



December 2006

Forest Industry News

NEW PROJECTS ANNOUNCED

Planning Phase

[Russia] *North-West Timber Company (NWTC)* is considering several plans for the expansion of its Neman facility in the Kaliningrad region of Russia. One proposal would involve the installation of a new uncoated, woodfree paper machine, though the company is also weighing the possibility of rebuilding some its existing machines. The Neman mill, which currently houses eight paper machines with a combined capacity of 150,000t/yr, is set to start-up a new 130,000t/yr chlorine-free bleached pulp line by the end of the month.

[Austria] The *Heinzel Group* is projected to invest \$133 million in a series of expansions and optimizations at its Pöls pulp mill. These projects will include the installation of a new lime kiln, additional washing stations, and the expansion of chip cooking capacity. These improvements are intended to boost NBSK pulp capacity from 320,000t/yr to 410,000t/yr.

[Scotland] *UPM* has announced plans to build a new cogeneration plant at its Caledonian mill in Irvine. The unit will use 350,000t/yr of biomass and residues as its primary fuel. The \$117 million project comprises a biomass reception and storage area, a bubbling fluidized bed boiler, as well as a steam turbine that will generate up to 28MW of electrical power.

[Finland] *UPM* also has plans to upgrade mechanical pulp production at its Jämsänkoski mill. The \$51 million investment is intended at making the pulp more amenable to the production of uncoated magazine paper, and will not bring about an increase in the mill's thermo mechanical pulp capacity, which currently stands at 450,000t/yr.

[China] *Nine Dragons Paper* unveiled plans to expand its production of cartonboard and containerboard from 3.3 million t/yr to 7.15 million t/yr over a two-year period. In 2007 the company will bring five new paper machines online, and proceed with the rebuilding of another. Shortly thereafter, the company intends to augment its line with the addition of four more machines. In related news, China's second leading containerboard producer *Lee & Man* plans to build six new machines between 2007 and 2008, thus doubling its capacity to 4 million t/yr. North American containerboard exporters fear this will create a glut in supply and drive down prices.

[Scotland] *Forscot* has had to revise the master plan of facilities that were intended for its site in Invergordon. Though the company still intends to carry out the construction of a 550,000t/yr NBSK pulp mill, as well as a sawmill and biomass power plant, a shortage of funding has forced the Scottish group to drop its plans to include a 420,000t/yr mechanical paper mill at the site. The revised cost of the project is estimated at \$1.3 billion.

[South Africa] *Nampak* has plans to double the size of its 50,000t/yr recycled containerboard plant in Rosslyn with the addition of a second-hand machine purchased from *SCA* following the closure of its mill in Grenaa, Denmark. Building and installation work are set to begin in the first quarter of 2007, although the PM is not expected to reach full capacity until 2010.

[China] *APP China* has unveiled plans to build a pulp and paper mill at a greenfield site in Guangxi province. This project calls for the construction of a 300,000t/yr BCTMP mill and a 600,000t/yr cartonboard facility. The projected cost of this undertaking is pegged at \$1 billion, and start-up is intended for 2008.

[China] *Shandong Chenming Paper Holdings* has started work at a greenfield site for a 700,000t/yr pulp plant in Zhanjiang city, Guangdong province, China. Start-up is scheduled for 2008. The company is trying to secure 200,000 ha of land for a eucalyptus plantation.



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Implementation Phase

[Sweden] *Stora Enso* has begun a revamp of the 125,000 t/yr cartonboard PM2 at its mill in Fors. A new headbox is being installed this month, and a new winder will follow in 2007. The net result of these improvements will be to increase the unit's folding boxboard capacity by 13,000t/yr.

[Brazil] *International Paper (IP)* confirmed that construction has started on a 200,000t/yr uncoated woodfree paper mill and a 1.1 million t/yr pulp mill in Tres Lagoas, the total cost of which has been evaluated at \$1.15 billion. Once completed, these mills, along with the surrounding 100,000 hectares of land, will be swapped for *Votorantim Celulose e Papel's* Luiz Antonio pulp and uncoated paper mill.

[Spain] *Sofidel* has brought a new 30,000t/yr tissue paper machine on stream at its greenfield tissue plant in Buñuel. Output is converted into handkerchiefs, napkins, toilet paper and kitchen towels on new converting lines at the site. The cost of the project was \$113 million.

