



Collective Conversations

Virtual Round Table Series Hosted by Visual Media Alliance

Paper Supply Chain Updates

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Hosts

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Special Guests

Jeff Jarvis, Vice President/General Manager, Kelly Spicers

Michelle McDermott-Pautz, Customer Logistics Manager, Neenah Paper

Kelly Spicers Updates

- Some factors that led to decreased supply are leading to increasingly low availability and an increase in paper costs:
 - Demand up. Supply is down. Until 2020 there was a flat change in personal consumption. But in 2020 expenditures (domestic and ocean travel) went up. The annual growth rate fell dramatically, but then went up dramatically in 2021.
 - Huge unemployment rates in 2020 and 2021 also tell the same story. An older population of truck drivers retired due to COVID risk which led to a lack of drivers. Rules also changed that truckers have to be at least 21. Those that choose trucking often need to start working at 18. All these factors led manufacturers to not be able to run full time.
 - Older and smaller container ships were taken out due to replacing larger ships (available in 2023), labor issues at port, and overall global port congestion due to restarting while COVID is still in existence.
 - Fuel cost increases affect trucking and shipping distribution channels.
 - Paper mills saw their inventory go way down and slowed down their inventory holdings. But, due to demand spikes, they were forced to seek supplies offshore where there was no inventory available. Keeping up with demand and inventory was difficult to fulfil commercial printers' needs. In sum, prices are up as supply is so tight.
 - Overall, there is higher demand than there is inventory. Many substitutions have been recommended from uncoated, to velvet, to matte coated, to gloss.
 - Kelly Spicers is allowing limited backorders on their system to determine what the demand is to meet it.
 - No hoarding allowed, and backorders are based on past orders and use patterns to ensure fairness.
 - View Kelly Spicers Presentation by [Clicking Here](#).

Neenah Updates

- Prioritizing the products, they are having similar key issues as Kelly Spicers.
- Neenah is facing labor shortages not only in the mill, but also in converting, warehousing, as well as shortages in material, supply chain issues, and higher demand for paper products.
- Recommending substitutions to designers, looking at alternative products and communicating what is available.

Q: Timing for inventory improvement?

There is no way to guess this unfortunately. Mills are running at 100% currently. Everything they receive they ship out. They have to supply current demand and build inventory, but they can't even do demand. If we could get more ships on the ocean that would help but shipping companies have little incentive as they have been losing money for years and are currently making money. Port longshore man contract is supposed to be signed soon which might help. There is a 3-month lag and we are likely to see levels return in the 3rd to 4th quarter.

Q: Isn't most paper domestic? How much paper comes from Asia or Europe?

80% of coated sheetfed is international from Europe or Asia. Most inventory in California is from Asia (mostly Japan, South Korea, less from China and Indonesia due to tariffs in the past 10 years). Canada produces no coated. Domestic is just not price competitive so it has there hasn't been much domestic for years.

Q: Any news regarding paper mills converting their operations?

Sappi converted their facilities to produce packaging paper products. From coated web to brown box, kraft paper, and packaging.

Q: How do you explain the huge cost increase with Neenah Classic Crest products with reduced product offerings?

Neenah wants to make sure they have the right product and right inventory levels to meet the demand. Due to 6% cost increases due to gas, materials, and transportation at the start of this year, these costs affect the product price increases that were passed through.

Q: Do print brokers or printers get first rights?

Kelly Spicers has incorporated some basic parameters on reordering paper due to limitations in inventory. They look at past relationships and previous orders (in lbs. or tons) and check to make sure new back orders are not more than what was previously purchased to ensure fairness, although there are some exceptions. Eg. If you previously bought 20 tons a month, you can't backorder 60 tons. Kelly Spicers respects people who have equipment on the floor due to their investment and offers support to them.

Q: Do you foresee any domestic mills adding supply?

- Neenah has brought in a new mill. It's hard for them to predict the future but they expect a tight market for the rest of this year and into next year.
- Kelly Spicers says some domestic mills are adding mills but mostly on machines that make uncoated paper. Most machines are old and have sat idle or have been scrapped. It's hard to turn on a mill that has been taken out and it's hard to get new machines restarted due to lack of supply for components. The best hope is Verso's Wisconsin Rapid Mills restarting their paper mill which can cost in the millions or more.
- Domtar recently turned back on some paper machines.

Q: How is paper allocated? Bigger printers have more needs.

