KSH Consulting

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Forest Industry News

NEW PROJECTS ANNOUNCED

Planning Phase

(UK) SAICA has signed a 250-year lease on the site of a planned 400,000 tonne/a lightweight board plant in Greater Manchester, northern England. Construction of the facility was set to start last December 2008, with production to begin mid-2010. The firm opted to delay the project and look for lower-cost deals from equipment suppliers in view of the sharp decline of some raw materials prices over 2008. (PPI Europe, May 07, 2009).

(Uruguay). Stora Enso and Chile's Arauco are set to take over Ence's industrial project in Punta Rereira, Uruguay, which may include the construction of a new eucalyptus pulp mill. The two firms have agreed to snap up 130,000 ha of owned land and plantations, as well as 6,000 ha of leased lands and other operations from Ence in central and western Uruguay. The transaction is valued at US$344 million, including US$33 million of assumed debt. The sale means that Ence will not be building a greenfield 1 million tonne/a bleached eucalyptus pulp mill in Punta Pereyra, Colonia. (PPI Europe, May 20, 2009)

(Uruguay). Arauco plans to proceed with the construction of a new Greenfield pulp mill in Uruguay as part of its new joint venture with Stora Enso. According to Arauco, the new pulp mill will have a capacity of 1.5 million tonnes/a. However, the location of the mill still has not been decided. (PPI Europe, June 11, 2009) (PPI Latin America, June 10, 2009)

(Russia) Segezha Pulp and Paper, a subsidiary of Investlesprom, is taking steps toward the construction of a new pulp facility at its site in Karelia, northwest Russia. The government of Karelia gave its approval for the "Polar Bear" proposal late last year, and Pöyry has been awarded a Euro 6 million contract (US$ 8 million) to carry out the engineering services and planning necessary for Segezha to get the requisite building permits. The work is slated to wrap up by mid-2010. The Polar bear project envisions the construction of a new 850,000 tonne/a bleached kraft pulp mill, with its production split between 1/3 hardwood and 2/3 softwood. The work will include a new wood room, fiberline, pulp dryer, recovery island and power plant. According to the Karelian government, bleached pulp production at the Segezha mill may pave the way for an expanded finished product range there, including bleached sack kraft and cartonboard. (PPI Europe, June 4, 2009)

(Russia) Russia's regional authorities apparently plan to build a greenfield pulp mill in Mogochin, near Chita in eastern Russia. Russian firm Polyarnaya will invest some Rouble 28.6 billion (US$923 million) in the construction of a 400,000 tonne/a unbleached market pulp mill between now and 2016. The project, which was initially unveiled by the Russian government in 2005 and arose out of discussion on a greater cooperation between the Chita region and the neighbouring Heilonhjiang province in China, was scheduled to be completed sometime in 2008. (PPI Europe, June 18, 2009)

(Russia) UPM and Sveza's plans to build a greenfield pulp mill and sawmill in the Vologda region of northwest Russia, have been pushed back due to the current economic climate. UPM was not able to say when the project will advance. In 2007, UPM teamed up with the Russian Sveza Group to form a joint venture, with each party holding 50% of the share capital. The companies intended to start-up an 800,000 tonne/a pulp mill, a 300,000 tonne/a sawmill and a 450,000 m^3/a oriented strand board building panels facility by 2012. (PPI Europe, June 25, 2009).

(China) Shandong Chenming Paper Holdings is to invest in three new machines, spanning fine paper, tissue and linerboard, for installation at its Shouguang mill in Shandong province, China. The first comprises a 600,000 tonne/a white top liner machine. This will be supplied by Voith Paper and is scheduled for start-up in February 2011. The scheme is expected to cost RMB 2.6 billion (US$ 380 million). The second project is a 800,000 tonne/a coated woodfree machine. This will be supplied by Metso Paper and is targeted to come on stream in May 2011. The investment is set to cost RMB 5.2 billion. Lastly, the company also plans to branch out into the tissue paper sector. The company has placed preliminary orders with Andritz for a machine and with A Celli for a new winder. The PM will have a width of 5.6 m, a speed of 2,000 m/min and a capacity of 60,000 tonnes/a. The cost and start-up date are not yet available. (PPI Asia, June 22, 2009)

