

Containerboard Price Hike for the Fall Unlikely to Stick

Companies: IP, KS, PKG, RKT, TSE:CAS, TSE:UFS, UFS, WY

May 10, 2012

Research Question:

What are the current containerboard supply and demand issues, and how are they affecting containerboard pricing?

Summary of Findings

- Current U.S. market conditions will not support a [containerboard](#) price increase this fall.
- Inventories are too high, and containerboard mills are running near capacity. Inventories must drop 100,000 to 200,000 tons before the market could sustain a full price increase that would be extended to box prices.
- Containerboard demand has been flat year to year, and is expected to grow only 1.5% to 2.0% in 2012 in the United States. It is expected to grow another 2.0% to 2.5% in 2013.
- Sources confirmed industry talk that containerboard producers will announce a U.S. price increase for containerboard, including [kraft](#) linerboard and corrugating medium, in July or August and will target September for implementation.
- Eight of 15 sources agreed market conditions could not maintain a full price hike for containerboard or boxes. Four other sources were unsure, while three expect containerboard price hikes to stick and drive up box prices.
- Linerboard and [corrugating medium](#) prices remain flat in all regions but the West, and box prices are being pressured downward by sluggish demand and a competitive landscape for [independent corrugated converters](#). Volume box buyers benefit from unchanged prices dictated by contracts.
- Box buyers are increasingly interested in lighter-weight containerboard grades that would reduce costs and bolster use of sustainable products.

Silo Summaries

1) PRODUCERS OF CONTAINERBOARD

All five sources expect—and would welcome—price hikes for linerboard and semichemical medium to be announced late summer. Two U.S. sources expect the increase to go through in the fall, but another said market conditions could not support the hikes. Demand is flat year to year. Supply and production are strong but under control. Sources said inventories are at manageable levels but likely will decline during the summer as some producers idle containerboard mills for annual maintenance and project builds. Recent industry consolidation has stabilized pricing and evened out the market’s wild fluctuations.

2) INDUSTRY SPECIALISTS

These five sources expect price hikes to be announced for the fall but were mixed on whether the higher prices would stick. Finished box prices are under pressure. The past few years’ industry consolidation has created a stable market. Supply and demand are flat year to year, and inventories are in line with demand, but will need to drop to support a price increase. Some fluctuations may occur when containerboard mills go off line for maintenance in the spring and summer, in the western United States because of transportation costs, or in China where demand may fall from its currently high level. Box buyers are trending to lighter-grade boxes to help control costs. One source said the FTC may step in to review market pricing because only a handful of mills control the large majority of containerboard production.

3) CORRUGATED CONVERTERS

Two of the three sources said a fall price hike would not hold. Finished box prices are under pressure and are leading to tighter margins. Two sources would support the price increase if a corresponding hike was accepted for finished boxes. Consolidation has helped to stabilize prices but may be keeping pricing at an artificial high. Containerboard demand was declining in Europe and growing only 1.5% to 2% year to year in the United States.

4) BOXES BUYERS

These two sources said suppliers have not discussed finished-box pricing increases with them, and market conditions would not support such an increase. The recent price increase announcement for exported containerboard is not expected to affect pricing within the United States’ finished-box sector. Containerboard supply is in line with demand, and the market has experienced little demand or supply change year to year despite continued consolidation. One buyer said industry consolidation has reduced his buying opportunities.

	Demand Stable	Supply Too High	Price Hike Will Hold
Containerboard Producers	↑	↓	↑
Industry Specialists	↑	↑	→
Corrugated Converters	→	↑	↓
Box Buyers	↑	N/A	↓

Containerboard

Background

Like other commodity markets, the containerboard market's pricing and supply/demand historically are cyclical. Key influences include inventory and production levels and new capacity. However, the United States' containerboard market is subject to pricing changes in the European and Asian markets, the [old corrugated container](#) (OCC) waste market, and weakness or imbalance in the chemical, fuel and electricity markets. Mergers, acquisitions and the resulting company and mill attrition have stabilized the domestic containerboard industry's longtime pricing and supply volatility. Consolidation has placed 75% to 85% of the North American containerboard market into the hands of four to five companies, down from about 20 companies just two years ago. This stabilized market is about to be tested: A containerboard price increase is expected to be announced this summer and implemented in the fall.

CURRENT RESEARCH

To determine current containerboard supply and demand issues and

Containerboard

- “We have not seen the normal market fluctuations for paper prices. Containerboard prices have been constant for two years, and we have never seen that kind of stability.”
- “I don’t see box prices under great pressure. There is some pressure, but it is not overwhelming. January, February and March are typically the low points of the year. We may see attrition on box prices, but it is not abnormal.”
- “A lot of analysts that cover containerboard feel we will see a price increase in the late summer, early fall. But some do not see it. If you look at the fundamentals of our market, we have static inventories at reasonable levels that will slowly come down. The mills are already operating at 96% capacity for containerboard. There is no new significant capacity coming online anytime soon. That’s a good environment for a price increase. I think our customers are dying for an increase and would support it, not fight it. That’s because we have seen two years where CTB prices have been constant. At the same time energy costs have gone up, ink prices have gone up, freight and transport prices have gone up. Then because of natural forces in the box business, prices have been creeping down. When your primary material cost is constant and other costs are up, your margins get squeezed and the only way to expand your margin is with a price increase. The independents [corrugated converters/box plants] need a price increase now as much as ever. And box prices always go up when paper prices go up.”
- “Corrugating medium is in such short supply in California that a couple of manufacturers have pushed through a price increase, and now they are trying to raise the box prices based on the increase for medium. It should fly, but if what you heard from others about box pricing pressure is true, it could take longer.”
- “There is only one U.S. mill under construction, near [Niagara \[Falls\]](#) where [Cascades Inc.’s/TSE:CAS] [Norampac](#) is adding another 540,000 tons. It takes about 2.5 years to complete a mill build, so supply looking forward is fairly static.”
- “Inventory in general has grown, but historically it is still at a comfortable level and not a problem. We are entering the time of year when there is a lot of downtime. [Rock-Tenn \[Co./RKT\]](#) has publicly said they expect inventories to increase because they have some major capacity projects that would require downtime. Inventories are definitely up but not at the levels we saw before the market went south. I do not believe inventories are a major problem.”
- “Domestic demand has changed in part because the U.S. does not manufacture as much stuff as we used to. Most of the paper and packaging is for the food, beverage and pharmaceutical industry.”
- “Demand is anybody’s guess. It could be good, but a lot depends on economies around the world. We believe many economies will continue to expand over the next few years. There is very limited new supply [of containerboard] coming online, and we are operating at levels of production that are already high. Under these conditions, you would come to the conclusion that containerboard should be in good shape going forward and that anybody in the containerboard business would, therefore, be in good shape.”
- “We have seen growing demand in certain areas. There has been a big increase in produce. The Internet has created a lot of increased demand. ... With the Internet, when you order a sweater it comes in one box and that takes up more corrugated material per sweater. Ultimately, that will create a lot of new demand for our industry.”
- “We buy OCC, and the prices have been OK. The peak was seven to eight months ago when OCC was \$180/ton. Since then it has gone down by about \$70 and its now around \$110/ton. Traditionally, the OCC supply goes up and down, and I am not aware of any facility closing down because they can’t get any OCC.”
- “Anything that affects the overall U.S. economy affects the containerboard and box business. If you believe China is slowing and exports are slowing, it would affect us. But exports were strong, and March was huge for the industry. And China is still growing; it’s just growing at a slightly slower rate.”

