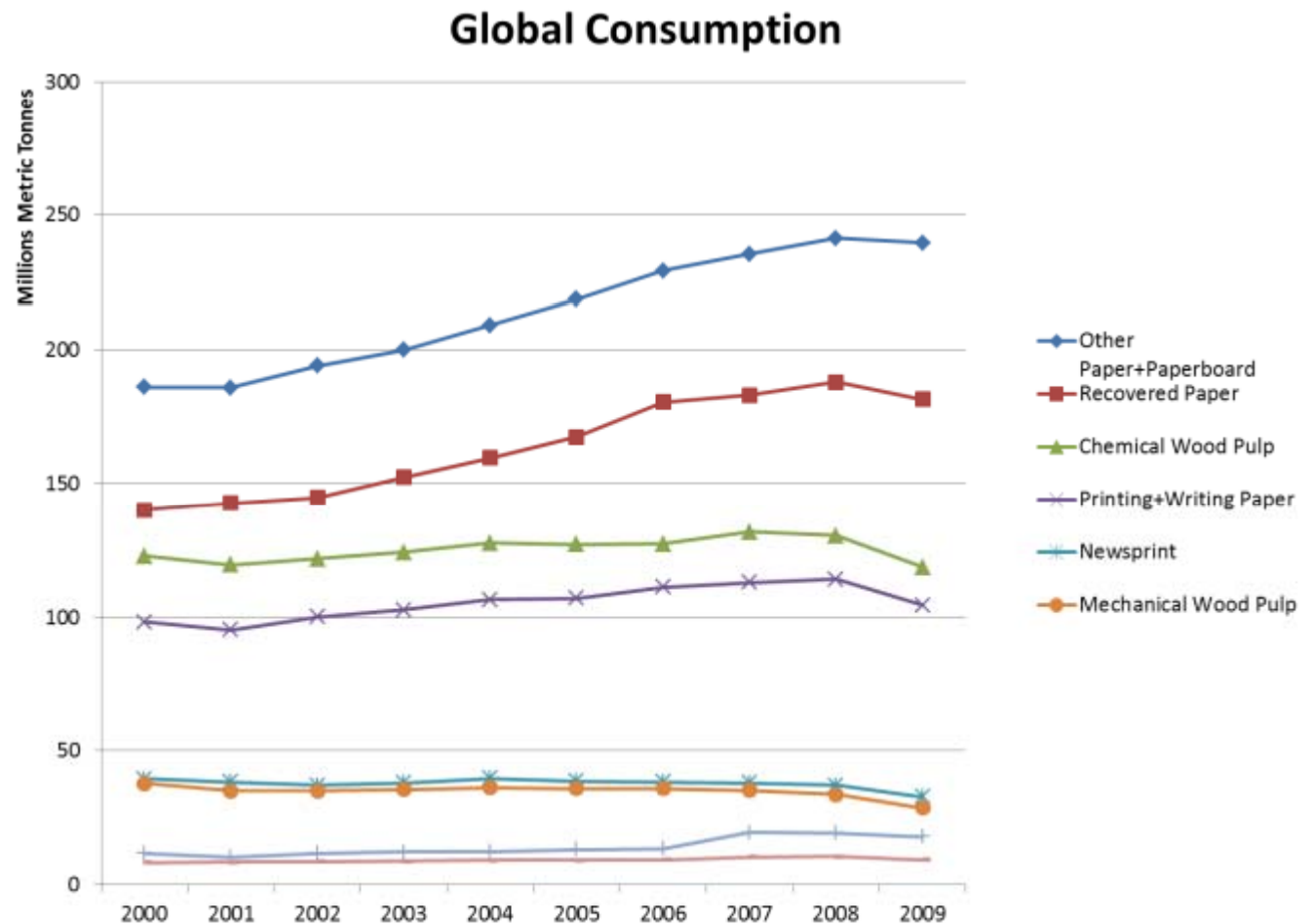
Pulp and Paper Consumption and Trade

GLOBAL TRENDS

Global Consumption



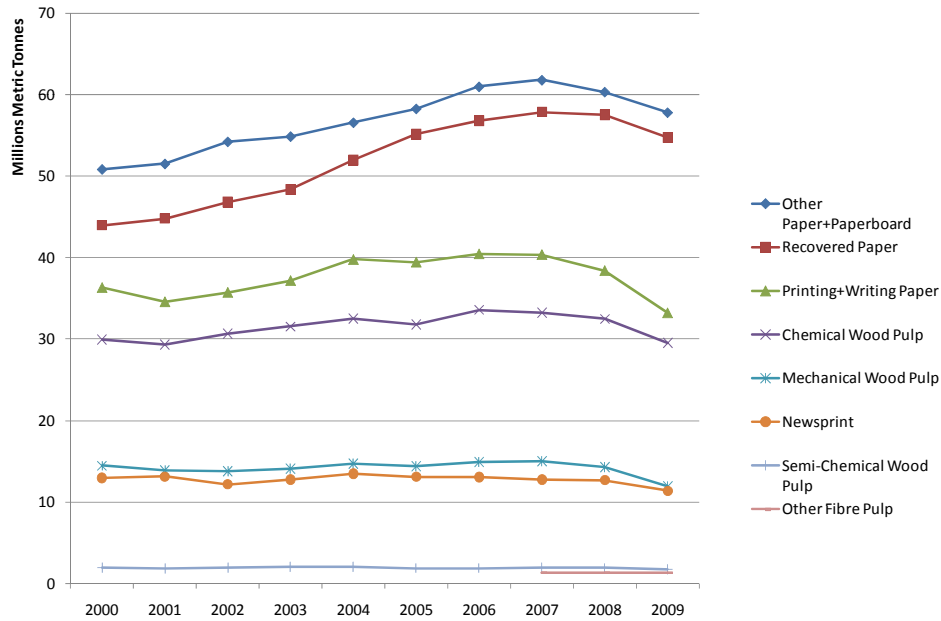
- Growth in packaging materials; printing and writing papers
- Little or declining growth elsewhere



