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GREEN FUELS OF THE FUTURE

Picture: Kay Ransom

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HOPE ON THE HORIZON?

By GRAEME RODDEN, Contributing Editor

As 2019 came to an end and we reveled in the bright hopes and best wishes for the new year, could we ever have imagined what 2020 would bring?

Yes, there were rumblings about this horrible disease coming out of China. I attended the annual PaperWeek Canada event in Montreal in early February and at this time, at least one speaker had to cancel as he had been in China not long before and felt he should not put others at risk.

Now, 10 months later (at the time of this writing), nothing it seems has been untouched by the scourge of COVID. And, as many medical professionals and scientists had predicted, here we are in a second wave.

There does seem to be some hope on the horizon as at least one of the vaccines developed shows real promise. And a vaccine would give hope to the millions who have suffered mentally, physically and financially.

As we look ahead, you cannot blame some for wanting to look at the situation through rosier colored glasses considering the harsh realities we have had to face in the past year.

I suppose the industry can consider itself lucky that Transport Symposium is a biennial event. If it had been scheduled for 2020, almost certainly it would have had to be cancelled.

LOOKING AHEAD TO TS24

Therefore, I was happy to hear some good news from Rick Schiappacasse of JAXPORT, who heads the organizing committee for the 2021 event, TS24. He is optimistic about the effects of COVID being mitigated by the time the event rolls around in September. And, the host site is truly remarkable. Of course, being Florida, the weather is sure to shine and what an opportunity to take some time before or after TS24 to enjoy all that the state has to offer. The program is being put together as you read this.

There is no question that COVID colors all still. Also in this issue, a comprehensive look at Fastmarkets RISI's annual North American conference will tell you just how much the pandemic has affected virtually every paper grade.

While it has hammered some sectors, others, particularly tissue, have profited thanks to unnecessary hoarding. In a recent virtual press conference with a supplier with a large presence in the tissue industry, when asked, they said, almost regretfully, that the pandemic had been good for business.

As for wood products, just noting that in the part of Canada where I live, as people could not travel on vacation, a lot of disposable income was spent on home improvements so if you could even find dimensional lumber, you had to be prepared to have deep pockets.

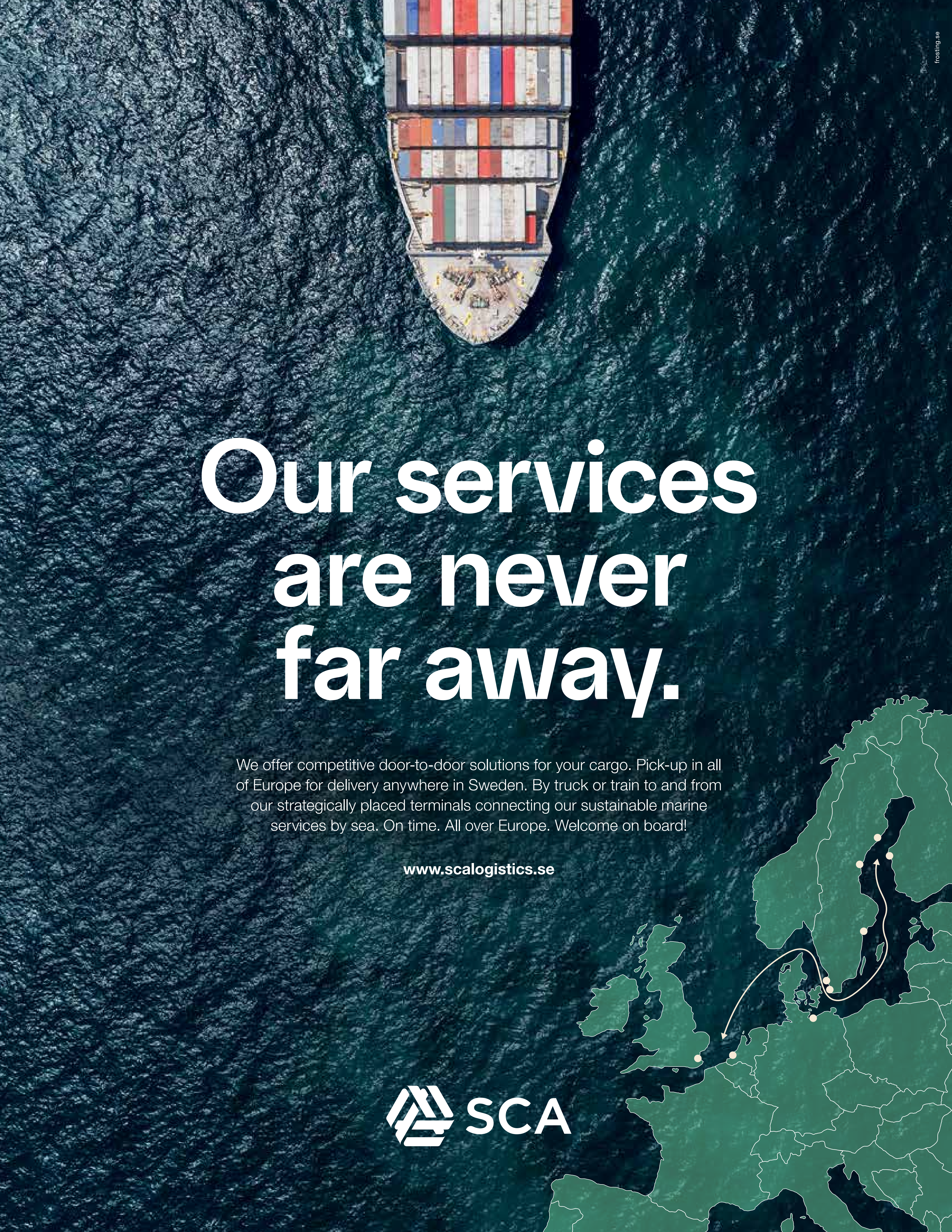
DELAYS STILL AN ISSUE

IFPTA president Alan Bog, who was forced from his home in China for several months, comments on COVID's effects on logistics in an article based on his presentation at the Fastmarkets RISI Asian conference. He notes that life is coming back to normal and that the "economy appears to be rebounding". Still, delays in cargo operations can happen thanks to a variety of issues Alan spells out in his article.

Although life may be coming back to "normal" – second wave notwithstanding -- what is normal now? Have the measures we have taken to adapt to COVID – social distancing, masks, etc – become permanent?

As former editor Susanne Haase asked in her column in Issue 2: Will COVID 19 accelerate digitalization in shipping? Reducing human contact as much as possible is one of the tools used in fighting the pandemic.

So let us hope for the best but prepare for the worst. But, we must do more than hope. We all must do our share to help reduce the spread of this insidious disease. And, with luck, good management and safe practices, we'll be able to see each other in person at TS24 in Jacksonville.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FORGING AHEAD WITH OUR BUSINESS

By ALAN BOG, IFPTA President

While we at IFPTA were disappointed to have to cancel our IFPTA on the Road Event in London in November the day to day running of the organization continues to steam ahead.

We are now well into the planning for TS24, which will be held in Jacksonville next September. Our Symposium Committee, consisting of Tom Mutz, Rhoda Voth and Rick Schiappacasse, is doing a great job in preparing the program, with the main themes already worked out. As these themes develop over the coming weeks we will give you more details through the IFPTA web-site.

There is now a weekly conference call involving myself, the Symposium Committee and the team from Fastmarkets RISI who look after all the logistical side of putting on the event.

Many of you will no doubt hear from Remy Poos from Fastmarkets RISI, who has worked with us on the even for some 20 years, who will be outlining details of the exhibition and some great sponsorship opportunities. These will of course be covered by COVID-19 clauses in case of cancellation.

TS24 may well be the first opportunity for our industry to get together after this tough year, and I do hope we can count on your support.

Don't forget to renew your IFPTA membership, to benefit from the discount on registration for the event.

On a personal note I would like to thank Graeme Rodden for stepping in and taking on the editor's role for this edition of the *Journal*. This is going to be Graeme's last effort before a well-deserved retirement. I have known Graeme for many years and he has done a great job for IFPTA over many editions of this magazine.

Södra has committed to a bio-based transport model

"MORE REALISTIC EVERY DAY"

An IFPTA Journal Special report

As the Södra Group moves closer to the deadline in its commitment to be 100% free of fossil fuels for transportation by 2030, how confident is the company of hitting its target?

When Södra set itself a target to be fossil-free for transport by 2030, it was never going be achieved in isolation. The will and resources of many actors outside the company's direct control were essential to eliminate the 85,000 m^3 of fossil fuels used in its transport system at the time.

That was 2016, at which point the business had already committed to being fossil-free for production by 2020. The company now hits that production target on a day-to-day basis. But a few years on from the original commitment, how realistic is the 2030 goal for logistics? With production's use of fossil fuels virtually eliminated, transport is Södra's main source of greenhouse emissions. To put it in context, Södra in 2019 was 99.5% fossil-free for production and 94% fossil-free overall.

The pulp side of Södra's business, Södra Cell, was 100% fossil-free for internal transport and Södra Wood was 90% fossil-free in 2019. So the emphasis towards 2030 is on working with external partners in the logistics chain. You could say that Södra has "its own house in order" but the company would be the first to acknowledge its responsibility to lobby for change throughout the value chain.

DRIVERS FOR 2030 TARGET

There were several drivers behind the 2030 target. There was increasing awareness of sustainability issues among Södra's 50,000-plus forest owner members as well as customers and wider society. The use of fewer and more sustainable resources made not just ethical sense but economic, too. It also sat well with the company's overall sustainability ethos. At the time project manager Henrik Brodin said: "It's not just a question of reducing our dependence on fossil fuels. We want to aim high, to have a more positive impact on the planet by reducing our energy use, not just switching from one fuel to another. Efficient management of resources is key for the future."

None of that has changed. Brodin knew that for the target to be reached, it would require both technical innovation and partnerships with suppliers. He described it as "responsible risk taking", relying on many people being on board with the idea, a big dose of innovation (and investment) and ambition, because it had never been achieved across a whole company.

Yet more has changed since 2016 than you might imagine. And the good news is that "2030 is more realistic every day," as Brodin puts it. In 2016 Södra committed to the conversion from fossil fuels towards a bio-based model. For the first time in the company's history, certain sustainability targets were given the same weight as financial targets, and the progress towards a 2030 target of fossil-free transport indicates that they meant it.

The biggest landmark on the supply side is Södra's own initiative in establishing the world's first commercial biomethanol plant at its pulp mill in Mönsterås, Sweden. Methanol is already a major commodity but its biggest impact in terms of Södra's ambitions would be as a fuel in shipping. Even fossil-derived methanol offers several notable environmental advantages over heavy fuel oil (HFO). It degrades naturally in water and emits neither sulfur, nitrates, nor particulates. Biomethanol is molecularly identical to the fossil-derived version, so substitution is straightforward.

SHIPPING STILL THE BIGGEST HURDLE

Back in 2016, shipping was regarded as the biggest hurdle before the 2030 finishing line. It still is, particularly because Södra's growing geographical market can only realistically be served by sea freight. The replacement cycle for ships is so much longer than for trucks that retrofit is the most practical option for all but the longest time frames. But there needs to be an incentive. The absence of a carbon tax means shipping firms have not been motivated to switch from fossil-based HFO.