A lot of analysts that cover containerboard feel we will see a price increase in the late summer, early fall. But some do not see it. If you look at the fundamentals of our market, we have static inventories at reasonable levels that will slowly come down. The mills are already operating at 96% capacity for containerboard. There is no new significant capacity coming online anytime soon. That’s a good environment for a price increase. I think our customers are dying for an increase and would support it, not fight it. That’s because we have seen two years where CTB prices have been constant.

*Executive, Containerboard Producer
North America*

Containerboard

► Executive of a North American producer of containerboard and packaging

Supply of containerboard remains strong, and prices are stable. Consumer confidence appears to be growing, but the source was unsure whether an uptick in demand would benefit the containerboard/box business. He also questioned whether any possible price hikes planned for the fall would stick and be passed through to boxes. Despite consolidation, inventory and production levels appear unchanged year to year.

- “Some say we might see a price increase happen in the fall. Others say conditions don’t support it. Until it happens, no one knows. We have a couple of big players and they will lead the fight.”
- “Paper prices have been stable over time. Box prices are only as good as your last customer sale. If we compare conditions to a year ago, things have not changed much. We have a lot of supply and not as much demand. With those conditions, we have heard indications that by the fourth quarter there will be a change in price.”
- “Our industry for a very long time has had difficulty explaining the true value we provide our customers. We provide a great value-added product. There has been too much emphasis on price. ... It’s tough to get the price up on a commodity unless it is in short supply, and we are not short on supply.”
- “The industry is running at a high capacity. Box plants never run at capacity. Some of the producer capacity has been taken out. Reports say that some are running at close to 96%. Typically that’s pretty good.”
- “I have not seen a lot of change in the numbers on inventory. They fluctuate by days and weeks. I have seen no major uptick in inventory, so it may be we are seeing more discipline on the part of the mills. With consolidation, some mills will be sold and others have shutdown tonnage. Norampac shut down some capacity in Canada, but they are going to start one up that has four times the production capacity. ... If we have some discipline, it would bring more balance.”
- “What percentage of paper is now consumed by the producers with box plants? If the independent box prices don’t go up, the containerboard increase will not [hold]. How many independents are out there to pass it through? In the past, the box price had to move, but I am never sure now whether the past is a good predictor.”
- “Supply and demand are more in balance. We do see an increase in consumer confidence, and that pushes the demand side. I think consumers are spending more.”
- “We are hearing about improvements in the U.S. economy. But even if there is less unemployment and even if there is some increase in manufacturing, as some claim, most of it is in the medical and technology sector. These are not areas that bolster the box business.”
- “There have been a number of structural changes in the industry as a result of consolidation. Rock-Tenn blended with [Smurfit-Stone](#) and IP [[International Paper Co.](#)] with Inland Container [[Temple-Inland](#)]. If anything can be said about the changes in the last year, it may be that when a company spends that much money on a new investment you would hope they expect to get a return. To date, the industry has not changed enormously. Is the consolidation a good thing? Time will tell.”
- “IP is more integrated and they will be divesting some mills, but they still have enough volume to sell to themselves. They are selling three mills, so obviously the FTC think they have a big enough piece of the market.”
- “Everyone talks about lightweight [containerboard]. Everyone wonders why we can’t produce more lightweight liner. The Chinese claim they are moving toward lightweight, but their own statistics show that over 80% of all their boxes are double-walled or more. ... Also, can the U.S. market lightweight? Europe has its own. I don’t know if we really need more lightweight. We have plenty of lightweight capacity now. No one is short of it.”
- “We can get OCC for our mill, but when the Chinese come to market the

Paper prices have been stable over time. Box prices are only as good as your last customer sale. If we compare conditions to a year ago, things have not changed much. We have a lot of supply and not as much demand. With those conditions, we have heard indications that by the fourth quarter there will be a change in price.

*Executive, Containerboard Producer
North America*

We are hearing about improvements in the U.S. economy. But even if there is less unemployment and even if there is some increase in manufacturing, as some claim, most of it is in the medical and technology sector. These are not areas that bolster the box business.

*Executive, Containerboard Producer
North America*

Containerboard

price goes up. China has a definite influence on whether OCC goes up.”

- “Today we are hearing rumors about Spain’s economy. If Italy or Spain goes, we will have a recession on our hands. This is a global economy. It’s not just about what happens here. When they bring on more capacity in China, they will buy more OCC and raise the price. We do sell paper to China, but if they are making more of their own they won’t buy ours. We can’t say their new mills won’t have an effect on the domestic market.”

➤ Executive of a global producer of containerboard and packaging, North America

This source said demand is stable, production well managed and inventories tight—all supportive conditions for a price increase. He expects a \$40 to \$50/ton increase on containerboard to be announced this summer and has no doubt the increase will stick and be passed through to boxes. Consolidation has eliminated excess supply/production capacity and should strengthen the domestic market going forward. More importantly, the consolidation has shifted control of segments, giving control over produce, agriculture, poultry, meat and bulk packaging while Rock-Tenn now controls display and retail ready packaging.

- “Demand has been solid for two years, so the price has been stable, which is unprecedented since the 1940s. Demand is not robust but is stable, so it’s a tight market with reasonable demand. ... Domestic demand growth is up 1% over last year. It was up 7% in 2010 but down 3% last year. We expect demand to be up 2% to 2.5% next year.”
- “We are close to maximum with the production we have. Linerboard is at 96.5% of capacity and semichemical medium is at 98% of capacity.”
- “Inventories are tight, and this year they are down to 3.4 weeks of supply. At the end of last year they were at 3.8 weeks of supply. ... We have a tight market without discounting, and inventories are low.”
- “We have had no price relief in two years, and if demand picks up, the price will pick up. We expect an announcement for an increase of \$40 to \$50/ton in July or August. ... The only one who would question an increase is the consumer.”
- “Yes, the increase would pass through to boxes. At this point, the U.S. containerboard market is 85% integrated [mills and box plants] so they have to pass it through.”
- “I have heard not a word about domestic discounting although the list price and the transaction price are two different things. The transaction price has been stable for two years. Outside of the U.S., there is more discounting for export, but it not really discounting. It is more spot pricing, so if you have extra 1,000 tons to sell off you offer a spot price.”
- “The tendency under these conditions in North America has been to export. We are exporting about 15% to 20% of kraft linerboard a month. We have not gone back to the export levels of the 1980s but then we also produce 5.5 million tons to 6 million tons less. And more tonnage will be coming out by people like Rock-Tenn and an IP higher-cost kraft machine.”
- “Containerboard market share shifts are less important than looking at the market share of segments. IP now controls 65% of food and agriculture, 60% of the poultry market, 55% of all meat and 95% of the bulk packaging. Rock-Tenn has control over display packaging and retail ready. But no one has control of the containerboard market. The consolidation did not place any producer in the position of having with more than 50% of the market, but with large market share in the segments.”
- “IP really can’t lead the effort to raise prices until they get rid of the mills [required divestment], which they should take care of over the next two months. I believe a venture capital firm will buy the two mills on the West Coast, which are lousy mills, but IP has promised to buy rollstock for the next three years. As for the Tennessee mill, I think [KapStone \[Paper and Packaging Corp./KS\]](#) is interested in that one.”
- “Europe got a €60/ton on recycled medium two months ago and Europe is after a €50/ton increase on kraft linerboard. They are half way through the process of getting it and their demand is less than ours [U.S.]. [Klabin \[S.A.\]](#) of Brazil will support the \$50/ton on kraft.”

