



Nick Steidl

Paper Industry Gold Medal Award 2013

The UK Market for Graphic Papers

Status quo, you know, is Latin for “the mess we are in”.

Ronald Reagan

Demand

In 2009 the Stationers’ Company published a commissioned report entitled *The Future of Graphic Paper & Print 2008 – 2020*. It sold well but the critics described the content as too pessimistic. As it turned out it was in fact too optimistic! (*Figure 1*)

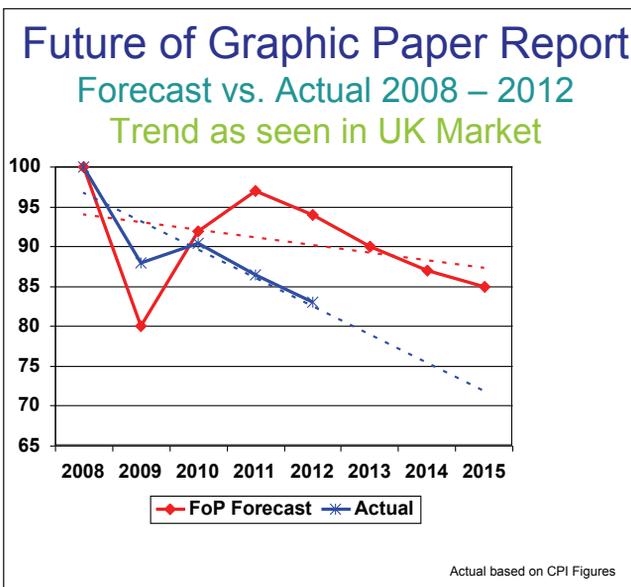


Figure 1

The strap line for this study was “Seismic Shift or Changing Patterns?” and as it turned out, it was more of the former.

The drivers of this change were numerous but the main ones were:

- The economy stalled and in addition paper growth de-linked from GDP in 2000
- The rapid advance of digital media –
 - Commercial email that only started in 1996
 - The quick adaption of SMS messaging
 - Introduction in the late 90s of the Portable Document Format (PDF)
 - Enhanced scanning and storage techniques
 - The massive increase in digital storage size from a few MBs to many TBs and confidence in the reliability of such devices (less hard copy)

- Massive advances in screen technology displaying more vivid colours. This combined with portability, the smart phone & tablet computers
- The people factor and changing demographics
- Driven by environmental concerns the focus on reduced wastage
- Introduction of digital printing and ability to accommodate shorter runs
- Increase in imported print now represents £1.6bn (maybe 900,000t of paper and board)

While these innovations changed the lives of the population, unfortunately there was little invention from the world’s paper-makers. The sector of the paper industry most affected was the graphic one and woodfree coated led the decline. As can be seen (*Figure 2*) the most unaffected grade is tissue paper, which is unlikely to be replaced by digital technology – for the time being anyway.

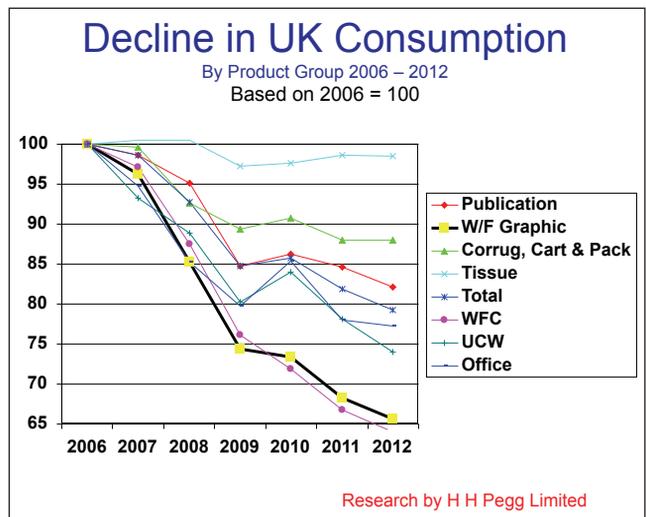


Figure 2

Some have expressed surprise that publication papers have followed rather than led the decline after hearing of the fall in circulation across all sectors. However in 2012 standard newsprint dived by 10% in consumption despite the Olympics and Jubilee celebrations. Coated mechanical has benefited from downgrading and down weighting of woodfree coated.

