



## Sellers See Rare Turn in Paper Market

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Unlike real estate, which pundits predict is moving to a buyer's market, consolidation in the paper industry has finally turned a longtime buyer's market to a seller's market.

Following price increases beginning with the June 1 shipment, Mead and Bowater announced a rise in the cost of coated and groundwood paper effective with shipments starting July 1.

Lead times for ordering and receiving paper have been lengthening as well, which also often predates further price increases. It's probably no coincidence that this is all in time for the 2006 holiday catalog season.

Oddly, it is not a demand-driven market that has forced a series of price increases in 2005 and 2006.

The fine paper industry has not been profitable for many years. Yes, the mills are trying to consolidate and reduce internal costs, hopeful of making a positive return to their shareholders.

Georgia-Pacific, for example, sold many of its fine paper mills to focus on consumer products such as tissue and towels. Those sectors of the industry have been much more profitable through the years as they do not seem to have the peaks and valleys prevalent in the fine paper industry.

Additionally, paper mills are shedding their small, slow paper machines either by divestiture or taking them out of service and stopping production. Two major mills, International Paper and Weyerhaeuser, are considering selling some of their assets.

International Paper is trying to sell its coated paper machines and appears to want to concentrate solely on uncoated paper. Weyerhaeuser recently closed the Prince Albert Mill in Canada and is investigating what sale price it might obtain for its fine paper machines in order to focus on its profitable building products division.

Canadian mills face the added pressure of the weakening U.S. dollar. Since April 15, the U.S. dollar has lost about 6 percent of its value against the Canadian dollar. This adds to the problems of the Canadian mills because a high percentage of their production is shipped to the United States.

Also, private investment firms have bought many paper mills and merchants in the past few years. These include New Page (remember Westvaco's fine paper division?), which is owned by Cerberus Capital Management (2005); Boise Cascade LLC, owned by Madison Dearborn Partners (2004); and Georgia-Pacific, now owned by Koch International (2005). In addition, Bain Capital now owns Unisource, the largest privately held merchant (2002).

Paper mills have not seen the pendulum swing their way for more than 10 years. Despite the constant rise in prices in the past 12 to 18 months, demand has remained steady and appears, at least in the short term, poised to increase overall domestically and certainly internationally, particularly in China and elsewhere in Asia.

Though the market apparently has turned in favor of the mills and merchants, that strength is and will remain tenuous as the possibility of a contracting economy combined with a predicted postage rate increase in summer 2007 does not offer a long-term assurance of future paper market strength. Note to marketers: Many buyers have never experienced a tightly controlled market. Planning ahead is the key.

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