We are close to maximum with the production we have. Linerboard is at 96.5% of capacity and semichemical medium is at 98% of capacity.

*Executive, Containerboard Producer
North America*

➤ Sales manager for a containerboard producer in China

Asia’s demand for boxes remains fragile. Manufacturers have been cautious because access to credit is tight. This has curbed consumption of waste paper in the last quarter and has driven containerboard buyers to demand discounts. Few in the industry expect any pricing power before the third quarter.

Containerboard

- “The box manufacturers have been having trouble with cash flow. Nothing serious, but the lack of access to the credit they once relied on has caused some temporary delays in their normal ordering process. We are not discounting extensively, but everyone we deal with is eager for better terms, bulk pricing, anything to get through the next six months.”
- “The last year of gradual tightening on the credit markets has finally had a real impact and slowed down purchasing decisions. We saw this with the spring procurement cycle, which had turned into a real boom season every year, people buying everything they could get their hands on simply because they had easy access to credit. That didn’t happen this year.”
- “Our customers are sitting on substantial stockpiles of raw containerboard and other supplies. I suspect they’ll use it over the next three months, maybe six months. After that point, they’ll be hungry for new supply and we can deal with them on a more equal basis. It’s good that they have the inventory because some of the smaller manufacturers have run very close to their credit limits and couldn’t really buy more if they tried.”
- “We are all very eager for the government to loosen the strings again. When it happens, it will be gradual, but we should see the first improvement a few months afterward. So if the government moves in June, the manufacturers may be able to start buying again in September, maybe in August.”

➤ Sales manager for a containerboard producer in China

Order visibility remains low in Asia, driving many OCC traders and containerboard producers to trim their inventories of recycled fiber stock in particular. This has protected more nimble mill operators’ margins but will cause supply discontinuities when demand picks up again. U.S. consolidation has eliminated some excess capacity throughout the global industry and helped to rationalize pricing although this is more than balanced by expansions in China.

- “We just don’t have any sense of what our trading partners will need. The procurement process has gotten very tight, which is good from a just-in-time shipping perspective but does not reward companies that can’t manage their inventory well. Inventories throughout the industry are thinning out as a result. Nobody wants to be stuck with a big stockpile of old cardboard in a period when prices are declining.”
- “We have moved toward a much leaner inventory of recycled and virgin fiber. I think our current stockpile will feed our business for maybe six weeks, which is maybe 25% less than it would have even late last year. I think this is the ‘new normal’ for us at least. The days of vast warehouses bought on credit simply because supply is available now seem unrealistic.”
- “The other side of that argument is that we are more flexible when prices are weak, but it will take a larger effort to scale back up if demand spikes. This is unlikely, but it can create gaps as consumers try to pit producers against each other. As a result, price power will be spotty when demand comes back, favoring one-off purchases and small lots. We may be bottoming out in terms of price, but I don’t see a fast recovery cycle ahead.”
- “I know International Paper has closed several of its less profitable mills, taking that supply off the U.S. market and giving overseas exporters more of an opportunity. But I know here in China we brought online maybe 5 million tons of capacity last year—not just us, but the entire industry—so it balances out.”
- “Our production is up 14% year over year. Obviously, we wouldn’t do that unless we could keep prices stable or at least protect our profit margins. I think you’ll see a lot of smaller producers fail to do so and give up, shut down their mills or go out of the business entirely. Consolidation may not just be a U.S. trend.”

2) INDUSTRY SPECIALISTS

These five sources expect price hikes to be announced for the fall but were mixed on whether the higher prices would stick. Finished box prices are under pressure. The past few years’ industry consolidation has created a stable market. Supply and demand are flat year to year, and inventories are in line with demand, but will need to drop to support a price increase. Some fluctuations may occur when containerboard mills go off line for maintenance in the spring and summer, in the western United States because of transportation costs, or in China where demand may fall from its currently high level. Box buyers are trending to lighter-grade boxes to help control costs. One source said the FTC may step in to review market pricing because only a handful of mills control the large majority of containerboard production.

➤ Specialist and veteran observer of the containerboard and packaging market

Containerboard transaction prices have been stable since August 2010, and producers are poised to announce a fall price hike. Current market conditions do not guarantee the hike will stick or be passed through to boxes. Demand is flat,

and supply is ample. Mills are running at lower capacity year to year. U.S. box shipments increased in March in advance of a European price increase rather than from higher demand. Inventories must drop by 100,000 to 200,000 tons to enable a successful price increase, and producers must carefully manage supply.

- “There are a lot of moving parts but basically the immediate outlook, unless the U.S. economy changes, is that demand is flat, and we have this weak, slow growth in demand for the foreseeable future. Exports seem stronger. It’s a bit of a mix. On the supply side, it will make a difference how the producers manage the supply [production and inventory], because there are so few left after the consolidations. That said, it’s a little surprising that inventories are higher than you would expect.”
- “You can get a better picture of supportive [price hike] conditions if you look at the statistical historic information and whether the inventories were below average when price hikes held. This is tricky because what we are looking at historically is based on a different industry structure. If you look over a 10-year period the average inventory was 2.5 million tons. But with all the consolidation, the average now is probably closer to 2.1 million tons to 2.3 million tons. Right now [in April] we’re at 2.42 million tons, down from 2.48 million tons of inventory in February. But a year ago March [2011] inventories were 2.31 million tons. The weeks of supply are not so bad; they are down to 4.2 weeks of supply. ... But inventory has built up over the last month if you look at seasonally adjusted numbers.”
- “All of this is slightly supportive of a price increase, but it is not a certainty. The biggest factor will be whether the inventories come down. They have to come down another 100,000 tons to 200,000 tons to support it. It’s hard to know what will happen. The analysts think it will come down faster because normally at this time of year there is project- and maintenance-related downtime. Rock-Tenn announced that they would build 150 million tons of inventory in anticipation of taking project downtime at [Hodge \[Louisiana\]](#). So they built up the inventory and said they would work it off. That will help the inventories go down.”
- “They will attempt a price increase. Whether it goes through [to boxes] or whether it sticks [for containerboard], I am not sure. Under current market conditions, I would say it is not a sure thing, even though the analysts are on the price increase bandwagon.”
- “Box prices are under pressure right now, and that is squeezing the margins of the independents. The independents want the increase. The independents sometimes will support an increase because they see it as a way to get their prices up.”
- “[Corrugating medium] prices are in the process of going up in the West, but that’s a special situation because there is a net deficit in the region. Things are tight in the East; the industry is doing good but not great.”
- “Demand is flattish. We hope it will pick up, but it all depends on the economy. Fifty percent of the domestic demand comes from the food and beverage segments. Demand last year bumped up 0.5% for boxes, and year-to-date box shipments are up 0.5%, showing fractional growth.”
- “Producers are earning returns on their capital investments for the first time in history. If you look at EBITDA, IP [[International Paper Co.](#)] was at [19.8%](#) in the fourth quarter of 2011. That’s decent. PCA [[Packaging Corp. of America](#)/PKG] and Rock-Tenn also saw decent returns. By that measure, the industry is doing better, but certain players like Rock-Tenn are not doing that great. The players that are taking over [post-consolidation] are better managers than their predecessors, Smurfit-Stone in particular.”
- “On the supply side, the new AF&PA [[American Forest & Paper Association](#)] [capacity report](#) said containerboard operating rates in March 2012 were 95.7%. But it is more meaningful to look at year-to-

Demand is flat, and we have this weak, slow growth in demand for the foreseeable future. Exports seem stronger. It’s a bit of a mix. On the supply side, it will make a difference how the producers manage the supply [production and inventory], because there are so few left after the consolidations. That said, it’s a little surprising that inventories are higher than you would expect.