The mood is changing, however. The Fastwater project is one of several initiatives targeted at achieving the Paris and IMO targets of a 50% reduction in carbon dioxide from maritime transport by 2050. Fastwater aims to accelerate shipping's move towards methanol, and the more ships that can use methanol, the more that can use the fossil-free version, biomethanol.

Henrik Brodin: Carbon neutral shipping is not a distant reality

Fastwater and, the EU's Green Deal, including a proposed revision of the EU emissions reduction target from 40% to 55% by 2030, are piling on the pressure and Brodin believes shipping companies are taking note. Maersk is a case in point, with its Eco Delivery innovation: "A carbon neutral way of shipping is not a distant reality anymore," claims the company. Brodin is the first to admit that a shipping giant such as Maersk has much more leverage than Södra to reduce the use of fossil fuels in sea freight, but the biomethanol plant at Mönsterås is a significant strategic and technical contribution.

The EU's Green Deal is a major motivator not only for shipping but throughout the supply chain. Mette Quinn, head of unit for the EU ETS Implementation and IT DG Climate Action, told PRIMA 2000 delegates online earlier this year that the challenging backdrop of the economic fall-out caused by Covid-19 offers an opportunity to accelerate investment into a clean transition. There has been a complete decoupling in Europe of economic activity and greenhouse gas (GHG) emissions: the EU's net GHG emissions and removals in 2019 reduced emissions by an estimated 25% compared with 1990, while GDP grew by 62%.

The EU is calling for climate neutrality by 2050, which means tougher action is needed, including a European Climate Law which the European Commission will propose, aimed at turning political commitment into a legal obligation and what it hopes will be a trigger for investment. "Reaching this target will require ac-

The Fastwater project aims to achieve a 50% reduction in CO_2 emissions from maritime transport by 2050: Photo courtesy Kay Ransom Photography

tion by all sectors of our economy," says Quinn. "We have focussed a lot on climate and energy in the past. But now we need to see a focus on decarbonizing the whole economy."

CHANGE IS EXPONENTIAL

The renewed sense of urgency coming from official quarters and its galvanizing effect on the corporate world is helping to power Södra on its way to a fossil-free 2030 for transport. "The change is exponential," says Brodin. "Society has moved further than I anticipated. Take bio-based aviation fuel for example. Not so long ago it was no more than an idea. Now it is a technology which just needs scaling up. This is not to dismiss the challenges ahead, but the positive 'can-do' attitude to technology gives a huge boost to progress. We see increased inter-

Sodra aims to be 100% free of fossil fuels for transport by 2030

est among customers and other supply chains. Fossil-free, climate neutral - it's changing all the time but gathering pace in the right direction."

Devastating that it has been, COVID-19 has also been an accelerating factor. "It might hurry the demise of (fossil-based) oil," says Brodin. "When economies ramp up again, it is likely they will not return to former levels of fossil-fuel use. Today we can produce any type of fuel from non-fossil sources, it's just a question of where we spend the money. We as a business are open to all solutions, and many solutions will be needed."

While working with the entire supply chain, on the ground Södra continues to de-carbonize its internal logistics through the substitution and minimization of fossil-fuel wherever possible and is working on several fronts. The company is partnering with vehicle manufacturers and other industry players to make a difference over the long term, but also finding solutions for its own logistics.

An example is the introduction of electric forklifts. Electricity is of course not a panacea and if predominantly based on coal, as in many countries, then its positive climate effect should be viewed with skepticism. But electricity at Södra is generated as a by-product of the bio-based pulp production process. The same renewable electricity flows to more than 100 charging points at Södra's facilities so that employees can drive electric vehicles to work.

As for trucks, Södra only offers renewable choices (HVO and RME) at its on-site filling stations, up from 50% in 2016. On this front, Södra is involved in pioneering work to build the world's first large-scale biodiesel production facility based on solid biomass through the Silva Green Fuel joint venture. This would be in addition to the current use of tall-oil, the pulp production by-product, as a source of bio-diesel, which already produces a healthy surplus over the company's own needs. One day it might even be feasible to transport paper pulp with fuels made from Södra's own biogenic carbon dioxide generated from its three pulp mills.

Södra is also working with customers, suppliers and authorities in an effort to move more of its goods by rail but the key is that all forms of transportation are powered by renewable energy. The 2030 goal for transport is clear and the roadmap, which was taking form in 2016, has evolved considerably in the few years since.

"We believe that if we are to succeed in transitioning our transportation system, we must stimulate demand for sustainable transportation," says Brodin. "Our role is split between the supply side and demand side, as producers and consumers of renewable energy. We take our responsibility for both very seriously."

Of the multiple alternatives to traditional fuel oil being developed, which will be best or is there more than one answer?

FUELLING THE FUTURE OF SHIPPING

An IFPTA Journal Special report

The era beyond carbon-fuelled, manually operated ships is beginning to take shape. As with all major transitions, this shift to a new normal will consist of many steps along the way, taken over time.

At this pivotal point in the history of shipping, ABB Marine & Ports invited leading voices from the North American maritime community to New York for a roundtable discussion of the passage into a new age of electric, digital and connected vessels, increasingly autonomous, and powered by sustainable means.

Ships will continue to carry the bulk of global trade into the foreseeable future, but traditional fuels must be phased to meet strict sustainability goals. Maritime industry leaders gathered to reflect on future solutions for the ships that fuel the global economy.

Framing the discussion was the recent International Maritime Organization's call for a 50% reduction of greenhouse gas emissions by 2050 compared with a 2008 baseline, and for phasing them out as soon as possible in this century. Carbon intensity in shipping is to be reduced by 40% by 2030, and 70% by 2050.

In his opening query to participants, moderator John Snyder addressed the fundamental capability of the industry to meet these ambitious goals: "Is the technology available to get us to a zero-emission future?"

OPTIMIZING OPTIONS: A COMPLEX EQUATION

"As we see it, there is no single technology as of today that will get us to zero emissions," related Anshul Tuteja, associate VP, global fleet optimization, Royal Caribbean Cruises Ltd. (RCCL). Scaling is the fundamental issue when faced with a number of options, he continued: "What is the investment required for each technology? Technology leaders need to invest as well, not just operators, and we need government support in the mix."

All pictures: Arnold Adler

Ole-Jacob Irgens, global sales manager, PG Propulsion Solutions ABB Marine & Ports

Michael Carter, acting associate administrator for environment and compliance in the US Department of Maritime Administration (MARAD), cited the examples of California and Washington State, both taking steps to support the green shift, including looking for partnerships.

In this setting, international partnerships become more important, he maintained. "Why should the players use time and resources reinventing the wheel? Go ahead and do some tests and then share the results. Good things are happening, but everyone needs to know how to get involved."

Edward Schwarz, vice president sales, ABB Marine & Ports US, pointed to the contradiction in distribution of new technology in the markets. "We have seen a polarization between established and developing segments emerging in the US. Why is this?"

Derek Novak, chief engineer at the American Bureau of Shipping, offered the power of the bottom line as explanation: "I think a lot of it comes down to economics. Not all nations are funding developments, and the shipping industry is still recovering from past crises. There is just not a lot of capital to be invested. And it should also be mentioned that emissions compliance measures like scrubbers are taking much of the energy in the market right now. This makes it difficult to prioritize development of batteries or alternative fuels in the way we otherwise might have."

Ole-Jacob Irgens, global sales manager, propulsion systems, ABB Marine & Ports, pointed out that lifecycle costs also drive decisions on ship propulsion.

"Green is more expensive, yes, but not exponentially," Schwarz replied. "What is really keeping our industry from embracing green solutions? Is the problem with regulations? Are there too many players? Why does the maritime industry compete at the bottom of the price range compared to other industries?" he asked.

"I think there is a fundamental mechanism at work in finding the business trade-off," said Novak. "For example, batteries will be a supplement in most cases, not a primary power source. We can use technology to offset expenses and emissions, but if the dollars do not back up the case, no one will make bold moves on technology."

BUILDING THE CASE FOR ELECTRIFICATION

Jennifer States, director for Blue Economy at DNV GL and project director for Washington Maritime Blue, noted that the government-led initiative to electrify Washington State Ferries is beginning to have an impact further down the supply chain. "Seattle was already supporting electrification before the decision from WA State Ferries to go with electric hybrid was made, but the industry side was not as far along in the process. Now we are starting to see companies locate to Washington to be a part of this effort," she said.

"We are beginning to learn from other places as well. The charging infrastructure is still tricky. What is the impact on the grid? Operators shore power requirements need to be addressed together with the utilities and grid operators. There are lots of lessons to be learned, and needs are different onboard versus onshore."

Catherine Hale, east coast representative and systems engineer at Elliott Bay Design Group of Seattle, noted: "EBDG is actively involved in eco-friendly vessel design including the design of fuel-efficient hybrid vessels. Although hybrid-electric propulsion will have higher initial installation costs, it can significantly reduce emissions and fuel consumption. A route profile is critical. All vessels and operators are unique, understanding key motivators that drive decisions (economical, costs, green, cutting-edge technology) is key to a successful project."

States questioned whether investments in new technologies could be recouped by market demand alone. "Resiliency is also needed in the market. Can these new solutions be used to meet other needs beyond port or maritime applications? For example, could we see battery barges or barge-based fuel cell systems serving in multiple locations in emergency situations?"

THE NEW ENERGY MIX

Jostein Bogen, vice president, global product manager energy storage & fuel cells, ABB Marine & Ports, pointed out that although batteries are gaining traction in many applications, they will not provide an answer for all. "Fuel cells using hydrogen are being investigated in many different applications. Not all hydrogen is green right now, but we see this as doable in the near future, especially for short sea shipping. We need hydrogen to produce methane and ammonia too, so there could be many sustainable roles for green hydrogen."

Catherine Hale, east coast representative systems engineer, Elliott Bay Design Group, Seattle

Hydrogen is on its way to establishing a wider footprint, Carter confirmed. "The Department of Energy has been working on potential hydrogen applications for many years. Containerized solutions are showing promise, and the same fuel cell solutions can be used to provide shore power using hydrogen."

Despite progress in alternative power sources, the bulk of work remains ahead, Carter maintained. "There is no silver bullet. We will need to fit the pieces together for each situation. Even in one harbor, vessels have different operating profiles that require different solutions. Also, given the significant capital costs of new technologies, change takes time in the maritime industry. So identifying and demonstrating alternatives now allows the industry to plan ahead."

THE ROLE OF ALTERNATIVE FUELS

While batteries and fuel cells hold great promise in the longer term, internal combustion engines dominate marine propulsion and will continue to play a central role for decades to come, demanding alternative fuel solutions. Paul Benecki, staff writer for The Maritime Executive, queried the group on the business case for liquefied natural gas (LNG).

Tuteja began with bottom-line reasoning: "Prices for MGO (marine gasoil) and LNG are basically same right now, but the gap between HFO (heavy fuel oil) and lighter fuels remains large. Where LNG will go in price is uncertain, and that will influence thinking."

Carter reported that when they investigated LNG options about four to five years ago, the cost difference compared to oil was significant. "When that changed in favor of LNG, it made the case more interesting. We still see certain storage and emissions issues, but the technology and market continue to evolve."