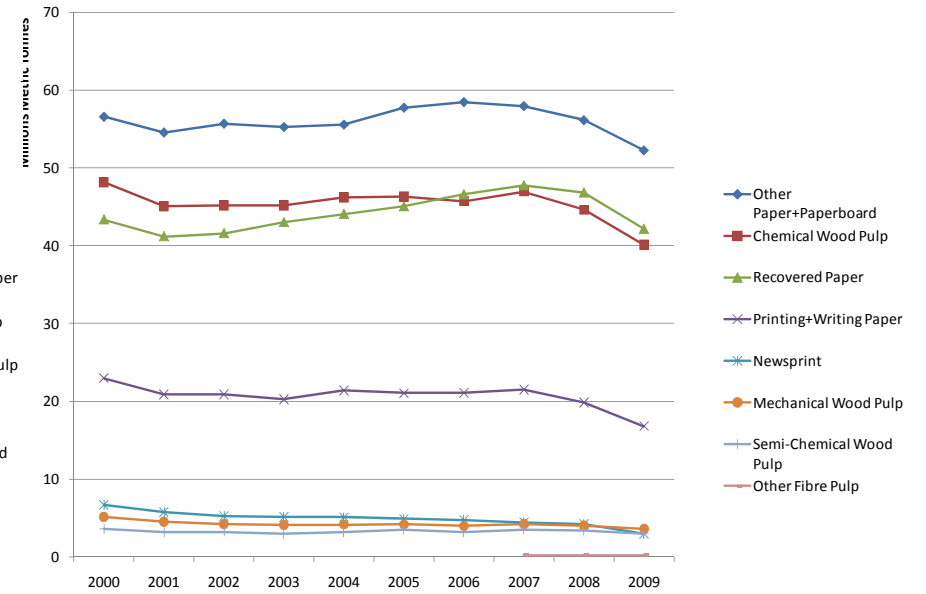
European / US Consumption



European Consumption



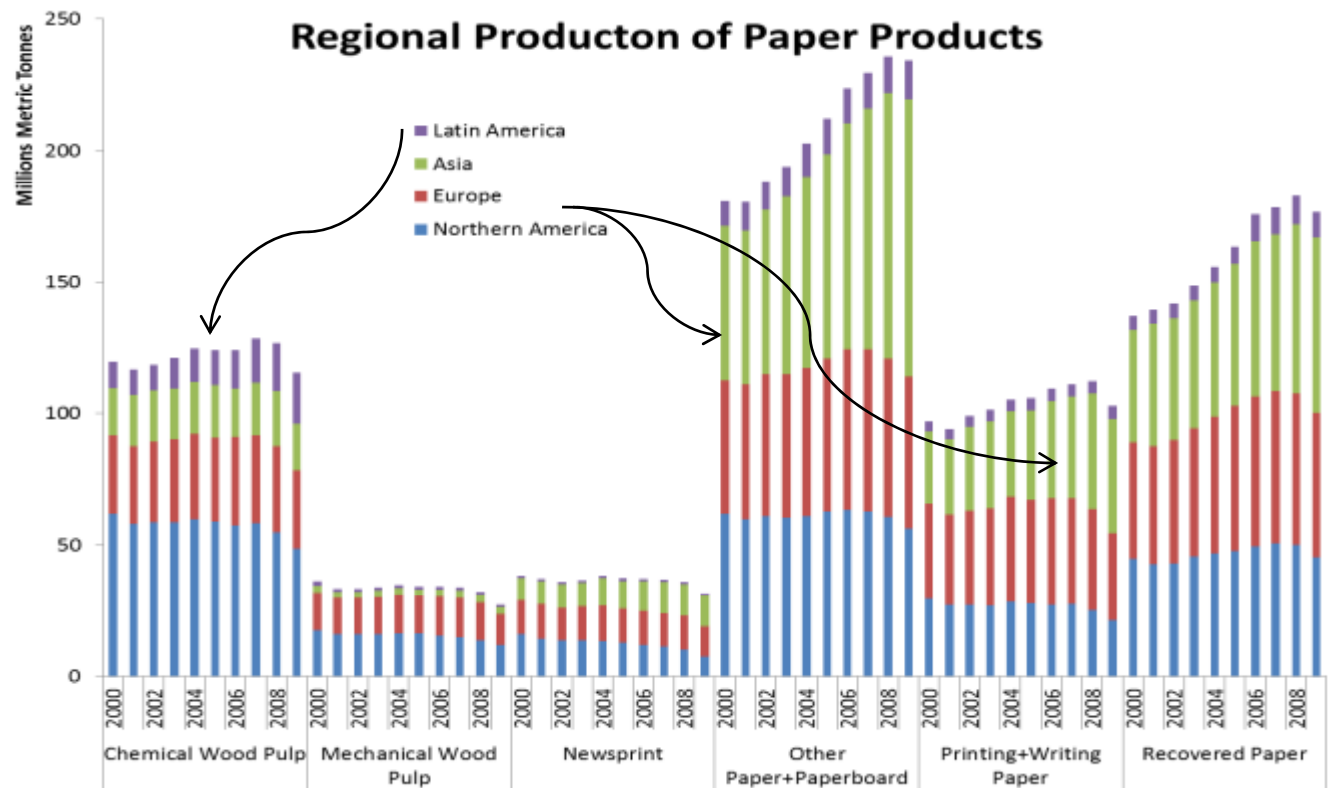
US Consumption



Regional Production



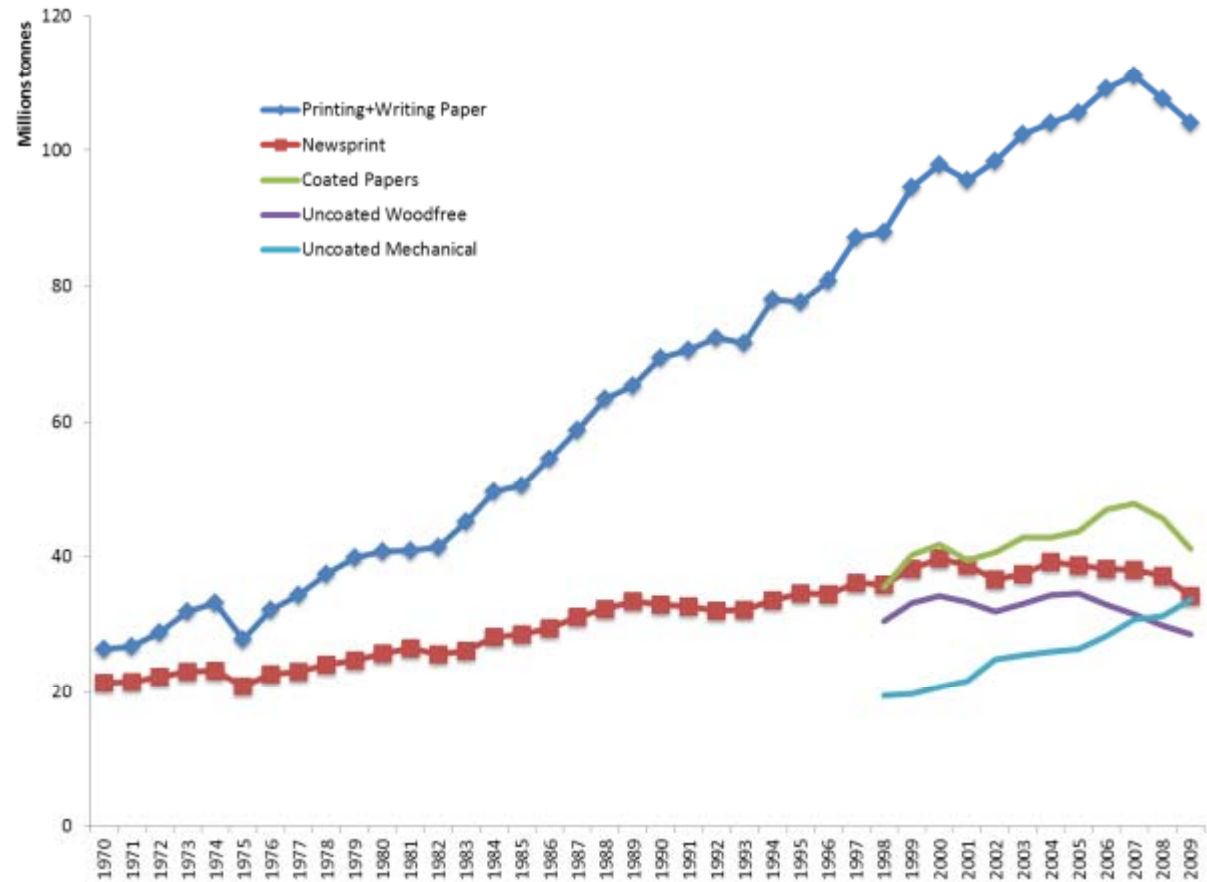
- Production Shifts
- Pulp shifting to Latin America
- Packaging materials and graphic papers shifting to Asia



Graphic Paper Consumption Trends



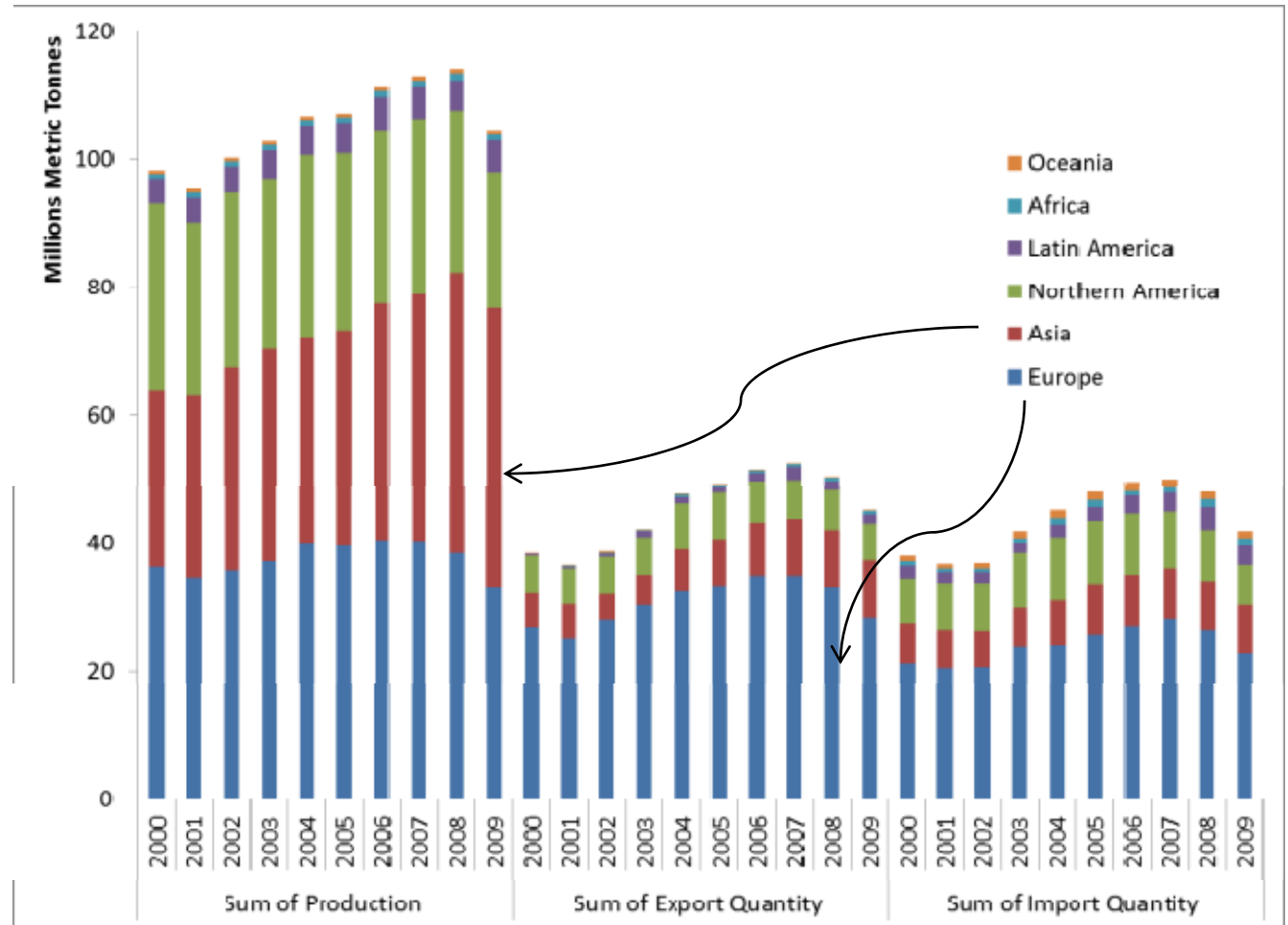
- Consumption growth steady in uncoated mechanical papers
- Woodfree stagnant
- Coated paper a mixed bag.