*Specialist & Veteran Observer
Containerboard & Packaging Market*

They will attempt a price increase. Whether it goes through [to boxes] or whether it sticks [for containerboard], I am not sure. Under current market conditions, I would say it is not a sure thing, even though the analysts are on the price increase bandwagon.

*Specialist & Veteran Observer
Containerboard & Packaging Market*

date and that operating rate number is 94.9%. AF&PA said that linerboard for export was up 13.2% in March. ... Linerboard for export was up 9.6% year to date. When you look at containerboard production ... it is stronger than box demand because the exports are pulling it up. Box shipments were up 2.5% in March. But on a seasonally adjusted basis, box shipments for export were down 0.8% in March. Year to date, they are up 0.8% so it's a wash."

- "As for capacity, Rock-Tenn said it was [closing](#) a Quebec mill, which would take out 175,000 tons. Norampac was fighting with the labor unions at Trenton, Ontario, and they have [threatened to close the mill](#) unless labor accepts their contract offer. That's another 145,000 tons. But they also are building a new recycled mill [for lightweight linerboard] in Niagara Falls that will produce 540,000 short tons a year. At the end of 2009 two million tons came out of production with the closure of four mills. But there also is capacity creep, up 1% to 2% a year, because they are constantly tinkering with the machines to make them run better. Rock-Tenn is taking over the Smurfit mills, which are in desperate need of capital spending. That will raise the incremental capacity. They have announced that they will be adding 600,000 tons of containerboard by 2014."
- "The major box buyers are pushing to reduce packaging, so they are driving the lightweight. It would result in cost reductions because they would use less fiber. The major producers have been slow to jump on it. [Pratt Industries](#) is the leader in lightweight. Rock-Tenn will increase production of the grade after new projects. It is a good thing because the customer gets more for less and there would be less packaging going to the landfills. And you can make more square feet of boxes. Domestic containerboard production will grow in that grade."
- "The [Rock-Tenn] [export price increase](#) doesn't mean much. They got close to it in half the markets, and in some of the others they got more. The export market tanked starting in August of 2011, so the domestic producers disproportionately pumped tons into exporting through December. The Europeans early this year announced an increase of €80 on containerboard, but they only got about €20 to €30 increase. This caused demand for U.S. exports to increase because people were buying more in advance of the euro increase. So U.S. exports did jump in March, but it was not based on demand. It was driven by replenishing and restocking of inventories by overseas customers in advance of the euro increase. Also, some mills were out in the Middle East and Africa."
- "This is a new industry and the change began when IP bought Weyerhaeuser [Co.'s/WY [containerboard packaging and recycling business](#)] in 2008. The industry really felt the effects. Market share for containerboard has shifted. IP's market share, before they sell off the three mills [part of the Temple-Inland Container acquisition], is 35%. When they sell the three mills, they will be down to 31% to 32% [CTB] market share. Rock-Tenn has 20%, GP [[Georgia-Pacific](#)] has 11% and PCA has 7% of the market share. The big four control 73% of the market. Norampac is fifth and, when added, brings their collective market share to 85%. If you go back to 2003, the biggest producer was Smurfit, with 25% of the market; then Weyerhaeuser with 16% of the market. IP had 13% of the market, and GP had 9% of the containerboard market. But two of the bad actors, from a producer's perspective, are now gone: Smurfit-Stone and Temple-Inland, both very aggressive on box prices."

➤ **Veteran containerboard/packaging consultant author, technical advisor**

Mills and producers are poised to attempt a price increase of \$50/ton on both linerboard and corrugating medium effective in late September, but market conditions will determine whether the increase sticks. Prices have been uncharacteristically stable for two years. Linerboard prices fluctuated in December 2011 and January 2012 because of discounting but have since firmed. Corrugating medium has increased \$30/ton in the West during the last six weeks, but box prices have dropped and remain under pressure. Inventories are fair but should decline when mills take maintenance and market downtime this summer. The supply/demand ratio is coming into balance as the industry strives to operate more efficiently. Control of supply is central to continued stability.

- "We may see a price increase attempt in the third quarter. We expect a July announcement by the containerboard mills. Typically they push for an increase of \$50/ton. They will try to implement in August, but it takes some time. It probably would go through for the integrated [producer mills with box plants] market in September."
- "Box prices are under pressure, and prices are starting to drop again. Prices on the box side have been sliding over the last two years, but it's done little to hurt margin. Containerboard is stable. But if you look at the [RISI](#) numbers and consider what happens in the real world, the actual prices are closer to \$100 off [per ton] than the printed prices. There is a difference between the published price and what occurs in reality."
- "Prices have never been this quiet, and adding to this is widespread consolidation. Prices have been mostly stable for that last two years."

- “It doesn’t look like linerboard is changing now. There was some discounting of linerboard on the West Coast. Linerboard prices did fluctuate a bit in the fall/winter [2011/2012]. There was some spot discounting mainly on the West Coast, but the price has firmed up again.”
- “Medium in the West is tight now, and we have seen a \$30 increase on semichemical and recycled medium over the last six weeks. The reason is there just isn’t a lot of medium produced in the West anymore. The mill closures and consolidations have been really devastating. We have taken five million tons of containerboard out of production since 2008.”
- “Even before the medium [price] increase in the West, the grade was stable but always tight. Prices historically were always \$10 to \$20 per ton more in the West, but some believe we may start to see more differentials and price changes regionally.”
- “OCC has slung through. It was \$200/ton and then dropped to \$60/ton and is now back up to \$140/ton. We used to export 20% of our OCC, and now we export 40%.”
- “Demand and supply are coming into balance, and that’s not the way it typically runs. It’s not because of strategy; it’s because there are fewer companies. We’ve gone from 80% of the mills controlling containerboard down to 20% of the mills controlling things. But things have been very steady. It’s great for the independents [converters]. Five companies now own 80% of the containerboard industry. We have a lot of niche players who make small quantities or specialties, and they are generally less susceptible to the large economic influences. We just did a survey of executives and regardless of the product, most said things are good.”
- “The mills typically take maintenance downtime this time of year. IP and Rock-Tenn, two big boys, shut some plants taking out capacity. Others will become more efficient. We continue to fine-tune the industry so we can have more stability than ever before.”
- “Over the last four years about \$4 million tons of containerboard came out of production. Box shipments over the same period went from 405 billion square feet down to 350 square feet, and most if not all of that has gone off shore because people here were buying gas instead of things that were packed in boxes. ... But now things are starting to swing around.”
- “Europe just went through a [containerboard] price increase in February of €50 to €60. This is not the typically time of year when we see great success in pushing through an increase. But they finally said we aren’t going to give this stuff away anymore.”
- “The Rock-Tenn announcement about a price increase for export would have no bearing on the domestic market. Most of the companies that export stay in export, and [Rock-Tenn’s] Smurfit has always been a significant exporter. Their increase is really to firm up the price and gives them parity with the existing market. Europe has never had the margins.”
- “China is the world buyer of OCC, and we do get [OCC] from them but it is not in the form of rollstock.”
- “Australia is increasing its import to the West Coast of both linerboard and medium. We would love to have more lightweight grades, but it is still tight.”

