

Transport, Handling, Warehousing and Distribution of Forest Products

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WOOD CHIP TRADE REACHES ALL-TIME RECORD

Also inside:

IFPTA On the Road Reception
in London

A closer look at the North
American forest products industry

The issues the US transport
industry is facing

Picture: Stora Enso



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Rhoda Voth
Saga Welco AS, Savannah, GA, USA

Anna Ward
Alabama State Port Authority, Mobile, AL, USA

IFPTA Association Management
TAPPI
15 Technology Parkway S., Suite 115
Peachtree Corners, GA 30092
Tel.: +1 770-209-7265
Fax: +1 770-446-6947
info@ifpta.org

RISI

The IFPTA Journal is published by RISI, Inc.

Editorial Headquarters
4 Alfred Circle
Bedford, MA 01730 USA
Tel.: +1.866.271.8525, fax: +1.781.271.0337

Managing Editor..... Susanne Haase
..... (shaase@risi.com)

Contributing Editor..... Graeme Rodden

Graphic Design Manager Anne-Chantal Bodart

Chief Executive Officer..... Daniel Klein

Advertising Sales:

International: Remy Poos
+32.497.050.735 - rpoos@risi.com

North America: Greg Porcaro
+1.781.734.8906 - gporcaro@risi.com
Vincent Monahan
+1.781.734.8931 - vmonahan@risi.com

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Alexander Global Logistics GmbH

Bürgermeister-Smidt-Str. 128

28195 Bremen, Germany

phone: +49 (0)421 566 46-0

fax: +49 (0)421 566 46-200

mail: info@alexander-logistics.com

web: www.alexander-logistics.com





THE TIDE IS TURNING

By *SUSANNE HAASE*, Editor

Manufacturers of graphic paper have had some tough years due to a dramatic slump in demand. But after corresponding cut-backs in capacity, the picture now seems to be changing: in early October, at the IFRA World Publishing Expo in Berlin, Germany, the *IFPTA Journal* met producers whose order books are chock-full.

A representative from Stora Enso, who was positively besieged by scores of customers during the international trade show for the newspaper and media industry, said that negotiations for deliveries in the coming year are already in full swing. Just recently there have been a few lucrative proposals which could not be accepted. He anticipated that the current situation would continue, and that demand would shift in favor of suppliers. He also expected there to be scope for further price increases. The Finnish business currently has the capacity to produce 1.65 million tonnes per annum of standard newsprint, improved newsprint, book and directory paper.

Privately-run Russian manufacturer Solikambumprom produces 500,000 tonnes per an-

num at its plant 200 km north of Perm. Seventy-five percent of its output is exported. India is the main market, followed by Turkey and Germany where up to 30,000 tonnes are delivered each year. According to a spokesperson, the company has no interest in exploiting the current situation. At present it is more focussed on “the best possible volume distribution”.

Perlen Papier has also felt the wind changing over past year – not only for newsprint, but for value-added paper grades too. According to reports, demand extends across the entire range.

Another reason why the current situation is proving beneficial for the Swiss firm is its location in what is, logistically speaking, the heart of Europe. This goes some way towards offsetting the significant disadvantage of having costs in its home currency of Swiss francs. The producer sells throughout Europe: major markets besides Switzerland are Germany, Italy and France, as well as England and Benelux. Shares in the coated grades segment in Eastern Europe are also growing, according to a company representative. “There are several different opportunities for selling newsprint more profitably at

the moment,” he said. Every day the company apparently receives a number of lucrative enquiries from around the world, but turns them down so that it can provide a reliable service to established customers.

This year, it seems that the company had effectively sold out already by the end of the first quarter. In the coming year, because paper availability is the issue, engagement will take place much earlier – and customers will also be encouraged to finalize quickly.

The global paper shortage is also a problem for German manufacturer Palm, a company that brings just under one million tonnes of newsprint to market per annum. It reported turning down numerous enquiries in order to provide an adequate service to regular customers. A further price increase is expected here, too; in Germany, products are still more than EUR 100 below the world market price of US\$750.

It is clear, then, that even a declining segment can become profitable again if surplus capacity is reduced. This is reinforced by the fact that converting graphic paper machinery to produce packaging paper has begun to pay off.



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Let me give you a taste of what is to come

By ALAN BOG, IFPTA President

As I write this, I have just come back from London Pulp Week where we had one of the best attended IFPTA on the Road events we have ever had.

Around 90 people attended to hear a very interesting presentation by Ismo Nousiainen, CEO of Metsä Fibre. Ismo gave a detailed insight into Metsä Fibre's impressive supply chain set up between its Äänekoski Mill in Central Finland and its logistics hub in Helsinki. I would like to thank Ismo for taking the time. I know that those present appreciated his presentation very much.

We also had a short presentation from Genoveva Climent, commercial manager of the Port of Tarragona, where the next Transport Symposium will be held in September 2019. Tarragona is very easy to get to, being about 45 minutes' drive from Barcelona airport, or by high-speed train from Spain's capital Madrid. As those who saw the presentation will have seen it is an area very rich in culture and history, and I am sure that many attendees at the Symposium will want to take some leisure time there as well.

We also made a personal presentation to Peter Normann. Peter has been a Board mem-

ber of IFPTA for the last seven years. I must say it has been a pleasure serving with him. He has been one of our most effective board members - and a great support to the association over many years. I would like to extend my personal thanks to Peter!

We are currently working on the TS 23 conference programme, which will cover themes which we believe will cover issues of particular concern to the industry. In the 2019 editions of the IFPTA Journal we will run a series of articles covering areas related to those themes, to give a taste of what is to come in Tarragona.



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Welcome to Tarragona, the three-time World Heritage Site

By JOSEP ANDREU FIGUERAS and PABLO GARCIA

Tarragona is the capital of the Costa Daurada, an hour south of Barcelona by motorway and three hours by high-speed train from Madrid. Located in the north-eastern corner of the Iberian Peninsula, Tarragona is Catalonia's southernmost capital city. If arriving by plane, the region is accessed through two airports: Reus, is 7 kilometres away. Barcelona, is 82 kilometres away.

By train, the city also has direct rail links to all major Spanish and European capitals. Tarragona has two train stations. The first is located in the city centre and offers links to regional trains to Barcelona, as well as national and internal long-distance trains (to Valencia, Andalucia, Madrid and France). The second, located just 10 minutes from the centre, is the "Camp de Tarragona" high-speed train (AVA) Station, which gives rise to a wide range of rail links to Barcelona, Lleida, Saragossa, Madrid, Cordova, Seville.

If arriving by car, Tarragona is the junction of two major Spanish motorways: the Mediterranean Motorway, which runs from Alicante to France and the rest of Europe; and the Northern Motorway—from Tarragona to the Basque country.

Tarragona has been recognized three times by UNESCO. Tarragona was first directly recognized in year 2000 when the city was awarded the distinction of World Heritage Site for its Roman archaeological legacy, including exceptional historical sites such as the city walls, the circus and the amphitheatre. The other two times Tarragona received UNESCO recognition were for distinctions closely linked to the city's culture: the castells (human towers) in 2010 and the Mediterranean diet in 2013.

Castells are an impressive sight to see. They are human towers formed by huge groups of



Picture: Port Tarragona

Josep Andreu Figueras,
CEO Port of Tarragona



Picture: Euroports

Pablo Garcia, Managing Director Euroports Iberica, Tarragona

people that can reach up to ten levels in height. Castells are a deep-rooted tradition, a community event that brings together both young and old. One could say that castells are part of the DNA of Tarragonians, so much so that every two years the city holds the largest castells competition in the world.

Tarragona's cuisine is another reason to visit. The city has over 200 restaurants offering versions of every type of food in the world, but the one that truly stands out is Mediterranean cuisine, which features traditional components like romesco, a spicy lightly hot sauce, and above all, fresh seafood and rice dishes. This outstanding cuisine is accompanied by local produce which is renowned for its exceptional quality, such as olive oil and wine.

Thanks to its location, Tarragona enjoys an enviable climate; in fact the Romans actually called it the City of Eternal Spring. Its mild winters and few rainy days make it an ideal destination all year round.

Easter week is an excellent example of this. The celebration of the Easter holidays in Tarragona is considered among the most important

in the country. In fact, the Spanish government has recognized the Easter celebration in Tarragona as a Festival of National Interest.

Tarraco Viva is another event that takes place in the city's streets every May, in its open and ancient spaces. It is considered the best festival centring on the historical reconstruction of Roman life, culture and society in Europe. Tarragona offers a multitude of activities and festivals, including Santa Tecla (the fire festival 23rd September), Sant Magí (the water festival 19th August) as well as other events such as the Dixieland Festival, The DO Tarragona Wine Fair, International Fireworks Competition, Amphitheatre and many others.

Tarragona is a city on a human scale, clean and safe, a city that has managed to preserve and cultivate its Mediterranean essence. Visitors can leave the car behind and stroll through narrow passageways filled with history, life and Mediterranean light.

Tarragona's link to the sea is deep-rooted and inescapable. The coast of Tarragona offers visitors 15 kilometres of beaches, whose ecosystems and natural beauty remain virtually unaltered. The fine, white sand beaches slope gently into the sea, making them very safe for families.

Last but not least, there is no shortage of high-quality accommodation available. The city is home to an extensive range of hotel options for all tastes and budgets.

