



Trump Strikes Again: How Will the Newsprint Tariff Impact Your Investments?

Description

With Canadian investors still reeling from Trump's proposed steel tariffs, Canadians have been left scrambling once again, as hefty newsprint tariffs can disrupt the industry. The U.S. newspaper industry is already in tough place; it's struggling to adapt to the shift towards digital publication and increased competition from the internet. It has experienced 28 straight years of declining circulation, and with the new tariffs, the declining rate may accelerate.

The new tariffs were implemented because of an investigation that started last summer. North Pacific Paper Corp. (NORPAC), a U.S.-based paper producer, submitted a complaint stating that Canada was unfairly subsidizing its newsprint industry and called for higher tariffs on newsprint products exported from Canada. Canada is the largest newsprint exporter in the world, and U.S. exports account for approximately 75% of exported Canadian newsprint.

In January, the investigation led to the U.S. Department of Commerce implementing a 6.53% overall tariff on 25 Canadian plants. Each plant was impacted differently, with varying rates slapped against them. At the time, Perrin Beatty, president of the Canadian Chamber of Commerce, called the decision "a grotesque example of protectionism gone wild."

Unfortunately, the Trump government wasn't done, and this past week, it hit the industry with more duties. The U.S. Department of Commerce's investigation found that Canadian exporters underpriced uncoated groundwood paper by ~22.6%. As a result, it implemented a new tariff of 22.6% on all producers, with the notable exceptions of **Resolute Forest Products** ([TSX:RFP](#))([NYSE:RFP](#)) and White Birch. These two producers were excluded, because they were found to have no dumping rates.

The news for investors is mixed. The top exporters in Canada are Resolute, Kruger and Catalyst Paper Corp., and they dominate the U.S. export market. Of those, only Resolute is publicly traded. In the first round of tariffs, Resolute was slapped with a 4.42% duty, which was lower than the average. Despite the lower rate, Resolute spokesperson Karl Blackburn called the duties "completely unfair and unjustified."

The great news for Resolute investors is that they were excluded from the new round of tariffs. The

company's share price quickly rebounded following the announcement and is now trading in line with where it was prior to the new duties being announced. As it was found to not have dumping rates, the company is better positioned than most to weather the upcoming storm.

Unfortunately, the macro environment will continue to negatively impact Resolute. In 2017, the company's newsprint sales accounted for approximately 24% of total revenues. Newsprint demand in North America dropped by 11% in 2017, and the shipments-to-capacity ratio dropped to 94%. Its newsprint segment is operating at a loss, and EBIT has been steadily declining.

According to Matt Davison, the publisher and president of the *Idaho Press-Tribune*, the tariffs "could have a catastrophic impact on community journalism." U.S. newspapers may be forced to raise prices, which could further impact newsprint demand. According to the U.S. National Newspaper Association, "There is no doubt in our minds that a substantial tariff on newsprint would lead to an accelerated reduction in demand."

Outside of NORPAC, there is industry-wide consensus: these tariffs will negatively impact the already stressed print industry. Risk-averse investors should be mindful that lower demand could result in job loss, unused capacity, higher operating costs, and plant closures. Investors should avoid Resolute as an investment until there is greater clarity on how the new tariffs will impact demand.

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