Demand and supply are coming into balance, and that’s not the way it typically runs. It’s not because of strategy; it’s because there are fewer companies. We’ve gone from 80% of the mills controlling containerboard down to 20% of the mills controlling things. But things have been very steady. It’s great for the independents [converters]. Five companies now own 80% of the containerboard industry. We have a lot of niche players who make small quantities or specialties, and they are generally less susceptible to the large economic influences. We just did a survey of executives and regardless of the product, most said things are good.

*Veteran Containerboard/Packaging
Consultant Author*

➤ Editor of a corrugated/containerboard industry publication

The M&A activity qualifies as a market correction, one much applauded within the industry and among analysts. No shortage of supply exists, and some minor percentage shifts take place month to month. Demand is shifting among retailers for lighter-weight and lower-cost packaging. Downtime is a matter of maintenance versus demand; mills are running at nearly full capacity. This source expects more recycled-grade content in containerboard.

- “Overall, the mood is upbeat on the converter box plant side about this consolidation. As you know, the two largest mergers or acquisitions are Rock-Tenn and Smurfit, then Temple-Inland and International Paper. There’s a ton of overlap in the plants, and we’ll see a lot of closures. It’s a market correction, so we will get more supply

out of the market, and the hope is that these larger companies can raise the prices. There's talk that that would happen this year, but it looks like it will not."

- "In March, linerboard prices were flat with no chance of a widespread spring price hike. Maybe in autumn, but not now."
- "[Kraft linerboard] prices are always higher on the West Coast; those are typically significantly higher than in the Midwest, because of the market out there, maybe tied to transportation."
- "[The supply/demand balance is] holding steady. But in terms of raising prices, that just hasn't happened yet."
- "It's a mature industry, and it's low cost and it's commodity, and the returns on investment have been very stagnant. It's really trying to get things in check, and I applaud them. And so do the market analysts out there."
- "When I look at demand, I start to look at the types of packaging—lighter weights, retail-ready, or heavy-duty—and that's where I'm seeing the end users, the retail companies, looking for any way to save costs by reducing the amount of packaging, going to less fiber, making it easier at retail to stock the shelves. So that's I think where demand is going."
- "The U.S. is probably the largest supplier of virgin on the corrugated side. Recycled is separate from virgin capacity, and the U.S. still rules on the virgin side. I think the correlation would be more on the purity of the virgin: As we continue to use more and more recycled board, there is talk about the purity of the virgin and how it will affect what converters use. You'll find more recycled grades go into the paper, which might have an effect in the converting process."
- "Inventories at the mills are pretty tight right now. And there really hasn't been a whole lot of change there. There's maybe a little more, a couple more weeks of supply, maybe one more week of supply than there was last year, but still pretty tight."
- "There were four weeks of supply in February and 3.6 weeks in March by the most recent stats. That doesn't mean much to the larger picture. I don't think this is much of a setback."
- "Overall production of containerboard gained 2.5% in March compared to April. I don't have medium or linerboard broken down."
- "Downtime right now is more of a maintenance issue than one of demand; they're running at 95% capacity, so I don't know that downtime is much of an issue regarding demand."
- "I haven't seen Rock-Tenn upping its prices here or overseas. Right now what I've heard is that the companies are working to get their houses in order, especially the larger integrators with the consolidation and the economy too. We're still not there yet with the economy and pushing prices through, especially in the U.S., which is better off than Europe."

Overall, the mood is upbeat on the converter box plant side about this consolidation. As you know, the two largest mergers or acquisitions are Rock-Tenn and Smurfit, then Temple-Inland and International Paper. There's a ton of overlap in the plants, and we'll see a lot of closures. It's a market correction, so we will get more supply out of the market, and the hope is that these larger companies can raise the prices. There's talk that that would happen this year, but it looks like it will not.

Editor, Corrugated/Containerboard Industry Publication

➤ Editor of corrugated box and packaging trade publications

Pricing has yet to move, but independent box converters are concerned that prices soon will increase. Consolidation has done away with discounting. Rock-Tenn and IP have yet to raise prices and likely will find resistance from industry. The industry is stable, with little volatility after the market consolidation. Mills are running at full bore. China is "tapping the brakes" on OCC demand but still is a leading consumer of the grade. Export price hikes are more prevalent in Europe.

- "I've heard that Rock-Tenn may be increasing prices. It's one thing to make an attempt, another to be successful. Rock-Tenn and IP have the right to try to make pricing increases, but the jury's still out if they'll be successful."
- "When it comes to export prices in Europe, they're starting to rise. I can't speak for every region, but the sources I get, Wall Street analysts who track containerboard prices in Europe, are seeing them starting to increase."
- "There will be the oddball spot order that may offer discounting of course. But again, the IPs and Rock-Tenns, Georgia Pacifics and PCAs, are four off the top of my head that have more savvy. They have obviously shut mills down on the linerboard medium side. So are they discounting? Honestly, no. I track this closely because I talk to independent corrugated box plants who rely on those companies for raw materials."

- “[Semicheical medium pricing is] tight, tight, tight. There’s no discounting whatsoever: You pay the price that you have to and you’re happy.”
- “The industry’s in a better position of supply versus demand versus a year ago. It’s stable with no volatility—doing a great job of matching supply and demand with stable pricing.”
- “There’s a mixed bag of perspectives. Wall Street must be clapping and saying, ‘Hooray! Containerboard producers are finally getting their act together and not playing games.’ The games I’m talking about are producing too much containerboard. With two of the big players now gone, Smurfit-Stone and Temple-Inland, they’d run mills at full blast and be in a position to play the pricing game. ... But if you’re an independent box converter, you’re concerned that prices will move up in the months and years ahead.”
- “Linerboard and medium inventories? I wouldn’t say they’re plentiful on the mill side. They were plentiful; they want to get rid of rolls and have export as an outlet. Current inventories are up a bit, but they’re not as snug as the Wall Street people would want. They’re stable, and in a position where they don’t have to play price-discounting games on linerboard and medium.”
- “Spring is the classic period of time to take two or three weeks downtime for maintenance. Operating rates are pretty high for containerboard; I saw a chart from AF&PA with operating rates, and if containerboard operating rates are an indication of how hard the mills are running, they were at 95.7% [capacity] for overall containerboard operating rate in March 2012.”
- “OCC supply has just been softening a bit, the reason being that China, a huge consumer of the grade, is tapping the brakes. I’ve seen that linerboard or medium inventories are increasing in China. But their cloud has an impact on the U.S., which will cause prices on OCC to soften a bit in early May.”
- “China will always be a buyer, and they’re cutting back so they’re able to push down export prices. So OCC is softening on both export and domestic.”
- “If you research the major products that are exported from the U.S. to China, I guarantee No. 1 will be recovered paper—not only OCC, but newspaper and mixed papers. The reason is all that recovered paper is made into recycled linerboard or medium, or corrugated containers filled with paper.”

I’ve heard that Rock-Tenn may be increasing prices. It’s one thing to make an attempt, another to be successful. Rock-Tenn and IP have the right to try to make pricing increases, but the jury’s still out if they’ll be successful.

Editor, Corrugated Box & Packaging Trade Publications

► Consultant, author and market observer

Containerboard supply is holding steady, with China a growing demand area. Consolidation may lead to some class-action/FTC activity, which will keep price hikes in line. IP is perhaps in a better position than Rock-Tenn; IP acquired a more stable Temple-Inland, whereas Rock-Tenn acquired the debt-heavy Smurfit-Stone. The source reported a trend toward truck versus rail transportation for supply, which will enable suppliers to maintain lower inventories. OCC pricing is stable, but China is a leading consumer of OCC and could affect pricing.

