

The new industrial reality

The PRIMA 2010 annual conference was held on April 26 and 27 2010 in Goteborg in a gloomy atmosphere. The volcanic cloud had dissipated but the strikes continued to hit Swedish industry and the iPad was on its way to commercial success (1 million sold in the United States in four weeks)...



Stig Andersen,



Arne Wallin,
President Holmen
Paper



Maximo Pacheco,
President Europe,



Owen Mitchell,

The two main themes covered in the presentations related to strategic reorganizations and changing markets. Papermakers have been trying to revitalize their models for a number of years now and the initial feedback is revealing. Some of them have managed to consolidate, or at least to find the road back to profitability: International Paper refocused on specific geographic zones, Portucel is concentrating on a product range. In terms of the markets, the information provided by PPPC essentially reiterated what we have reported from the conferences organized by RISI. Demand is down, and in structural terms there is a danger it could at best stagnate in the western economies.

A banker's point of view

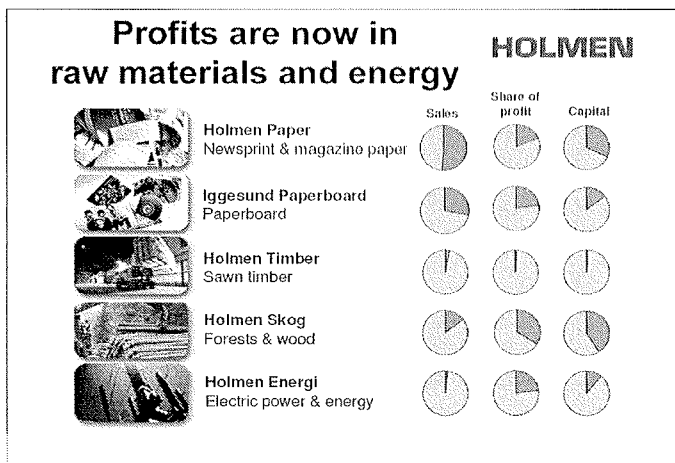
As Scandinavia's leading bank Nordea has proven expertise in the forestry and paper industry. **Stig Andersen** talked of the action needed to resolve the problems being faced by papermakers. He recommended joint actions between all the players: with, alongside the companies,

governments, the European Union, banks and industry associations. He said that the level of concentration was still not enough to match production capacity to demand. The more companies there are in a market, the more difficult it is to establish market discipline, and papermakers need to bring the capacity utilization rates up to over 93%.

Nordea posits three corporate models: the avant-garde papermakers who are implementing models for tomorrow based notably on energy and bio-chemicals; the niche papermakers concentrating on high added value products; and lastly the papermakers located in low production cost regions and those in rapidly growing markets. These models highlight the sometimes incompatible characteristics between each of these and no company can correspond to all three models.

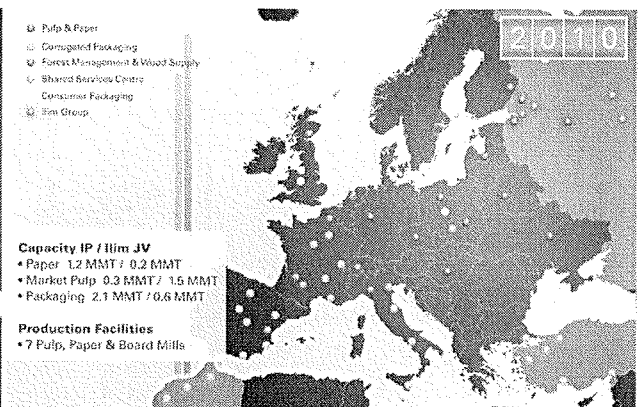
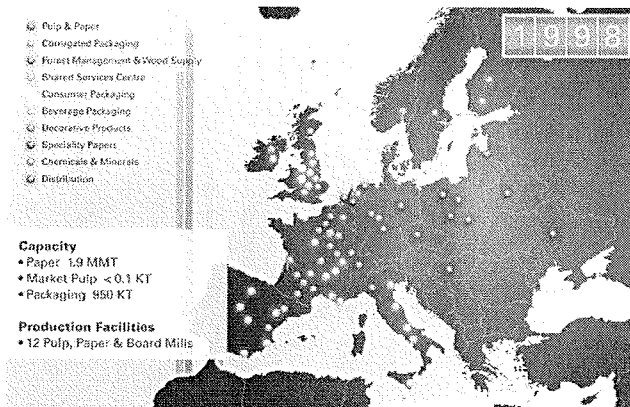
For the moment, Nordea is concentrating on papermakers located upstream in the value chain, at the level of plantations and pulp, like the oil companies that make their sales and profits in exploration and exploitation instead of gas stations. Stig Andersen is predicting that the center of gravity in the paper industry will shift: "Many companies [mostly South American, but also including Asian, and even Australasian, Russian and African companies] will be on the list of the 20 largest paper and forestry corporations within the next 10 years".

