

A FRESH LOOK AT THE U.S. COATED FREESHEET MARKET FOR SHEETS VS. ROLLS AND THE IMPACT OF TARIFFS ON SUPPLY

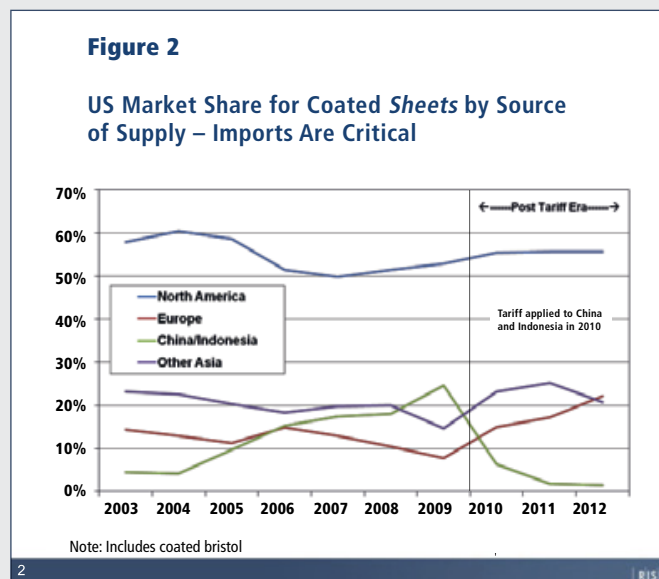
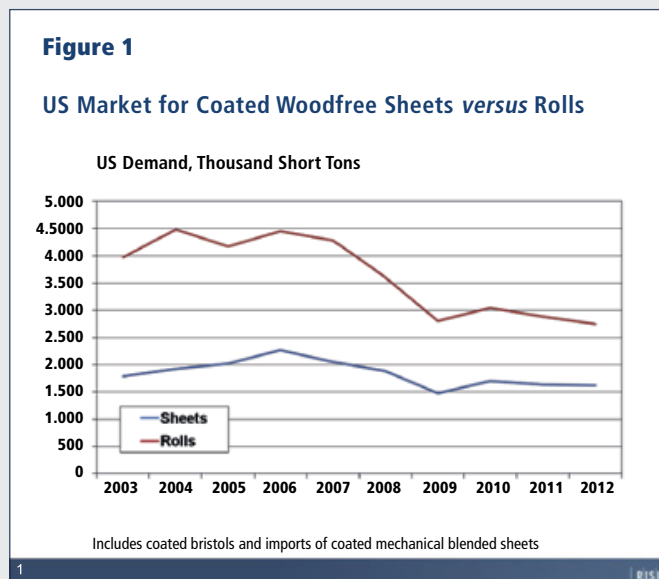
By John Maine, Vice President, World Graphic Paper, RISI

It has been three years since tariffs were placed on U.S. imports of coated sheets from China and Indonesia, and these tariffs are scheduled to be reviewed and possibly dropped in another two years. This viewpoint assesses the performance of the sheet versus roll market during the past several years, and the impact these tariffs had on the suppliers to this market.

The demand trends for coated freesheet sheets and rolls are shown in **Figure 1**. To make the numbers accurate, we included coated mechanical sheets, which are being imported into the U.S. from a number of sources in Asia and Europe. These are blended sheets with more than 10% mechanical content because of market BCTMP (bleached chemithermomechanical pulp) use, but they really compete as a coated freesheet product. Starting in 2012, the U.S. import data have a special category for coated mechanical sheets. These imports totaled 112,000 tons in 2012, with the largest tonnage coming from Spain, Germany, South Korea, and France (in order of importance).

The market for sheets and rolls has been declining; however, the negative impact of electronic media has disproportionately influenced the roll market. Since 2003, U.S. demand for coated freesheet rolls has collapsed by more than 30%, while the sheet market gave up only 9% of its size. The decline of magazines, catalogs, and high-end commercial printing jobs affected mainly web printers that use rolls, while the smaller sheet-fed printers managed to hold up fairly well amid the overall collapse of the graphic paper market.