- “There’s always better [kraft containerboard] pricing in the East. There’s higher transportation costs to the West. With consolidation, it will be a little less costly; still, most of the paper is still made in the East, and there’s always a shortage on the West Coast. In the long view, fiber has a decent presence with a couple of International Paper mills out West, but most of it is from the Midwest, eastward.”
- “[OCC] pricing’s still holding pretty solid compared to a few years ago. That suggests [suppliers] are either exporting more of it, or have a little less supply than demand.”
- “In the U.S., overall demand has been slowly declining since the economy has dropped off. And of course there’s been a lot of consolidation, with Rock-Tenn and IP controlling more than half of the linerboard and medium production in the U.S., and about the same percentage of boxes.”
- “There have been a couple of class-action lawsuits regarding pricing, and now that two companies own half of the whole market ... there’s going to be accusations in the future that it’s almost an oligopoly situation.”

There have been a couple of class-action lawsuits regarding pricing, and now that two companies own half of the whole market ... there’s going to be accusations in the future that it’s almost an oligopoly situation.

Consultant, Author & Market Observer

Containerboard

- “Because we now have two companies controlling the vast majority of supply, it will be easier to control inventories.
- “They also have inefficiencies at some of the plants due to this trying to predict what customers will order a month or more from now. A lot of their customers are not that predictable, and they may end up carrying extra paper, holding some safety stock just in case. They don’t want to run their customers out of board.”
- “Buyers have always done just-in-time ordering, so they’ll place orders every few days based on what the forecasts look like. It’s always been a guessing game.”
- “Containerboard supply is still down from a year ago or two years ago. It’s been relatively stable the last two months, no huge swings one way or another.”
- “China is a growing demand area. They’re buying more and more fiber and paper, and that trend will continue.”
- “Rock-Tenn may have bitten off more than they could chew with Smurfit-Stone because it’s so riddled with debt. Even if Rock-Tenn’s well run, when a \$2 billion company buys a \$6 to \$7 billion company with half of its sales in debt, it will be difficult. They’ll have to consolidate and shut down operations to take cost out of the systems.”
- “International Paper overpaid a little for Temple-Inland, but Inland was a top-performing company over the long haul. It will have been a good move.”

3) CORRUGATED CONVERTERS

Two of the three sources said a fall price hike would not hold. Finished box prices are under pressure and are leading to tighter margins. Two sources would support the price increase if a corresponding hike was accepted for finished boxes. Consolidation has helped to stabilize prices but may be keeping pricing at an artificial high. Containerboard demand was declining in Europe and growing only 1.5% to 2% year to year in the United States.

➤ President of a corrugated converter of packaging and containers

Market conditions cannot support a containerboard price increase in the fourth quarter unless economic conditions and demand improve. Box prices already are under pressure, and linerboard and medium prices are uncharacteristically stable and artificially high because consolidation has given control to fewer producers. Supply is strong, and producers have been running plants at near capacity in the domestic market and dumping CTB in South America in anticipation of a fall price hike. Despite citing higher corrugating medium prices already in the West, the source has seen no recent price movement.

- “The corrugated market is sluggish, and all the people I know regardless of location say it is sluggish. Sheet plants are working only four days a week, and corrugators are running only one to two shifts. At the same time the market is aggressive, and there’s stiff competition for business. Everyone is out there quoting prices, some lower than others.”
- “I do not see a price increase going through in the fall unless the economy picks up. I agree there will be an announcement, but based on the market conditions I see now, I would say we are not going to see an increase.”
- “Earlier this year we got an announcement from [Longview \[Fibre Paper and Packaging Inc.\]](#) about a CTB price increase [for April 1] and it was supported by GP, but I don’t believe it is in place. There is no impact on sheet prices. Longview and GP can announce an increase, but until [Pulp and Paper](#) publishes the change it really doesn’t mean anything. The integrators use P&P to communicate, and they announce increases that they say are supposed to take.”
- “I am fine with a price increase as long as it moves an increase in finished boxes.”
- “When we get an announcement for an increase, we get invoiced at the new price, but it is rebated back if the price doesn’t go through and the sheet and box prices correspond to what is printed in P&P. Until [P&P] changes, the price does not go up. I know people made announcements for a corrugating medium increase but ... I am not paying more. Also, until 30 days after the announcement, it doesn’t mean much. When demand is tight, people may push but no one wants to play that game now.”
- “The price has stayed the same in the last three months for me. As far

I do not see a price increase going through in the fall unless the economy picks up. I agree there will be an announcement, but based on the market conditions I see now, I would say we are not going to see an increase.

President, Corrugated Converter of Packaging & Containers

as I'm concerned the increase for medium and boxes in the West has fizzled. They are supposed to report the transaction prices, but some people will report it as higher because they are trying to get the increase or at least try to stop it from dropping."

- "The integrated [linerboard and medium] price is still high. Normally if the industry wasn't as consolidated, we would see the price of paper going down and any increase in the finished box market would be eroding away at this time. Instead, liner and medium prices have not changed, and we have not seen a price change domestically. There has been dumping [of CTB supply] to South America to keep the prices high."
- "We have reduced our inventory levels because things are so slow. ... I always gauge the market by backlogs. Last year at this time if I called the mill it took three to four weeks to get the supply. Now I call them and get it in a week or a week and a half."
- "When the big [mills] are busy, you don't see them or hear from them. Right now, they have been much more active because everybody is after the same business. They've been calling me regularly to ask if I want to buy sheets and, if so, how many. Part of the slowness is because the converter capacity at the box plants is not being fully utilized."
- "Seasonally, this is always the worst time of year. In late summer, agriculture should kick in and become more steady, and fall is retail season. Compared to last year, business is similar or down a bit. April has been more difficult than March. There is not much booking strength."
- "Demand is normally slow this time of year, but it is slower than usual. Things should be starting to pick up now, but they are not. I think most around the country seem to be experiencing the same thing. It's not just our area."
- "Typically we would see erosion of liner and medium under these conditions. We are starting to get margins squeezed for the independents. Our volume is the same, but our margins are off by 5% to 6% over last year. This is true with all the guys I talk to. [Prices and supply] are controlled by fewer players, and consequently there is not a lot of movement in the raw material prices. Those in control have shown no [price] movement on liner and medium. They also own box plants, and they are not as disciplined on the box side. But they can make it up on the CTB side by keeping prices high."
- "OCC prices are strong. I thought they would have declined more now, but the prices have held. Demand from China drives the price. I think the new capacity coming on in China will keep the price of OCC high. We used to see the prices go up and down, but I think we will see less volatility."

► Executive of an independent corrugated converter of boxes and packaging

This source expects producers to announce a price hike for the fall, but does not believe it can hold or pass through to boxes under current market conditions. Supply is loose, and inventory is too high to support a price hike. Box prices are under pressure, and linerboard and medium are being discounted in certain areas. Consolidation has given too much control to a handful of players, who can manipulate prices and the market. Although mill capacity has decreased, machinery improvements will zero out the gains. Domestic demand has grown in certain sectors such as agriculture, produce and pharmaceuticals. This source's business is good and 7% stronger than last year.