A recent study published by RISI (*Figure 3*) confirmed the market for commercial print peaked in 2000 and although it recovered somewhat between 2003–2007, it really has not recovered since the economic blow of 2008. The early down-

ward track was principally the UK market but now other European countries are feeling the pressure. About half the commercial print market consists of woodfree coated.

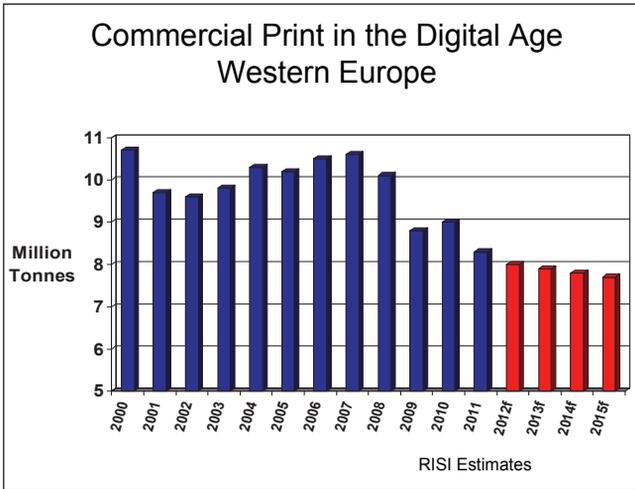


Figure 3

The UK has led the decline in demand in Europe and the USA is still ahead of us. A lot has to do with the acceptance of new technology and the UK has never been shy. A survey published in 2008 demonstrates the British lead in that regard (Figure 4). The British printers also led the installation of Cut-star presses far ahead of their European colleagues – another sign of our love of new technology.

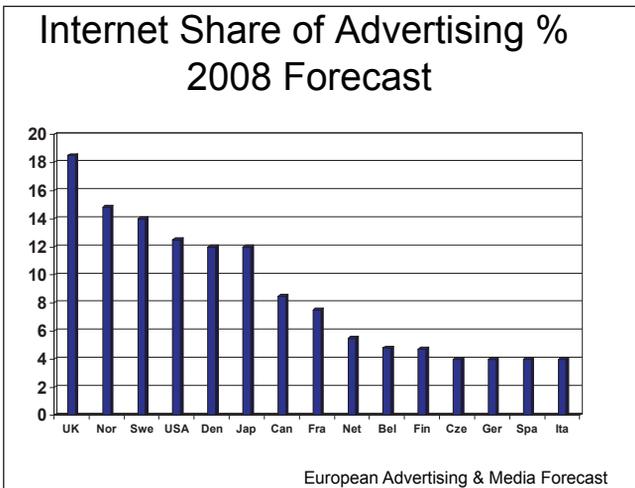


Figure 4

There are now early signs that the decline in UK graphic paper consumption is slowing down whereas other European countries are starting to show the beginnings of their own structural change.

There are also micro-markets where change is so rapid but volumes are not quite as significant. One is the book market where Amazon UK now claims to be selling more eBooks than paper based ones. Certainly in the US this trend is well established with some estimating that eBook share will go up from 20% in 2012 to 75% by 2025.

Advertising

Not surprisingly the changing dynamics have been very attractive to the advertising industry – not only because digital advertising is cheaper than print, but also because it is easier to measure the effectiveness of campaigns. What took everyone by surprise in the UK was the speed and extent of the shift to

digital advertising from less than 1% of total spend in 2000 to over 30% by 2012 (Figure 5). Equally this shift saw “Press” or print advertising declining from about 50% to not much more than 20% in the same period.

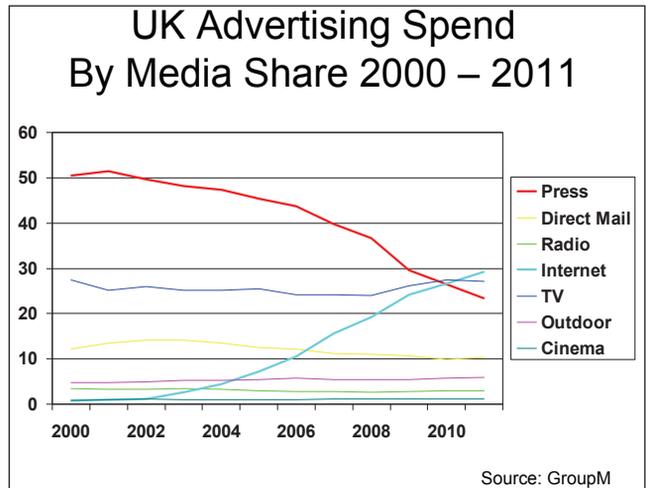


Figure 5

As can be seen the trend of Internet based advertising replacing print has been a far quicker migration in the UK than globally but maybe the good news is that our speed of transfer is seemingly slowing down in 2012 (Figure 6).