(Brazil) According to the governor of Brazil's Mato Grosso state, André Pucinelli, Potucel Soporcel is studying the possibility of building a greenfield mill in South America. Votorantim Celulose e Papel (VCP) has started up a 1.3 million tonnes/a pulp mill last March in Très Lagaos, Mato Grosso do Sul state. The state has good chances to host another pulp facility. According to the governor, Portucel can possibly make a favorable decision within 90 days. (PPI Latin America, June 24, 2009)

(USA) Sappi, the world's largest coated papermaker by capacity, is advancing a plan for a new paper machine at the company's 330,000 tons/a integrated pulp and paper mill at Cloquet, MN. If done, the project would boost the mill's coated paper production three-fold to more than one million tons annually. Analysts are intrigued because at its centerpiece would be one of the largest coated paper PMs in the world and one that may produce triple coated paper. Cloquet's 670,000 tons/a machine would be by far the biggest in North America and right up there with the biggest in the world. Analysts put the likely capital cost of such a PM as "north of US$500 million". However, some analysts are skeptical of the project's chances because of the forecasted declines in the coated paper market in North America. (Pulp & Paper Week, May 8, 2009).

Implementation/Start-up Phase

(Israel) Hadera Paper's installation of a new recycled containerboard machine at its mill in Hadera, Israel has been delayed until early next year. Parts of the machine, provided largely by Voith, with a new old corrugated container (OCC) line and winder coming from Metso, are already arrived on site. The 230,000 tonne/a unit was originally slated to start-up in mid-2009. The company refused to comment on the reason for the delay. (PPI Europe, May 14, 2009)

(Germany) Papierfabrik Palm has inaugurated a new power plant at its mill in Wörth, Rhineland-Palatinate, in Western Germany. The unit was officially opened at a ceremony on April 27, 2009. The plant can generate 55 MW of power and produces electricity and steam for the recycled containerboard mill. The project cost Euro 100 million (US$135 million) and has made the mill self-sufficient in energy. The facility houses the world's largest containerboard machine, PM6, which has a design capacity of 600,000 tonnes/a and a design speed of 1,800 m/min. (PPI Europe, May 14, 2009).

(Sweden) SCA has brought on stream a new 600 tonne/day thermomechanical pulp (TMP) line at its Ortviken plant in Sweden. Metso installed the new unit, which is set to reach full capacity in July 2009. The supplier is also providing the new line with a MultiSimplex process optimization control system. The system's main task is to control the quality and is also said to enable 5-10% lower energy consumption. The Orviken mill has five other TMP lines, which have a total capacity of 2,100 tonnes/day. The mill's annual capacity will rise from 750,000 tonnes to 965,000 tonnes, following the latest addition. (PPI Europe, June 11, 2009).

(Germany) Progroup is moving forward with the construction of a greenfield corrugating materials facility in Eisenhüttenstadt, eastern Germany. According to the firm's spokesperson, Metso Paper has already started delivering parts of the new plant, which include a stock preparation line, a 650,000 tonne/a paper machine and a winder. Installation works are scheduled for July 2009. Trial runs on the new unit are set to start in January, with commercial production to follow in mid-March 2010. The plant will manufacture recycled containerboard in the 70-130 g/m^2 basis weight range. Most of the production will be consumed by the firm's converting facilities. The rest will be sold to the European market. (PPI Europe, June 18, 2009)

(China) APP China has resumed construction work for a new 1 million tonne/a fine paper machine, PM2, at its mill on the Chinese island of Hainan. Banks recently agreed to provide loans for the project. Further details such as the amounts involved are not available at present. The group subsequently resumed construction work for PM2 in March 2009. All the equipment (Voith) has now been delivered to the site. The machine has a wire width of 10.96 m and a design speed of 2,000 m/min. Output will comprise coated and uncoated woodfree paper. The unit will be integrated with the facility's 1.2 million tonne/a bleached hardwood kraft pulp line. However, the group has not decided on the machine's start-up date, but the machine is likely to be commissioned next year. The Group has no plans now to finalize the order with Voith for another 1 million/a fine paper machine, PM1, for the Hainan mill. This project remains on the backburner indefinitely. (PPI Asia, May 4, 2009).