Regional Trends in Printing And Writing



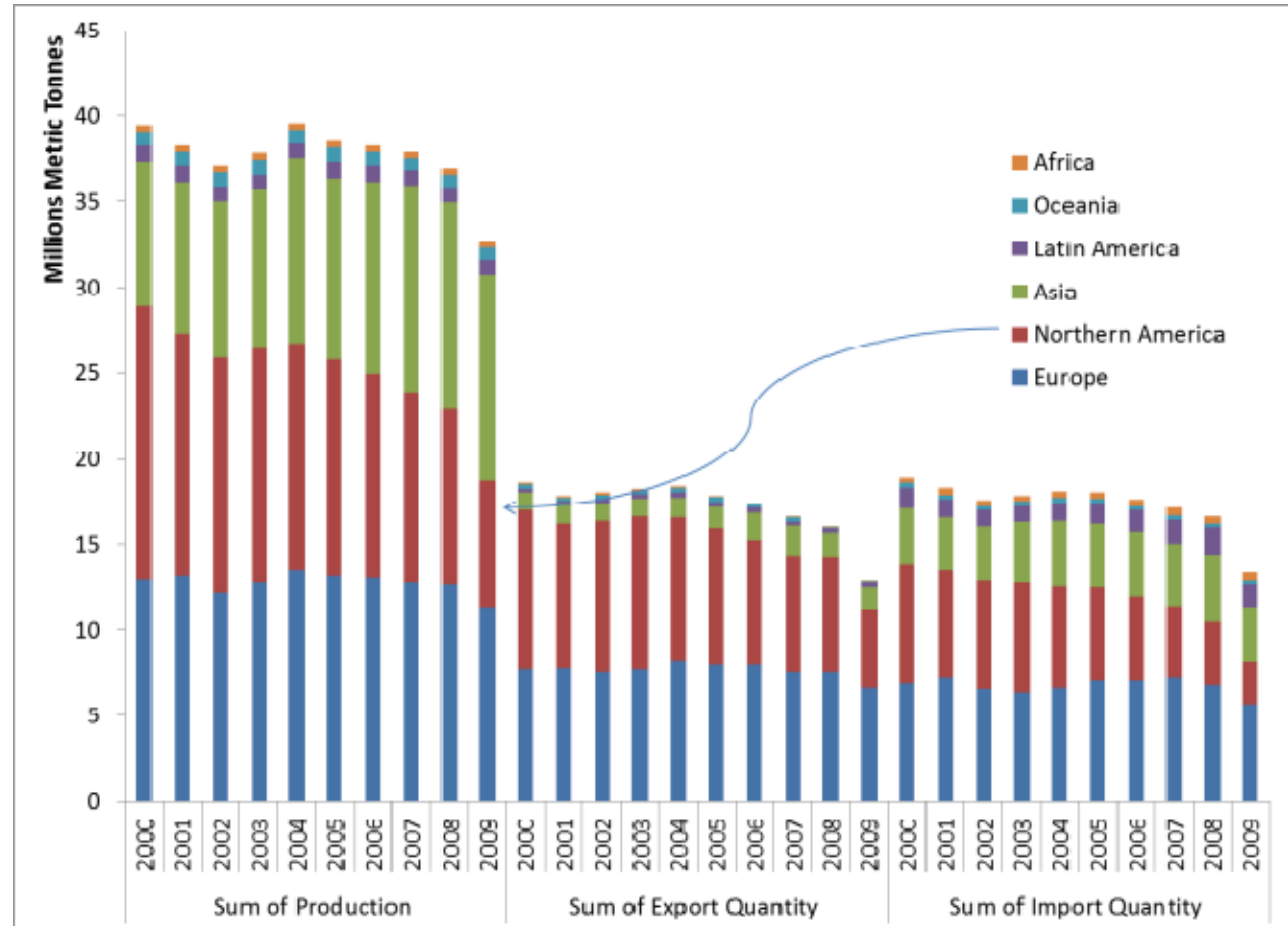
- Increased global trade
- Consumption and trade sensitive to economic conditions.
- Asia becoming a net export region, driven by China.



Recent trends - Newsprint



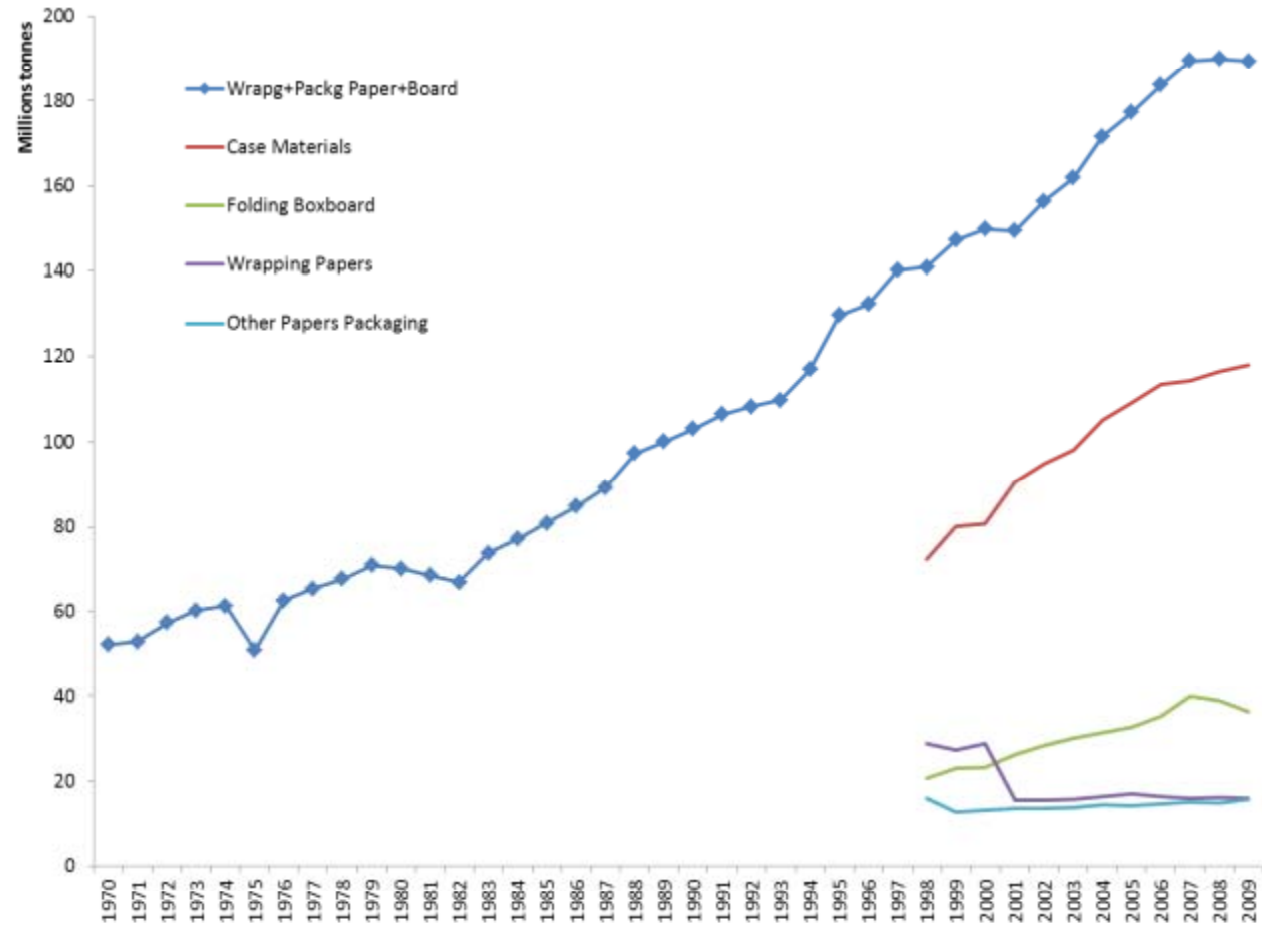
- North American consumption declining faster than Asian consumption growth.
- Trade declining, mainly within North America



Packaging Material Trends



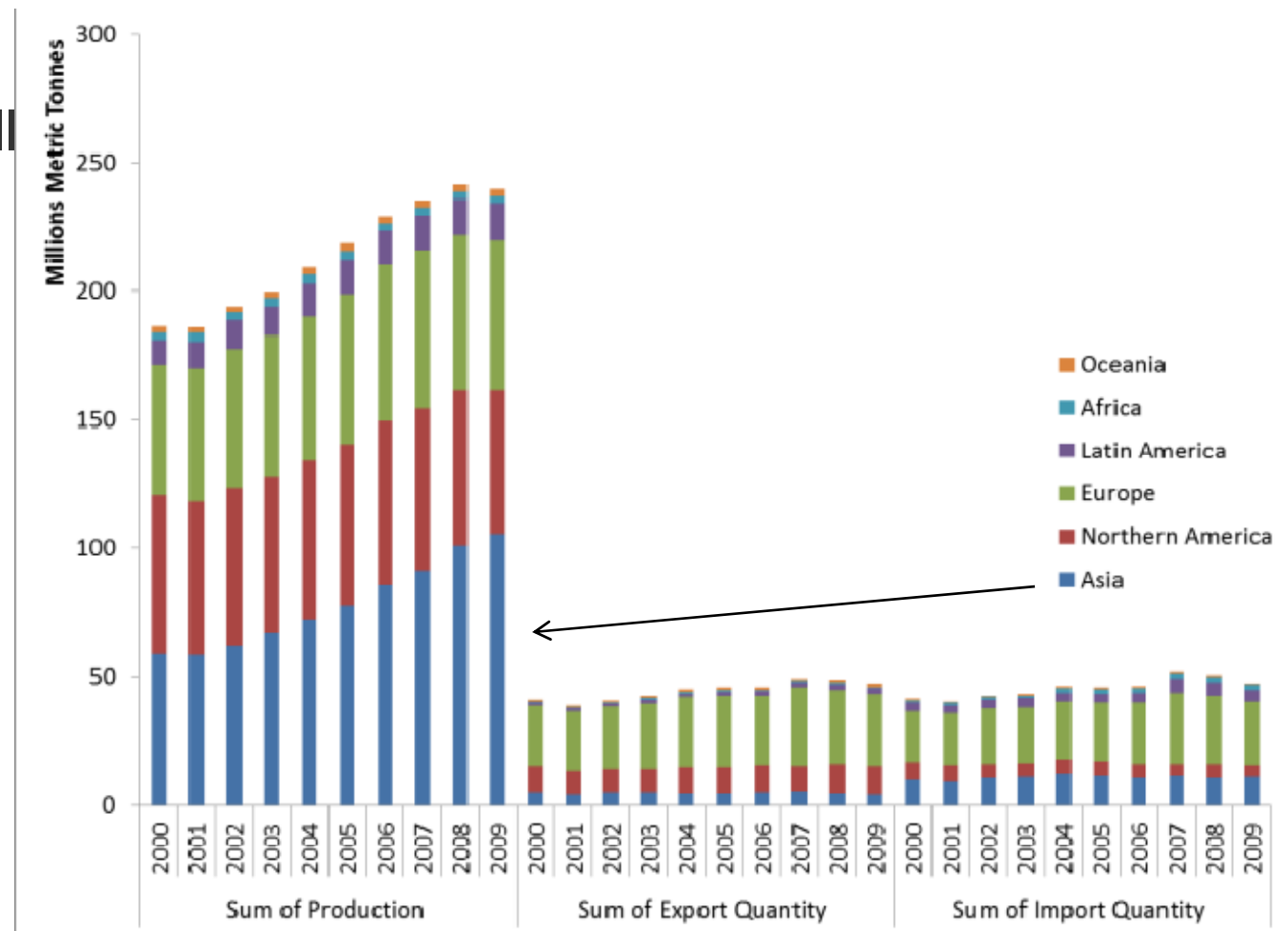
- Packaging materials the biggest product group
- Most consumption growth in case materials (e.g. corrugated boxes) and folding board (e.g. food and IPOD packaging)