At the same time fuel options are becoming more flexible, he observed. "Biofuels are becoming more attractive, but there are still unresolved issues with quantity, price and infrastructure." Issues aside, he pointed out that a viable infrastructure for biofuels is needed. "The Department of Energy, the Department of Defense and we have invested in biofuels research, testing and demonstration for maritime applications, but the current market does not appear to support its widespread application yet."

Insurance is a factor in this development as well, he pointed out. "A lot of players are still wary of hydrogen, and even LNG. We need more and stronger standards in order to reassure those with doubts. For this we can look to leaders other places where progress has come further. We want to see global solutions for alternative fuels, but there is only so much we can do with each fuel. Each one is feasible in its own right, and they need to be applied to the situation where they are best suited."

ARENAS FOR FUTURE SOLUTIONS

"We believe that evaluating and demonstrating a variety of technologies and alternative fuels continues to be key to providing an array of options to the maritime industry. We have been able to use our own vessels and school ships as platforms for those kinds of projects. We hope to continue to do so," Carter continued. "MARAD is dedicated to assist the maritime industry in these areas if they are interested, and we are keen to share our own results with the industry. Partnering and sharing benefits all parties, and the opportunities are there."

Bradley Golden, professor at Webb Institute, agreed that the arguments for pursuing options outweigh the obstacles. “This is a reactionary industry, not proactive, and everyone remembers the mistakes that have been made. Alternative fuels will still have emissions, so we need to compensate for this. Batteries also have issues, even going back to the manufacturing process. We might be ‘damned if we do, damned if we don’t’, but we need to keep looking and trying to find the best options for the future.”

He urged the industry to use academia to help them explore the most promising options. “The institutions are eager to learn more about future fuels and how they can influence change. Every college is looking for research opportunities, and unlike businesses with safety or commercial obligations, we can take chances. The universities can play a role, and they can work with anyone, including owners, governments, and original equipment manufacturers.”

Carter confirmed that MARAD is working to get maritime schools and students involved. “Students are good at finding solutions, partly because they are open to unexpected solutions. We would definitely like to see more effort focused on maritime specific challenges and engaging our future mariners in finding solutions.”

States noted that the entire maritime ecosystem should be at the table when new solutions are being discussed. “This is an issue of workforce development too. Right now we are struggling to fill maritime jobs. Getting these opportunities out and known would influence career choices. Sustainability is a key element in the thinking of the younger generation, and collaboration is essential in informing them of these opportunities. We can also use these collaborative arenas to build more long-term relationships. It’s amazing how people open up when they are faced with a common task.”

LEARNING BY SHARING

“Sometimes all that is needed is awareness of projects in need of support,” Golden offered. “Some may not even require that much support. For many initiatives, it is more about sharing ideas.” Carter agreed: “The Department of Energy is interested in maritime energy investments, and we can all do more to share information about relevant projects.”

Jostein Bogen, vice president, global product manager energy storage & fuel cells, ABB Marine & Ports

Tuteja highlighted the importance of gathering the knowledge of all invested parties into a common space. “The IMO Global Industry Alliance is a good arena for this. If we find fuel options that have worked for us, we contribute it to the common pool.” The fundamental question is how to build better partnerships and share the burden of mutual challenges, he added.

“We recently participated in a project on battery safety that brought all stakeholders together,” Carter reported. “We found that none of these had talked together at one time before. Getting them together as a group made a big difference. If industry players do not share, we are not going to find the right solutions.”

Christopher Glynn, president of Maid of the Mist, the operator ferrying tourists to the foot of Niagara Falls, shared the learning process behind their decision to invest in an all-electric fleet. “Given our close association with hydropower at the falls, when it came time to renew the fleet, we wanted to consider electric propulsion.”

To familiarize himself with the available options, Glynn attended a conference on electric and hybrid marine propulsion technologies in Amsterdam in 2018. “Basically, I listened and learned. That conference opened my eyes to the attractiveness of electric propulsion.”

Once the decision to go electric was made, their primary inspiration came from the Ampere electric ferry project in Norway: “There were strong parallels in our respective operations, not least in the charging cycles.” Propulsion experts subsequently assured Glynn and his team that they could get the output they needed from batteries. “In fact we have never been large fuel consumers,” Glynn acknowledged. “We spend more on raincoats than we do on fuel.”

RALLYING ALL RESOURCES

“Even though the public is pushing for a green power shift, the smaller companies are working for the bigger players, and they cannot take a chance on failing and letting their customers down,” Hale said, receiving support from Novak: “The big players, including the oil and energy majors, need to help out further down the supply chain, but they are dependent on viable solutions.”

Carter asked to what degree lack of proof might be to blame for lagging commitments to green solutions. “Can we really expect investments in unproven technologies?” He noted that not all stakeholders possess the resources necessary in order to produce the required verification.

In reply, Golden again encouraged the participants to entrust knowledge institutions with a central role in steepening the learning curve: “Academia can help to put all the information together, as long as we are not sharing secrets. Remember that students are the designers of the future. They could gain valuable experience and perspectives and take this knowledge on to the maritime industries. I think the key to assuring robust development is to take full advantage of all the options available to us.”

Note: The discussion took place in December 2019, prior to the outbreak of the global coronavirus pandemic. This text first appeared in the recent edition of ABB’s Generations and is reprinted with the permission of ABB Marine & Ports.

The entire forest products supply chain had to overcome numerous issues

BOUNCING BACK FROM THE COVID CRISIS

BY SHAWN WANG and ALAN BOG

One of the highlights of the pulp industry calendar is the Shanghai Pulp Week in March, attended by Chinese buyers and producers from all over the world. This year it was of course cancelled for obvious reasons.

In September two of the usual participants did hold a Shanghai Pulp Week.

The Chinese organization CPICC held its conference and this was attended by more than 400 delegates. These were Chinese buyers, local representatives of producing mills and of course logistics partners. After months of not meeting physically, people were clearly keen to network and gather information. This could be done in Shanghai as the city is safe.

Fastmarkets RISI also held its Asia conference, in an interesting format, partly physical and partly virtual.

IFPTA and Fastmarkets RISI have a strong relationship through the Transport Symposium which the IFPTA organizes in conjunction with Fastmarkets RISI. As part of this cooperation they are including a logistics session in many of their events in which the IFPTA is invited to participate.

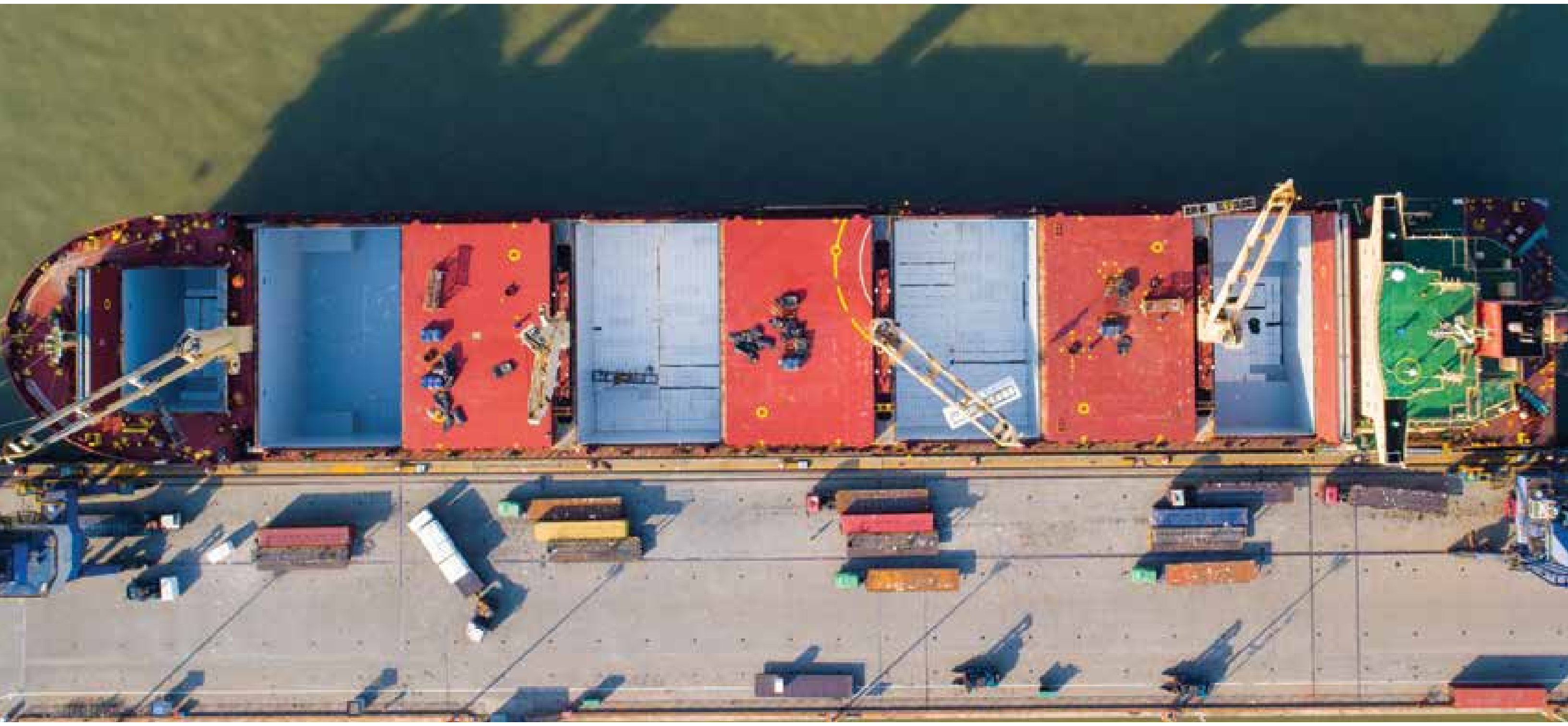
Looking at the specifics of the market, the overall logistics cost in a tonne of market pulp can be anything up to 20% of the delivered price so anything happens to the logistics front is likely to have a huge impact on the pulp and paper market

China consumes 35-40% of the global market pulp. The country went into lockdown in February following the COVID outbreak.

Shipping lines back then were initially overwhelmed by uncertainties about the pulp and paper supply chain, from the shutdown and slowdown of paper mills in China to the possibility of consequent slowdown of market pulp facilities in other countries, e.g. Brazil and Chile.

Later as the virus began to rage in more countries, acute challenges were posed to carrier operations.

There was great concern in China about importing virus from overseas; restrictions were made on the way vessels come into the country.



CARRIERS

Breakbulk carriers have had many issues to contend with. Special pilotage regulations have been put in place. For vessels that come from COVID-19 affected countries, there are only a certain number of pilots who are able to take them in. Sometimes a vessel needs to wait a couple of days to find a pilot.

Health clearance for these vessels is only given once the vessel is alongside and during office hours. This has been causing some delays in cargo operations.

As most people are aware, many vessels today have Filipino crews on board. Crew changes have been a major problem for carriers, with the difficulty of flying crews home and flying new crews to board vessels as the COVID-infused travel restrictions have blocked their way.

Ship crews work onboard for months at a time, and they are supposed to be regularly replaced by others, who normally fly from Manila, the Philippines.

Many carriers with vessels sailing from the Americas to China have been deviating vessels to Manila to carry out these crew changes, Manila being only a few days sailing from China.

