## US Capacity Moving Still Lower in 2007; Printing & Writing Down, Containerboard Up

US paper and paperboard capacity continued to edge lower in 2006, declining 1.6% to 97.69 million short tons, the American Forest & Paper Assn. said. It is forecast to drop another 0.7% in 2007 to 97.01 million tons, according the new capacity survey.

The 2006 decline marked the sixth consecutive reduction in capacity and was the sharpest decline since 2001. US capacity peaked at 103.88 million tons in 2000.

The *47th Annual Survey of Paper, Paperboard, and Pulp Capacity Survey* indicates that paper and paperboard capacity will re-expand by 0.7% in 2008 and 0.2% in 2009 to 97.98 million tons. A year ago, the industry anticipated a 2.0% decline in 2006 and 0.2% rise this year, with 2008 nearly the same as now forecast.

Following the closure of 47 pulp and paper lines in 2005, 30 paper machines were removed from the survey for 2006. Seven are scheduled to be shut this year and another is due to close in 2008.

For the six-year period from 2001 through 2006, US capacity dropped at an average annual rate of 1.0%. Capacity declined only fractionally in 2004 and by 0.8% in 2005.

"Competition from paper imports, growth in the US trade deficit with respect to packaged goods, and electronic substitution, were some of the factors that directly or indirectly led to the capacity reductions," AF&PA said.

Uncoated freesheet capacity has been trending lower since 2000 when it reached a record high of 15.2 million tons and it is expected to move still lower. After declining by 1.4% in 2004 and 0.9% in 2005, capacity contracted an additional 1.4% in 2006 to 13.4 million tons and is projected to decline 2.5% in 2007, 1.5% in 2008 and 0.2% in 2009.

Three paper machines were shut at the end of 2005, two more machines in 2006 and two PMs (**IP** and **Boise**) are being converted away from UFS to linerboard and pressure sensitive release and label paper. These capacity reductions are partially offset by the newsprint machine conversion to UFS at a **Bowater** mill.

Also in printing-writing, both uncoated mechanical and coated freesheet capacities expanded in 2006. U.S. capacity to produce the four major printing-writing paper grades declined 1.2% in 2006 and is projected to decline at an average annual rate of 0.7% during the next three years.

Uncoated mechanical paper capacity rose 0.8% in 2006 to 2.26 million tons and is slated to rise 1.8% in 2007 and 5.0% in 2008. The changes reflect plans by some producers to shift newsprint production to uncoated mechanical paper grades on some of their machines.

After sharp declines earlier this decade, coated freesheet capacity continued to expand by 3.4% in 2006 to 5.31 million tons, but it is due decline 3.2% in 2007, largely due to a machine shutdown. Capacity to produce coated freesheet expanded by 4.1% in 2004, and 2.3% in 2005. The gains were attributable to a grade reclassification from coated mechanical, which more than offset the shutdown of two machines in 2005.

After remaining nearly flat during 2004 and 2005, coated mechanical capacity contracted 6.4% in 2006 due to a mill's grade reclassification at a mill and a shutdown during the third quarter. Coated mechanical paper capacity will edge up by 0.6% in 2007 and is projected to hold nearly stable at about 4.7 million tons during the subsequent two years.

Newsprint capacity has dropped 26.0% from the all-time high of 7.46 million tons in 2000 to 5.53 million tons in 2006 and is due to decline 0.7% this year with conversion of a machine to produce uncoated mechanical and another 3.1% in 2008 with more grade swings. Recent declines measured 4.5% in 2004, 13.1% in 2005, and 4.0% in 2006.

Four new tissue paper machines began operating in 2006 but overall capacity dropped 0.4% to 8.24 million tons as five PMs were removed from the survey. Tissue capacity expanded at an average annual rate of 3.7% during 1999-2002, but average annual growth subsequently slowed to 1.3% a year in 2003-05.

With six more tissue machines coming on-line this year, average annual growth of tissue paper capacity during 2007-09 works out to 1.0%, according to AF&PA, with most of the impact in 2008. In particular, capacity is slated to decline 1.3% in 2007 and then rise 3.0% in 2008 and 1.2% in 2009. Three additional machines are expected to start up during 2008-09.

Containerboard capacity is due to rise 0.3% this year to 34.30 million tons after contracting 1.2% last year to 36.30 million tons.

Linerboard is expected to rise 0.4% to 25.59 million tons this year despite a 0.9% contraction in recycled grades and then rise a more substantial 1.0% in 2008, reflecting IP's conversion and subsequent ramping up of a PM at Pensacola, Fla.

While liner capacity rose 0.2% in 2006, corrugating medium capacity declined by 4.6%, as a result of the removal from the survey of a machine that had been idled during mid-2005. Medium will add 0.1% to 10.81 million tons this year and remain the same in 2008.

Bleached paperboard capacity declined by 4.9% in 2006 to 5.81 million tons, including nearly 260,000 tons of folding carton board. It is projected to decline by 0.4% in 2007 and then rise 0.1% in 2008.

Recycled paperboard capacity has been in decline since the early part of this decade and dropped 3.1% in 2006 reflecting the closure of eight machines and the residual impact on annual capacity of several machine closures during 2005.

Capacity to produce recycled paperboard is projected to decline 4.1% in 2007 due mainly to the closure of another machine early this year, and the residual impact of closures in 2006. After that, it is expected to increase by 1.0% in 2008 and 0.2% in 2009.

The survey, available from AF&PA for $1,500, outlines industry capacity plans for 2006-09 for all paper, paperboard, and pulp grades. Industry total capacity by grade for all US mills is included in the report.