Other Paper And Paperboard



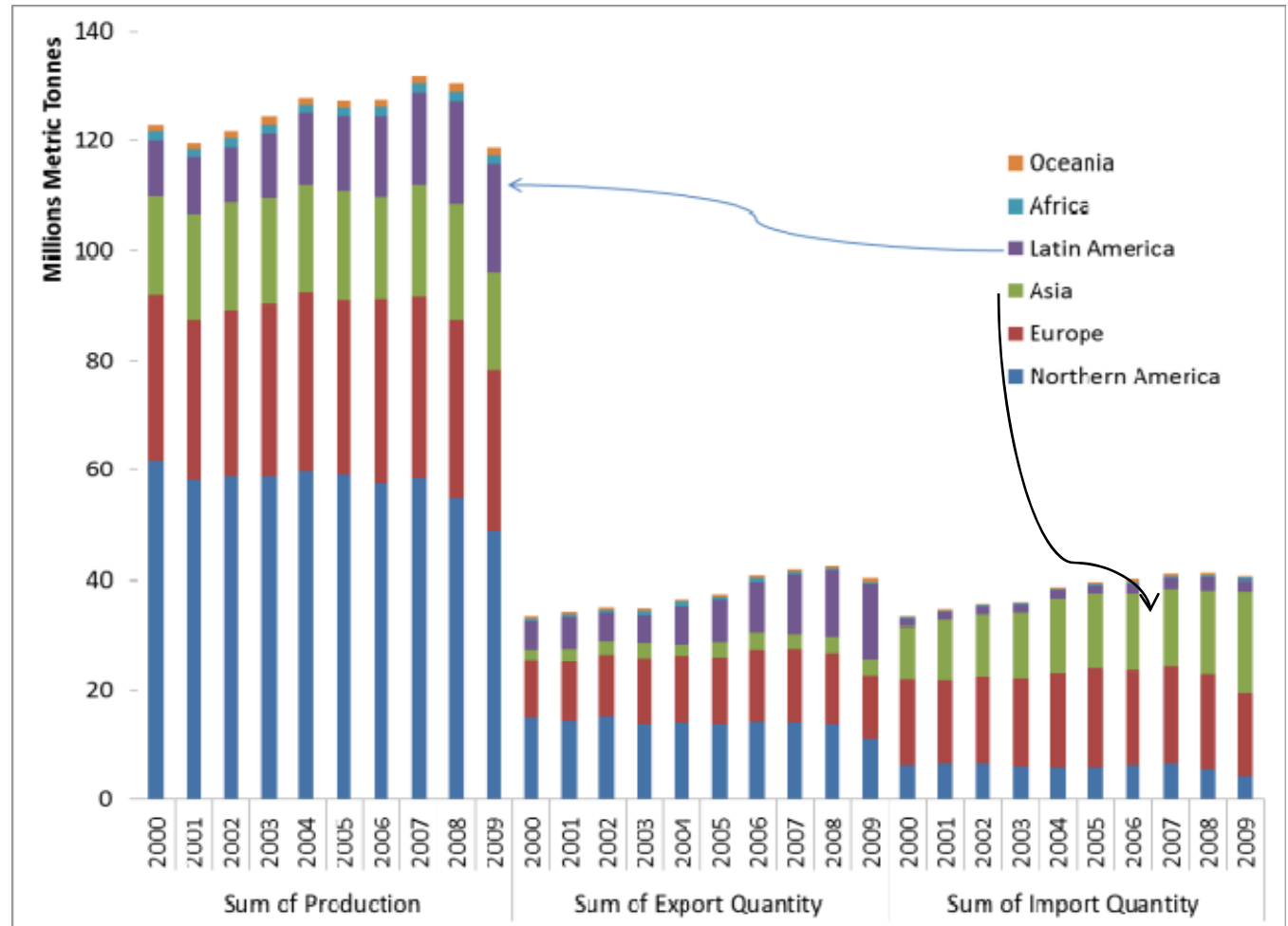
- This includes packaging, sanitary, and all else
- Significant consumption growth but modest trade growth.
- Trade growth occurred between Asia and US and Europe.



Global Trends – Chemical Pulp



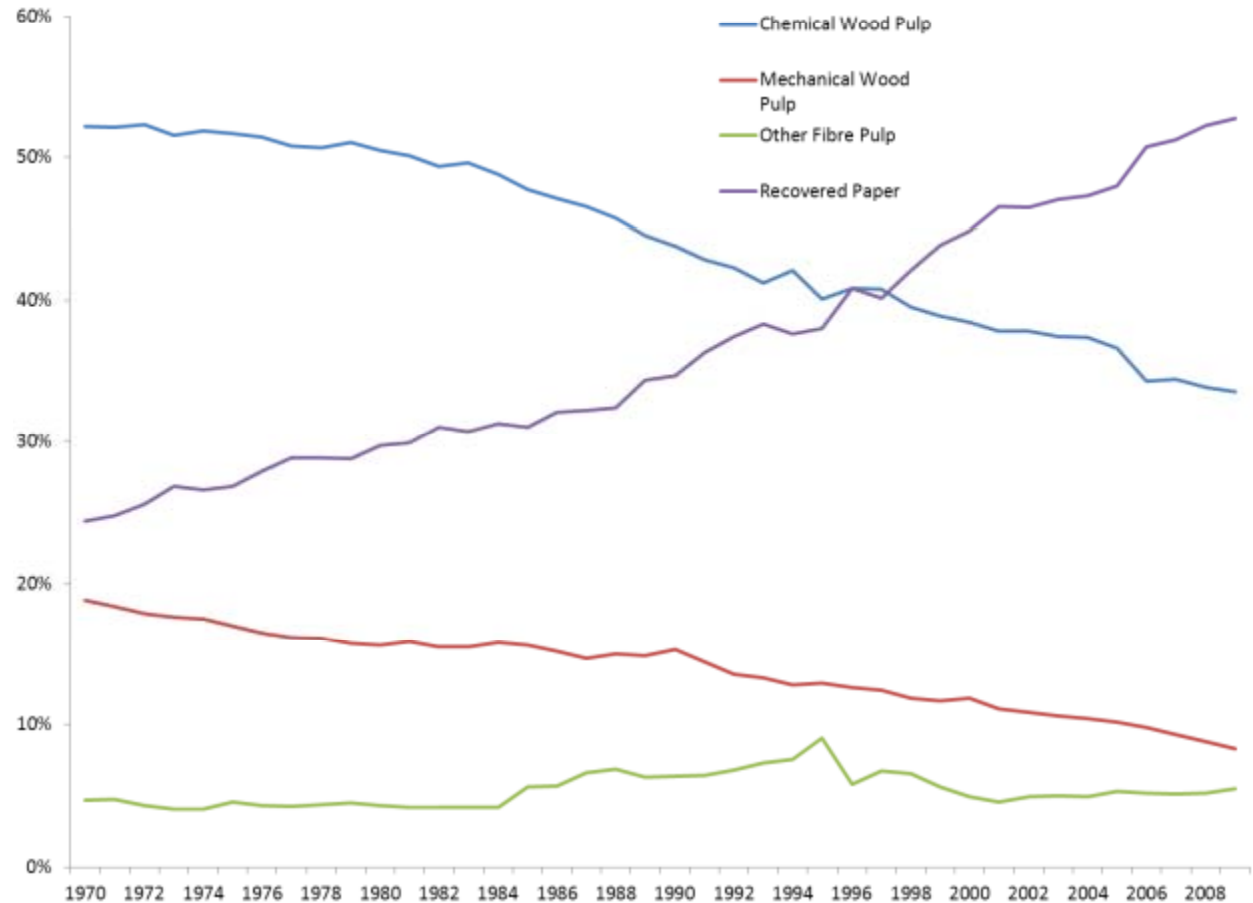
- Steady trade growth over the past 10 years
- Consumption growth in Asia/China and supplied by South America/SE Asia/Europe