Breakbulk shipments have increased from markets that were normally almost exclusively container-based

However, these vessels have been the subject of close scrutiny. Quite a number of vessels have been found to have infected crew members on board, which has led to vessels being quarantined for 14 days. Carriers have been accumulating delays as a result.

One particular big ship owner said that he believed he had lost more than 100 days of ship's time as a result of these prevention measures.

That the pandemic has disrupted global trading and the fact that the situation in different regions differs a lot have also greatly exacerbated the container imbalance.

Container carriers have been faced with issues resulting from disruption to normal trade lanes. At the beginning of the crisis, lockdowns in China slowed down exports and disrupted supply chain. This resulted in container unavailability in certain markets and soaring freight rates to certain markets. In short, containers are not in the right place.

The Euroports terminal in China has seen an increase in breakbulk shipments from markets which are normally almost exclusively container-based

Consequently, many shippers have been facing shipment rollovers. Carriers have been compensating for this by increasing rates or imposing surcharges, which has driven up freight rates.

TERMINAL OPERATIONS AND DISTRIBUTION

At the beginning of the COVID-19 crisis in China, the country was put into lockdown extremely quickly. The government officially extended the Chinese New Year Holiday in late January, and there were restrictions on travel. Offices and schools were closed and home working became the norm for several weeks.

When pulp cargo finally arrived in China during the lockdown in the first quarter of this year, it often met further challenges from port operations and distribution network.

In China, migrant workers are a lynchpin in many sectors, including port operations. Most of them had gone back to their home cities and provinces to be reunited with their families when COVID-19 travel restrictions came into force at the Chinese New Year.

Their return to the workplace, which was supposed to be in early February, was then significantly delayed. This caused some labor shortages in ports as workers were delayed coming back from holiday.

In many cases ports had to work with reduced labor forces till the end of March.

On the port, contact with vessel crews was and remains very restricted, but operations are back to normal.

Trucks that came in to load the cargo were also tightly controlled. For several months truck drivers coming into the port had to prove where they had been over the previous two weeks and could not load if they had been in an area considered at risk. This caused more delays in delivery.

RIVER TRANSPORT ALSO AFFECTED

The Yangtze River is an important transportation route through which market pulp can travel from the eastern coastal city of Changshu to as far as Chongqing Municipality in the western part of the country.

The 2,000-km route was disrupted when Hubei, the province located in the middle reaches of the longest river in China, was put under lockdown and all the local ports there were closed. (The epicentre of the virus was the city of Wuhan, in Hubei Province.) A barge going by Hubei had to do careful planning to avoid stop in those closed ports.

The whole province was under lockdown for several months, which of course meant that Euroports was unable to deliver any pulp to that area for that period. It also caused some disruption on barges moving further inland as they were not allowed to stop anywhere in Hubei on their passage inland.

Hubei opened up in April. When the restrictions on inland transportation were first lifted, a new problem arose: there was a bottleneck in delivery of the pulp that was sitting in the local ports to customers at paper mills.

The ports were so congested that they could not take normal-size barges.

Fortunately, the overall situation has eased (see boxed copy) and life is getting back to normal.

Alan Bog recalls

I was stuck out of China for several months and returned at the end of August. After finishing my quarantine mid-September, I was astounded to see to what extent life was like before. I was fully expecting many restrictions. The quarantine process I had been through was extremely strict and that no doubt explains why.

Masks are still compulsory on public transport and public buildings, however everything else is back to normal and the economy appears to be rebounding.

As a port operator, I thought 2019 had been a very challenging year, but 2020 in many ways has been even more so.

Shawn Wang is a Fastmarkets RISI news editor based in China. Alan Bog is president, IFPTA, and commercial director Asia for Euroports. He is based in Shanghai. This text is a summary of Alan's presentation at the Fastmarkets RISI Asian conference.

The port's forest products trade is growing and there is always lots to see and do socially in Florida

TS24 SHAPING UP IN JACKSONVILLE

An IFPTA Journal Special Report

Picture: Jaxport

Although the worries of the COVID are still with us, it's time to think of better days ahead. What better way than to start planning for the International Forest Products Transport Association (IFPTA) 24th symposium (TS24) to be held Sept 14-16, 2021, at the beautiful Marriott TPC resort in Ponte Vedra, Florida?

Rick Schiappacasse, director, forest products and special cargos, JAXPORT (Jacksonville Port Authority), heads the team assembling TS24. He is ably assisted by IFPTA board members Rhoda Voth, Saga Welco, and Tom Mutz, Penn Warehousing.

COVID dominates conversations this year and with almost every industry event being cancelled or going virtual in 2020, perhaps it was fortuitous that the Transport Symposium is a biennial event.

Being a year out, Schiappacasse believes the risks will be mitigated by the time mid-September rolls around. Still, the hotel is making plans to alleviate any risks, such as spacing the seating to allow for social distancing.

He is optimistic about attendance, noting that the event consistently draws attendees representing the upper level of logistics personnel in the forest products industry. "It draws an influential niche of people you can do business with."

As TS24 is being held in the southern US, Schiappacasse thinks it will attract a strong showing of South American delegates. He also thinks Europe will be well represented.

The technical program is being put together and will again feature the important issues of the day being discussed at a local and global level. The program will open with the port tour including the two specialized terminals (almost 1 million ft2 with covered rail car loading) that handle forest products. Schiappacasse says organizers are looking at a couple of options for the tour. This will be followed by the opening reception back at the hotel.

Of course, the exhibit, organized by Fastmarkets RISI, will again be a big part of the symposium.

The hotel itself is a fabulous setting for a conference. The sessions and exhibit area are on the same floor as are many hospitality suites if companies want to take advantage of meeting with customers.

For those companies with offices scattered around the globe, there are many meeting rooms available so it is an opportunity to meet face-to-face with employees from different locales.

On the social side, the hotel will have a shuttle service to the private beach club as well as to the world famous TPC Sawgrass golf resort. The course is home to the annual The Players Championship. Delegates will have access to the clubhouse. And, for a fee, delegates have the chance to take on the course and its legendary island green 17th hole.

There is a large shopping complex with numerous restaurants located close to the hotel. Jacksonville has great diversity and is known for its micro-breweries.

Among the nearby attractions is the Jacksonville zoo with a recently renovated facility devoted to tigers. Also animal-related is a 17,000-acre facility caring for rescued animals such as retired circus elephants. Of course, Florida's famous beaches are very close by. "We will have warm temperatures and sunshine," Schiappacasse promises.

The oldest city in the US, St. Augustine, is not far and, heading south, the Cape Kennedy Space Center is just over 100 miles away.

Schiappacasse said the hotel will offer special conference rates beginning the Saturday prior to the event and going through to the Sunday after.

JAXPORT: A GROWING PRESENCE

Located on the St. John River in northern Florida, the port was profiled in these pages in 2019 (*IFPTA Journal*, No. 3 2019, p. 29). Some of the recent developments include the ongoing dredging of the shipping channel to bring it to a depth of 47 ft. The container business is growing with the recent opening of Intermodal Container Transfer Facility.

Schiappacasse provided some updated numbers on JAXPORT's forest products and other trade. In 2019, JAXPORT moved 778,608 tonnes of forest products. This is import and export trade and includes logs, lumber, pellets, pulp, paper, board and tissue. Port tenants handling pulp and paper products are Patriot Ports and SSA Atlantic.

In 2019, more than 1.33 million containers (TEC) moved through the port, a 5% increase over 2018 and a new JAXPORT record.

The port also moved the most vehicles in its history, nearly 696,500 total units, maintaining its position as one of the nation's busiest vehicle handling ports.

The port is very accessible to road and rail. Major interstates are as close as a mile from the terminals. It offers 40 daily trains via two Class 1 railroads – CSX and Norfolk Southern – as well as the regional Florida East Coast Railway line.

Overall, Schiappacasse says the outlook is positive for forest products in the area. As one of the fastest regions in the US, the tissue business looms large. "In the Southeast US, there has been a constant development of tissue facilities," Schiapacasse explains. "So, we expect to see more and more pulp come through the port, especially from Brazil. Even Europe is looking to ship some pulp here."

As UPM expands its pulp operations in Uruguay, Schiappacasse sees an opportunity for JAXPORT. Ships can start in Uruguay and then stop in Brazil before heading north. Most of UPM's pulp made in Uruguay had gone to Europe or Asia but with expansion, he sees some coming to the US, particularly to serve the tissue sector.

On the export side, JAXPORT handles a significant amount of logs, most of which are shipped in containers, not by breakbulk.

The graphic paper side is not doing as well, but Schiapacasse says there has been an uptick in cut sheet entering JAXPORT, mostly to serve the digital printer market.

It's time to be optimistic and mark your calendars for TS24 in Jacksonville: Sept 14-16, 2021.

To be a sponsor for TS24 or to book exhibition space, contact Remy Poos, commercial manager, Fastmarkets RISI: rpoos@fastmarkets.com

Rick Schiappacasse heads the local organizing committee for TS24

The Marriott TPC resort has plenty to offer delegates

The exhibition hall, meeting rooms and suites are all in close proximity

Despite all the woes created by the pandemic, there is some optimism

COMING OUT OF COVID

By GRAEME RODDEN, Contributing Editor

Following the lead of other global events and forced to go virtual, Fastmarkets RISI's 35th annual North American forest products outlook conference still gave delegates the chance to listen to some key players in the sector as they gave their insights into the market today and what can be expected in the future.

In opening the conference, CEO Dan Klein highlighted the key factors shaping the landscape. These are: heightened awareness of the importance of personal protection and hygiene; the increase in remote work, schooling and other activities; the expansion of e-commerce; the campaign for sustainability; geo-political influences on global trade, e.g., trade disputes still exist with COVID; and, government intervention.

It becomes a question of shape or be shaped, Klein added. In the next six to 24 months, do you want to shape or be shaped by market disruptions?

A true visionary in the industry, Anthony Pratt, Pratt Industries (and Visy Industries in Australia)), was honored as the North American CEO of the Year.

Under his guidance, Pratt Industries has grown to be the fifth largest boxmaker in the US and has pioneered the use of recycled paper for more than 30 years.

In his acceptance talk, he noted that the company is prepared to invest spend $10 billion in its facilities. The company's quest continues to be making boxes that meet all quality specs from a 100% recycled furnish.

Pratt's circular economy manufacturing culture is driven by its "milligators", that is, the principle of having corrugators installed in the paper mill. Waste from the mill is used to produce energy while waste from customers goes back to the mills.

Pratt said the technology installed allows the company to take the worst quality paper and still be able to use. "If you can tear it, we can use it."

He told delegates that sustainability and commerce are complementary and that there is no need to make a choice between the two.

He said the industry is lucky to be stuck dab in the middle of the two biggest revolutions: sustainability and the internet. The industry is well placed to can take advantage of the two two.

In response to questions, Pratt said that in the future 80% of food we but will be delivered to our houses. "Our challenge as an industry is to become the package of choice versus plastic or other alternatives."

Corrugated is well-positioned to be the leader in the packaging sector of the future. Bit, it has to be able to adapt to the digital revolution, e.g., customized printing.

COVID CONVERSATIONS DOMINATE

As could be expected, COVID-19 played a large role in many of the discussions.