Fortunately he believes even so that some European companies will be able to survive the changes! **Arne Wallin** from Holmen Paper presented the decisions being faced by large European groups, for instance Holmen: "We will earn most of our profits from the sales of raw materials". Wood sales account for almost 10% of turnover but 20% of profits. Power sales account for a few percent of turnover but 14% of profits! On the other hand, almost half of the turnover comes from papers, but only 10% of profits.



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International Paper restructuring between 1998 and 2010



Shift towards emerging markets

The shift of the paper industry towards the west and the south is nothing new. For the western producers this is the only growth option bearing in mind the erosion of the mature markets. International Paper adopted this approach some time ago and 25% of its turnover now comes from markets outside the United States. The presence in Western Europe already matches with the need to carry forwards the growth from the North American market.

Maximo Pacheco is President Writing and Printing Paper for Europe, Middle East and Africa (EMEA) since January 2010. He explained the changes being made by IP in its facilities in his region. Between 1998 and 2010, the number of mills owned by the group fell from 12 to 7 (not including the converting facilities) and this contraction is not yet completed as seems to be proven by the closure of Papeteries Étienne. He said: *"We are concentrating on the markets with strong growth potential and on our core business, and we are creating joint-ventures whenever possible"*.

Investing in Russia started back in 1998, and International Paper is the largest non-oil sector foreign investor. In 2007, IP formed a joint-venture with Ilim Holding, creating the Ilim Group. Each group has a 50% share. Ilim Group employs over 20,000 people and has a pulp and paper production capacity of 2.3 million tonnes. The Svetogorsk mill is 100% owned by the US company. It produces packaging for liquid foodstuffs, BCTMP pulp and office papers.

In Asia, International Paper announced at the end of April 2010 the takeover of the packaging business of SCA with 15 mills, mostly located in China. The re-allocation of paper industry assets thus continues! SCA announced that it wanted to concentrate on the hygiene segment in Asia, it being a more rewarding one and one in which it has proven experience.

Growing in a niche market

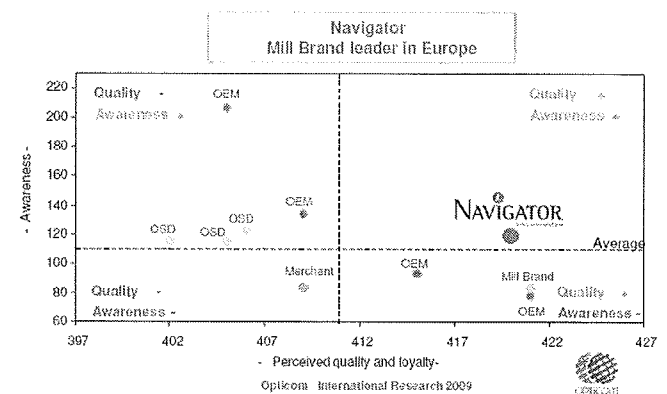
The woodfree uncoated papers market accounts for 14% of the world market (paper and board), the European market for these papers, 2%. This represents around 7.2 million tonnes a year with only 1.2 million tonnes in the "premium" segment on which Portucel is focused. The distinction is sometimes slight between

the premium brands and standard papers, but Portucel claims to produce a paper that has optical and physical characteristics that are among the best on the market. The papermaker has carried out studies showing that for office uses, its *Navigator* brand is the leading papermaker brand, as is *Soporset* for graphic applications.

Thanks to its modern facilities and commercial strategy, Portucel was running at 100% capacity in 2008 and 2009 whilst the average for its European competitors was 87% in 2008 and 85% in 2009. Its earnings are also well ahead of those of its rivals. Portucel is however concerned about the structural threats to paper consumption. The group carried out surveys among the younger generations to help it understand tomorrow's trends.

The surveys were carried out in Portugal on people aged over 6, with the oldest being those in their final year at university. The surveys showed that they were worried about the environmental impact of paper, without this actually being evident in their behavior. The decline in the consumption of office papers seems to originate more among their parents and teachers, looking to cut costs. They find it easy to write using electronic media but they prefer to read on paper.

Like most major European papermakers, Portucel has relocated its pulp production outside Europe. The papermaker recently announced official approval from the Mozambique government for forestry operations on



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390,000 hectares as well as the associated industrial installations.