Importance of Recovered Paper



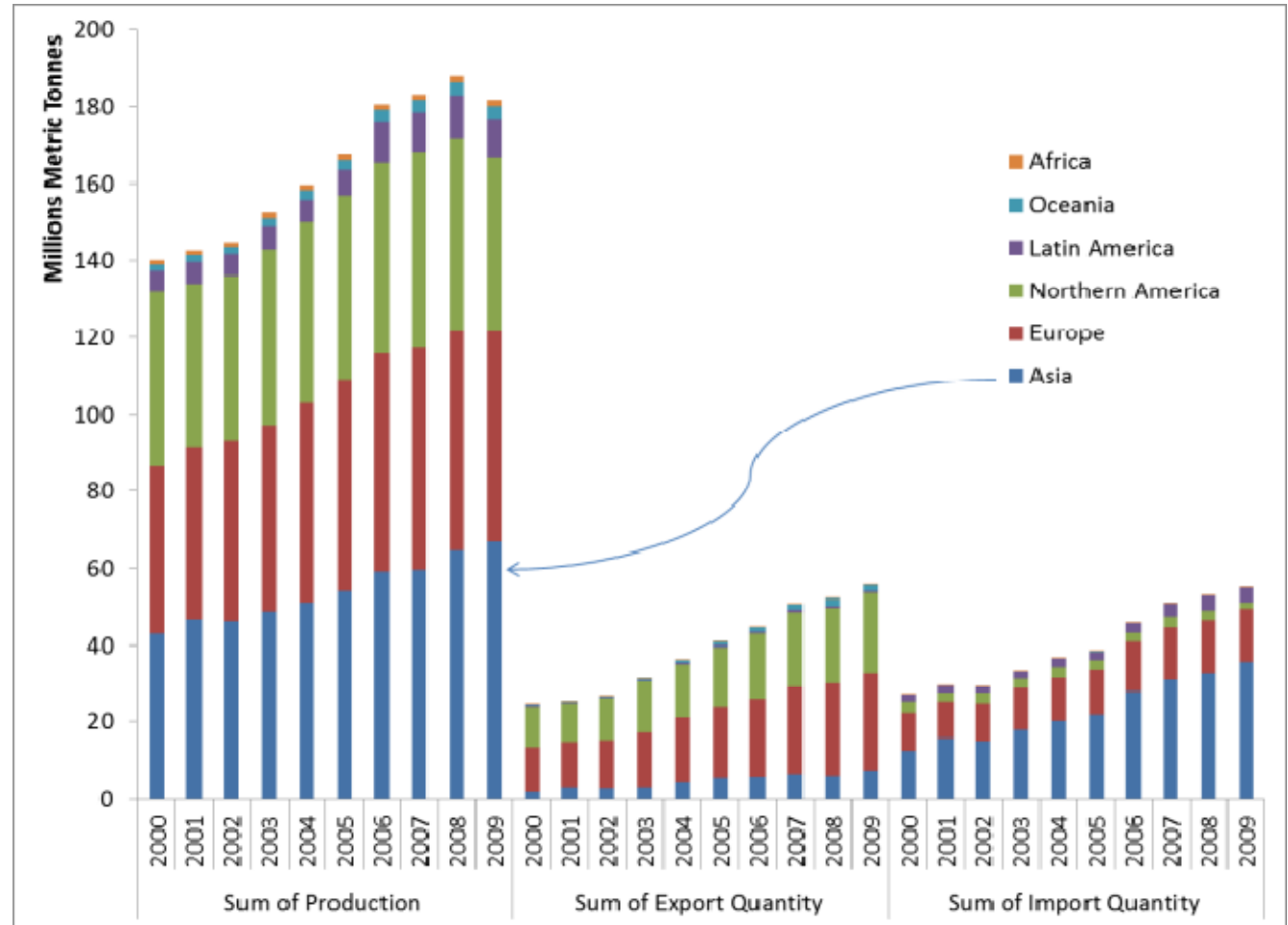
- Percentage share of global consumption of fibre for pulp and paper production, 1970-2009.
- How long will trend continue?



Recent Trends – Recovered Paper



- Asia/China producing more
- Consuming more
- There is potential for more recovery within Asia and developing world



Global Average Annual Growth 2000 to 2008



	Consumption	Trade
Chemical Wood Pulp	0.7%	2.6%
Bleached Sulphate	1.3%	2.9%
Dissolving Pulp	1.9%	3.8%
Semi-Chemical Wood Pulp	2.9%	9.9%
Mechanical Wood Pulp	-1.2%	-2.2%
Recovered Paper	3.8%	10.4%
Wrapg/Packg/Paperboard	3.5%	3.5%
Household/Sanitary Paper	4.2%	8.0%
Newsprint	-0.7%	-1.4%
Printing/Writing Paper	1.8%	3.0%
Coated Papers	1.0%	1.8%
Uncoated Mechanical	7.7%	3.7%
Uncoated Woodfree	-0.7%	5.3%

Source: FAO Forestry Statistics



Canadian Pulp and Paper Industry : 2011 to 2020

OUTLOOK

Midterm Outlook Summary



Global Environment

- GDP to increase
- IMF et al expect developing countries to lead way
- Trade to grow
- Population to grow
- Internet and mobile devices to grow
 - **Increased paper consumption**

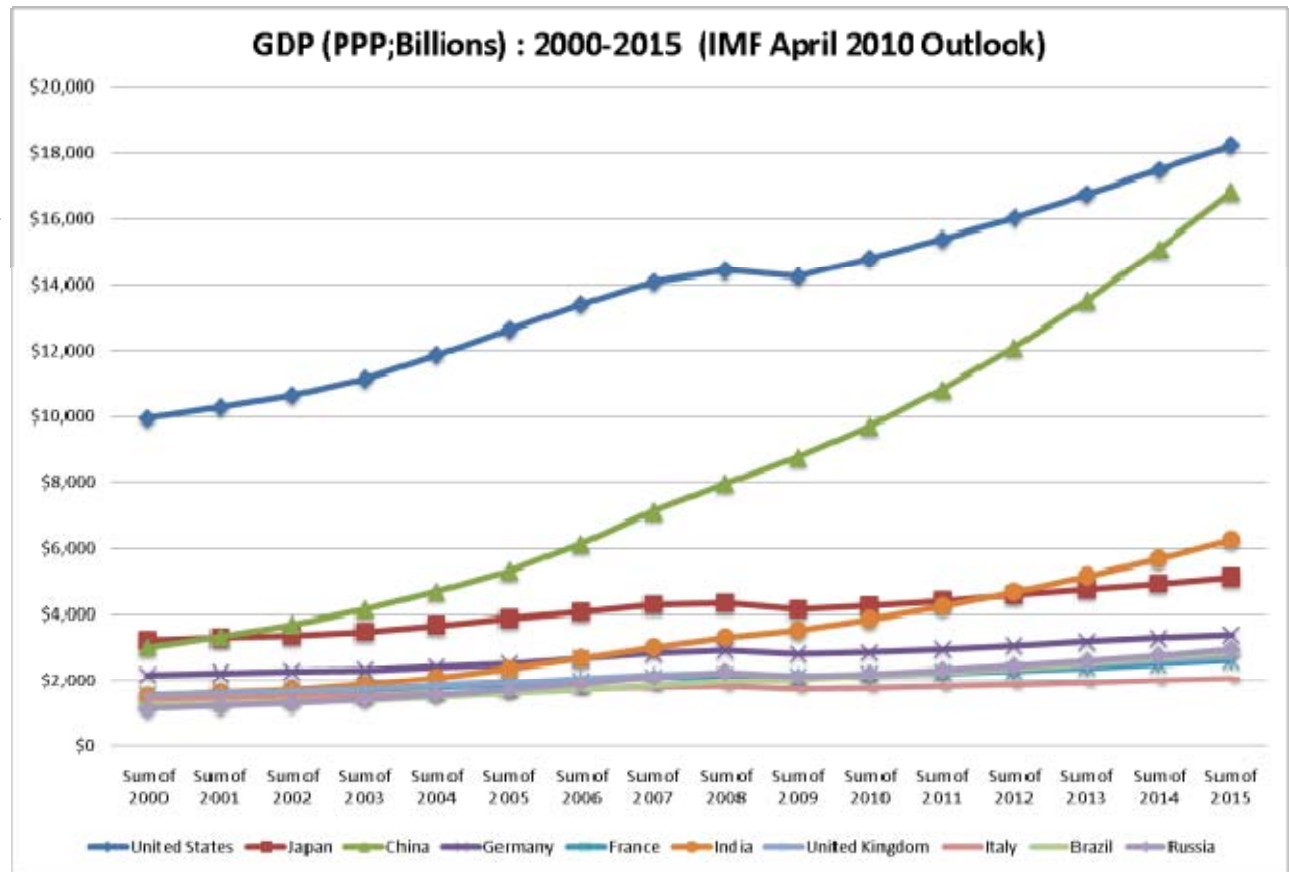
Canadian Outlook

- Pulp to hold steady around current levels
- Newsprint to decline but at much slower rate
- Other mechanical papers will decline slowly
- Sanitary papers, dissolving pulp may be only bright spots