The people of Tarragona truly appreciate visitors from all round the world, receiving them with open arms and doing their best to make them feel at home. We are already looking forward to welcoming you during the Transport Symposium TS 23!

For further information:
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CM BIOMASS GROWING GLOBALLY (AND "AGGRESSIVELY")

A new storage facility in Savannah is set to open in early 2019

By GRAEME RODDEN, Contributing Editor

During TS 22 in Savannah, one of the participants in the Green Energy Panel was Todd Bush, CM Biomass, part of the Copenhagen Merchants Group.

Bush has a lot of insight into the growing pellet market, a sector in which CM Biomass is very active and is growing.

Speaking of Savannah, the company is about to open a new storage facility in the eastern part of the port, in the same location as Georgia Biomass. The facility is set to open in March 2019 and will have a capacity of 20,000 tonnes. CM Biomass has an option for a possible second phase at the site, which would add another 25,000 tonnes of capacity.

The *IFPTA Journal* caught up with Bush recently for an update about the company's activities.

IFPTA Journal: Last year, you said that CM handled more than one million tonnes of pellets in 2016. What is volume now? Is it still growing? Is the pellet market still a good place for CM?

Todd Bush: Yes it is still a good place for us but only because we have focused on expand-

ing aggressively geographically on both the sales and purchasing and also within product classes in all regions that we are in (ag residues, briquettes, EN Plus, Premium, Industrial, Commercial, Animal Litter) but also keeping an eye on supporting our partners in each region (we are the constant and stable buyer/supplier as

the case may be). We continue to grow in size and expect to sell more than 1.5 million tonnes (pellets only) in 2018

Also, just over 50% of the pellets you handled were destined for the industrial market. Is that still the case? Is it changing? If so, why?

It is still roughly a 50/50 split. Premium is our bread and butter as we have invested quite heavily in supply chains including storages and on-the-ground professionals for market knowledge and to better serve our clients, but the large chunks that we can sell into the industrial market help keep the position rolling. As we look forward, it is hard to say if one will take a larger part of our book than the other as both continue to grow and there continues to be a value for a trader like ourselves to add liquidity and take risk from the chain.

From where do you source? Are North America and Europe still your two main suppliers?

Looking forward, Russia and North America will be our structural supply but with the Baltics (Lithuania, Latvia, Estonia) coming close behind



Todd Bush

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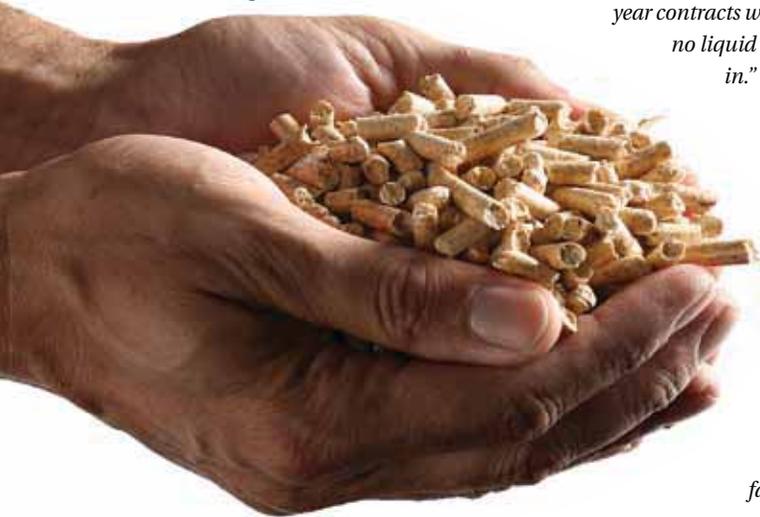
You said the South American pellet market had potential. Is that being realized yet? If so, how much volume do you handle from there?

We have thus far only handled small volumes from South America into our premium supply chains (i.e. bags to Italy) and there are some very reliable and professional suppliers already exporting but they are getting hammered a bit by rising container freight from South America. Alas, the promise of South America disrupting the pellet market like it did the pulp market decades ago has yet to happen. Some project finance vehicles have started beating around for the elusive industrial contract but logistics costs are still high in South America and regardless of rising pellet prices, the appetite for utilities to sign multi-year, high fixed-price contracts for green field projects seems to be over especially without a guarantee on the other side.

Are you dealing with the Asia at all?

We have sold some volumes from West Canada and East Russia into Korea this year and the East Russian volumes are ongoing. Prices in Korea

Pellet market is good for traders



rea seem to be rising. Japan is coming up after a slow start but still looking for longer contracts starting many years out and very little trading occurring.

Bush explains that the situation in Japan is different. Most of the power plants in Japan will be built in the 2019-2021 time frame and the power producers are then looking for long-term contracts, i.e., 10 years. Todd says that this not the market CM Biomass "plays in". It prefers 2- or 3-year contracts with a lot of "spot" sales. "There's no liquid market there that we can play in." Japan is coming but at present, not in the area where CM Biomass is active.

You noted some of the reasons why the pellet market was good for a trader: seasonal demand against non-seasonal supply; spatial disparity between supply and demand regions; little overlap between industrial and premium markets? Are these factors still true?

Yes. These are the gaps that we try to bridge and hence add value.

How is the market evolving?

The Sustainable Biomass Program (SBP) is becoming the standard for sustainability even though you have some players with parallel systems. SBP is a non-profit, standard setting organization which manages a voluntary certification system designed for woody biomass used in energy production. SBP developed its own set of 38 sustainability indicators.

There is also more acceptance of new regions, contract types and counterparts, swaps, etc. It is a slower evolution than many had hoped for but it is getting there and will accelerate as new large players come on line on the buy and sell side.

How and why did CM Biomass get involved with the pellet market? What are the synergies with the Copenhagen Merchant Group?

We started doing freight for pellets from the Baltics to Denmark (we have terminals and staff in both places), then storage for the same, later we started brokering pellets from Portugal to Northern Europe, then trading, then bagging

of pellets at our terminals in Denmark. Now it's been almost 10 years and we have over 30 storages around Europe (UK, Denmark, Germany, Sweden, Benelux, France, Italy, Baltics, Russia), have over 30 dedicated biomass employees, and source globally. Our parent, Copenhagen Merchants, trades over 3 million tonnes of bulk freight, owns and operates 11 ocean terminals, brokers more than 15 million tonnes of grain, and now we run a small fleet of vessels; we are perfectly situated to understand the freight market and determine synergies for freight, storage, raw material, and often also share sales leads... but we are still family owned and small enough to understand ourselves, our customers and suppliers.



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RISI's annual North American forest products outlook conference showed a strong industry but some outside threats could pose a challenge

THE TRADE WAR THREAT LOOMS

By GRAEME RODDEN, Contributing Editor

Trade issues and pulp dominated discussions during the final two days of RISI's annual North American forest products outlook conference, held in San Francisco, CA, in October.

After opening with a look at the future of the wood products market, day two's theme was: Cost and Supply Chain Challenges for Pulp, Paper and Beyond.

Lasse Sinikallas, RISI's director of macro-economics, noted that the global economy is still growing, but moderately, and faces heightened risks.

All economies (developed and emerging) have done well in the past few years and this should continue. However, inflation has gone up recently mostly due to higher oil prices, which are at their highest in four years.

Politics is an increasing concern. Economic policy uncertainty is elevated globally, Sinikallas said. The US economy has grown, he added, but faces continued uncertainty with President's Trump's policies, which pose a "serious concern".

He also noted that US labor productivity is low. With very low unemployment levels, he fears a tightened labor supply could promote inflation.

In China, the transition continues. There is concern about the level of debt and the fear of an all-out trade war with the US adds an additional risk.

The industrial side of China's economy is settling and there is not likely to be significant growth. He expects China's economy will decelerate slowly and he does not expect a "crash landing".

But, Sinikallas warned, there is always a level of doubt in the truthfulness of any statistics released by the government.

In Europe, geopolitical concerns (e.g., Brex-

it) may cause chaos. Inflation also poses a challenge. Is there a loss of momentum, e.g., falling retail sales?

Overall, Sinikallas said the world economy will look the same in 2018 and 2019. The US should perform well with some concerns. China is moving to consumer-led growth.

CHINA STILL THE STORY

RISI's vice president, fiber, Dave Fortin, gave the outlook for the global pulp market. Recent conditions have had a severely unsettling effect. Foremost among these are the "aggressive" import policies of China. This affects virgin pulp as

well as recycled fiber, Fortin said. It also affects trade flows. With the global economy improving, this means price hikes.

Fortin explained that China plans to ban all recovered paper (RCP) imports by 2020, although there is still some debate as to whether this will happen. Still, on March 1 of this year, China imposed a maximum contamination level of 0.5 percent on all RCP imports. This compares to the traditional 1.5 percent level previously in effect. Since May, China has been inspecting all RCP containers coming from the US. Then, there is the ongoing trade war between the two countries.

Voorhees accepts NA CEO of the Year

To open Day Two of the conference, RISI CEO Daniel Klein presented the North American CEO of the Year Award to Steve Voorhees, WestRock.

Under his watch, WestRock has become a \$16-billion company and the most recent acquisition, Kapstone, positions the company for further growth. It is a global outfit with more than 50 facilities and more than half of its revenue derived from outside the US. Its revenue is split between corrugated (55 percent) and consumer packaging.