Another factor is the pricing for coated sheets declined dramatically



Author's references:

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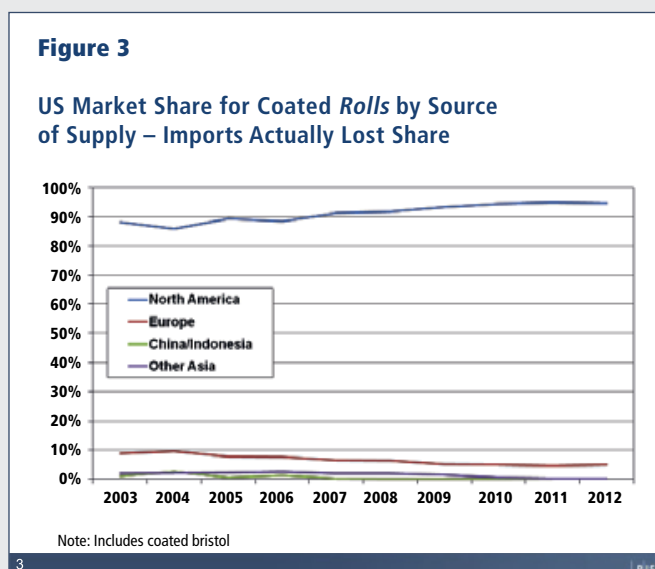
as a result of the flood of low-priced Asian imports to the market from 2005 to 2009. Economy coated sheets could be purchased more cheaply than standard commodity 60-lb. coated freesheet in rolls, despite the extra cost of sheeting. This helped propel the sheet-fed printers into some markets where costs of sheet printing *versus* web printing had been a limiting factor and allowed the use of coated sheets instead of uncoated paper in sheets for some applications.

Figure 2 shows the U.S. market for coated sheets by source of supply. Imports are critical for this market, accounting for 44% of the supply. It's the highest import market share for any significant graphic paper product in North America. The interesting fact is this import market share has been high for the past decade, ranging between 40% and 50%. It didn't change much as a result of the imposition of tariffs on coated sheets from China and Indonesia. One U.S. manufacturer gained a piece of business that was previously supplied from offshore, but the biggest shift was from Chinese and Indonesian suppliers to German and South Korean ones. As of 2012, the market share for China and Indonesia had dropped to near zero, but Europe jumped from 8% market share in 2009 to 22% market share in 2012, while other Asian countries soared from 14% market share to 21% market share.

It's also interesting to note as an aside that European suppliers gained additional share at the expense of the South Korean producers in 2012. The weakness in European demand forced suppliers to focus more on exports, while the capacity expansion in Asia slowed.

As can be seen in **Figure 3**, the U.S. market for coated rolls is completely different and has been relatively unaffected by the import battle with the exception of the market for sheeter rolls (rolls that are cut into sheets). Imports supply less than 5% of the U.S. market for coated freesheet rolls, and this share has been declining, with Europe being the only significant supplier of coated freesheet rolls to the U.S. market. Since this is the market that has shown the sharpest decline, domestic producers have fared very poorly in recent years, but not because of offshore competition.

The tariffs applied to coated paper coming from China and Indonesia will probably be lifted in 2015 when they come up for their 5-year review. They were ineffective at raising the U.S. domestic market share and also failed to increase U.S. market prices, which was one of the unspoken aims of applying tariffs to the low-priced, subsidized offshore suppliers. If these tariffs are lifted, we don't expect a renewed flood of Chinese and Indonesia imports. Capacity growth has slowed in these countries, and the overcapacity situation should almost be completely alleviated by 2015 in Asia. Furthermore, the cost of producing and delivering these sheets to the U.S. market has increased because of a stronger Chinese RMB (Yuan) and high cost inflation in Asia relative to North America. If China and Indonesia return as significant suppliers, there's every reason to expect the biggest impact would be on the suppliers that replaced them in the first place - Germany and South Korea - with a relatively minor market share loss to domestic U.S. suppliers. ■



RISI publishes a 5-Year World Graphic Paper Forecast. For more information, contact John Maine at jmaine@risi.com or visit: <http://www.risiinfo.com/risi-store/do/product/detail/world-graphic-paper-forecast.html>

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