General Economic Trends And Outlook



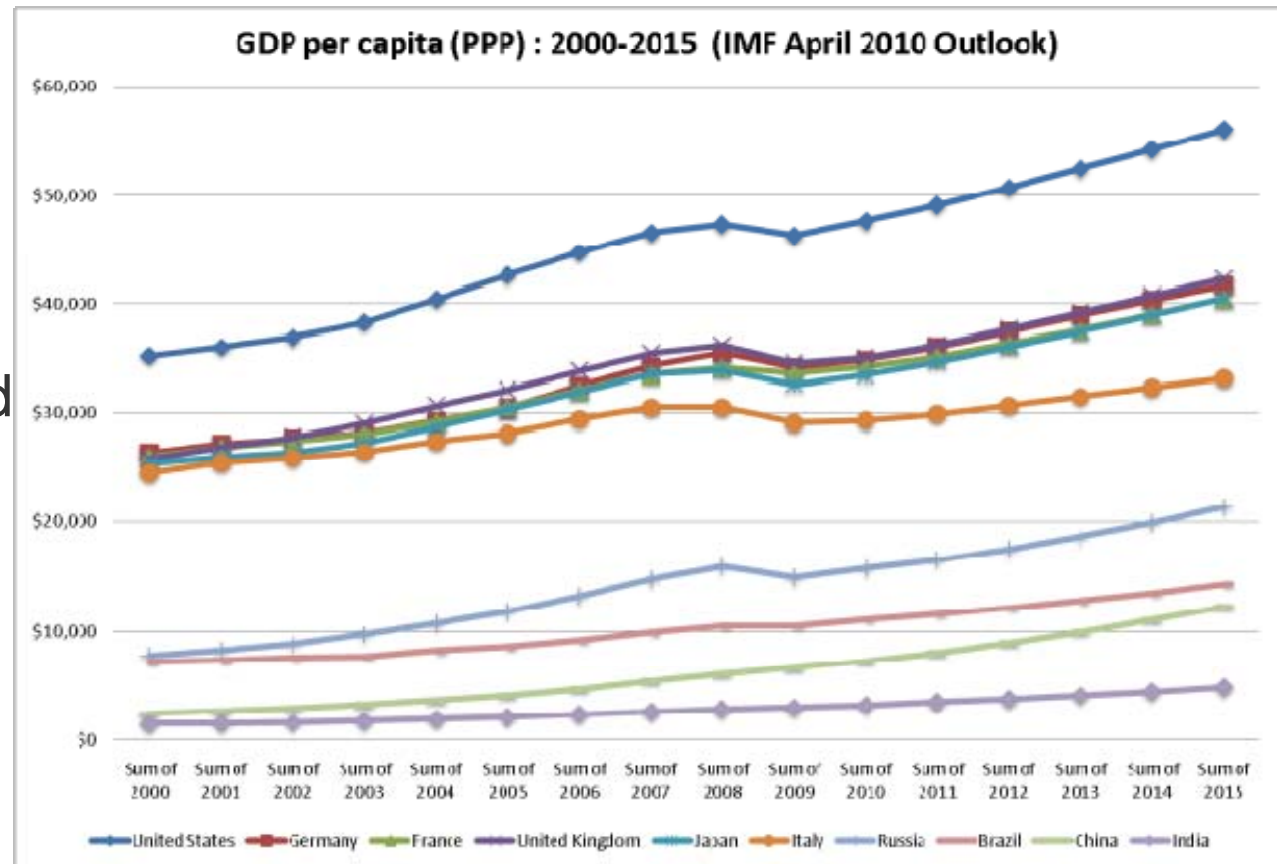
- China and India's economies expected to grow substantially over next five years.
- Will China's consumption for paper products grow to US level?



General Economic Trends And Outlook



- Unlikley
-per capita purchasing power will remain well below advanced economies some time to come.



Newsprint Outlook



Downward pressures

- Digitalization of media and advertising
- Demographics
- Time constraints and competing entertainment/leisure

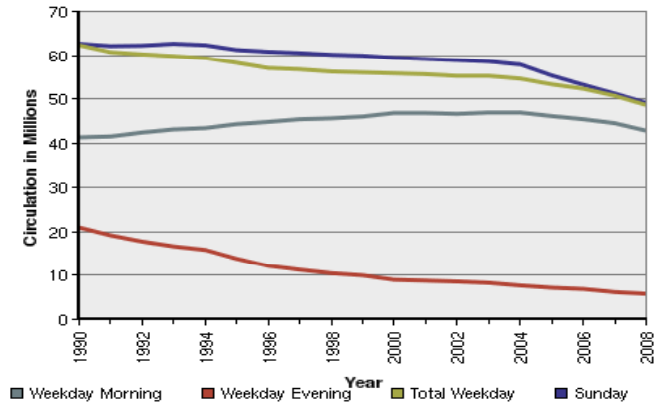
Possible Upward Pressures

- Newspaper marketing strategies
 - Effectiveness of print advertising
 - Household Formation
-

US Newsprint – Bad News

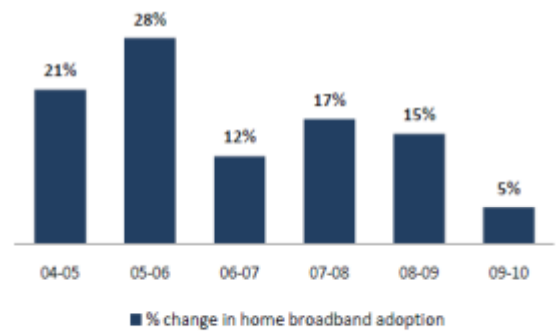


Circulation



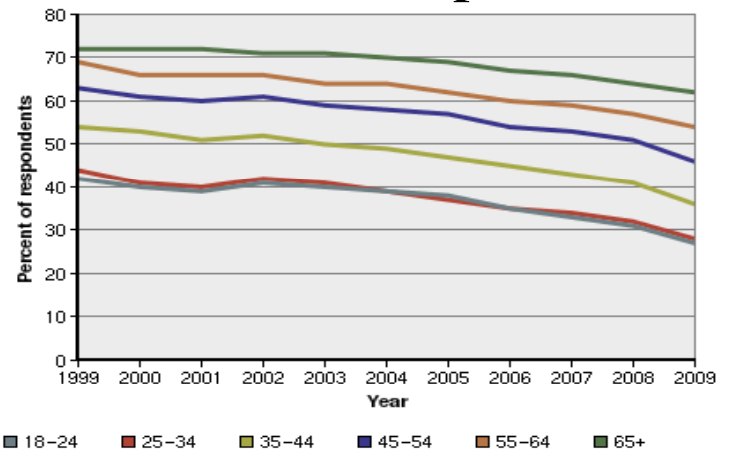
Broadband Internet

Year-to-year percentage change in home broadband adoption, 2004-2010



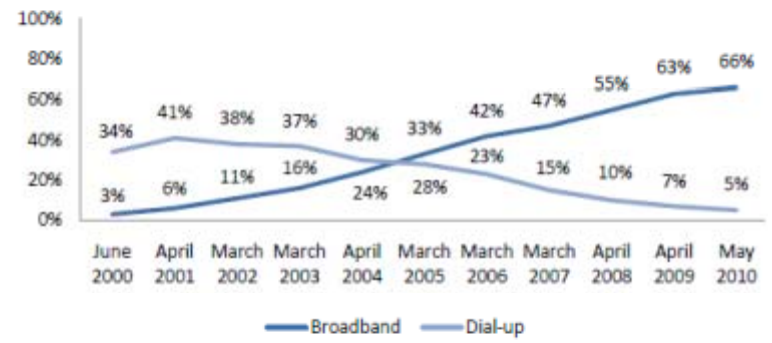
Source: Pew Internet & American Life Project surveys.

Readership



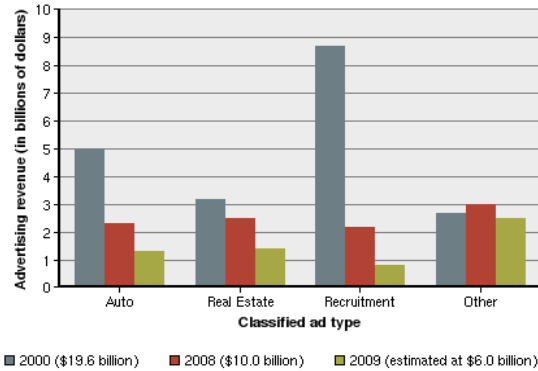
Broadband and Dial-up Adoption, 2000-2010

% of American adults who access the internet via dial-up or broadband, over time.



Source: Pew Internet & American Life Project surveys.

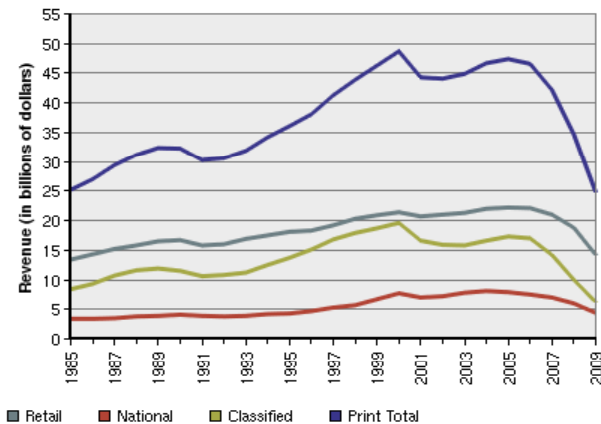
US Newsprint– Bad News



Internet spending as percent of U.S. marketing spending

Format	2006	2007	2008	2009	2010	2011	2012
Display	1.6%	2.0%	2.4%	2.8%	3.1%	3.4%	3.6%
Internet video/rich media	0.7	0.7	1.1	1.5	1.9	2.2	2.5
Classified	1.2	1.5	1.8	2.2	2.4	2.6	2.7
Paid search	2.8	3.6	4.6	6.4	7.8	8.9	10.0
Internet radio	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Podcast	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social media	0.1	0.2	0.2	0.4	0.5	0.6	0.8
Mobile	0.0	0.1	0.1	0.3	0.4	0.5	0.7
Total internet	6.4	8.2	10.5	13.7	16.2	18.4	20.6
Major media dollars	\$173.43	\$177.65	\$170.22	\$148.32	\$144.41	\$146.65	\$150.88

Jounralism.org Ad Revenues



Source: [ZenithOptimedia \(www.zenithoptimedia.com\)](http://www.zenithoptimedia.com), Ad Age DataCenter analysis of data from ZenithOptimedia's Advertising Expenditure Forecasts (December 2009). Dollars in billions.