[Chile] *CMPC* produced its first bale of BEKP on the Santa Fe mill's new fiber line in December. The \$745 million 780,000t/yr fiber adds to the mill's existing 380,000t/yr bleached hardwood kraft pulp line.

MERGERS, ACQUISITIONS & PLANT CLOSURES

[Sweden] *Errarp Innovation* purchased *Klippan's* tissue and specialty paper mill on December 1st. This mill, which houses three machines having a total capacity of 60,000t/yr, had been shut down since mid-July 2006 following *Klippan's* bankruptcy announcement. Operations resumed at the mill on December 4th, 2006.

[Quebec] *Cascades* bought out *Domtar's* 50% stake in *Norampac* for approximately \$500 million. *Norampac* operates seven containerboard mills with an annual production capacity of 1,15 million t/yr, as well as 26 corrugated packaging plants located throughout North America. This deal reflects the business strategy pursued by each firm, with *Cascades* choosing to focus its activities in the packaging and tissue sector, and *Domtar* maneuvering to obtain a larger share of the uncoated freesheet market, a goal it intends to realize with the proceeds from the sale.

[Norway] *Norske Skog* plans to transfer a paper machine from the recently idled Union mill to its Pisa facility in Brazil. This machine has the capacity to manufacture 150,000t/yr of standard newsprint, and will be dismantled and shipped once approval is granted by Brazilian authorities. Meanwhile, the company seeks to auction off the Union mill's other paper machine, which has the capacity to produce 90,000t/yr of book paper and improved newsprint.

[Finland] Having received approval from the European Commission, *Metso Corporation* is set to complete its acquisition of *Aker Kvaerner's* pulping and power businesses for the approximate sum of \$450 million. As part of the deal, *Metso* must divest itself of certain overlapping businesses to ensure that antitrust laws are respected. For this reason, the Canadian firm *GL&V* will be acquiring some of *Metso's* business units in 2007.

[Saskatchewan] Indonesian-based Sinar Mas Group's *Asia Pulp&Paper (APP)* subsidiary has purchased the Meadow Lake facility for \$37.5 million. The previous owners of this 325,000t/yr BCTMP mill, *Millar Western* and *Investment Saskatchewan*, had placed the mill under bankruptcy protection in December 2005. *APP* has promised to maintain the mill's operational status for a minimum of five years.

[Ontario] *Tembec* has announced that operations at its Smooth Rock Falls mill will be permanently shut down. The 200,000t/yr NBSK mill had been closed since July 2006. The age of the mill, its scale, as well as the high costs of fiber and labour were all cited as factors contributing to this decision.

[Finland] *Stora Enso* subsidiary *Keräyskuitu* has closed its 70,000t/yr deinked pulp (DIP) mill in Kotka, Finland, due to a lack of domestic demand. A spokesperson said that demand for DIP in China, India and Indonesia is high, but transport costs make it too expensive to export.

[Finland] *Stora Enso* has closed PM1 at its Varkaus plant because it was old and no longer competitive. The company has not yet decided whether to sell the 85-year-old 95,000t/yr coated fine paper machine in its entirety, or as scrap metal.



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PRODUCT PRICE SUMMARY (US\$)

Product	Units	1995	2000	2003	2004	2005	2006	2007E	Current Price	Comments
NBSK Pulp (N.E.)	m. ton	880	680	525	617	611	680	680	730	Flat
BEKP (Europe)	m. ton	867	652	502	526	587	642	640	667	Rising
Newsprint	m. ton	670	565	503	547	610	670	685	665	Falling
Uncoated Freesheet	sh. ton	990	755	628	676	727	825	800	840	Falling
Light Weight Coated	sh. ton	1,226	1,065	829	859	997	985	1,000	945	Falling
Linerboard	sh. ton	510	470	421	468	478	550	565	565	Flat
Lumber #2&Btr.	Mbf	250	295	278	394	353	300	300	247	Rising
OSB	Msf	245	205	380	369	319	220	180	150	Falling
Canadian Dollar	US\$	0.73	0.67	0.72	0.77	0.83	0.88	0.89	0.85	Falling

E= estimated