It is innovative in its custom packaging and in-store designed displays.

In a "Fireside Chat" with RISI editor Greg Rudder, Voorhees said that e-commerce business in boxes is growing rapidly. The challenges are similar to what Voorhees says the company faces elsewhere, e.g., changing markets, how to cut down on overpackaging.

Asked about how hard or easy integrating an acquisition into the WestRock family is, Voorhees said each case is different. For example, the Smurfit-Stone merger was very difficult because the company was bankrupt and could not invest in its assets; the "culture" was dysfunctional.

One of WestRock's great efforts and an ongoing one is devoted to attracting and retaining talent, a challenge all companies in the industry faces. During the summer, the company hired more than 200 interns from around the US to work in its facilities.



This has global ramifications, Fortin stressed. He said that if one takes an estimated 85 percent yield from RCP, this means 11.6 million metric tons of pulp need to be replaced. How? Virgin pulp is one solution. Others include increased imports to China of paper and board or increased domestic collection of secondary fiber. Its recovery rate is 64 percent now but quality is low and the supply chain is stretched.

The result has been an increase in RCP prices in China but elsewhere prices are low so this RCP needs to find a new home. China has become a high-cost producer of recycled paper and board.

Elsewhere, in the virgin pulp sector, unexpected downtime (natural disasters, mill incidents, startup delays, etc.) have offset new capacity. RISI has started tracking this unexpected downtime. For example, through 3Q 2018, there has been 1.8 million metric tons of downtime among pulp producers.

Pulp inventories are low across the board while paper and board markets are entering their traditionally strong season. Pulp prices are high while paper and board prices are increasing. The price differential between dissolving pulp and bleached hardwood kraft pulp remains narrow bringing swing capacity back to paper grade.



John Maine, RISI: The P&W decline has abated

In summing up, Fortin said that world production of paper and board is growing, albeit slowly. Most of this growth is in the packaging sector with a modest effect on pulp. The decline in graphic papers is slowing and tissue demand is growing, which has a positive effect on pulp.

Even high-cost mills, hardwood or softwood, are now making money. The global supply of pulp is tightening as supply grows by 2 percent but demand climbs by 3 percent. He sees market conditions continuing to tighten in 2019. There are some major consolidations in the work, e.g., Suzano and Fibria, but even these won't offset pricing.

There were several panel discussions sprinkled through program. One looked at Trade Exposure and Trades Cases. Bonnie Myers, King & Spalding, was a featured panelist.

It was shown that there have been \$500 billion in tariffs imposed on Chinese goods as of 2019. This is for all sectors, not just forest products. This is equal to the total amount of goods imported.

Myers said the trade policies of the current US administration are confusing for many people, even "erratic and perhaps dangerous."

She said that President Trump has made good on the promises he made in the 2016 campaign and added that he will be even "more aggressive" to gain concessions from trade partners.

What has led to this path? Myers pointed to four factors.

- The belief that trade deficits are a bad thing and need to be addressed. It does not matter if the trading partners are friends or foes.
- Buy American; hire American.
- Bad trade deals need to be re-negotiated or scrapped such as the trans-Pacific deal.
- Trade laws have to be strongly enforced.

Myers added that the president has signaled he intends to use "every trade remedy device in the toolbox".

There is no doubt that President Trump has not been shy about taking on the traditional international trade order, i.e., the WTO. He believes the WTO dispute mechanism is broken.

Going forward, Myers advised, "Fasten your seatbelts; it's going to be a bumpy ride."

One delegate asked about the recent spate of Chinese purchase of North American pulp and paper assets. It relates back to China's need for fiber, which "trumps" tariffs and duties. But, an all-out trade war brings recessionary factors into play so demand could drop.

If a company gets involved in a trade case, what recourse does it have? Myers said it depends upon the importance of the trade to the company. It is worth to defend yourself if the market is important. Get good counsel, she stressed.

Turning back to specific grades, RISI's vice president, global packaging, Ken Waghorne, said although there were a lot of issues in play in the market in 2018, the North American containerboard and boxboard industries enjoyed a renaissance.

Domestic demand has grown steadily and there are new opportunities for growth. He noted that the trade balance is shifting dramatically for both sectors. The industrial production of processed food and other non-durable goods has rallied since 2016. E-commerce is boosting the impact of the rally in manufacturing although Waghorne added that it is difficult to determine exactly how large an effect it has had because data are hard to find. Still, one estimate shows that e-commerce is estimated to have added 23 billion square feet of corrugated box demand over the past five years.

Waghorne did say the boost from e-commerce will slow as overpackaging abates, citing Amazon's "frustration-free" packaging.

Opportunities will arise from the declining with paperboard already replacing plastics in numerous applications. What does this mean for US domestic demand? Waghorne said to expect continued growth for containerboard and boxboard producers as long as the US economy remains strong. He is looking for a 3 percent increase in boxboard shipments in 2019 with a slightly increase for containerboard.

Waghorne also wondered if China will be able to ban all RCP imports by 2020. He sees

a decline in Chinese boxboard production of about 200,000 metric tpy between 2018 and 2020. And, containerboard changes will dwarf boxboard changes. The loss of OCC will have a “devastating” impact on Chinese production.

In North America, the trade balance is shifting in the packaging producers’ favor. US imports will still grow but more slowly. Exports will rise. Waghorne said there will be a strong increase in US containerboard exports. Already, through the first seven months of 2018, kraftliner exports rose by 30 percent. The total should reach 8 million metric tons by 2020, up from 6 million in 2018.

He also told delegates to expect more announcements of Chinese investments in offshore assets mills because of the RCP ban.

In terms of investments, Waghorne said seven large expansion projects in the containerboard sector will add more than 2 million tons of capacity in the next two year, but that even more is planned. Boxboard changes are more limited with two mill closures and one conversion project (Sappi).

The demand:supply balance is not expected to loosen before 2020. There should be exceptionally high operating rates for containerboard because of the great growth of exports to China.

Although it continues to decline, there have been some interesting twists in the graphic paper sector, according to John Maine, vice president, graphic papers and one of the founders of RISI. Believe it or not, newsprint is the most profitable graphic paper grade to make in North America right now. But, Maine added, he expects this profitably to slide significantly beginning in 2019.

This does not hide what seems to be a terminal decline in newsprint demand in North America, from 14 million tons less than 20 years ago to about 3 million tons now. Maine sees it falling further to perhaps 1 or 1.5 million tons.

What happened recently was that capacity closure led to operating rates in the 95 percent range. The tight supply also led to increased prices which led to some restarts of moth-

balled capacity. However, with a 10 percent annual drop in demand, operating rates in 2019 should reach 90 percent at best.

The printing and writing paper decline trend is improving. For example, uncoated freesheet demand is down 1.7 percent in 2018 but this will worsen next year. Copy paper demand in 2018 has been good thus far but demand will decline to traditional levels seen over the past few years.

For printing and writing papers, it depends on the specific grade. The biggest decline is on the mechanical side. Woodfrees are doing better.

For 2018-2020, Maine sees an overall decline of about 1.3 percent annually or a total tonnage drop of 3.9 million tons.

Magazine circulation is sliding about 1 percent last year but single copy sales have dropped 16 percent annually. Free magazines now make up about 10 percent of the market. Magazine ad pages have declined even more sharply than newspaper advertising. Maine said he believes there it will be another four to five years before this collapse ends.

Catalogs, “junk” mail and commercial printing have all fallen albeit at a slower rate than what the industry has seen. Book printing papers have improved, up 2.3 percent/yr since 2013 and Maine sees more improvement in 2018.

In trade issues, US tariffs imposed in 2010 on coated freesheet from China and Indonesia remain. Tariffs imposed on SC paper from Canada in 2015 have been rescinded and all money collected refunded. Tariffs on Canadian newsprint and other uncoated mechanical grades have been dropped and refunded.

The biggest tariffs that remain on uncoated freesheet are on European producer Navigator and even these have fallen to less than 2 percent from 37 percent.

Maine noted that in 2014, the US imported 800,000 tons of cut size copy paper. With the tariffs, this fell to 200,000 tons in 2017. With the tariffs dropped, he says the country will see an increase in imports.

The only sector seeing major capital expansion on a global basis is uncoated freesheet yet demand continues to drop. Global operat-

ing rates will fall, but not in the US. On the coated side, there are no expansions, only shutdowns or conversions.

The global increase in pulp prices is squeezing non-integrated mills. The five-year trend in declining costs in North America ended in 2017 and costs are on their way up again.

Well known tissue expert Esko Uutela said recent growth in the sector has been strong, growing 1-1.4 million tons/yr. Tissue consumption is growing more than 3 percent annually. China leads the growth but South America is also becoming a strong market.

In North America, the away-from-home (AfH) sector has benefited from a strong economy and lower gas prices. US tissue imports are growing, now about 1 million tons/yr. Canada is still the main exporter but China is catching up. But, Uutela asked, will a trade war change the supply pattern?

If tariffs on Chinese tissue do hit 25 percent in 2019, it will cut imports and other sources may not be able to replace this supply (320,000 tons). However, not all tissue categories will be affected by the tariffs so not all Chinese imports may stop.

In the US, online sales have increased but not to the same scale seen in places like China.