- "I suspect they will make an announcement for a price increase in late summer for fall. In fact, I would bank on it. The analysts are bullish. I have a hard time believing a box increase will go through [in the fourth quarter]. First, I don't know that the economy is going to pick up. Second, it's an election year. And the increase in box prices is contingent on a price increase for linerboard and medium that sticks. Meanwhile, there is still discounting on linerboard and medium. It is stronger to the East. This is not the normal discounting because the actual price is typically \$100 off the published price. This is some other discounting in certain regions."
- "There is still too much supply, and they are running at 96% capacity. But just by raising the possibility of an increase they believe that the prices at least won't drop. If the integrations just hold on through April and May, they will be set to take another shot at an increase in the fall—that is, if they can keep the prices from falling before then."

There is still too much supply, and they are running at 96% capacity. But just by raising the possibility of an increase they believe that the prices at least won't drop. If the integrations just hold on through April and May, they will be set to take another shot at an increase in the fall—that is, if they can keep the prices from falling before then.

*Executive
Independent Corrugated Converter of
Boxes & Packaging*

- “[Integrated mills/producers] will always try to get an increase; the question is whether it will be accepted. Typically when those guys get an increase, supply is tight; and supply is not tight right now.”
- “The producers were trying to get a price increase through in the West on medium [in the first quarter], with the understanding that it would not stick for boxes. We have seen no price increase right now on CTB or boxes. Medium is tighter in the West, and most guys don’t want to pay to ship material from the Midwest.”
- “They already tried for an increase this year. Rock-Tenn sent an announcement to customers in mid-March for April 1. I don’t see it. I don’t think it took. Rock-Tenn has already passed the due date for what was supposed to be a \$40/ton increase they were pushing for linerboard and medium with an effort to follow it with a 4% increase in boxes. I believe some did see a \$30/ton increase on medium in the West where supply is tight.”
- “Box prices are under pressure now because the only way to gain customers from those with contracts tied to the publications is to lower the price. This puts stress on the independent box manufacturers. At the same time, we have seen no movement of containerboard or box prices that are published by the publications and the only way the industry can move a box price is when P&P publishes the price. That’s how the contracts work. Without that, the independent margins continue to erode because if the price is not published, it won’t move. So the only way to get business is to quote them a lower price. The integrations don’t care whether they lower the box price or not [to compete] as long as they make it back with positive numbers for the cost of linerboard and medium at the mills.”
- “The integrations are trying to maintain a good balance. They will try to keep the supply tight with downtime in the summer. It used to be true that if you kept weeks of supply at five weeks, you could attempt an increase. Now because of all the consolidation, it’s probably more like 3.8 to 3.9 weeks of supply, and we are currently above four weeks of supply so they will have to keep tight control.”
- “With all the consolidation, we see the big company mills continuing to take out capacity, but we are talking about taking out the capacity of mills that have a lot of inefficiency. Some of the equipment at the mills is 25 years old. Some facilities are so old and decrepit. They are beginning to replace the old machines with new machines that are faster and more efficient.”
- “Consolidation has not been a good thing because it gives a lot more control to a handful of producers.”
- “Our business this year has been in excess of last year, and this month has been in excess of last month in terms of orders and sales. We have seen a 7% increase in business this month over the same month last year. This is true for many of us. We are showing bigger growth than the integrations like GP and IP.”
- “Domestic demand in certain categories is good. We have seen more demand from the pharmaceutical industry, which requires certain controls. I think people are starting to learn about the third-tier players. The drug companies need to take more precautions and have more control. Pharma is a growth area here for us, and they are starting to run with the quality shops. People without updated equipment are losing out because they don’t have the same controls. Food is a growth area here whether it is for agriculture or produce.”

➤ **President of an independent corrugated converter/manufacturer of boxes and packaging**

Containerboard prices remain stable, but box prices are under pressure. Converters expect a late-summer announcement of a price increase for the fall and likely would support an increase as long as it is passed through to boxes. Barring new economic instability in Europe or any other crisis, odds are 3:1 the increase will stick. Consolidation has narrowed control of supply, and management of supply/production affects pricing more than demand. Domestic demand is expected to grow in 2012 by 1.5% to 2%. Demand growth also is expected in China, Mexico and India, but Europe remains sluggish.

- “Containerboard prices are stable. The suppliers finally realize they need the independents as much as we need them. If the economy picks up, we would expect to see an increase in linerboard and medium prices. There has been no increase in capacity, but that has been offset by the faster, more efficient machines. So even if they shut down 100,000 tons, some of these new machines will make up the difference.”
- “I believe they will try for a \$50/ton price increase on linerboard and medium in July or August. Typically it takes a couple of months to push

The price increase has to happen. The way the prices have been, our products are the worst in the world. We have nothing in a year or two and then suddenly they will push for increases three in a row. But an increase has to go because we have not been able to raise box prices.

President, Independent Corrugated Converter of Boxes & Packaging

- through, so if they announce in July or August we could see movement in September.”
- “The mood in our industry is on the upswing, but with the ongoing European crisis, someone could snap their fingers in Egypt or China, or there could be a big oil spill or a terrorist attack and it all could come crashing down. Barring any big event, we anticipate that they will try for an increase and prices will go up.”
 - “The price increase has to happen. The way the prices have been, our products are the worst in the world. We have nothing in a year or two and then suddenly they will push for increases three in a row. But an increase has to go because we have not been able to raise box prices.”
 - “The big box buyers have their accounts tied to the published prices. For years that has hurt the independents [converters] because if the mills move an increase in linerboard and medium we have to inch up our box prices, but they can still stay at the lower published price that are tied the account contracts.”
 - “We saw some discounting earlier this year, but I believe it has stopped. The discounting was caused by some rogue players, but they have been gobbled up. IP bought Temple-Inland and Rock-Tenn bought Smurfit-Stone.”
 - “Sales are up, but profits are down. We have had cost increases across the board: Energy is up, health insurance is up, cost of labor is up and taxes are up. They have all been going up at 3% a year. Our margins continue to suffer.”
 - “I don’t track inventory, but the weeks of supply typically fluctuate and I think [mills] have got it where they want it. The balance of capacity seems to be where they want it. Everything seems to be in place for an increase. If I were to bet, I’d say the odds are 3:1 it will push through.”
 - “There is continuing concern about the consolidation because we have fewer players controlling the supply. It has added stability. Fifteen years ago a dozen producers were providing supply. Now we have five companies that have 70% of the market. We hope the consolidation is over because there isn’t much left out there, unless someone is targeting PCA.”
 - “OCC remains very volatile. It was up to \$200/ton, and now it’s selling at about \$110/ton. It is a commodity and if the Chinese are slow, OCC moves. People like more stability. China’s new capacity will not affect the U.S. corrugated converters. They can’t ship here. But their new capacity could slow U.S. exports of virgin kraft to China.”
 - “We expect U.S. demand will grow by 1.5% to 2% this year. China is showing 8% growth and India 7% growth in demand. Europe is slow. Mexico’s demand is expected to grow 3.5% to 4%. One thing that is problematic in Europe is virgin fiber because they don’t have the trees. That’s why OCC is so volatile.”

4) BOX BUYERS

These two sources said suppliers have not discussed finished-box pricing increases with them, and market conditions would not support such an increase. The recent price increase announcement for exported containerboard is not expected to affect pricing within the United States’ finished-box sector. Containerboard supply is in line with demand, and the market has experienced little demand or supply change year to year despite continued consolidation. One buyer said industry consolidation has reduced his buying opportunities.