In one of the first panels, moderator George Staphos, Bank of America, discussed the effects of COVID-19 on operations and demand with three CEOs including Anthony Pratt. Pratt noted that the pandemic led to an explosion of online retail, which forced Pratt Industries to work on taking care of its customers changing needs. "Keeping up with customers and making sure we served them was our priority. There was a huge shift to digital (in the corrugated box market). We needed to understand the channels to do the right products for them, and we have done a lot of work related to that," Pratt said. "We need to stay in tune with the digital world."

Mike Doss, CEO, Graphic Packaging International (GPI), said business "skyrocketed" in the food and beverage sector but other sectors fell off. "So we needed to shift some production."

Howard Coker, CEO, Sonoco, noted that availability of skilled labor became an issue as absenteeism increased. COVID reinforced the shift to more automation in a mill.

In terms of demand and the way the pandemic kept people at home, Pratt said he hoped the shift would go from safety reasons to convenience that the at-home audience continues to grow. Then, he added, the consumer won't be content with a plain brown box but increased customization will be the next step.

Doss said that given the supply chain shocks suffered in the pandemic, GPI was still able to re-engage with customers and forge new relationships. He also believes the industry will see more "at home" customers.

Lasse Sinikallas, director of macroeconomics, Fastmarkets RISI, said in the face of the COVID pandemic, central banks are boosting the global economy to help it recover, stay alive and grow.

In the US, the Fed has cut interest rates to zero. In Europe, the ECB continues to supply the market with money. An EU recovery package has been agreed upon. In China, government led stimulus has been low but it has been investing heavily in infrastructure.

The greenback is still strong, Sinikallas said, but wondered how it will perform when we recover from the recession.

In all regions, he noted that a recovery is in progress but it will take time to reach previous levels. The US job market is still in turmoil. Although it has recovered well, it is still down 10.3 million jobs. The jobs lost were heavily focused in the service sector. Consumption growth will drive the US economy.

In the Euro area, confidence remains low.

Drops in various GDPs in the first quarter were huge. All KPIs are low but they have recovered from the depths, Still, consumer confidence is low compared with industrial confidence.

European industrial production has shrunk and although recovering, it is still below previous years' levels.

In China, the industrial sector has recovered nicely although investments are still relatively low. Production is close to what it was prior to the crisis. Chinese retail trade growth is still behind the previous year's level.

Sinikallas said all regions have their advantages and challenges. In the US, on the plus side: interest rates are low; the demographics are favorable; household leverage is low while household net worth is high; oil is cheap.

However, there is a risk of inflation. Also, there is political uncertainty. (Ed. Note: This text was written before the November presidential election.) There has been serious damage to the service sector. Trade wars remain an issue.

In Europe, on the plus side, low rates will help the economy recover; EU recovery funding will open opportunities; industry is transforming. Negatively, there is a risk of deflation; growth was low even before the pandemic; there is a north:south divide; unemployment is high; what is the fate of the Euro when looking at other issues such as Brexit.

In China, there is a conversion to a consumer-led economy from an export-led one. Infrastructure has received an investment boost. There is global synchronized growth. Looking at the challenges China faces, Sinikallas mentioned demographics as well as debt and inflation. Any trade war will not favor the country. Emerging markets that China services are facing problems.

Overall, Sinikallas said he sees a global recovery coming in 2021. GDP growth in the US in 2021 could reach 4.9% with 5.2% growth in Europe and 8.2% in China.

Risks to a global economy include COVID fall-out such as a collapse of supply chains and debt, trade policies, the US election, political leadership changes (e.g., Germany, Japan) and a rise in geopolitical tensions.

He ended on a positive note saying that most executives have an optimistic outlook and the situation now is even better that it was a few months ago.

PELLET IMPORTS TO PARTS OF ASIA WILL LEAP

Looking at specific products, Fastmarkets RISI senior economist, international timber, John North focused on pellets. In Asia, it is still a huge market (import). Meanwhile Japan is growing exponentially as it turns away from nuclear-generated energy. On estimate shows imports reaching 10 million tonnes in five years.

Vietnam is still increasing its exports, an estimated three million tonnes in 2020. There is a lot of pellet making capacity coming online there.

Although European pellet import rates have been trending down since 2018, they still continue to grow. The EU is setting conditions to go heavy into renewable including woody biomass and it will be reliant on imports. These will be heavily subsidized. North said there is a good opportunity for producers on the east coast of North America and South America.

PULP SITUATION STILL UNSETTLED

Fastmarkets RISI vice president, fiber, David Fortin said pulp consumption growth has softened as the frenzied pace in tissue eases and graphic papers hit a low point in the cycle.

Various factors are creating an unsettled situation. Supply side disruptions caused by COVID offset a portion of the demand declines. Inventories remain elevated. The China:US trade war exacerbated the unsettled situation caused by COVID.

Industrial markets are improving, but from low levels, Fortin added. The market was coming out of a recessionary environment in 2019 caused by the trade war. This year was looking better when COVID hit.

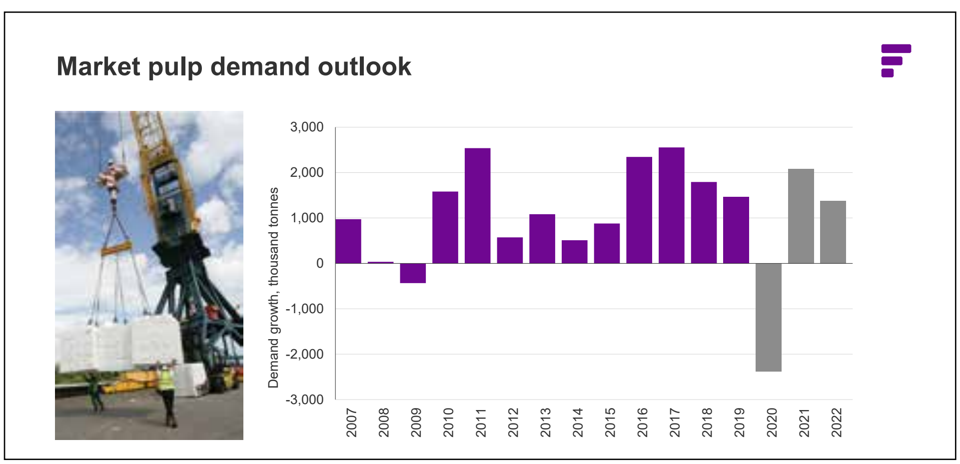
We are now at a point where industrial markets are expanding globally, but from exceptionally low levels. The Chinese economy is recovering, but slowly. Developed nations' economies suffered a collapse but the near-term outlook is not as dire as predicted.

In 2020, there is likely to be a "jaw-dropping" collapse in world pulp and paper production of more than 5% or greater than 20 million tonnes. Fortin said he expects the situation to stabilize in late 2020 and accelerate into 2021-22.

Graphic papers still account for about 30% of market pulp demand so the plummeting demand for P&W grades dropped pulp demand substantially lower. Fortin expects a decline in market pulp demand of around 2.5 million tonnes this year. Demand will rebound in 2021 before getting back to pre-pandemic levels in 2022.

Unexpected downtime continues near historic highs. Before COVID, the industry suffered from events such as drought, fires, strikes, wood supply issues and then COVID hit in 2020. Will the massive increase of downtime extend into the future? Probably, Fortin said.

Although bleached hardwood kraft producer inventories have been brought back to normal, bleached softwood kraft pulp inventories remain bloated. Why? In part, because fluff pulp



demand has weakened and producers built inventory to account for delayed downtime that is currently underway (Ed. Note: October 2020).

China accounts for 36% of global market pulp demand and imports about two million tonnes monthly. Imports continue to grow despite the pandemic and supply side disruptions. Major Chinese ports are still carrying excess inventory which will continue to weigh on ordering decisions. The fast approaching complete ban on recovered paper in China as well as further restrictions around single use plastics will provide a tailwind for virgin pulp demand.

The northern bleached softwood kraft (NBSK) premium over bleached eucalyptus kraft remains high (about $150). A weak market and lower availability of NBSK may result in the spread remaining larger for longer. All easy conversions to higher bleached hardwood kraft use have likely been made.

AF&PA'S BROCK PROUD OF INDUSTRY'S EFFORTS

Day 2 began with an interview between Fastmarkets RISI's Renata Mercante and the president and CEO of the AF&PA, Heidi Brock. When asked about the impact that COVID has had on the industry, Brock said it was significant, but that she was proud of the progress the industry made adapting to the pandemic.

The industry has been recognized as essential, but Brock pointed out that it had to work hard across the supply chain to get that designation.

With the US presidential election coming up, Brock said no matter who wins, the pandemic will play a big role in determining the future. She said the industry wants the best science and technology information used to create the best policies.

COVID HAMMERS AFH PACKAGING BUT OTHER SPENDING BUFFERS THE BLOW

The conference continued with more outlooks for the various grades. Ken Waghorne, vice president, global packaging, Fastmarkets RISI, again handled the paper packaging side. He noted that the key factors driving global developments over the next 2-3 years will be:

- Economic headwinds and uncertainty (that existed pre-COVID);
- Changing recovered paper policies;
- E-Commerce;
- Environmental concerns, i.e. paper vs. plastic.

In the last couple of years, a global downturn in manufacturing followed by COVID has hurt paper packaging demand. China and Europe have suffered big drops in 2020.

In 2019, total global demand for packaging was 265 million tonnes with Asia accounting for about 50% of demand.

In North America, two-thirds of demand is containerboard, which is closely tied to the manufacture of consumer goods. Boxboard is about 25% of the market.

Waghorne said the service sector is where he sees weakness. For example, spending in July was down 9% from year ago levels. Food service remains down 17% from a year ago, offset somewhat by increased spending in grocery stores.

There has been a 36% drop in away-from-home (AfH) activities such as movies and sporting events. But, there has been a shift in spending to recreational products used at home. Consumer spending on goods is running head of pre-COVID levels for now. Spending in July was up 7% compared with a year ago.

Industrial production in North America was in good shape at the beginning of 2020 but the "bottom fell out" when COVID hit. However, Waghorne has seen a recovery since the economy restarted in May.

Some of the largest segments of the packaging market were able to shake off the effects of COVID except for cup stock because of the sudden loss in demand from the entertainment sector.

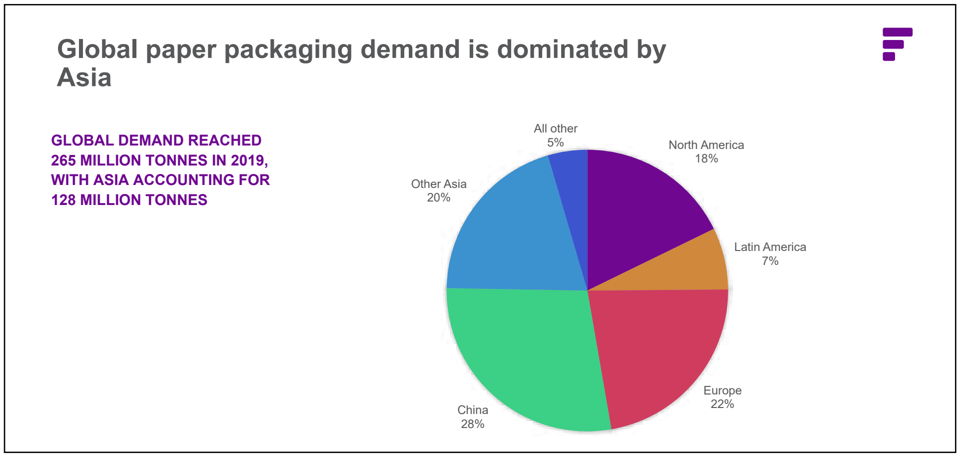
He sees a manufacturing recovery over time but expects some losses as a second wave of the pandemic hits. North American packaging demand should grow 3.4 and 3.2% in 2021 and 2022 respectively, but some of 2021's growth could be pulled into 2020.