The private label share of the US market continues to grow. By 2026, Uutela said it could reach 36 percent, up from 30 percent at present.

In Latin America, Brazil and Mexico dominate the market. There are big variations in growth because of economic and political turmoil. By the end of 2019, expect more than 250,000 tons of new capacity to hit the Latin American market.

The tissue market as Asia is now more than 13 million tons with China accounting for more than half of it.

Globally, consumption is benefiting from improving economic growth worldwide, about 3 percent per year. However, too much capacity is coming online. Global overcapacity is the name of the game, Uutela said.

As tissue becomes more global and dynamic, cost issues are playing a more important role.

The US transport industry is facing myriad issues

“IT WOULD BE NICE FOR THE US TO CATCH UP TO THE 21ST CENTURY”

By GRAEME RODDEN, Contributing Editor

As part of the RISI North American Forest Products Outlook Conference (see previous article), a panel discussion was devoted to transport issues.

Moderated by *Pulp & Paper Week* editor Greg Rudder, the chosen topic was: Trucking, Shipping and Trade: Challenges in the Wood Distribution Market. The featured panelists were David White, senior director of transportation and logistics, Domtar; and, Greg Ritter, chief customer officer, XPO Logistics.

One of the first issues discussed was the shortage of truck drivers. Ritter says this is the new norm and has been a problem for more than 20 years. Concern about quality of life, rather than just money, is an issue for drivers. For the most part, it is an ageing population.

As a result wages are increasing and will increase dramatically in the next few years such that, Ritter says, it will pull people back into driving. One comment was that in two years wage levels will be such that college graduates would be better off behind the wheel of a truck.

White notes that driver shortages affect companies such as Domtar as well. “It is an uncomfortable time for us.” He looks upon the issue as the “four E’s”: economy; e-commerce; electronic logging devices (ELD); and, extreme weather.

Do not underestimate the latter. Extreme weather (hurricanes, massive snowfalls) seems to be happening with increasing frequency. This plays havoc with schedules as well as drivers’ safety and desire to remain on the road.

As a result, Ritter does not believe the average age of drivers will get younger any time soon. Driver turnover is a very high 80-90% per year. How to solve this? Increased diversity is one possibility, i.e., more women driv-

ers. Maybe, he says, it is an opportunity to hire more ex-military personnel. “We want to keep the drivers we have,” he says, “so we need to make it a better job. He urges customers to make their facilities “driver-friendly”.

One question asked how the industry could look at the business in “totality” to help drive needed change.

One possibility was increasing trailer length from 28 ft to 33 ft, but this was quashed. It has been brought back for regulatory approval. This would help alleviate the driver shortage. A similar legislative change would allow for heavier trucks. But, White notes, the railways are opposed to this. “It would get trucks off the road, but trying to get things done in Washington is agonizing.”

White adds that these issues need to be dealt with mostly by his trucking partners. He does say that Domtar tries to treat its drivers right.

The discussion turned to rising freight rates – rail, road and sea – and how to mitigate them. White says that Domtar does a lot of analytics to get the optimum mix. He adds that the company is OK with paying a little more for longer-term contracts rather than paying spot rates.

Ritter notes that variabilities and spikes kill the planning process. The objective is to look at a customer’s system to make it more efficient. XPO tries to be “mode agnostic”.

Supply chains are changing. Ritter says the aim is to be closer to the customer. Technology is playing an ever more important role. “How can we capture empty miles on trucks to improve productivity?”

One delegate asked about self-driving technology. Ritter agrees that the technology is here with more and more testing due. But, he says the country is not ready for an “empty

cab”. He believes that a more likely scenario is to have two or three trailers hitched together, “tethering”. For self-driving to happen, the US highway infrastructure needs to be changed. It is also a concept that has not been accepted culturally. White agrees that it is not something that will be commonplace in the near-future.

Although an accepted part of the European transport scene, inter-modal in the US still has a ways to go.

White says Domtar does as much as it can but that the railways still have work to do. “They need to work on the 500-mile distance. Shorter distances can be relatively expensive.”

As an exporter, White says Domtar is in a good situation because there are a lot of empty boxes (containers) leaving the country.

Inter-modal is one of the hottest issues, Ritter agrees, but that in the US there is only a finite supply.

Harking back to the truck weight debate, he adds that the maximum allowable weight is very state-driven (and much lower than allowed in Europe). “It would be nice for the US to catch up to the 21st Century.”

Is there potential for more short haul rail? Speaking personally, White says he is not sure if the railways are interested in some of the traffic Domtar has to offer

Finally, the issue of contractors declining contracts in favor of pursuing more spot business was brought up. Ritter says that there is some truth to that but that XPO did not want to be part of it. “We want to build long-term relationships. I believe the spot market is declining. It is less of a problem that it was. We are seeing more freight that was on spot going into contracts. Recently, we have had more conversations about 2- and 3-year deals.”

FOCUS ON INTERNATIONAL TRADE OF WOODCHIPS

By BOB FLYNN, Director, International Timber, RISI

International markets for woodchips, primarily for pulp production in Asia, but also for wood panel production and biomass energy, are continuing to grow, but limitations in available supply are likely to cause significant changes in the trade in the years ahead.

That was the general consensus at the 10th International Woodfiber Resource and Trade Conference, held in Durban, South Africa, on September 17-19, 2018. A total of 180 delegates from 32 countries gathered to network and exchange market intelligence, and one-third of the delegates continued for a three-day field trip to visit the Port of Richards Bay as well as key South African companies Mondi, Sappi, NCT and TWK.

Biomass has been a topic of growing interest for this conference, but unlike most of the biomass conferences around the world, which focus primarily on wood pellets, this meeting also highlighted the sourcing of woodchips for energy. John Bingham of Hawkins Wright, editor of the *Forest Biomass Monitor*, presented findings from his recently published report on the rapidly expanding biomass markets in Japan and South Korea. A discussion panel of European power company executives, from Engie, Stockholm Exergie and Hofor, spoke about the need for biomass woodchips in certain biomass plants and the need for sustainability certification.

Turkey remains by far the largest market for imported woodchips used to produce wood-based panels (MDF and particleboard), and Turkey's largest wood panel company, Kastamonu, presented information on its expanding presence in the panel markets not just in Turkey, but also in Russia, Eastern Europe and Italy. Markets in Turkey have been weaker in the past several years due in part to political and economic turmoil in the country.



The conference room

All pictures: RISI

Group of delegates participating on the field trip



But by far the majority of discussion was on the Asian markets for imported woodchips, where pulp and paper companies produce over 12 million tonnes of pulp annually with imported woodfiber. Of course, this pulp competes directly with wood pulp imported from Latin America, North America and Europe, and RISI economist and founder Rod Young provided an update on the global pulp and paper markets.

The barriers to imports of recovered paper which China instituted earlier in 2018 have had a profound impact on trade in waste paper, of course, but this has also resulted in some interesting market shifts in demand for both wood pulp and paper products. In general, demand for pulp is expected to grow steadily, but relatively slowly, over the next four to five years, with current high pulp prices expected to be maintained due to a lack of new large projects starting production in the next several years.

Representatives of APP, Oji Holdings and Hokuetsu Paper discussed the outlook for demand for woodchips in China and Japan, and woodchip suppliers from Australia, Chile, Vietnam, Brazil, Uruguay, Thailand, the USA, Canada, Indonesia and South Africa described the outlook for woodchip supply from their respective countries.



During a visit to Sappi forestry

Liybov Bilas of NYK Group and Attila Kovacs of Trade Marine addressed issues relevant to ocean transport of woodchips and pellets, while equipment manufacturers Andritz, Demuth Woodhandling and Woodtech discussed new developments to improve woodchip quality and handling. Hakan Ekstrom of Wood Resources International highlighted important trends in woodchip pricing, and a panel of nine companies provided very brief overviews of new woodchip projects being developed in Colombia, Mozambique, Brazil and Australia, as well as some interesting new wood flows into Europe.

Finally, Bob Flynn, Director of International Timber at RISI, gave a summary overview and forecast on the Asian woodchip import markets over the next five years. In 2017, companies in China, Japan, South Korea, Taiwan and India imported 22.9 million BDMT of hardwood chips and 1.9 million BDMT of softwood chips, almost all of which were used to produce wood pulp.

For 2018, imports are on track to reach 23.6 million BDMT of hardwood chips and 2.1 million BDMT of softwood chips, which would mean a new all-time record volume for this trade (Figure 1). Demand is expected to con-

tinue growing, but at a slower pace than in the past, reaching 24.9 million BDMT of hardwood and 2.4 million BDMT of softwood by 2022 or 2023. However, Flynn warned that various factors would restrict available woodchip supply and lead to a possible shortfall of more than 3.0 million BDMT of woodchips by 2023.