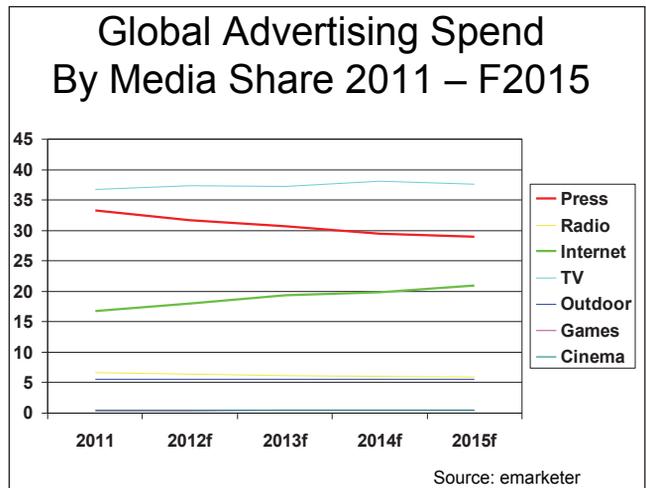


Figure 6

Supply

In the 90s a number of European paper groups made the decision to invest further in new capacity. They were encouraged by the belief that the growth rates of between 5–8% would continue and did not see emerging markets being a threat in any way. Although it feels like we have had email for many decades the first commercial email service did not start until 1996 and PDFs were only really established at the turn of the century.

The paper world did not see the peak and when growth disappeared they thought it was a temporary phenomenon (Figure 7). In fact it was not until 2004/5 that mills started to take action to reduce capacity to try and match demand. It turned out to be too little too late and this process still continues. It is no longer just the over-capacity in Western Europe – its now new capacity in the Far East trying to fill their giant paper machines by exporting excess capacity to the developed markets and unfortunately the UK and USA in particular.

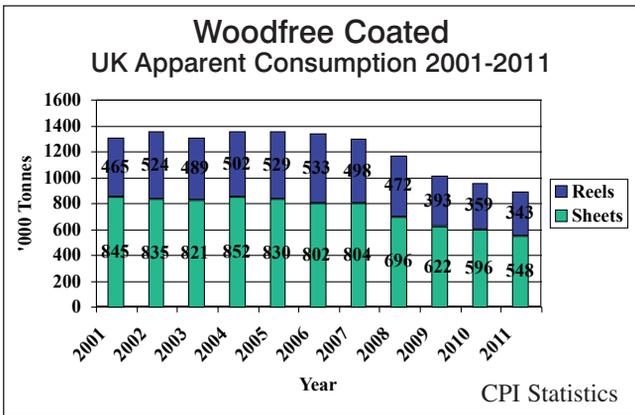


Figure 7

Figure 8 only covers woodfree coated and uncoated wood-free, but a similar pattern can be seen in newsprint, SC mechanical and LWC. Since 2005 most grades have seen capacity reduced by between 25 & 30%.

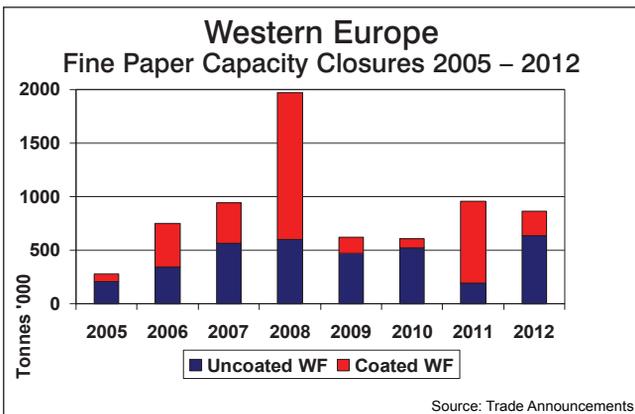


Figure 8

The extent of non-EU supplies in the UK has now reached almost 15% of woodfree coated sheets and 30% of office papers. So markets are shrinking and EU mills' market share is under continual pressure from new capacity in the developing world – mostly made on state-of-the-art paper machines.