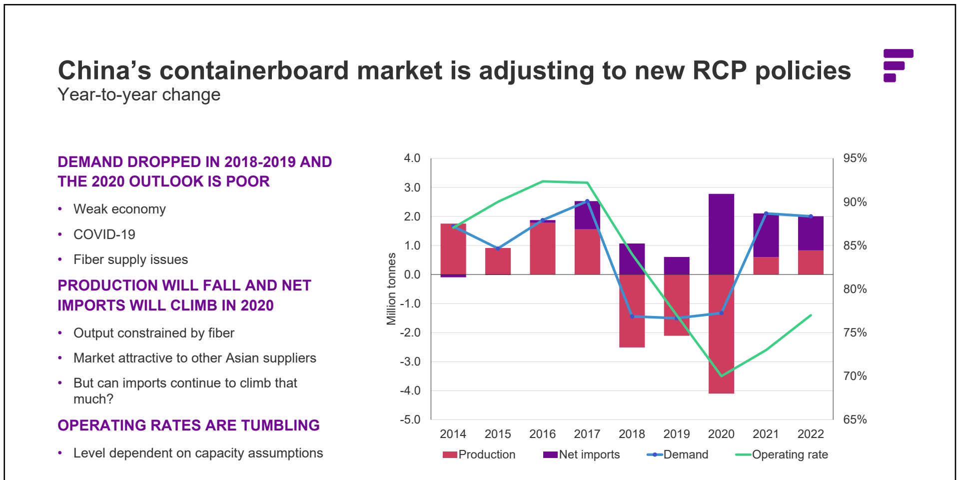
One issue North American containerboard faces is a surplus of capacity. It is expected to grow significantly over the next five years. Between 2019 and 2023, 2.3 million tons of new capacity is coming online. Therefore, capacity shortages are unlikely for some time.

Looking at the global situation, in Latin America, Brazil and Mexico dominate demand, each with about a third. However, each country has different dynamics. Brazil is self-sufficient while Mexico is closely tied to the US. Waghorne does not expect any demand growth in Mexico through 2022. In Brazil, exports will grow as significant new capacity enters the markets thanks to Klabin and WestRock.

In Europe, demand growth is slowing and oversupply is developing with one million tonnes of new capacity added in 2020.Capacity increases in eastern Europe will push more western European exports outside the region.

In Asia, Chinese RCP policies are changing the way companies are operating around the globe. Chinese containerboard production fell





by 4 million tonnes in 2020. However, net imports will increase for the year.

In the rest of Asia, demand has declined but should rebound in 2021-22. A lot of non-traditional producers are increasing exports, up to more than 6 million tonnes by 2022.

What to watch for in the near term?

- Shifts in retail are giving a boost to corrugated demand.
- The progression of COVID and how various economies rebound.
- Did COVID disrupt the push for sustainability?
- Robust capacity expansion in every region.
- One final shock to the global RCP system in 2021.

Overall, Waghorne said there will be an average annual demand increase of 1.5% through 2022.

CHINA CONFIRMS ITS BAN ON US RCP IMPORTS

Into recovered paper where Hannah Zhao, senior economist, global RCP, Fastmarkets RISI, said North American demand dropped in May and June as the economy slipped in the summer. Exports of RCP to China rose in late summer and early fall as buyers took their last chance to buy US RCP before China implemented a total ban.

On the supply side, there were temporary disruptions in the spring. In the long-term, what will be the effect of growing e-commerce on the recycling system?

E-commerce has increased during the pandemic and is likely a permanent effect so there will be an increase in demand for boxes and, therefore, OCC.

For high-grade RCP, there was a severe supply shortage in the spring. As the work from home phenomenon took effect as well as school closures, this had a negative impact on demand for graphic paper and, therefore, the supply of high-grade RCP.

For mixed paper, there has been a sharp price decrease between 2017-19 because of China's ban as well as other Asian countries' restrictions. Prices have stabilized recently and trended up after COVID. There has been strong demand from other Asian countries. In the US, domestic demand for mixed has grown 5.5% year over year.

Overall, US RCP exports show continuous decline to China and slowing demand from other Asian countries.

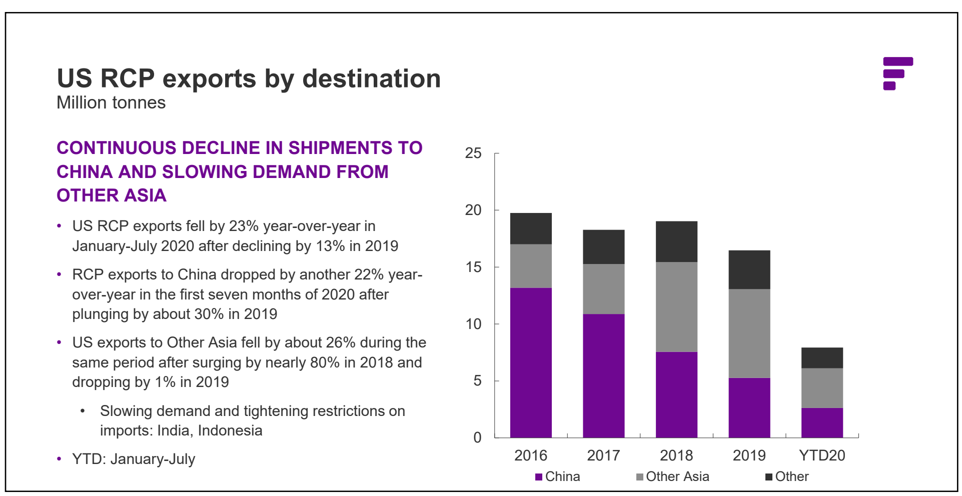
A direct effect of the RCP ban has been the rise in recycled pulp exports from the US with significant opportunities to keep growing. China has confirmed the ban on all RCP imports by the end of 2020 but it waived tariffs on US recycled pulp imports at the beginning of 2020.

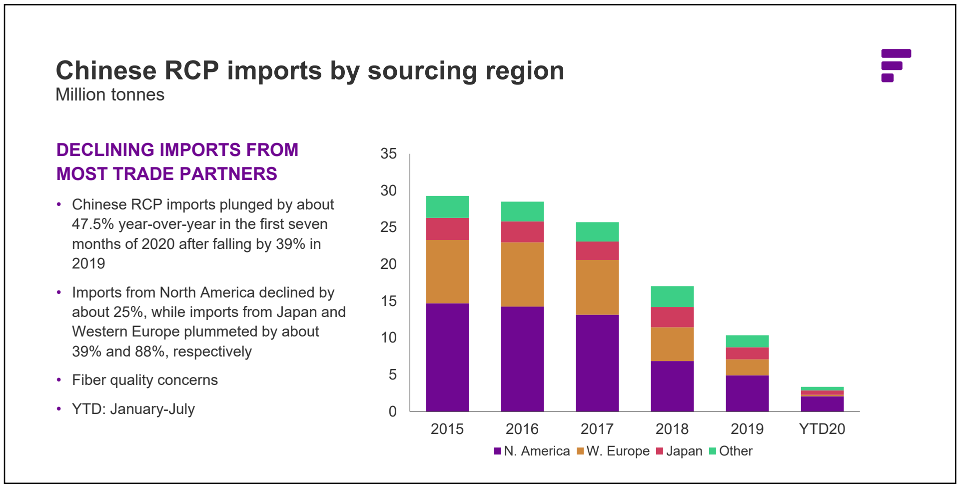
These continue to grow, up by about 160% year over year in the first eight months of 2020.. This has led to a number of RCP pulp projects, mostly in the US and Southeast Asia. However, Zhao believes that it is likely not all will come to fruition. Still, China's recycled fiber shortage will continue. Virgin pulp can help, but by how much, she asked. There are issues of price and availability.

Is recycled pulp a short- or long-term solution? Will China continue to import recycled pulp to make containerboard or will it import containerboard. China's domestic recycling rate has risen, but at 80%, how much higher can it get? And, there are quality concerns about its domestic RCP supply.

Other Asian countries have seen their RCP imports increase sharply because of limited domestic recovery rates and strong demand growth. They are increasing their containerboard exports to China.

In summary, there is still a lot of uncertainty in the Asian market as well as concerns about COVID. Will other Asian countries put restrictions on RCP imports? Will there be restrictions





on recycled pulp imports? Can North America improve its quality of RCP?

EVERYTHING CHANGED FOR TISSUE

Fastmarkets RISI's principal, tissue, Esko Uutela, spoke about how COVID totally changed the dynamics of the tissue market. "COVID has changed everything for tissue," he stated.

Consumer tissue sales boomed while AfH sales suffered.

Panic buying emptied tissue shelves across the world. North America, Europe and Australia were hit hard because there was not a lot of extra capacity available to fill demand.

In China, overcapacity helped to increase production even if some mills were closed six to eight weeks. Tissue mills turned out to be strategic assets. Uutela spoke of tissue truck being hijacked in Hong Kong and Germany.

In Germany, after five weeks of panic, tissue levels normalized. A second wave has led to more buying. Overall, the year 2020 will be above average for the country.

In the short-term, in the US the impact will definitely be positive for the at home sector. AfH sales plummeted from April through July. Overall, 2020 will be bad for the AfH sector because of decreased travel, restaurants closing and the shift to people working from home.

In the long-term, the outlook for AfH is still positive though. Hygiene issues are at the fore and will remain so. COVID has actually helped improve hygiene standards. Electric hand dryers have been turned off because they were found to be "virus slings".

In the consumer sector, households will probably keep higher stocks than in the past, for example, two weeks instead of one. The number of tissue users will likely grow in countries with no previous tradition of tissue use.

In 2019, Uutela said global tissue consumption was 40.6 million tonnes. The market is dynamic and emerging markets are growing in importance. China has surpassed the Western Europe in market size. Asia is accounting for an increasing share of demand – 39% – compared with 34% in 2014.

In North America, the market has been strong recently, led by AfH. COVID reversed that with the at home sector driving growth. The overall result is significant growth for the year.

Canada is still the main source of US tissue imports although China is now almost at the same level. Due to COVID, imports increased by 15% in the first half of 2020. Tariffs on Chinese tissue were removed so imports increased significantly.

Pre-COVID, AfH product shipments showed a growth rate double that of at home products. In March 2020, panic buying boosted the at home sector. Since April, AfH has been in a deep recession. Significant amount of AfH bath and facial tissue landed in households.

In the second half of 2020, at home demand growth in the US was expected to slow but still be above average. The AfH sector was still expected to struggle.

Total volume should show good growth, at least 5%, maybe 6-7%.

Uutela expects continued growth in North American consumption until 2022. But what will happen to AfH in 2021? He expects a "normal" year in 2022.