These factors include:

- The Vietnamese government adopting a policy to reduce woodchip exports in favor of more value-added processing in the country. To date, the government has only instituted a 2% export duty on woodchips and has not otherwise restricted the trade, but it has made it clear that any new production facilities will receive priority in terms of gaining access to woodchip supplies.
- Australia's lack of adequate tree planting after the 2009 financial crisis and the conversion of large areas from tree plantations back to agriculture. According to Australian suppliers, 2018 shipments will be somewhat lower than in 2017, and shipments are expected to decline further in the years ahead, indicating that the peak is already past.
- Arauco's new MAPA project, which will require a large increase in domestic con-

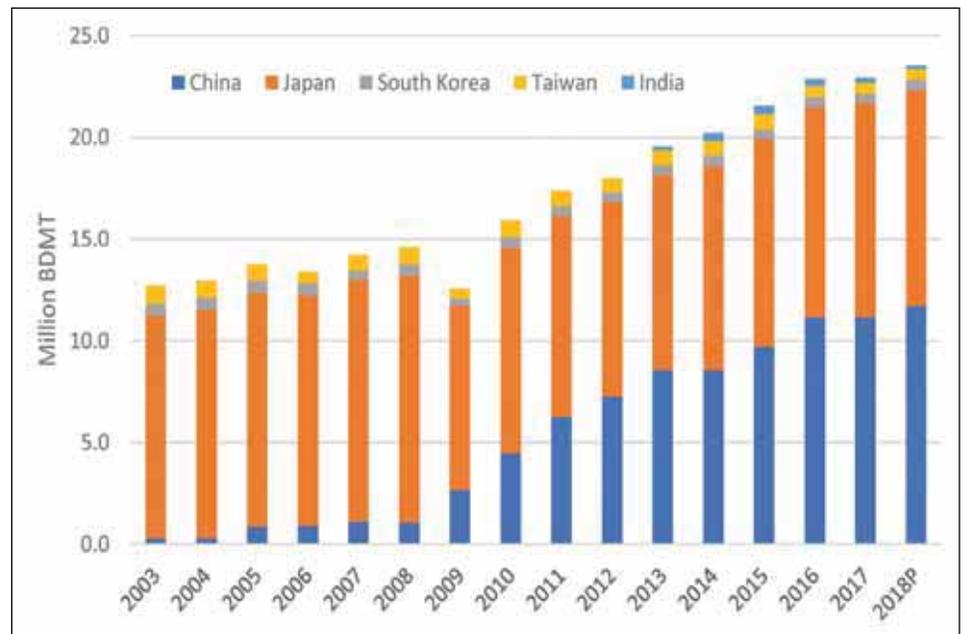


Fig. 1. Asian hardwood chip imports

sumption of hardwood chips in Chile, and thus a reduction in the supply available for export. Chilean suppliers indicated that Arauco is already in the market buying standing eucalyptus timber to let its own plantations grow until the mill is ready. Thus, exports in 2019 are expected to be lower than in 2017-2018, which was likely the peak in Chilean export volumes.

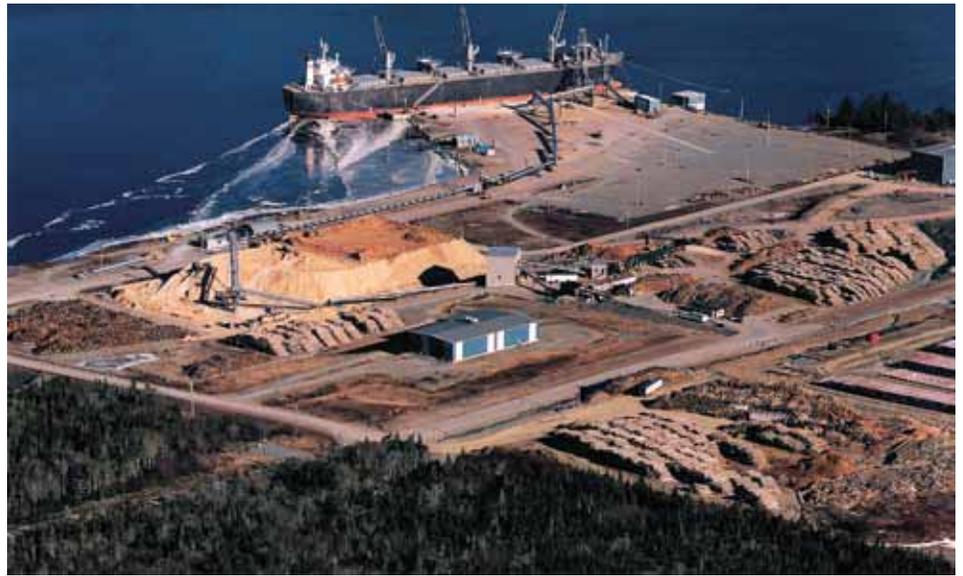
- A shortage of hardwood chips in Indonesia due to problems with the plantations, including disease, animal damage and fires. The first vessel of imported woodchips, from Australia, was in the process of discharging its cargo in Indonesia as the conference was in session. It is quite possible that Indonesian imports of pulplogs and/or woodchips will expand rapidly in the next few years, which will further reduce the volume available for mills in China and Japan.

RISI projects that by 2022 or 2023, available hardwood chip supply will be roughly 3.5 million BDMT less than demand in the Asian markets, even assuming some small new suppliers start up in Colombia and Mozambique;

representatives of companies developing these projects also spoke at the conference (Figure 2). The chip market is expected to be balanced by a combination of capacity closures in Asia (older, less efficient mills), a renewed trade in hardwood chips from certified native forest (e.g.,

tanoak from northern California or mixed hardwood chips from the US South), and possibly aggressive purchasing of existing plantations by Asian pulp companies.

The next meeting of this group will be in Portugal in March 2020.



GNTI, biggest woodchip exporter from Canada, port of Sheet Harbor, Nova Scotia



MV Shearwater loaded for wood chip exporter NCT at Port of Richards Bay, South Africa

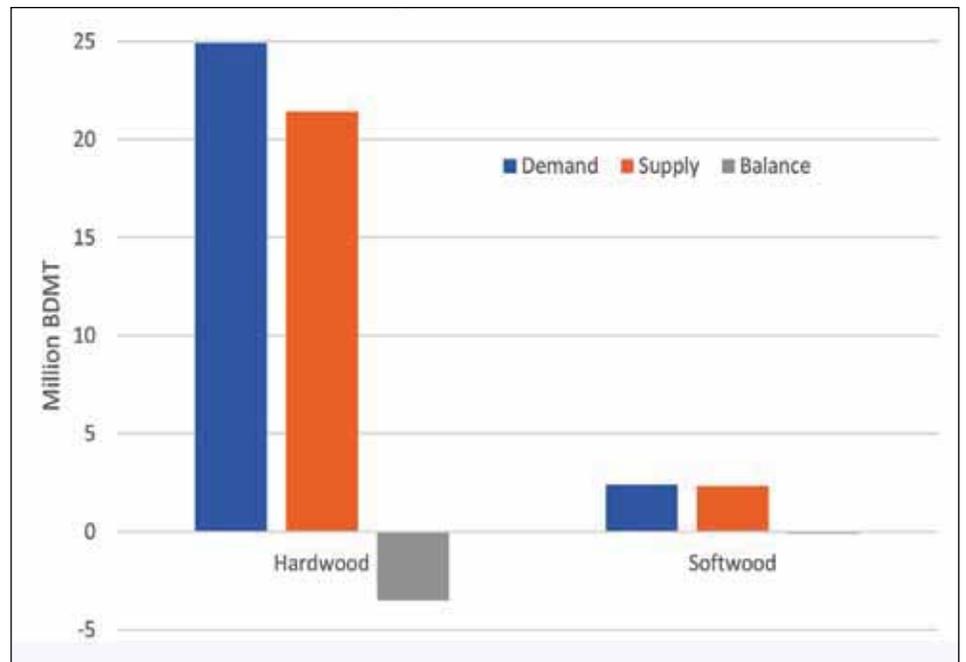


Fig. 2. Asian woodchip market balance 2022/23



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Visit www.ifpta.org today for information on how to join.



In conjunction with London Pulp Week, the IFPTA Reception gathered some 90 representatives of the transport industry at the Marquess of Anglesey

ON THE ROAD AGAIN!

Guests enjoyed meeting with friends, having drinks and sampling some good food. Later on Ismo Nousiainen, CEO, Metsä Fibre, Finland, gave a lecture on the company's expanded pulp mill operation at Äänekoski in Central Finland and the sophisticated logistics concept that was put in place with this extensive investment project.

IFPTA On The Road is our traveling series of educational and networking events tailored exclusively for IFPTA Members.

Pictures: Susanne Haase





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INTERNATIONAL FOREST PRODUCTS TRANSPORT ASSOCIATION BOARD OF DIRECTORS MEETING

Fall 2018 - London, United Kingdom



IN ATTENDANCE

Officers - Alan Bog (President), Einar Didriksen (Vice President)

Directors - Horst Kaupke, Annette Thuen-Hansen, Ana Paula Trilho, Rhoda Voth, Anna Ward, Targe Bock, Buddy Greene, Peter Norrman

Association Manager - Ashley Westbrook (TAPPI)

RISI - David Monaghan

Mr. Bog called the meeting to order at 8:30 am local time.

IFPTA on the Road - London Reception Event Update

The IFPTA on the Road event held the night before the Board Meeting was another success. Nearly 100 people attended the event with a few new member prospects. TAPPI will follow up with the prospects who attended and inquire about membership. The presentation delivered by Mr. Ismo Nousiainen, CEO of Metsä Fibre Oy, was well received and the topic was relevant for this audience.

Genoveva Climent of the Port of Tarragona also gave a preview of what awaits delegates attending our Symposium in Tarragona next year.