➤ Group manager of a North American corrugated box unit

This source is “not always thrilled” about industry consolidation but has experienced few direct effects. Demand for containerboard and containers follows GDP, which is flat. Suppliers are not in a position to place pricing demands upon buyers, and large buyers’ contracts are holding pricing steady.

- “Supply and demand are similar to last year. There’s been a lot of discussion of pricing. I do think suppliers will try to put pressure through on containerboard, but the demand is flat at best. Some costs have gone up, and the main driver is that fiber has been volatile. But price has been relatively stable, in that a lot of folks have good contracts in place to manage that.”
- “Nobody’s walked in the door telling me they would raise prices.”
- “From a 10,000-foot level the corrugate market typically follows GDP, which as you’re aware is flat or slightly growing, depending what you

From a 10,000-foot level the corrugate market typically follows GDP, which as you’re aware is flat or slightly growing, depending what you read. So the market for boxes is pretty flat, and containerboard is flat as well.

*Group Manager, Corrugated Box Unit
North America*

read. So the market for boxes is pretty flat, and containerboard is flat as well.”

- “I’m not seeing a huge demand shift from April, May, June over January, February, March. It’s relatively stable in North America. I don’t see market swings here as in some other regions.”
- “I see some expansion at the supplier point, a shift from the brown to an eight-colored box to sell at a higher price.”
- “I don’t know a sector that’s up in corrugate outside of regional growth. Agriculture may be up in the growing season, but there’s always a reverse cycle as well.”
- “M&As are still in the short term, those have just happened. Even Rock-Tenn and Smurfit just happened, in my opinion, so we haven’t seen a true effect yet. Most folks agree that with consolidation will be pricing pressure because there are fewer competitors. As a large buyer of corrugate, I’m not always thrilled to see consolidation, but I haven’t seen any results of those four companies going to two.”
- “We have dozens of contracts, some being executed, some just starting, and we’re negotiating new ones as we speak. That’s by design, so we don’t have everything hit at once. We’re constantly working.”
- “We’re not seeing any discounting. Most of my business is contracted. We negotiate in what the discounts and rates are. We ask a lot of the supply base, and try not to break or negotiate contracts midterm.”

➤ Purchasing officer with 14 years of packaging procurement experience

This source has observed very little change in the market despite consolidation. M&As have made purchasing more convenient. Perhaps because of the size of its contracts, this company has yet to see any pricing pressure from suppliers. Also, he does not expect export pricing or demand to affect U.S. buyers.

- “We’re about equal in demand to last month and last year. And pricing is about the same. I haven’t seen anything go up or down.”
- “Industry consolidation just means less to pick from. It’s an industry that was already pretty consolidated.”
- “I’ve read about Rock-Tenn’s proposed pricing increase for exports. It hasn’t affected us.”
- “There’s probably a bit higher supply than demand right now.”

Secondary Sources

A review of secondary sources revealed production capacity being taken off the market. Also, four containerboard manufacturers now control 75% of the market, a 15% increase compared with 2010. This has led to pricing and supply stability for the past 22 months. Discussions are underway regarding possible containerboard price hikes for the second half of 2012. Finally, the U.S. Department of Justice is requiring IP to sell four containerboard plants in order to proceed with its planned merger with Temple-Inland.

➤ April 12 [Canadian Business](#) article

Cascades is closing its Norampac containerboard mill in Trenton, Ontario, because of workers’ rejection of the company’s final labor offer. This development and Rock-Tenn’s closure of the Matane, Quebec, mill, earlier in 2012 are expected to contribute to containerboard supply constraints that may lead to a price increase later in 2012.

- “Containerboard supply constraints should help the North American containerboard industry to secure a price increase later in 2012.”
- “Packaging and tissue paper producer Cascades Inc. announced plans Thursday to close its Norampac containerboard mill in Trenton, Ont., after workers rejected its ‘final’ contract offer.”
- “The Trenton facility produces corrugating medium and has an annual production capacity of 150,000 tonnes.”

➤ Current [article](#) on Accenture Supply Watch

Consolidation of the containerboard market increased by 15% in 2011, with 75% of the market now controlled by four companies. This consolidation has led to 22 months of stable pricing and supply. Potential price increases in the second half of 2012 now are being discussed.

- “The top four players in the U.S. containerboard industry (International Paper, RockTenn, Georgia-Pacific, Packaging Corp of America) now control an estimated 75 percent of the market, up from approximately 60 percent in 2010. With containerboard being a globally influenced market, the fragmentation outside of the U.S. does not guarantee domestic stability, although the U.S. linerboard market has remained largely stable for the

22 months since April 2010. Mills do not have enough orders in their systems because of the deterioration in export demand. As industry consolidations returned, mill profits rose to their highest margins in ten years during the third quarter of 2011, despite less than strong overall U.S. demand, and fiber pricing for market pulp and recovered paper began retreating in the third quarter after reaching record-setting levels.”

- “In the U.S., with talks of potential price increases hitting the market during the second half of 2012, buyers should continue to develop RFX opportunities or benchmark existing rates to get ahead of any market fluctuations. In addition, buyers should have continuous improvement metrics within their contracts to lower costs such as lowering basis weights, changingboard combinations, or using water or soy based inks.”

➤ **Feb. 10 U.S. Department of Justice news [release](#)**

The Department of Justice (DOJ) is forcing IP and Temple-Inland to sell three containerboard mills in order to complete their proposed merger. The DOJ contends that allowing the three plants to be part of the merger would have resulted in significantly reduced competition as well as higher prices.

<http://www.justice.gov/opa/pr/2012/February/12-at-194.html>

- “The Department of Justice announced today that it will require International Paper Company and Temple-Inland Inc. to divest three containerboard mills in order to proceed with their \$4.3 billion merger. The department said that the merger, as originally proposed, would have substantially lessened competition in the production and sale of containerboard, the type of paper used to make corrugated boxes, in the United States.”
- “The proposed settlement requires the divestiture of Temple-Inland’s containerboard mills in Waverly, Tenn., and Ontario, Calif., and either International Paper’s containerboard mill in Oxnard, Calif., or International Paper’s containerboard mill in Henderson, Ky., but not both of those mills. Collectively, the divestitures account for approximately 950,000 tons of containerboard capacity. The department’s Antitrust Division must approve the purchaser or purchasers of the divested mills.”

Additional research by Carolyn Marshall, Dann Maurno and Scott Martin

The Author(s) of this research report certify that all of the views expressed in the report accurately reflect their personal views about any and all of the subject securities and that no part of the Author(s) compensation was, is or will be, directly or indirectly, related to the specific recommendations or views in this report. The Author does not own securities in any of the aforementioned companies.

OTA Financial Group LP has a membership interest in Blueshift Research LLC. OTA LLC, an SEC registered broker dealer subsidiary of OTA Financial Group LP, has both market making and proprietary trading operations on several exchanges and alternative trading systems. The affiliated companies of the OTA Financial Group LP, including OTA LLC, its principals, employees or clients may have an interest in the securities discussed herein, in securities of other issuers in other industries, may provide bids and offers of the subject companies and may act as principal in connection with such transactions. Craig Gordon, the founder of Blueshift, has an investment in OTA Financial Group LP.

© 2012 Blueshift Research LLC. All rights reserved. This transmission was produced for the exclusive use of Blueshift Research LLC, and may not be reproduced or relied upon, in whole or in part, without Blueshift’s written consent. The information herein is not intended to be a complete analysis of every material fact in respect to any company or industry discussed. Blueshift Research is a trademark owned by Blueshift Research LLC.