Most printers buy through distributors. Larger printers do have bigger orders, but Kelly Spicers has guidelines to be fair to all. In some ways, it's easier to supply the smaller printers. There are a lot of factors they take into account e.g. can the buyer take "a partial."

Q: Is having some paper at a higher cost better than no paper?

It's complicated. E.g. changes to the number of container ships and the number of containers that will fit on a ship. For example, S. Korea is allocated only 100 ships/month and the shipment is delivered to Long Beach. Then it has to be trucked up to Northern California and the labor shortages are slowing down that step. This should get better and with the new container ships coming out – scheduled for 2023, but might be sooner. More container ships on the water would free up some product.

Q: Can we get paper from the East coast?

No, this is a worldwide issue. The East coast has their own supply/demand. Even in S. Korea it's easier for them to sell to their neighbor Japan. Neenah has their own built-in supply chain and pull trucks that are committed to the West.

Q: What is the impact of pulp supply pricing and shortages?

- Neenah is seeing issues in supply to purchase pulp as well as seeing higher prices for pulp. This is reflected in their recent price increases. She is hoping this will level off in the future, but right now, it is affecting all inputs. It's not pulp issue, but also adhesive, pallets, and other materials to convert pulp to paper products.
- Kelly Spicers is part of CMG and spends \$4B on pulp purchases and buys millions of tons of pulps and resells it. It's getting more complicated with the Russian-Ukraine issue because Russia provides a lot of pulp who supplies it to China. Kelly Spicers does a lot of business in China and Russia, but due to freezes in financial institutions and closures, world trade with Russia is halted. Check out the "[Pulp and Paper News Roundup.](#)"

Q: What percent of domestic mills have closed? Any chance of parent companies buying and reopening these mills?

- Since 2020 there have been curtailments but not necessarily closures. Windsor Mill with Domtar had a fatality during maintenance which kept the machine down for a couple months in Canada. Another machine restarted with Domtar recently.
- No mills have been shut down that would make an impact
- In Europe there is a big strike that may last until June or July, so we currently can't get it from there either.
- Kelly Spicers is looking at all options. Also looking at Mexico called Scribe with a sheet called Kromos through their parent company but exporting from Mexico proves to be difficult. An

agreement has been reached for Kelly Spicers to sell pulp to Scribe, and to have them produce and sell the paper back to Kelly Spicers.

- Paper is not a growth industry so there is reluctance of people to invest.

Q: What about our group chartering a vessel as an option

- There is a conversation about Kelly Spicers looking at chartering ships versus buying their own ships to secure shipping channels since each ship can carry approximately 50 thousand tons.
- Home Depot invested in their own ships to obtain the supplies they needed from China.
- CMG does have the reach and scale to demand something if things free up a bit.
- VMA and sister companies would not be able to get this process up in time.

Q: How do buyers to forecast and plan earlier?

- Just-in-time accounting has really hurt us with all these issues.
- Look for alternatives and solutions. E.g. USPS has promotions for paper that is heavier
- Don't overact and react too quickly. Eg. keep your employees
- Look at your past records for seasonal jobs and start having conversations 3 months early to start the project earlier.
- Get talking to your customers about what they predict.
- Start thinking of contingency plans
- Start talking to other suppliers besides Kelly Spicers, such as Veritiv and West Coast Paper for alternative options.

Q: Forecasting on Election, China tariffs, Postage

- Forecasting shipping times. Trucks can typically take 3 days, but shipping from S. Korea would typically take 3 months or more, depending if there are hurdles such as storm where they have to take a longer detour, waiting near the port to get clearance to get unloaded from 3-10 days, etc.
- There will be lots of political printing implications
- Current state of affairs with Russia-Ukraine and high tariffs for China imports cause a kink in the chain for supply to meet demand.
- Even by switching from 60# to 70# paper, some clients may need to pay additional fees for postage due to the weight difference.

Upcoming VMA Events

[3/17 • 4PM-5PM • SalesCircle](#)

[3/25 • 5PM-11PM • CrabFest](#)

[4/06 • 10AM-11AM • Collective Conversations: Shifting Trends in the New Normal](#)

[4/14 • 8:30AM-9:30AM • Short Attention Span Webinar: Top 10 Sales Apps](#)

[4/14 • 5:30PM-7:30PM • Kegs on Legs • Sacramento](#)

[8/17 • 3 Days • Americas Print Show • Aurora, Colorado](#)

Additional Questions or Comments

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