PPI Transport Symposium 23 - Tarragona

Mr. Bog provided the Board with an update on the conference session planning progress on behalf of the Conference Co-Chairmen which includes himself and Mr. Einar Didriksen.

The initial outline of conference sessions was drafted prior to the Board Meeting and reviewed with the Officers and Directors. The program addresses a variety of topics covering various links in the forest products logistics supply chain.

The Board's feedback will be reviewed by Mr. Bog and Mr. Didriksen at their next meeting and further development will be made in the conference schedule. The Conference Planning Committee aims to have the program ready to be announced before the New Year.

Financial Update

Updated financial documents were distributed to the Officers & Directors prior to the Board Meeting. As of the September 2018 financial report, our cash on hand balance was higher than the previous month. The Association continues to control expenses but must find a way to increase revenue.

RISI Update

IFPTA Journal

Mr. Monaghan presented the current financial update & projections for the 2018 Journal. Based on the current revenue bookings and budgeted expenses, the Journal is projected to break even for IFPTA for the current year.

The Board discussed distributing more copies of the journal at RISI events throughout the year to increase exposure.

PPSA Transport Symposium 23 - Tarragona

Mr. Monaghan discussed that RISI is in the process of selling sponsorships for the event. The website is live and delegate registration will be open the beginning of the year. There will be a mobile app at the event so delegates can have the latest updates/information during the event. It was suggested that containerboard companies should be on our prospect list as they may be interested in having exhibit space.

Strategic Planning Discussion

Board of Directors Election 2019

The Board discussed the plans for the 2019 Board of Directors Election.

First, it was discussed the open seats that will need to be presented on the ballot.

- Peter Norrman's term expires at the close of TS23 in Tarragona.
- Directors eligible for re-election
- Horst Kaupke
- Annette Thuen-Hansen
- Ana Paula Trilho

Ms. Annette Thuen-Hansen informed the Board that she does not wish to be considered for reelection after the close of TS23 in Tarragona.

This puts a total of 4 seats open on the 2019 ballot.

INTERNATIONAL FOREST PRODUCTS TRANSPORT ASSOCIATION BOARD OF DIRECTORS MEETING

Fall 2018 - London, United Kingdom



Second, the Board discussed who could serve on the Election Committee. The Board asked Mr. Bog to act as Election Committee Chairman supported by Anna Ward, Rhoda Voth and Targe Bock

Shanghai Pulp Week 2019

Since the Spring 2018 Board Meeting, Mr. Bog has had further conversations concerning integrating IFPTA into this event in 2019.

It could be similar to the IFPTA on the Road events in London and Vancouver. Mr. Bog will research this in more details and discuss further in the coming months.

IFPTA on the Road - Vancouver 2019

The Board has agreed to host another IFPTA on the Road event in Vancouver during the annual International Pulp Week event. Based on the current schedule for the IPW, the event would be hosted on Monday, May 6. Ms. Westbrook will take charge of finding a venue and planning the logistics.

Closing

The IFPTA Officers and Board of Directors would like to extend their appreciation to Mr. Robert Clark of RKH Specialty for hosting our Board Meeting at their offices in London.

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CANFOR TEMPORARILY CURTAILING BC OPERATIONS IN Q4

Canfor Corporation will be curtailing sawmill operations in British Columbia (BC) during Q4 2018 due to log supply constraints, log costs and current market conditions.

The curtailment is expected to reduce Canfor's BC production by approximately 10% throughout the quarter. "We have made the difficult decision to curtail our BC sawmill operations over the fourth quarter due to log supply challenges following another difficult wildfire season, uncompetitive log costs and declining lumber prices," said Don Kayne, president and CEO. "We are working to mitigate impacts on our employees as much as possible." Lumber production will be reduced over the quarter through a decrease in operating days. This will be achieved through immediate short-term curtailments at some facilities, along with extended downtime at Christmas.

Canfor has 13 sawmills in Canada, with total annual capacity of approximately 3.8 billion board feet.

RESOLUTE INVESTING \$40 MILLION IN ITS NW ONTARIO OPERATIONS

Resolute Forest Products announced \$40 million in investments at its Northwestern Ontario operations, in addition to \$13.5 million in major maintenance and the creation of 25 new jobs.

The investment plan includes \$14.7 million for the company's Thunder Bay pulp and paper mill to improve energy efficiency and reduce greenhouse gas emissions, as well as \$14.3 million to improve pulp capacity, reduce costs and maintain assets. Resolute also expects to spend \$13.5 million in major maintenance at the facility in 2018.

An additional \$5.6 million is earmarked for the modernization of the planer line at the company's Thunder Bay sawmill, located on Fort William First Nation land, as well as \$5.4 million to optimize its Atikokan, Ignace and Thunder Bay sawmills. These initiatives are expected to increase the annual production capacity of the facilities by a combined 50 million board feet of lumber. Twenty-five full-time jobs have been created.

Close to 90% of the new lumber and pulp capacity is destined for export markets. More than half of project expenditures are slated for the last quarter of 2018.

MERCER INTERNATIONAL TO SIGNIFICANTLY EXPAND PULP OPERATIONS

Mercer International has entered into an agreement with Marubeni Corporation, Nippon Paper Industries and Daishowa North America Corporation to acquire all of the issued and outstanding shares of DMI for consideration of \$359.2 million.

DMI owns 100% of a bleached kraft pulp mill in Peace River, AB, and has a 50% interest in the Cariboo Pulp and Paper Company, a joint

venture which operates a bleached kraft pulp mill in Quesnel, BC. As a result of this transaction, Mercer's annual production capacity for pulp will increase by approximately 41% to 2.2 million ADMTs, and surplus energy will increase by approximately 8% to 890,000 MWhs. Further, the acquisition of DMI will add NBHK pulp to Mercer's current product mix as well as provide the company with an expanded market presence in Asia.

DMI also holds 20-year term renewable governmental Forest Management Agreements and Deciduous Timber Allocations in Alberta with an Annual Allowable Cut of approximately 2.4 million m³ of hardwood and 400,000 m³ of softwood.

The transaction is subject to customary closing conditions, including receipt of requisite regulatory anti-trust approvals. In connection therewith, Mercer has arranged a fully committed financing in the amount of US\$350 million to finance the acquisition. The transaction is expected to close in the fourth quarter of 2018.

David M. Gandossi, CEO, Mercer, stated: "The proposed acquisition significantly increases our current operations in Canada and, in particular, will complement Mercer's Celgar pulp mill in British Columbia. The acquisition will additionally strengthen our presence in Asia, which we have identified as an important strategic area, and it will expand our product offering to include northern bleached hardwood kraft pulp, a product that we believe is following the same tightening market path that NBSK has experienced during the past few years."

ADMINISTRATIVE COURT CONFIRMS FINNPULP'S ENVIRONMENTAL PERMIT

On September 21, Vaasa administrative court gave its decision concerning the appeals of Finnpulp's environmental permits.

The progress of the permit process will enable Finnpulp to initiate financial negotiations for the next phase of the mill project. The Finnish-Chinese owned company is currently carrying out pre-engineering of the plant. It is estimated to be completed next year. The pre-engineering will include preparation of the construction stage of the mill's processes, technologies and mill site layouts. After completion of the engineering, the company will make its final investment decision on the construction of a bioproduction mill in Sorsasalo, Kuopio.

Finnpulp's bioproduct mill will be the world's largest softwood pulp mill. The annual pulp production capacity of the bioproduction mill will be 1.2 million tonnes. The mill will also produce 60,000 tonnes of tall oil and send one terawatt-hour (TWh) of bioelectricity to the domestic power grid. The mill will use 6.7 million m³ of raw wood material per year. Once completed, the investment effect of the Euro 1.4-billion bioproduction mill on Finland's export income will be +1% and will have a permanent employment effect of around 3,400 people annually.



ARAUCO'S MAPA PROJECT: EXPANSION OF PULP MILL IN CHILE

Andritz and Arauco signed a letter of award for supply of major technologies and equipment for the modernization and extension of the Arauco pulp mill in Chile. The order value is in the range of around Euro 300 million.

For the new 1.5-million ton/yr bleached eucalyptus kraft (BEK) pulp line, Andritz will supply -- on an EPS basis -- the woodyard, fiberline, white liquor plant and evaporation system.

WORLD'S LARGEST PRODUCTION LINE FOR BLEACHED SOFTWOOD PULP SUCCESSFULLY STARTED UP AT SCA ÖSTRAND MILL IN SWEDEN

The expanded pulp mill SCA Östrand in Timrå, Sweden, was started up end of June 2018, according to plan.

SCA invested SEK 7.8 billion in the Östrand pulp mill expansion project making it one of the largest industrial investments in Sweden to date. With this project SCA Östrand doubled its production capacity from 430,000 to 900,000 tonnes/yr and became the largest production line for bleached softwood kraft pulp in the world.

"The rebuild and expansion of Östrand pulp mill is one of the greatest industrial investments in northern Sweden ever. In spite of complexities such as building a twice as big pulp mill in a running mill, we started up the new plant on schedule and budget. The success is the work of many actors, not the least our supplier Valmet," says Ingela Ekebro, project director, SCA.

