

PAPER SHORTAGE CAUSE/EFFECTS

A COMMENTARY ON THE PAPER SHORTAGE

By Lou Caron, President/CEO, Printing Industries Association of Southern California (PIASC)

Over the past couple of weeks, we have been contacted by many owners looking for the latest information on the paper shortage. Calls range from looking for help searching for paper to learning what other printers are experiencing to questions of survival. Strangely, these calls are not too dissimilar from those that we received during the early days of COVID when we were all faced with closing down nonessential operations. The common thread is how to deal with the unknown.

In my personal reality, I am a consumer of print and, other than through work related calls, etc., the effects have been relatively unnoticed. Sunday, March 13, the effects were more noticeable. I am Catholic and there are a couple of things that are fundamental to the Catholic church: (1) there will almost always be a collection and (2) every Sunday there will be a printed bulletin at the end of mass. Last Sunday was the first time in my life that there was no bulletin because the printer could not find paper. While not the greatest example of the current crisis, the reality is that the paper shortage is beginning to impact everyday life.

After talking with members from all facets of the industry and some investigating of my own, I offer the following for consideration:

A. The current problems really had their start many months and years before. If you recall, a few years ago some North American paper mills closed, in part, because they could not compete due to aging equipment, rising labor costs and restrictive environmental regulations which made doing business a losing proposition. During these same years, some of the more efficient and profitable North American paper mills converted to board stock in support of the growing packaging industry. The result was a reduction in capacity ... occurring before the pandemic. This shortage was largely filled by overseas mills.

B. Even before (A) occurred, best practices for production called for "just in time" concepts to create more efficient and cost-effective production. Over the years, most printers decreased the amount of inventory held and relied on the paper merchants to warehouse and deliver paper within days and hours of need. JIT works when all segments of the supply chain are functioning, but one kink throws the entire chain into disarray. Unfortunately, it appears that there are several kinks in the supply chain which are creating the current issues.

C. Coming out of the pandemic, the supply chain problems were always in front of us. During the "cycles" of the pandemic, the focus was on reopening the economy. The reality is that we went from standstill to 100 mph overnight. We, and every other manufacturer, blew through existing inventories.

Unfortunately, the operations that provided the normal steady flow of raw materials and parts were no different than other businesses. They were also at standstill but many of their operations take much longer to ramp up to meet demand. For instance, I learned that it can take 6 months to bring a mill online. We could point a finger at our government leaders and say that they should have planned to sequentially bring business back piece by piece, but the backlash from those businesses that would have been at the end of the spectrum would have been devastating.

D. The ports, while improving, are still a problem. The word from Sacramento is that the legislators are seeing statistics that show the flow of goods through the ports to be improving (which is not the same as "normal") and have lost focus. I suspect many of us in Southern California look out at the harbor and do not see as many container ships as before and assume that the flow has increased rapidly. However, you may remember that in order to address the complaints of smog from the harbored container ships, the port authorities began staging ships 150 miles offshore. As such, I question the extent of improvement in the flow of goods.

E. The latest news is that there is now a container problem on the other side of the Pacific. Apparently, there are not enough containers (and vessels) to ship the materials being manufactured and purchased by the US markets. I was told that the Korean mills are producing at max capacity but cannot find enough containers to ship their inventory.



F. Logistics is clearly an issue and we need to remember that we are competing for the same container space as the likes of Walmart, Amazon and a handful of others.

G. There have been claims that some printers are hoarding paper. I think one would have to evaluate these claims on the basis of whether a printer is ordering inventory in advance of need (which is currently a much longer order time) or whether a printer is holding inventory and attempting to resell it at a profit.

H. I know it sounds preposterous, but, on the longer term, I worry about what happens when the supply chain catches up and we suddenly realize that there is an oversupply of paper. Paper prices crash. Buyers demand lower pricing. We return to the

lower margins except that now, most of us have to worry about inflation adjusted labor costs.

I do not profess to be a supply chain expert, but if you consider the above, you have to conclude that the paper shortage is not the fault of any one part of the supply chain. The current problem is global and it is not isolated to the US. It is a deficiency whose root cause is found in a collection of unique and untimely events.

I wish that there was a concrete solution that would quickly remedy the situation but I have not found one and the current global issues are only adding to the negative situation. However, the best advice is the following:

- Plan ahead and stay current on lead times.
- Communicate with your suppliers ... they are critical partners in your success.
- Remain flexible ... while easier said than done, flexibility is the nature of the times.

Clearly, for the industry to survive, every facet of the supply chain has to work in unison. In simple terms, we have to work together versus at odds with each other.

PAPER SHORTAGE UPDATES

As the paper supply shortage issue continues, Printing Industries Alliance objectives are to help our members and our industry. We have taken several steps to do so, including:

- PIA and our 12-sister regional print industry affiliates sent a joint letter to the Paper Manufacturing and Distribution Community to express our united strength (and that includes each of you!). And calling on our friends and business partners in the paper manufacturing and distribution community to help our members mitigate the impact of the challenging paper situation.
- "Paper Supply and Supply Chain Issues" is a topic to be covered at the PIA/GAA Senior Leadership Conference, to be held on April 21, 2022 in Princeton, NJ. Plan to attend and hear what our speaker, John Cumming, Executive Director of Sales, Case Paper Co., has to say on the topic.
- PIA is working to get you as much information as possible. We've made a webpage at PIAlliance.org/paper dedicated to this issue which we will continue to update with information.

In summary, we are experiencing a severe domino effect from COVID, but also a host of other issues. It is expected things will start to improve in the third to fourth quarter of this year. In the interim, it is recommended to plan ahead, seek and use alternatives, stay in the know, and treat each other with professionalism and patience as we get through this, together.





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