US Newsprint - Good News?



NEW YORK TIMES PRICING STRATEGY

Delivered + Full Digital (Price per week)			Digital Only(Price per week)	
Subscription type	NYC	Los Angeles	Device covered	US (CND)
All week	\$5.85	\$7.40	Any device	\$8.75
Fri/Sat/Sun	\$3.80	\$5.20	Tablet	\$5.00
Mon to Fri	\$3.10	\$3.70	PC/Mobile	\$3.75 (\$3.75)

Why?

- Increase national and global subscription revenue sales
- Encourage hard copy sales to increase advertisement revenues
- Compete directly with television and internet-only news providers

Implications

- Unclear impacts on newsprint consumption
 - Widespread adoption and sales of bundled products -> increase newsprint ?
 - Industry consolidation -> reduce total circulation and newsprint consumption ?

US Newsprint: More Good News?



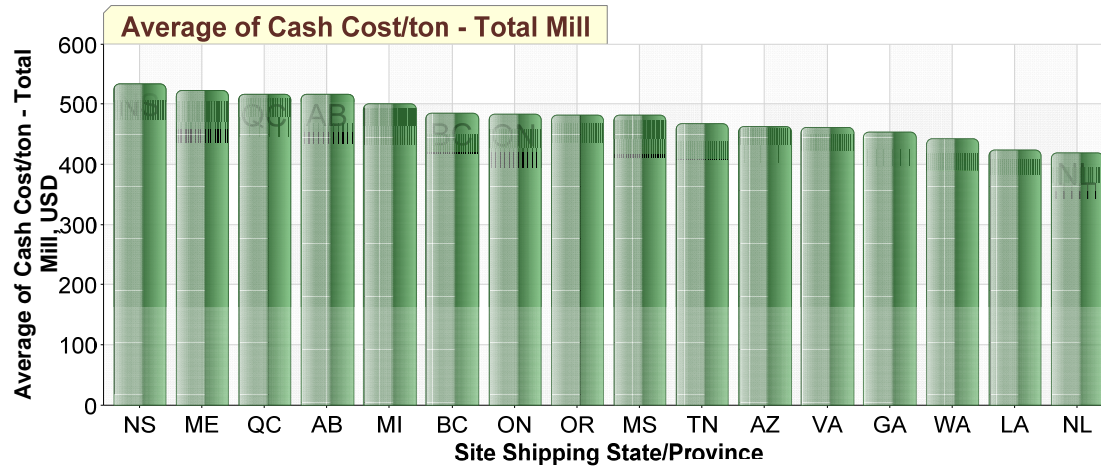
- Recession impacted household formation
-and household composition
- another explanation of decreased newsprint demand
- a possible counterweight to digitization of media and advertising

US Household Formation

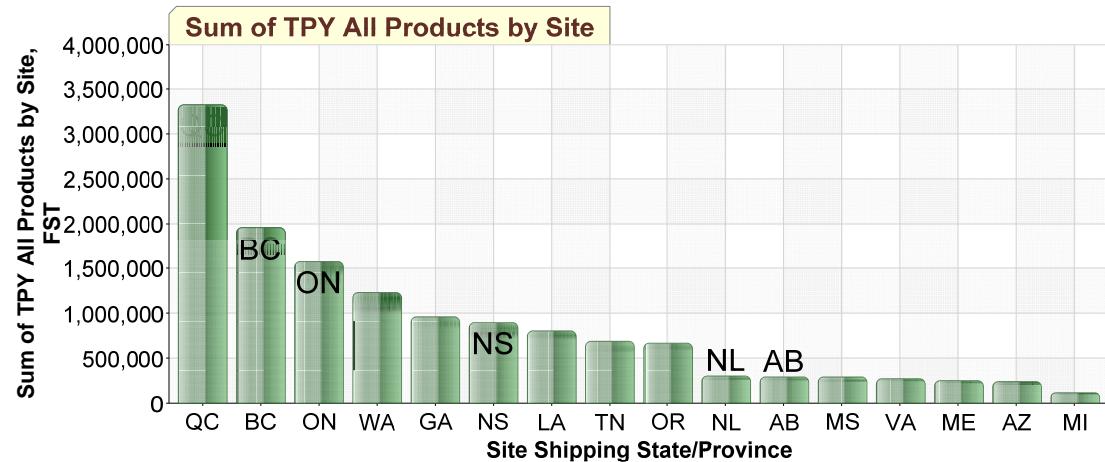
	2004	2007	2010
All Households	112,000,000	116,601,000	117,538,000
People/HH	2.57	2.56	2.59
People +18/HH	1.92	1.92	1.95
Families Household	76,217,000	78,425,000	78,835,000
People/FH	3.13	3.13	3.16
People +18/FH	2.19	2.20	2.23

Source: US Bureau of Census

North American Newsprint Supply

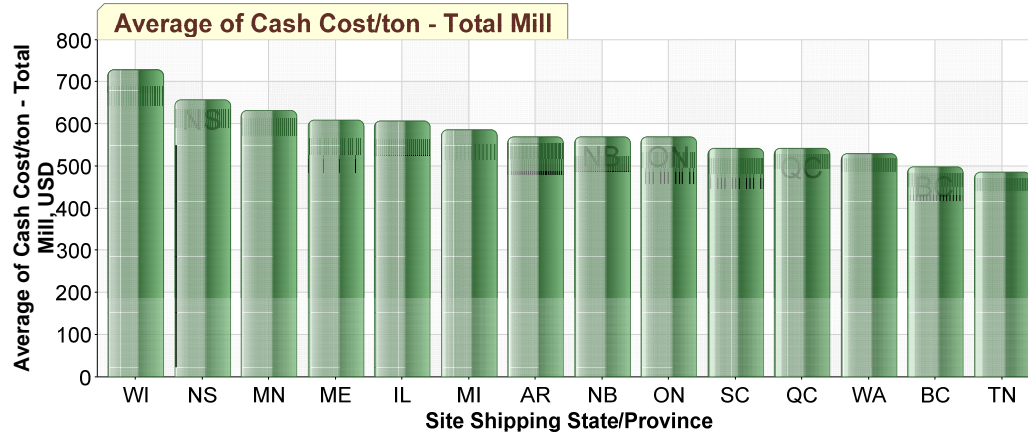


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Source: FisherSolve™

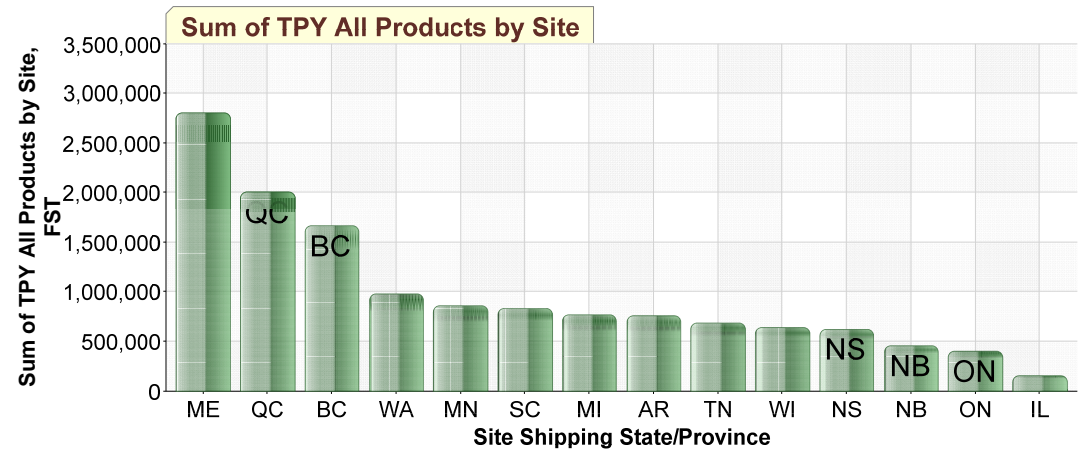


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Source: FisherSolve™

North American Coated and Uncoated Groundwood Paper



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Source: FisherSolve™



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Source: FisherSolve™

Newsprint Recap



- Lots of reasons to be pessimistic about US newsprint market
 - However, there is some hope the worst has passed
 - Even if US demand continues slide there is still non-US markets – India and Brazil –
 - Canadian newsprint production and exports should stabilize due to increasing non-US demand and slower decay in US market
-

Canadian Pulp Outlook



Downward pressures

- Slower paper demand growth
- Increased competition – e.g. Australia, Uruguay, Brazil, Russia
- Less reliance on northern softwood Kraft pulp

Possible Upward Pressures

- Chinese and other emerging market demand expected to expand
- Slower recovered paper substitution (?)