BREXIT : CLECAT URGES EU AND UK NEGOTIATORS TO PREVENT NO-DEAL SITUATION AT ALL COST TO AVOID DISRUPTION OF TRADE

CLECAT, the European Association of Logistics Service Providers, Freight Forwarders and Customs Brokers, issued its position paper on the future economic partnership between the EU and UK.

Nicolette van der Jagt, director general of CLECAT, said: "We have carefully reviewed the Facilitated Customs Arrangement (FCA) as proposed by the UK and can only conclude that whereas the concept might be worth further exploring, it needs more detail and therefore more time. The proposed FCA leaves so many questions unanswered, that we fear that it will not be possible to apply it in practice by the end of the transitional period and, most importantly, it increases the chance of a worst-case scenario; a no-deal situation."

Dominique Willems, senior manager at CLECAT, said: "Modern Customs legislation and technology provides for numerous simplifications and facilitations through which goods can move across borders unhindered. All the procedures, systems and legislation are already

in place to handle huge volumes of goods coming from for example China or the US. Preparing for an economic partnership between the EU and UK with which trade is already familiar, would still be quite a challenge in terms of capacity, but at least we could start preparing for such a situation today. Exploration for further simplification is still very much appreciated, but it requires a more stable environment, clarity and time."

CLECAT urged the negotiators of both sides to prevent a no-deal situation at all cost and to find a solution for the withdrawal agreement and consensus over the future relationship in order to avoid disruption of trade.

HAVE YOU SEEN THE IFPTA WEBSITE?

This new website will help us keep our members connected. With social networking support, simple tools for staying in touch, sharing documents and photos and resources to support committees, we can use it to help market our association and highlight all the great work being done.

In addition, the IFPTA website (ifpta.org) is the workhorse that will collect member dues, support event registrations, and receive payments.

We invite you to come see what we've started. If you have any questions or issues logging in, please contact Ashley Westbrook (awestbrook@ifpta.org).

ONLINE ACCESS TO MEMBER DIRECTORY

All IFPTA members have access to the online member directory and other assets within the Members Only section of the website.

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SAVE THE DATE: VANCOUVER MEMBER EVENT

Exclusive learning opportunity for IFPTA Members

IFPTA on the Road events are our traveling networking and education events that are exclusively for IFPTA Members and their guests.

Our next event is in Vancouver on Monday, May 6, 2019.

Preliminary Agenda

4:00pm – 4:45pm Doors Open & Networking Time

4:45pm – 5:30pm Presentation and Discussion

5:30pm – 7:00pm Networking Time

We will announce more details about the event, including our featured speaker, in the coming months. For more information about the event or to RSVP, please email Ashley Westbrook (awestbrook@ifpta.org).

IFPTA GETS SOCIAL

Follow the IFPTA on LinkedIn and Twitter to get even more updates and information about the forest products logistics industry.



Our Twitter feed is full of the latest news from around the industry.

@IFPTA



Our LinkedIn group is a great place for news updates and having conversations with other forest products logistics professionals around the world.

<https://www.linkedin.com/groups/108004>

UPCOMING INDUSTRY EVENTS

2018

December 5-7

RISI International Recycled Fiber and Containerboard Conference
Shenzhen, China

<https://www.rcpconference.com/>

2019

February 11-12

Breakbulk Middle East
Dubai, UAE

www.breakbulk.com/breakbulk-around-the-world-all-year-long/

May 5-8

PaperCon
Indianapolis, Indiana
<http://papercon.org/>

March 11-13

RISI European Conference 2018
Vienna, Austria

<https://events.risiinfo.com/european-conference/>

March 20-21

Breakbulk Asia
Shanghai, China

www.breakbulk.com/breakbulk-around-the-world-all-year-long/

May 21-23

Breakbulk Europe
Bremen, Germany
www.breakbulk.com/breakbulk-around-the-world-all-year-long/

Avonmouth
Bristol
BS11 9DQ
Email: jonathan.mordaunt@bristolport.co.uk
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NEW IFPTA MEMBERS

Please join the IFPTA Officers & Directors and welcome the newest members of the Association.

United Kingdom

Jonathon Mordaunt
Commercial Director
The Bristol Port Company
St Andrew's Road

Chile

Pablo Navarrete
Supply Chain Director
CMPC
Agustinas 1343, 3rd Floor
Santiago
Chile
Email: pablo.navarrete@cmpc.cl
Phone: +56 224 412 166



International
Forest Products
Transport
Association

I F P T A



IFPTA On the Road - Vancouver

Monday, May 6

You are invited to join the IFPTA Officers & Directors for an afternoon of education and networking. This will be held in conjunction with International Pulp Week. The location and speaker will be announced in the coming months.

RSVP today - Ashley Westbrook - awestbrook@ifpta.org

The *International Forest Products Transport Association* (IFPTA) was established in 1982 as an organization for professionals within global forest products logistics and related industries. The Association provides a networking framework to encourage communication and innovation among all roles and participants in the supply chain. Learn more at www.ifpta.org



AN ANALYSIS OF RECENT MARKET MOVES: BY THE RISI ECONOMISTS

RECYCLED BOXBOARD

UNITED STATES

During the past few years, the US has witnessed declining demand for recycled folding cartons (CRB) within the grade's standard end-use markets, which presented a headwind for CRB demand on the converter level. This shift in demand was mainly caused by substitution pressures from alternative packaging options, such as plastic, and the growing trends of e-commerce. CRB demand relative to GDP is expected to record the largest decline in the main boxboard categories in 2018 of 9.6%. We expect demand for CRB to continue falling over the forecast, albeit at a slower pace.

The shift in demand patterns has placed pressures on the supply side of the market, leading to capacity reductions in the US market. During the last 10 years, the US boxboard industry has responded to weakening demand by removing capacity from the market. The recent mill closures have stabilized prices, swaying the market back in favor of integrated producers and sellers of boxboard to the open market. For instance, Paperworks Industries decided to shutter its Philadelphia, PA, mill in April 2017, removing about 119,000 tonnes of capacity from the coated recycled market. Graphic Packaging followed by closing its Santa Clara, CA, mill in December 2017, which had a capacity of 124,000 tonnes.

By the end of the year, capacity for coated recycled boxboard was roughly 11% lower than the year-ago level, illustrating the degree of demand losses that this grade suffered during the last two years. This partially reflects the tightening conditions in the end-use markets that use recycled board. It also sheds light on the international competition from white lined chipboard from Europe and Latin America.

At the end of 2017, China banned mixed paper imports and has put in place a very strict 0.5% contaminant rule that is expected to further reduce imports of recovered paper. Given China's huge importance in the global economic scenario, as well as to the pulp and paper industry, these developments are expected to have a worldwide impact.

In 2017, according to data from RISI's World Pulp & Recovered Paper Forecast, China consumed roughly 79 million tonnes of recovered paper (RCP), of which more than 30% were imported. Among the suppliers of RCP to China, the US is definitely the most important.

The main impact from the Chinese ban on RCP imports is expected to be felt in the paper packaging industry since mixed paper is mostly used in recycled boxboard mills. In addition, China has historically been one of the top five importers of boxboard from the USA. But recent trade talks, along with China's changing import policies and

their impact on OCC and mixed RCP prices, could change trade patterns drastically.

Thanks to the Chinese restrictive import policy, prices of recovered paper have declined dramatically, which has lowered the cost of producing recycled boxboard in the USA. Despite the shrinking demand for recycled boxboard by end-use markets, the falling costs of RCP has given recycled producers in North America a breath of life.

The impact of the Chinese import policy has extended beyond recycled boxboard to solid bleached sulfate (SBS). Our recent World Boxboard Study: Americas provides key details on the impact of the Chinese import policy on CRB and SBS markets, as well as the price outlook in light of the changing global market. The study analyzes the medium-term outlook of boxboard grades' prices, demand, capacity, production and trade. Boxboard grades, unlike containerboard, are not defined and labeled consistently across major global markets. This means that the global outlook for boxboard cannot be determined by simply aggregating regional totals.

KRAFTLINER

BRAZIL

Booming global demand for containerboard in mature countries, particularly the US, is reducing capacity availability to meet export demand, which is also set to increase in the short term in light of the developments in China, namely the ban on mixed paper imports and a strict contaminant rule on imported recycled paper. Thus, to supply their domestic markets, large kraftliner producers such as the US are retreating from the export markets and, consequently, pushing kraftliner export prices up.

Brazil is the sole kraftliner exporter in Latin America, and in our base case scenario we estimate that the country's kraftliner exports will increase significantly to take advantage of this tighter scenario in the global kraftliner markets. Indeed, we see kraftliner exports increasing to 16.7% of production in 2018, compared with 14% last year, and then accelerating further, especially in light of the new Klabin PM that is expected to come on line around 2021-2022. Additionally, large local integrated packaging mills, such as Klabin, WestRock and International Paper, were vocal about directing more kraftliner abroad, and thus buying higher volumes of medium and testliner from third parties in order to supply their own box plants.

Historically, although the composition of Brazilian kraftliner exports changed over the last few years, Argentina was and is an important trading partner. In the last five years, more than 60% of Brazil's kraftliner exports were directed to Argentina. In 2018 through August, Brazilian kraftliner exports decelerated 11.9% compared with the same period in 2017; obviously, the truckers' strike in the end of May played an important role in this decline. However, even if we were to suppose a scenario without the negative effects of this strike, year-to-date exports would probably still be down compared to 2017.



