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March 16, 2011

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## What 2010 Softwood Fiber Prices Tell Us about the Future

by *Pete Stewart*

In 2010, prices for softwood fiber were significantly higher in both the U.S. South and Pacific Northwest.

In the South, the price of pine fiber increased by \$2.00/green ton, or 6 percent, just \$0.10/green ton below the historic high. In the Pacific Northwest, total conifer fiber prices increased \$6.39/bone dry ton, or 7 percent. Following 2009, these increases in fiber prices show that markets began to stabilize in 2010. These higher prices may be an early indication that storm clouds are forming over containerboard and linerboard manufacturers in the years ahead.



### AGE CLASS GAPS AND HIGHER PINE FIBER PRICES IN THE SOUTH

Since the beginning of the housing market collapse, timberland owners in the South have been delaying final harvests because of sluggish sawtimber markets. Instead, they have been thinning their tracts, removing pulpwood to supply pulp and paper mills. These mills have been taking more longwood and chips because the sawmill chips and residuals they generally use have been limited by declining demand for lumber and the resulting decline in sawtimber consumption. To take advantage of this market trend, timberland owners have been thinning tracts and cutting pulpwood instead of following harvest schedules that include sawtimber-rich final harvests.

As long as the housing market remains lethargic, timberland owners will continue along this path. Eventually, however, they will run out of tracts to thin. As the number of these tracts dwindles, the supply of pulpwood will be increasingly limited. Prices will rise in response.

A more serious issue can be found in the disruption in replanting schedules of pine plantations as a result of excessive thinnings. When timberland owners delay final harvests, they also delay replanting the timber needed for future harvests. Traditionally, when this sort of disruption occurs, age class gaps emerge. In the future, when it is time to harvest these unplanted trees, supply will come under increased pressure and prices will climb higher still.

Those most directly under pressure from these changes will be manufacturers that have limited ability to make substitutions for pine pulpwood when its price gets too high. Because of its inferior strength, containerboard and linerboard plants, for instance, cannot substitute hardwood fiber for pine fiber. This inability to take advantage of supply substitutes will mean that containerboard and linerboard manufacturers will be forced to purchase higher priced pine fiber, a market condition that will last until the housing industry makes a full recovery.

### HIGHER PULPWOOD PRICES AND COMPETITION FROM CHINA IN THE

**PACIFIC NORTHWEST**

The U.S. Pacific Northwest will also experience this pressure and the resulting price risk. In fact, the trend has the potential to be even more severe in this market, as containerboard mills in the Northwest will be fighting high input prices on multiple fronts.

Tight sawmill chip supply, a result of low demand for lumber and the resulting decline in saw log consumption, will give containerboard manufacturers two choices for sourcing their raw material needs: high cost conifer fiber, or high cost OCC.

Ironically, higher conifer fiber costs will be caused in part by the age class crunch that is taking shape in the South. Historically, supply crunches in one region of the country tend to affect demand and inflate prices nationwide. As the ramifications of the age class gap in the South spreads, Northwest mills will be facing higher conifer fiber prices.

Typically, when conifer fiber prices rise, containerboard mills substitute OCC. As they attempt this shift, however, OCC prices are likely to be higher as well. Driven primarily by the Chinese market for OCC, which is scheduled to grow by more than expected in 2011 and beyond, prices for OCC will increase. In fact, planned expansions of Chinese containerboard capacity will influence both OCC and chipmill chip prices in the Pacific Northwest, as China will need both to support their capacity growth.

Facing higher costs due to the effects of the recession, regional changes in supply, and global demand, containerboard and linerboard mill margins will be under increasing pressure in the decade to come. Increasing efficiency through consolidation, as we recently saw with RockTenn's purchase of Smurfit-Stone, will provide companies with some cover from this impending storm.

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