Although the disease is horrific, it did have a positive effect on the tissue market. Uutela said the outlook remains good despite the number of new investments in North America. A lot could depend on how net imports develop.

Latin America shows varying growth with a change to a more positive trend expected. Almost 470,000 tonnes of new capacity is expected through 2023. The utilization rate will remain low, maybe 80%.

In Western Europe, Uutela is looking at growth of 1.8% in 2020, but going back down to 0.5% in 2021. He said the region has taken a long time to recover from the 2008 recession.

Political tensions have cut growth in eastern Europe.

In Asia, the Chinese economy was badly affected by COVID so growth in consumption will only be 5 to 6% in 2020 compared with 9% in 2019.

Exports from China grew by 6.3% in 2019 despite US tariffs, so with these removed, exports to the US should increase.

Chinese tissue investments are "exploding", but Uutela said closures and delays can be expected. The expected net capacity increase is much higher than organic market growth.

An ongoing structural change in the Chinese tissue industry has been radical and is expected to continue. It is looking at a 70% utilization rate in the near future.

Many other Asia countries such as Indonesia, India and South Korea have good opportunities for growth but the region is still plagued by a low utilization rate.

Long-term, the outlook is positive. In 2020, global tissue consumption should rise by more than a million tonnes or 4.7-4.8%, which is very good.

Look for more normal growth rates in the future unless the pandemic continues. AfH will continue to suffer and will need a long recovery period. Many regions have too much investment. Then positive effects of COVID will not change the outlook.

FLUFF PULP: A GROWTH MARKET BUT WITH HEADWINDS

Another sector of the pulp market that is in growth mode is fluff. Patrick Cavanagh, pulp economist, Fastmarkets RISI, said demand for fluff pulp is a function of disposable income and demographics: babies 0-2.5 years; women 12-51 years; and, adults 65+ years.

Fluff accounts for about one-quarter of global bleached softwood kraft market pulp shipments with 85% of capacity in the US.

The large population base of emerging markets coupled with increasing disposable income will make them the driving force behind future demand growth. In 2019, total demand was 6.3 million tonnes, up 1% from 2018.

In recent developments, COVID-led panic buying for essential hygiene products has diminished as confidence in the supply chain has been restored. However, there should be a lasting boost from demand for wipes.

Although fluff is still a growth market, Cavanagh said global demographic trends are showing cracks. There have been lower than expected birth rates across economies. The recession will set back income growth in emerging markets. COVID pessimism could further de-escalate birth rates. However, the world's ageing population remains a positive.

China will be the largest market for future demand growth as the middle class continues to expand. Globally, baby populations will peak in 2020 and will then decline, albeit slightly, Cavanagh noted.

Global fluff pulp capacity is 7.5 million tonnes, up about 6% over 2019. Poor conditions in the P&W and dissolving pulp markets pushed producers to fluff.

While Domtar is planning to add more fluff pulp capacity, Ence has delayed a project to add 120,000 tonnes/yr of eucalyptus–based fluff pulp, although Cavanagh said it may return to the proposal later. Daio Paper will add 90,000 tonnes/yr when it converts a paper machine to fluff pulp in 2022.

He added that there is still a lot of swing pulp capacity in the US that could go to fluff (up to one million tonnes).

The pandemic recession in emerging markets will have direct negative implications for fluff pulp demand growth. Overcapacity and declining birth rates will be headwinds to face in the future.

PRINTING & WRITING: THE HITS PILE UP

Derek Mahlburg, director, North American graphic paper, was the bearer of more bad news for this hard hit sector. He said the sector would suffer its worst decline ever in 2020, with operating rates tumbling to as low as 50% during the worst of the crisis.

By autumn 2020, the sector was beginning to recover a bit as a return to "normalcy" off the lockdown nadir. But, demand decline of 15 million tonnes exceeded even that of the recession of 2008-09.

Global demand is now 102 million tonnes and an increase of 1.8 million tonnes is expected in 2021 before the decline continues.

In North America, demand was expected to drop 22.6% in 2020. Mahlburg said there would be no safe haven for any grade: coated or uncoated freesheet or mechanical. However, there will be a slight recovery in 2021 as activity continues to resume and a presumed resolution to the pandemic emerges.

North America was already reeling from a poor year in 2019. Will the structural changes caused by the pandemic stick? If they do, P&W grades will suffer even more.

Spending from consumers is still subdued and the sector will need a boost from the service industries.

There is an accelerating decline in magazine advertising. This has led to a drop in the number of issues published annually. The shift to digital will limit any recovery.

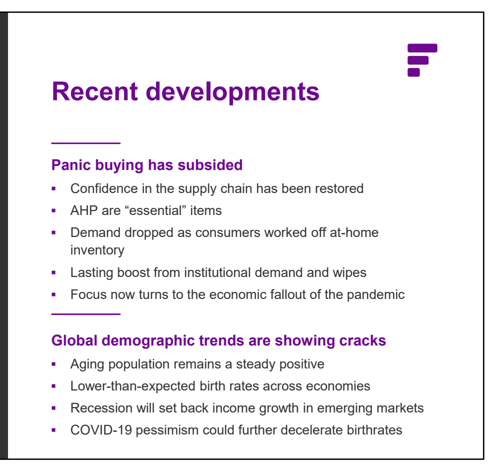
Catalogues in the US are also doing poorly but Mahlburg is more optimistic about their future.

The print book sector is the one area not struggling with a 2.8% rise in demand in the first half of 2020. The E-book share of the market has stalled at 20%.

Mahlburg noted that in June and July, the uncoated freesheet sector had recovered more than 40% of its pandemic losses with the possibility of upping that level to 67%. But, a second COVID wave could cause that rebound to falter. And, he said the pandemic will exacerbate the long-term decline of uncoated freesheet demand. Although the North American industry has cut capacity and shows good operating rates, there is still excess capacity of uncoated freesheet globally, up to 3.1 million tons by 2022. The pressure will be on producers to increase exports.

For the total graphic paper sector, since 2015, nine million tons of capacity have closed, of which half was converted into other grades. Massive demand drops will lead to major capacity adjustments. Trade will be a major risk after these adjustments to North American producers as offshore producers will try to increase their exports to the US.

In the first months of the pandemic, fluff pulp demand spiked as consumers stocked up on absorbent hygiene products



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IFPTA is bolstering its efforts to keep members up to date with the latest news and events in virtually every segment of the forest products transportation supply chain. The website is being updated on a daily basis with news about ports and shipping, rail carriers, trucking, breaking technology and regulatory announcements, and other information important to our members. So please take a moment to visit www.ifpta.org and let us know what you think.

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FIBER MARKETS ADAPT AHEAD OF CHINA'S "ZERO IMPORTS" DEADLINE

The global recovered fiber market has been undergoing a transformation in the last two to three years as new outlets are sought for material that, in many previous instances, would have headed to China. At a BIR Paper Division webinar on October 14 moderated by its general delegate Sébastien Ricard of France-based Paprec, participants provided a status report on the market supply/demand balance as well as an insight into technical innovations that could provide a further boost to the paper industry.

Following China's announcement that it would be striving for zero solid waste imports by the end of this year, the country's annual overseas purchases of recovered fiber have dwindled from between 26 million and 29 million tonnes in the three years to 2017 to just 19 million tonnes in 2018 and 11 million tonnes in 2019, with a total of 5 million tonnes projected for 2020, according to divisional past president Ranjit Singh Baxi of UK-based J&H Sales International.

This staged reduction in imports over a period of three years had been beneficial to the recycling sector, argued Baxi, because "It has allowed the industry to try to reposition itself in newer markets, finding newer outlets." BIR Paper Division president Jean-Luc Petithuguenin, also of Paprec, agreed that markets had made great strides towards offsetting the loss of orders from China, including through new capacities in Europe as well as through fiber exports being dispatched to a broader range of countries and in larger quantities.

Turkey remained a promising market it was noted by several speakers, despite its recent decision to limit paper recyclers' fiber imports to a maximum of 50% of their production capacity, as compared to 80% previously. Baxi predicted that other countries would adopt similar measures to protect domestic industries/collection programmes and to reduce import bills.

GREEN LIGHT FOR A DEEPER FAIRWAY AT THE PORT OF GOTHENBURG

Gothenburg City Council has passed a resolution to grant more than 1.2 billion kronor ($120 million) to finance the Skandia Gateway project, which is aimed at deepening the fairway leading into the Port of Gothenburg. The sum was matched by the Swedish Transport Administration as part of the national infrastructure plan, and as a result the project is fully funded. The three parties now have a firm basis for entering into an implementation agreement.

"This is the most important port project in Sweden this century. Gothenburg has been the logistics capital of Scandinavia for 400 years and following this decision it is set to consolidate and build on that position for the next 400 years," said Elvir Dzanic, Gothenburg Port Authority chief executive.

Direct services to and from the Port of Gothenburg across the oceans of the world without the need for transshipment are vitally important if Swedish companies are to reach global markets in a way that is both climate-friendly and cost-effective. However, as ships continue to grow in size and require a deeper draught, development of the fairway is crucial. At present the very largest ships can only call at the Port of Gothenburg half loaded, and the ships that are required to keep pace with global maritime expansion are becoming bigger by the year.

Skandia Gateway is a joint project being run by the Gothenburg Port Authority, the Swedish Maritime Administration, and the Swedish Transport Administration. With funding now in place, the three organizations can move forward and enter into an implementation agreement for this much sought-after project.

According to previous estimates, the cost of deepening the fairway to accommodate ships with a draught of 16.5 m would be around 4 billion kronor. More detailed calculations now reveal the cost to be around 2.5 billion kronor and achieving a draught of 17.5 m. The difference can be attributed to the application of more modern construction solutions that emerged during the early stages of the project, coupled with meticulous fairway design optimization.

STUDENT COMMITMENT TO INNOVATIVE INLAND SHIPPING

How can new and innovative ideas improve the future prospects for inland shipping? An Innovation Challenge on this topic is the next step in the successful EU project #IWTS 2.0. The event organized by bremenports and the Maritime Cluster Northern Germany (MCN) simultaneously marked the start of two new online seminars that will be held for trainees, students and interns this autumn.

The Innovation Challenge prompted two groups of students from Bremen University to step up onto the virtual stage. Six future industrial engineers presented their ideas for more innovation in inland shipping to around 70 participants. The topics ranged from the use of anticipatory logistics on rivers and waterways right through to suggestions for barge-assisted urban logistics. In anticipatory logistics, inventory management and shipments are organized on the basis of intelligent forecasts. In this case, the students adapted the model used by US American online trading platform Amazon to match the requirements of the inland shipping business. They presented practical examples, for instance from Utrecht and Amsterdam in the Netherlands, to show how barge transports could be integrated into urban logistics. This idea could lead to interesting prospects for deliveries to end consumers who are located close to the River Weser in Bremen, a city with a more than 40-km long shoreline. To improve sustainability and encourage intermodality, the students' model envisages cycle couriers to transport the shipments from microhubs, which are supplied from barges.