So, is Argentina's malaise in the financial markets weighing on Brazilian kraftliner exports?

Surprisingly, through August Brazilian kraftliner exports to Argentina increased 7.4% compared with the same period last year, but this number is expected to decelerate over the rest of the year as the economic situation in Argentina deteriorates and the huge depreciation in its currency coupled with the high (and increasing) inflation trigger price adjustments and, consequently, a swift decline in demand.

According to trade data, Brazilian kraftliner exports to Europe and Asia are the worst performers so far in 2018. But, as a relatively low-cost producer, Brazil is well-positioned to strongly increase its exports abroad and take advantage of the current tight containerboard market. Consequently, we still expect Brazilian exports to accelerate further in the forecast horizon.

TISSUE/MARKET PULP

GLOBAL

High market pulp prices have caused major cost and pricing pressures in the paper and board industry recently, and the tissue industry has been hit particularly hard by these developments for two main reasons:

1. Pulp is the main raw material for tissue—we estimate that globally, about two-thirds of tissue is based on wood pulp.
2. Price increases for tissue are difficult and take time to realize, especially for converted consumer tissue goods.

As a consequence, margins have declined and financial results have suffered substantially.

Tissue parent roll prices have continuously headed north together with pulp prices in recent months; however, tissue companies have not been able to pass on price increases to their buyers. Independent tissue converters resist higher prices as their final product prices do not move upward as quickly, if at all. This situation has resulted in deteriorating ratios between parent roll prices and pulp prices. We follow this development in the US Tissue Monthly Data. Due to recent developments, the price differential between high-quality virgin pulp-based tissue parent rolls and the market pulp price mix decreased between January 2017 and July 2018.

It has traditionally been easier to achieve price increases in AfH converted tissue products than in the consumer tissue business. In North America, a round of price increases for AfH products was announced by suppliers in the second quarter, and in most cases it was effective for July deliveries. However, more than half of the US AfH business is based on long-term contracts, so it takes time for tissue companies to see the full benefit from any price increase. The good thing for AfH suppliers is that 80-90% of AfH products are based on recycled fiber, and prices for RCP have moved less than pulp prices. Price of AfH products have risen in other world regions recently as well, including Europe and China.

In the US consumer tissue sector, it took a significant amount of time before any company dared to make the first announcement because of the strong competition and the ongoing battle between company brands and private labels. It was no surprise that Procter & Gamble, the market leader in bathroom tissue and household towels with its brands Charmin and Bounty, took the initiative and announced a price increase of 4-5% on the last day of July.

One main issue is whether there is any chance to get higher prices for retailer labels. The competition is so keen and buyers are so reluctant to change their shelf prices that any increase is extremely difficult to realize, despite the fact that all retailer label producers also need the increase to offset substantial production cost inflation.

The situation will not change quickly, and it is clear that at least the third-quarter results of tissue companies will remain modest. The current outlook for the pulp market shows some stabilization, but there is no hope for a major break in the current trend in the medium term as very little new pulp capacity will be coming on stream and China's fiber deficit is worsening due to the limitations and bans on imported recycled fiber plus tariffs for goods imported from the US.

The trade war between the US and its main trading partners, China and Canada in particular, is another major issue whose consequences are difficult to estimate. The most recent 10% tariff announcement on US\$200 billion Chinese goods imported to the US also includes the main categories of tissue, with the exception of the 48.18.90, which was excluded from the harmonized system code list. This is a major issue as China is the second-largest import source of tissue after Canada. The first half year of 2018 shows that tissue imports from China are at an annualized level of about 320,000 tonnes, which corresponds to the capacity of five large tissue machines! The 10% tariff may be at least partly compensated if the Chinese exchange rates weakens—and not first time if China reacts in this way—but the announced increase of 25% as of January 1, 2019, would be another issue and would certainly affect imports from China.

This could help North American companies to sell more, but not all companies have extra capacity for exactly the same category as the imported goods. We estimate that more than half, probably even two-thirds, of tissue coming from China is for the AfH sector. The new capacity being started up and under construction in the US has its main focus on the private label segment and not the AfH business. The AfH sector may become tight, although some, but not many, mills are in the position to change from consumer to AfH tissue. New investments in the AfH sector are likely to follow, but they normally take at least 18 months after the investment decision has been made. We will continue to monitor the tariff situation and how it affects the US tissue import structure. More tissue may be sourced from alternative origins, but it will be difficult to replace the massive volumes currently being imported from China.



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IFPTA

International Forest Products Transport Association (IFPTA) is registered in the USA as a non-profit mutual benefit corporation, 1982.

For membership changes and general queries, contact the IFPTA management company:

IFPTA Association Management

Ashley Westbrook

TAPPI

15 Technology Parkway S., Suite 115

Peachtree Corners, GA 30092

Tel: +1 770-209-7265

Fax: +1 770-446-6947

info@ifpta.org

IFPTA Journal

The IFPTA Journal is published quarterly in March, June, September and December by RISI, Inc. The Journal publishes articles and other information of general interest to the association's membership. The Journal reserves the right to edit all submitted material. Opinions or views expressed in articles are not necessarily those of the association. Reproduction of material from the Journal can only be made with written permission from RISI. The Journal is distributed for free to IFPTA members as part of their membership package.

The Journal welcomes articles of between 1,000-2,000 words on any aspect of the forest products transportation sector.

For IFPTA Journal editorial team, contact:

Susanne Haase - Email: shaase@risi.com

IFPTA website

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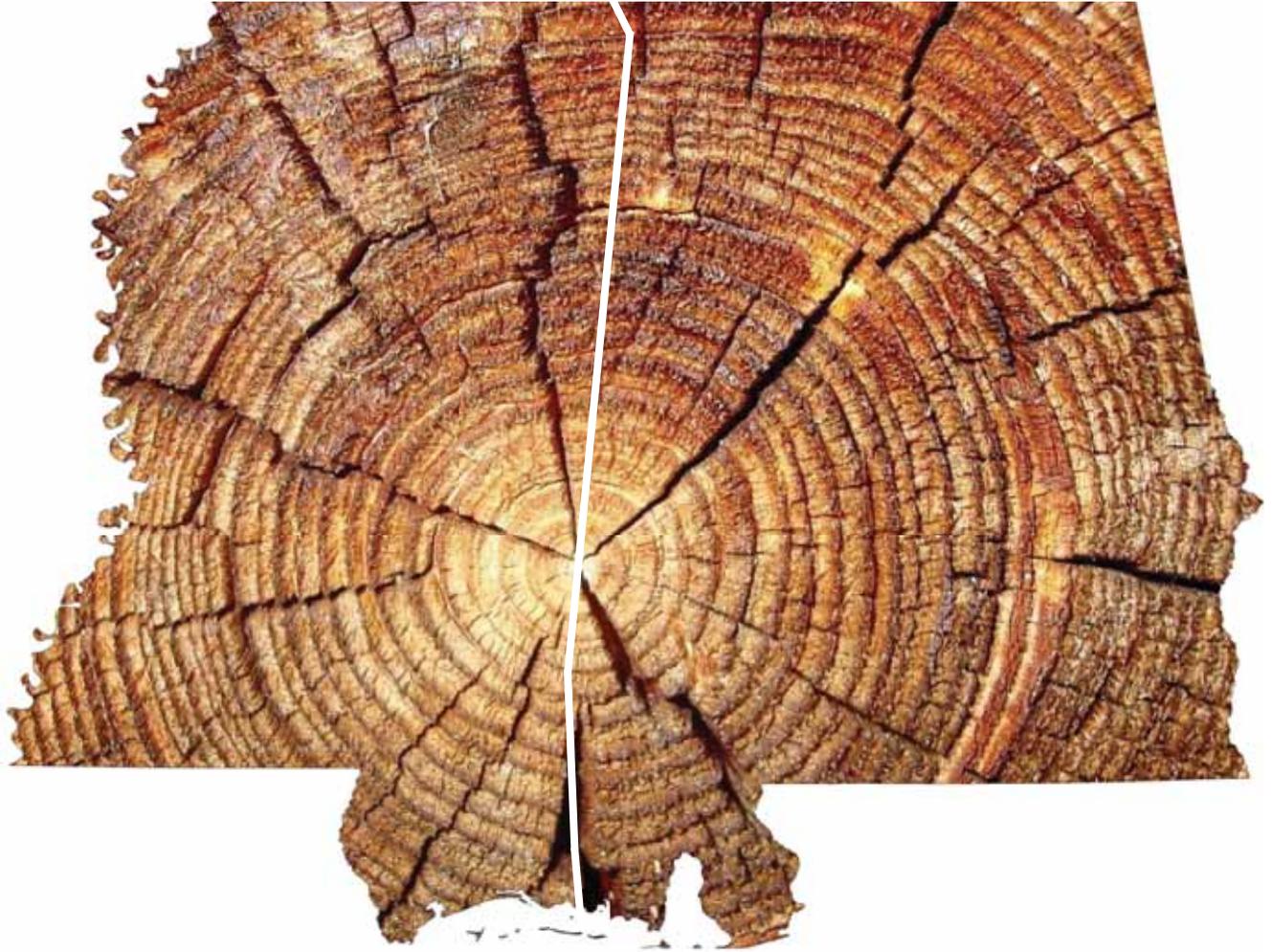
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