In terms of the users: Pearson, a publisher facing competition from electronic media

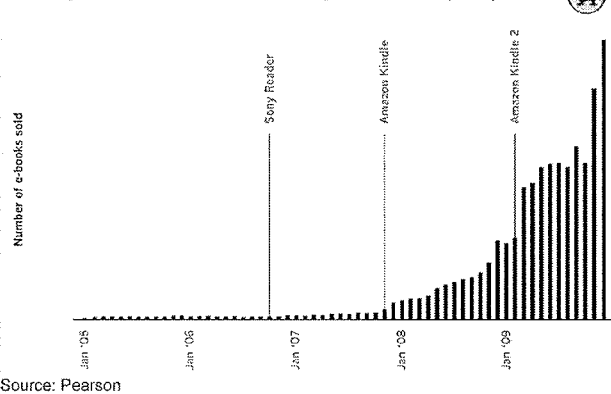
Pearson is one of leading publishers in the education and professional information sectors. Its best known products are the *Financial Times* and *Penguin* books. **Owen Mitchell**, is Senior Vice-President Procurements. He stressed first of the importance of training. For instance, around the world the average unemployment rate for young people is 15% and in the Arab countries, it is a real problem. Only one country, the United Arab Emirates, has a lower rate. The unemployment rate in the other Arab countries is between 17% in Morocco and 48% in Algeria. But even in the developed economies, training is falling short. In the United States, out of 100 children at primary school, only 68 will complete their secondary education, 40 will register for university and 18 will graduate.

Between 2005 and 2009, turnover at Pearson from outside Europe and North America more than doubled, going from 304 million pounds to 648 million. In all emerging economies, English language teaching is booming. Even when the teachers cannot speak English, the best way of learning is to use multimedia and Internet products.

The competition for learning is international and individuals invest to get a better and more customized education. In terms of supply, the training is also changing, "*Young teachers are born with digital, and they provide an integrated and personalized teaching experience*". The business of Pearson in education is thus increasingly based on the new technologies. Owen Mitchell presented the example of an Internet site being launched by Pearson, which offers online course, forums and of course online

exercises. The student only really needs a few sheets of scrap paper for his/her education...

Penguin eBooks Sold by Month (US)



Pearson, which applied the publisher business model, is now competing with Amazon and Google which Mitchell describes as *frenemies*, halfway between *friends* and *enemies*. In fighting these two giants, Pearson has been converted to the electronic format. Its turnover from digital businesses went from 857 million pounds in 2005 to 1736 million pounds in 2008, or 21% to 31% of total turnover. Even more traditional media are being converted such as the *Financial Times*. Between 2000 and 2009, turnover from digital media rose from 28% to 73% of total turnover. There has also been a break with the economic model. Whilst advertising represented 52% of turnover in 2000, it accounted for only 19% in 2009. For Penguin books, digital book sales increased by twofold between January and December 2009.

Yann Trentesaux

EU must take action in wake of U.S.

Determination on dumping of subsidized coated fine paper from China

"The EU must take action now that the U.S. Department of Commerce has determined that certain Chinese producers are dumping Coated Fine Paper in the U.S. market at margins ranging from 30% to 135%. The U.S. findings vindicate the European Commission's own investigations of imports from China into the EU. The same Chinese companies found to be dumping in the U.S. are under investigation for dumping production in the EU, and destroying European industry and jobs," said Frank Leerkotte, Managing Director of the European Association of Fine Paper Manufacturers (CEPIFINE). The European Commission is currently investigating dumping and subsidies of Coated Fine Paper (CFP) from China. The EU anti-subsidy and anti-dumping complaints are brought by CEPIFINE on behalf of four EU producers: Burgo Group SpA, Lecta SA, Sappi Fine Paper Europe and Papierfabrik Scheufelen GmbH. Other member companies of CEPIFINE are not involved in the complaint.

"As already established by the U.S. government on 2nd March, Chinese Coated Fine Paper producers receive substantial subsidies which encourage over-production and exports. Indeed, now the Chinese producers have been found to be both subsidized and dumping by the U.S. authorities, they will redirect even more paper towards the European market," said Leerkotte.

Despite global overcapacity, Chinese companies are adding 2.7 million tonnes of CFP production capacity in the next year alone, which is more than 50% of the entire annual EU market.

"Unless anti-subsidy and anti-dumping measures are imposed quickly to restore fair trade, increased Chinese production will continue to pour into the EU, and their subsidized prices will overwhelm European producers," said Leerkotte