PD PORTS CONCLUDES MULTI-MILLION POUND RO-RO TERMINAL PROJECT AT TEESPORT

PD Ports has recently completed a £3.36-million pound ($4.44 mil-

lion) refurbishment project on its Number 1 Ro-Ro linkspan at Teesport that will support increasing volumes of global Ro-Ro traffic and further strengthen the Port's position as the UK's northern gateway for international trade. Operating three Ro-Ro berths at Teesport, PD Ports currently welcomes nine sailings per week from Rotterdam and Zeebrugge, as well as a monthly call from Japan. The renovation work to the No. 1Ro-Ro terminal, which will improve sustainability and extend service life, means that a wider range of vessels can now access the berth.

ELDORADO AND BRACELL WIN BIDDING FOR SHIPPING TERMINALS IN SANTOS PORT

Brazilian pulp producers Eldorado and Bracell have won the public bid for two pulp terminals in Santos port, located in São Paulo State. The port is the largest in Latin America and essential for pulp exports from the state and Mato Grosso do Sul State, where several large bleached eucalyptus kraft (BEK) pulp mills are located. According to estimates from the Brazilian governments, each of the terminals will have the capacity to move approximately 2 million tonnes/yr of pulp after the necessary equipment is installed. Eldorado has agreed to pay $46 million for the right to operate an area of 44,500 m^2 for the next 25 years. The company said the investment in logistics is part of its plan to build a second BEK line in the Três Lagoas mill.

As for Bracell, the terminal will cost $47.2 million, totalling 45,200 m^2. The company is currently moving ahead with works for its new 1.25-million tonne/yr BEK and dissolving pulp swing mill in Lençóis Paulista in the state of São Paulo. The project is expected to be completed by the end of 2021.

PORT OF GOTHENBURG FREIGHT VOLUMES SIGNIFY STABILITY AND REVIVAL

Freight volumes at the Port of Gothenburg have remained stable, despite the ongoing effect the Covid-19 pandemic is having on world trade. Container volumes remain unchanged while other segments are regaining lost ground following the downturn earlier in the year. This can be seen from the volume report for the year to September.

Container volumes in TEUs (20-foot equivalent units) were stable through to September this year. The fall of nine per cent for the third quarter came about at mid-year. Although Swedish industry managed to maintain momentum during the spring, the Covid-19 reaction finally filtered through during the summer months, with a subsequent impact on the number of containers passing through the port.

By national and international standards, container handling at the Port of Gothenburg continued to hold its own. Figures published by the industry organization Ports of Sweden show that the port has increased its share of the Swedish market by two per cent this year. The 10 largest European ports have took an eight per cent fall on average during the first half of the year..

The number of Ro-Ro units handled through to September was down 11% on the same period in 2019. Even though the year started off with a slump, the third-quarter figure (-6%) is a tentative sign that the negative curve is levelling off.

Handling of energy products was up by three per cent for January-September compared with the same period last year. The increase can be attributed to large-scale stockpiling of energy products during the spring. However, stockpiling has slowed during the autumn, and the situation has been compounded further by low margins at the refineries. Handling during the third quarter fell by 26 per cent compared with Q3 2019.

PINC ACQUIRES RAILCARRX

PINC®, a leader in digital yard™ solutions, has announced that it has acquired RailcarRx®, a provider of a comprehensive suite of rail industry software solutions and services. RailcarRx software provides maintenance, repair, fleet and asset management insights that help railroads, railcar owners, repair shops and shippers operate more efficiently, monitor equipment health and improve safety. RailcarRx will continue to operate and support its customers with the existing staff and supplier relationships, so that customers will receive the same high level of service and support they have come to expect from RailcarRx.

This transaction marks the second add-on acquisition for PINC in a short time; PINC acquired a transportation management software (TMS) carveout from Wabtec Corporation in September. Known by its trade names, ShipperConnect and ShipXpress, the Shipper TMS software provides cloud-based shipment management applications to industrial shippers that move goods over multi-modal transportation, including rail.

SEPTEMBER GLOBAL PULP SHIPMENTS CLIMB TO 4.8 MILLION TONNES,

Global pulp shipments jumped by 9.4% to 4.802 million tonnes in September, up from 4.391 million tonnes in August, according to data released by the Pulp and Paper Products Council (PPPC). The shipment-to-capacity ratio increased to 100% in September, up from 89% the previous month. September pulp deliveries were essentially unchanged compared with the year-earlier period, when they stood at 4.803 million tonnes in September 2019.

Bleached softwood kraft (BSK) pulp deliveries rose to 2.029 million tonnes in September, up from 1.982 million tonnes in August, while bleached hardwood kraft (BHK) pulp shipments increased to 2.620 million tonnes, up from the 2.256 million tonnes registered the previous month, according to the PPPC. Global producer inventories declined to 42 days of supply in September (42 days for BSK and 43 days for BHK) and were six days lower than September of last year.

AN ANALYSIS OF RECENT MARKET MOVES: BY THE RISI ECONOMISTS

MARKET PULP — CHINA

Inventories have dominated conversations about the global market pulp industry for last two years. The knock-on effects from the combination of major supply- and demand-side shocks disrupted supply chains and jolted consumer behavior.

While producer inventories have corrected from recent record highs, port inventories in China have barely come off record-high levels, remaining stubbornly elevated despite producers successfully transferring ownership of these volumes to buyers' balance sheets. A weak demand environment and an increase in warehouse capacity have, in part, enabled buyers to keep a larger share of their inventories at the ports.

These changes have resulted in Chinese port inventories maintaining a level two to three times greater than the historical trend since late 2018 and have placed an increased focus on how best to interpret these inventory statistics. Anecdotal evidence suggests that a consensus has formed around the idea that the trend port inventory level indicative of a balanced market has shifted higher due to changes in the supply chain and logistics.

In an attempt to justify and quantify a potential change in the inventory level representative of a normal and/or balanced market, we analyzed inventory levels in the context of reported pulp imports. This analysis suggested a slight increase in trend level inventories after adjusting for changes in the supply chain. But even after the adjustment, ports in China are still estimated to be holding an excess supply of nearly 500,000 tonnes.

In an attempt to normalize inventory volumes and estimate an historical trend level that could represent a balanced market, we converted the volume data into months of supply by dividing monthly inventory levels by a rolling three-month moving average of total pulp imports.

Inventories averaged 0.48 months of supply or a volume equivalent of 752,000 tonnes in 2014 to mid-2018, and consistently cycled around this level during that period before rocketing higher in the second half of 2018 on weak demand and strong imports. Assuming no change in logistics or the mix of major supplying regions that could extend the length of the supply chain, the trend level of months of supply would not necessarily change, but the volume of pulp the same months of supply represents would change along with import volumes.

Imports to China jumped higher over the past two years, averaging nearly 2 million tonnes per month from late 2018 through July 2020 compared to 1.55 million tonnes between 2014 and mid-2018. Assuming no change in trend level months of supply, the increased imports result in the volume equivalent inventory increasing to 928,000 tonnes. Even with this higher adjusted volume, the 1.57 million tonnes of inventories at Chinese ports at the end of August would be more than 600,000 tonnes above balanced levels.

Not only have pulp imports to China increased steadily since 2014, the regional share of suppliers has shifted. Export regions with longer delivery times to China, like Latin America and Western Europe, have gained share of total Chinese pulp imports at the expense of regions with shorter delivery times, namely North America and Other Asia.

Using regional import shares along with estimated average delivery times to China from each region, we calculated a weighted average shipment time for imports to China, assuming that any increase in average shipment times should result in a longer supply chain and a requisite increase in trend months of supply.

Average delivery times to China were estimated at 52.5 days from Latin America and Western Europe, 17 days from Other Asia and 35 days from North America. The 11% market share gain by Latin America and Western Europe, which have longer delivery times, and 10% loss by North America and Other Asia, with shorter delivery times, results in weighted average shipment times increasing by nearly 2.5 days from 2014 to 2020.

Adjusting trend level months of supply higher by these 2.5 days—roughly equivalent to 8% of an average month—pushes our trend level estimate of months of supply to 0.56 or 1.08 million tonnes. Even after adjusting for the longer supply chain, inventories at Chinese ports at the end of August were still 0.19 months of supply or 490,00 tonnes above the adjusted trend.

Chinese port inventories have tracked slowly lower from the record highs reached in 2019, but still remain well above both the previous historical trend and adjusted trend levels calculated as part of this exercise. This estimation is a step toward trying to put the port inventory levels in China in context.

There are other factors that were not included in this estimate, and are challenging to quantify, that have likely pushed trend level inventories even higher. These factors include increased warehouse space at the ports, increased usage of bonded warehouses for storage and a higher volume of spot tonnage stored at bonded warehouses in response to the growing futures market.

The general market consensus has coalesced around a trend inventory level at Chinese ports of 1.1-1.2 million tonnes, which seems reasonable according to this analysis and indicates potential excess supply of up to nearly 500,000 tonnes of pulp at Chinese ports.

FOLDING CARTONS GLOBAL

The past decade has been a challenging one for converters in the folding carton industry, with average annual growth declining by 1.2% on a tonnage basis. Since the recession, this downward trend was halted only twice, in 2014 and 2017.

In the last five years, growth declined 2.0% in 2015 and 0.7% in 2016, largely due to the ongoing headwinds facing major processed food and consumer product companies. Further contractions in shipments of 2.1% and 0.2% were recorded in 2018 and 2019, respectively. In aggregate, folding carton demand has eroded 17.4% from its pre-recession peak in 2007.

The flat to negative trend in folding carton shipments has been completely reversed with COVID-19 and the associated trends in consumer spending on processed food and industrial production. In 2020, the performance of folding carton shipments has been nothing short of extraordinary, recording 5.6% and 8.2% growth in the first two quarters of the year, respectively.

Fastmarkets RISI is forecasting year-over-year shipment volume growth will finish the year at 4%. However, the impact of the pandemic has not been unified across end-use markets. Strong growth was evident in cereals, dry foods, frozen foods and cleaning supplies. Meanwhile, food service is one of the most depressed end users of folding carton, as consumer spending at limited service eating places is projected to plummet 11.9% for the year.

Following the acceleration of shipments in 2020, Fastmarkets RISI forecasts that folding carton shipments will continue their positive trend given the anticipated improvement in economic conditions and the ongoing environmental tailwinds. Our macroeconomic outlook calls for the economy to expand at a 1.2% average annual growth rate from 2021-2024. This recovery will be associated with downward pressure on unemployment rates, which will resonate in the broader consumer spending dynamics. However, the growth in discretionary household spending will face some resistance by a more conservative consumer psychology following the pandemic and the recession.

While more favorable macroeconomic factors will result in carton demand growth over the forecast, the carton pricing environment will limit carton demand relative to other packaging alternatives, particularly in the sectors that use recycled boxboard. Over the forecast period of 2020-2024, we estimate that folding carton demand growth will average 1.9% annually. Following the anticipated 4.0% demand shock in 2020, folding carton shipment growth is forecast to stabilize at an average annual rate of 1.3% in 2021-2024.

Gains in folding carton demand are mainly driven by the restocking seen during the lockdowns as well as the ongoing war on plastic packaging, especially in the food service and retail carry-out sector. Although food service has been significantly impacted by the pandemic, the improving demand for takeout leveled off the free-fall in shipments. Headwinds will come from the increasing competition with e-commerce and corrugated packaging taking share. Additional headwinds include changing consumer behavior and the increasing demand for non-carton-intensive products, such liquid soaps and detergents.

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