Prognosis: Canadian pulp production and exports to remain near current levels over the next ten years

Final Summary



- Canadian paper industries may continue to shrink over the next decade
 - But the next decade will not be as poor as the past decade.
 - This will mean more stable industries in most regions of Canada.
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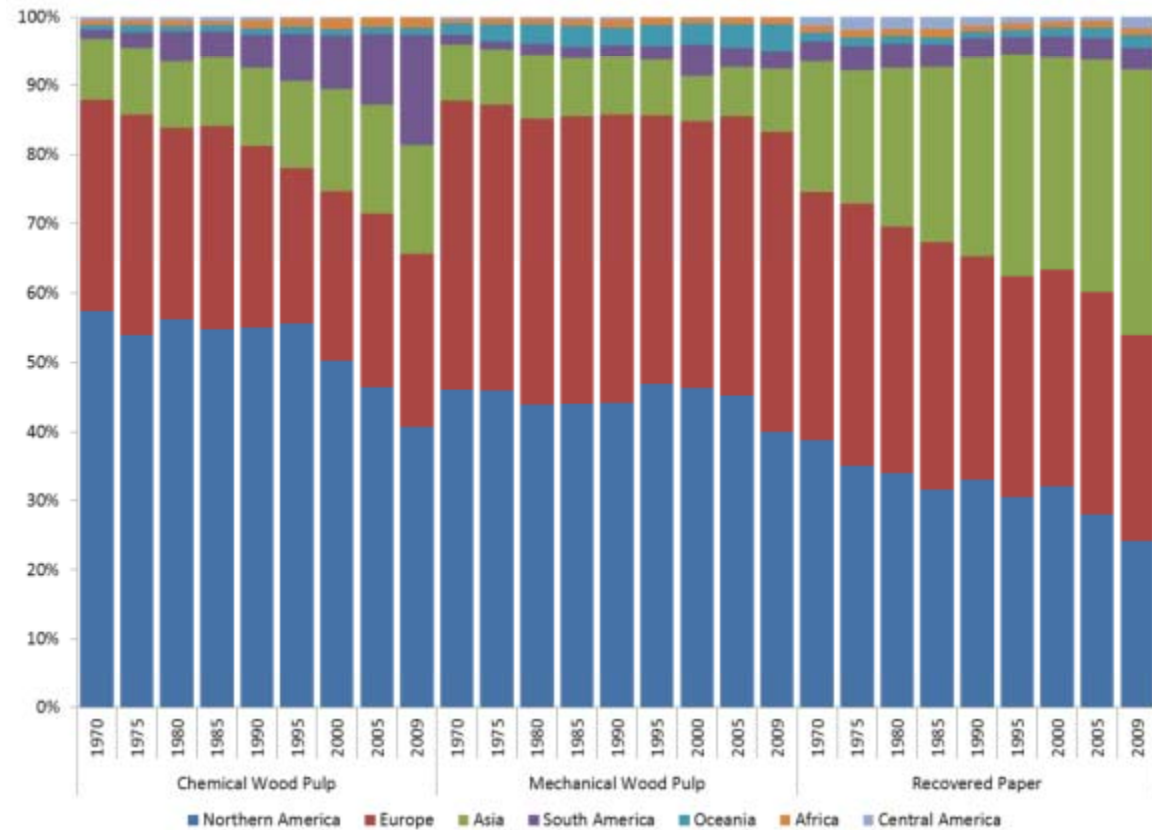


THANK YOU

Exchange Rates

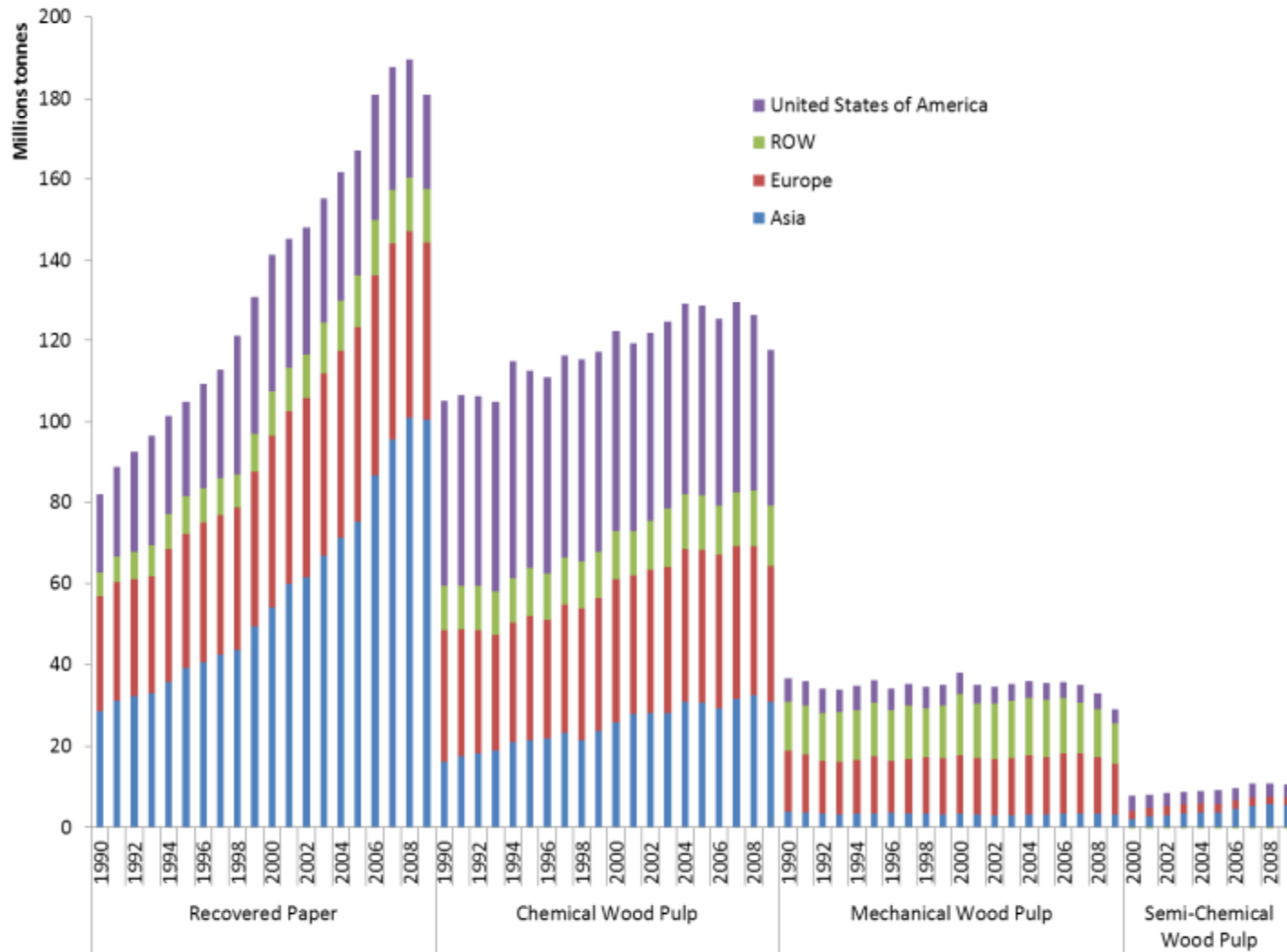


Regional percentage shares of global production of chemical and mechanical pulp, 1970-2009

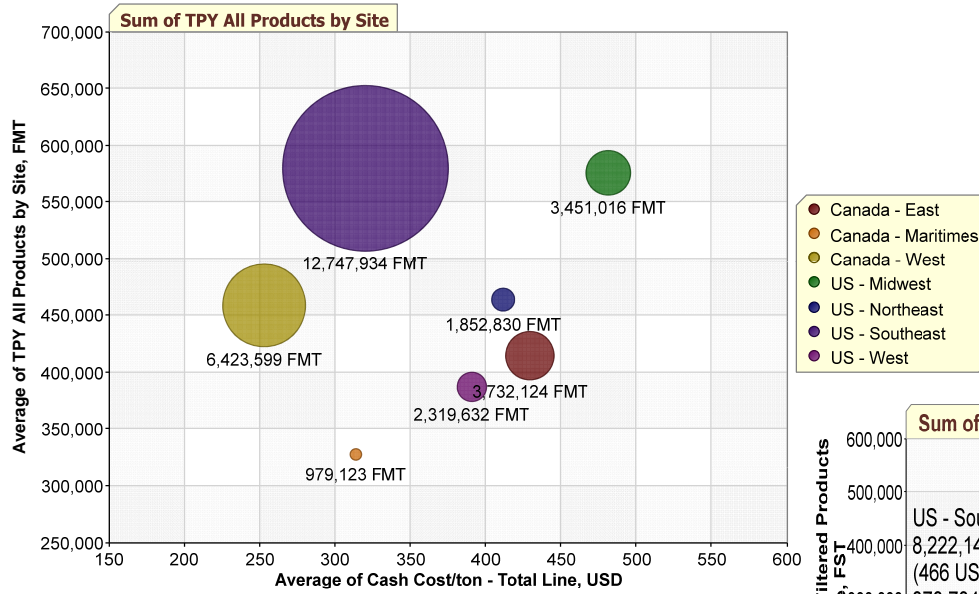


Source: FAO Forestry Statistics

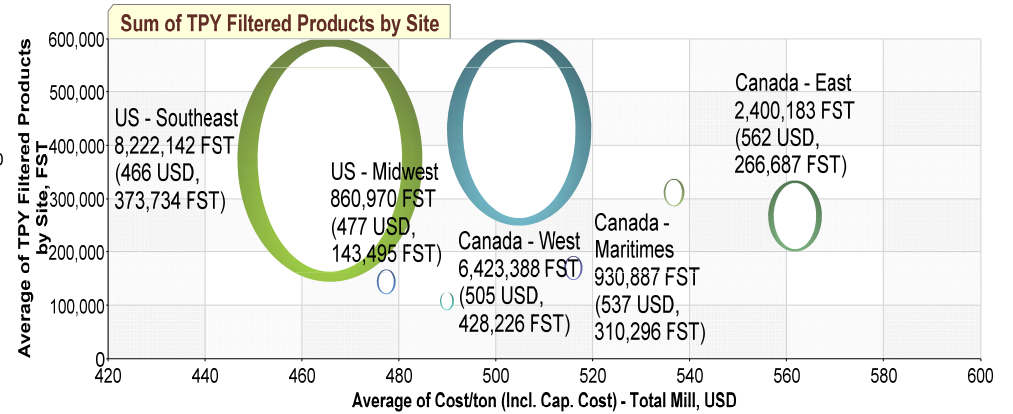
Regional pulp and recovered paper consumption trends, 1990 - 2009



Source: FAO Forestry Statistics



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