THE STATE OF THE NORTHEAST REGIONAL PULP MARKET

The Industry Struggles to Adjust to Fewer Mills, Lower Demand for Wood

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A couple years ago, pulp mills across the Northeast were scrambling for wood, concerned about logging capacity, and stretching their traditional procurement areas. What a difference a few years can make.

Maine

It's no secret that Maine has lost pulp mills in recent years. Bucksport, East Millinocket, Lincoln, Old Town, and Madison are now gone. The storied Androscoggin Mill in Jay is now a shadow of its former self (as measured by wood use), with Verso having moved beyond its "Skinny Andro" plan to something even leaner. Across these mills, Maine has lost somewhere around 3 million tons of pulpwood (and mill chip) markets since 2014. Put another way, the market has shrunk by 275 loads per day, every day. That doesn't count the biomass markets lost at these mills.

While it's hard to find a logger or landowner in the Northeast that hasn't been impacted by these market losses, the greatest pain is being felt by those most distant to remaining markets. Procurement circles – which are never circular – have shrunk. This makes sense – long wood is expensive wood. Some mills that used to get more than half of their wood from over 150 miles away. Today, those mills tell me that 80% of their wood now comes from within 150 miles, and most of that within 100 miles.

That's a plus for those loggers and landowners fortunate enough to be in close proximity to a market. These loggers get better utilization of their trucking fleet and mills pay less for wood simply by paying for less trucking.

Of course, it's a minus for everyone else. Looking at a map of operating mills will tell you that parts of Aroostook and Penobscot Counties in Maine, Southern New Hampshire, much of Vermont and almost all of Southern New England is distant to market. Loggers in all of these areas tell me they are having a hard time moving pulpwood at a price that is sustainable, and don't really expect things to get better.

It's easy (and natural) to focus on what has been lost. However, it's not all bad news. For starters, basic economics suggests that the loss of competition – and the resulting decrease in trucking costs – should lead to more secure and more economic wood supplies for those mills operating. We're seeing that. Hardwood remains competitive, but it's not the hand-to-hand combat and unsustainable price wars of a few years ago. Softwood markets have been hit hard, and prices have fallen. Hard on loggers, hard on landowners, but in the long run affordable fiber supply means a mill that is competitive and positioning itself for the long term.

We're also seeing some reasons for optimism. SAPPI is investing $25 million in the wood yard at their mill in Somerset, Maine. This is the first major overhaul of the wood yard since opening in 1976, and will feature a new drum chipper and an improved chip distribution system. Intended to bring the wood yard to the state-of-the-art, SAPPI expects this investment to increase yield and reduce losses of white wood to over-handling. Some construction has already begun, and a new and operational wood yard is expected by the end of the year.

Across the state at Woodland, we've seen investment at the other end of the process. Two new tissue machines – a $150 million investment – started turning out product in March of 2016. The mill is now feeding these machines and its pulp drier, which may result in a modest increase in wood use.

These investments at mills are significant, and suggest a confidence for the long-term. Other mills are making incremental changes – shifting species mix (often to take advantage of increased softwood availability) or addressing bottlenecks.

Across the state mills are finding the wood they need, and inventory levels are high. In part, that's because the state's – and the region's – logging workforce is still built for a market that no longer exists. There is real concern about what happens in June, after mud season. What contractors will still be around, and what does that mean for wood supply? It is far too early to know, but many loggers will take mud season to take a hard look at their finances, and if the numbers don't work, many won't return to operations.

A final wild card is sawmills – more specifically mill chips from sawmills. It is no secret that when you buy a cylinder (a log) and sell a rectangle (a board), some residuals are created. For years, sawmills have relied upon paper mills to move their clean chips, and that reliance is being tested. For softwood sawmills in particular – the bulk of the region's volume – finding a home for mill chips, sawdust and bark is becoming a concern. Not only has there been market losses at pulp mills, but many biomass plants are on uncertain economic footing, and pellet mills are suffering from low oil price and the second warm winter in a row. Keeping (or creating) markets for mill residuals – and thus keeping sawmills operating – is critical to the economic success of the entire forest industry.

New York

To the west, New York's two pulp mills are – by comparison – an example of a stable market. The market in the Adirondacks has been through some wild swings, but not because of changes in the local pulpwood markets. Just a few years ago biomass electric plants, wood pellet mills, and paper mills to the north and south were all competing for wood, and straining logging capacity. Today, markets have changed and there is less competition from wood energy, and less competition from pulp mills outside of the region.

Mills in New York are currently managing their inventories on a quota – either stated or unstated – and are sitting on strong inventories well ahead of mud season. December started with a hard freeze, and while January has had some warmer days, any crews that got their roads frozen are in good condition. The modest competition for the resource, coupled with good logging conditions, means that wood yards are ahead of expectation, and it is unlikely we will see a scramble for wood – and the resulting price increases – heading into spring.

While markets here are comparatively stable, there is one thing clearly in common with Maine. Logging infrastructure is a concern, particularly if there is a return to anything like to resource competition seen just a few winters ago. Particularly for loggers in western New York, access to markets has been challenging, and some may decide to get out of the business if the markets don't rebound.

Going Forward

The forest industry has always had a dynamic, push-pull relationship between supply and demand. In the Northeast today, that dynamic has enough capacity to supply all of the markets, and then some. That's great for mills, in the short term, as they have secure supply and decreased prices. However, we are clearly at or beyond the point where some loggers are going to look at their pulpwood markets over the next year and decide that there are easier ways to make a living. That will happen most dramatically to those loggers that are distant to markets – and are thus limited in their economic access.

Markets will rebound, but there is a real question of when and where. In New York, a surge in electricity or oil prices (or both) could have wood energy plants (electric and pellet) running at capacity quickly, and competing for wood. For lost markets in Maine, most of those mills are now scrapped, and won't return under any circumstances. However, the rapid loss of markets – coupled with a diverse forest industry still operating throughout the region – suggests that there has never been a better time to develop a project that utilizes low-grade wood, particularly softwood. Firms with operations in the region, as well as some who have never been active in New England, are now pursuing these opportunities.

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