Prices

Prices in the UK have followed a predictable decline in Real Terms with just a couple of peaks in the later 80s and mid 90s (Figure 9).

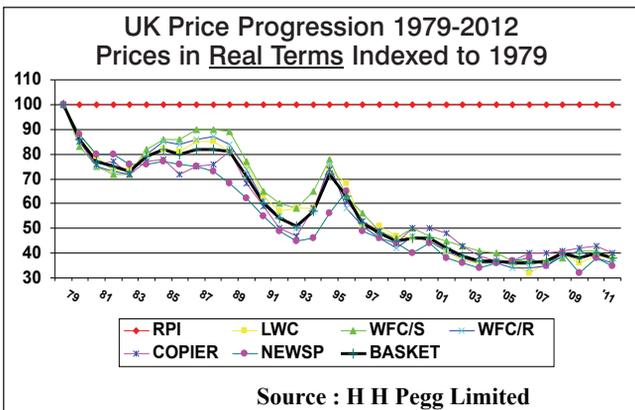


Figure 9

They have now fallen to such low levels that it is hard to believe that they could fall any further – but history gives the opposite impression (Figure 10).

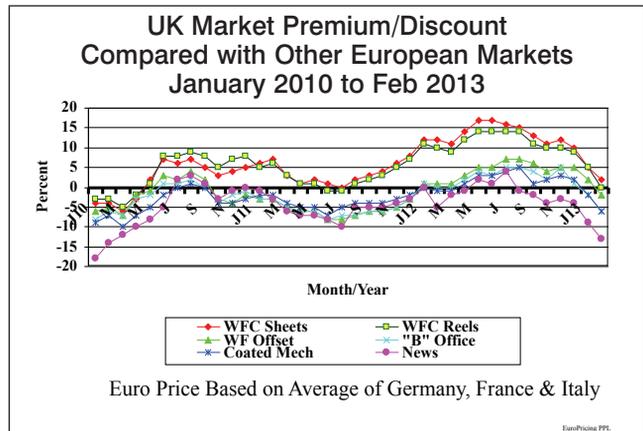


Figure 10

The recent weakness in the value of sterling (Figure 11), in a market where there is almost no local industry left, would suggest that the pressure is now upwards. This pressure will be aided by the withdrawal of some Asian tonnage suffering from the lower pound against the US dollar.

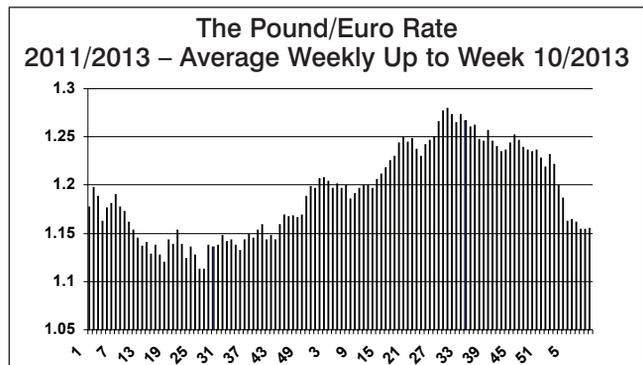


Figure 11

Conclusion

Demand & Advertising

Early indications point to the fact that the decline in wood-free coated and uncoated demand and the transition of print to digital advertising is slowing down but the rest of Europe has some catching up to do. Other grades will continue to slide in the next few years.

Obviously we do not know what new technological innovations are round the corner. There also remain threats from further economic turmoil. On the other hand if our economy starts growing again there is a strong chance that consumption will stabilise and then could show modest growth.

Supply

Despite massive culling of excess capacity in Europe there are still further measures to be taken to balance supply with demand. Some think only mega-mergers have the power to take the steps needed. Much depends on an economic recovery and the behaviour of non-European paper mills.

Pricing

Pressure will grow, in my opinion, on upward price correction. The weakness of the pound has widened the gap between Euro pricing and those now valid in the UK.

This is just one personal view. The Stationers' Company plan to publish updated research on *The Future of Graphic Paper & Print in Western Europe*, which should be available in 2014.