(China) Shandong Chenming Paper Holdings has unveiled plans to install a 450,000 tonne/a fine paper machine at a greenfield mill in Zhanjiang city, Guangdong province, China. The project will cost total RMB 1.67 billion (US$245 million). The firm is negotiating with several foreign suppliers for the 7.89 m wide PM. Construction work is tentatively scheduled to begin in October 2009, with completion expected within 18 months. The company plans to build a 1 million tonne/a bleached hardwood kraft (BHK) pulp line at the Zhanjiang site. The new PM will be integrated with the pulp line when they both come on-stream. (PPI Asia, May 4, 2009)

(China) Hebei Yongxin Paper has brought a 400,000 tonne/a recycled containerboard machine on-line at its mill in Tangshan city, Hebei province, China. The unit, which has a wire width of 6.2 m and a design speed of 1,100 m/min, was supplied by Andritz. The Austrian firm also provided the stock preparation system. Hebei Yongxin uses mainly top quality old corrugated containers (OCC) collected domestically as furnish for the new machine. But it also plans to import around 15,000 tonnes of OCC per month from the USA. (PPI Asia, May 4, 2009)

(China) Oji Paper is forging ahead with the construction of its greenfield pulp and paper plant in Nantong city, Jiangsu province, China. The group is scheduled to kick-off trial runs on the facility's first machine, the 400,000 tonne/a coated fine paper PM1, in May next year. Oji is erecting a power plant at the site, which will have two coal-fired boilers and two 40 MW generators. PM1 is also under construction. The 8.2-m-wide machine will be supplied by Voith Paper, which will build the complete production line from the stock preparation to the winder. Oji will subsequently install 700,000 tonne/a bleached hardwood kraft (BHK) pulp line at the mill, making it an integrated facility, as well as a second 400,000 tonne/a coated woodfree paper machine. The BHK line is due to start-up in 2011, while PM2 is penciled in for start-up in 2015. (PPI Asia, May 18, 2009).

(Brazil) Après one month of operation, Votorantim Celulose e Papel (VCP)'s Très Lagoas mill is already producing pulp for commercial sale. The first shipment, with 6,400 tonnes of pulp, was directed to the USA at Port Manatee in Florida and Lake Charles in Louisiana. Currently, the mill is operating on its learning curve and has reached a capacity of 3,000 tonnes/day. The mill has a capacity of 1.3 million tonnes/a of bleached eucalyptus kraft pulp. VCP expects the plant to run at full capacity in 2010. VCP invested a total of US$1.5 billion in the Horizonte project, including the pulp facility and 200,000 ha of forests – 140,000 ha of eucalyptus plantations and 60,000 ha of preserved areas. (PPI Latin America, May 6, 2009).

MERGERS, ACQUISITIONS & PLANT CLOSURES

(Germany) M-real discontinued standard coated woodfree paper production at its Hallein and Gohrsmühle mills, located in Austrian and Germany, respectively, at the end of last month. The closures take 600,000 tonnes of annual coated fine paper capacity out of the market. These capacity shuts follow the recent sale of M-real's coated graphic business to the South African producer Sappi, which was finalized earlier this year. (PPI Europe, May 07, 2009)

(UK) SCA is set to close its 260,000 tonne/a recycled containerboard New Hythe plant located in Kent, UK. This was originally scheduled for mid-2010. Production at the mill stopped on May 14, 2009 while the facility was set to close on June 30, 2009. Some 130 employees will be made redundant as a result of the closure. (PPI Europe, May 28, 2009).

(Europe) The European Union (EU), together with some major pulp-making nations, Brazil, Canada and Chile, is urging the USA to close a loophole in the federal law that allows paper companies to benefit from tax credits intended to encourage the use of biofuels by the transport sector. Private-sector estimates project that these companies could receive up to US$8 billion in 2009 alone. Some companies claimed credits that amount to approximately 30% of the selling price of pulp. Non-US pulp manufacturers believe that the tax credit is providing a significant incentive for US producers to overproduce at a time when many suppliers around the world are operating at significant reduced capacity-utilisation rates as a result of the economic downturn. (PPI Europe, May 28, 2009)

(Russia-EU) Russia did not lift its threat of steep hikes in duties on certain roundwood timber exports to the European Union (EU) at a summit with top European officials in the Siberian town of Khabarovsk on May 21-22, 2009. The new tariffs, originally envisaged to come into force in January this year, were postponed until January 2010, but still carry the potential to halt trade completely if imposed. They are set to increase from Euro 15/m^3 to Euro 50/m^3. Political analysts have linked the timber duties crisis to Russia's plans to build a new natural gas pipeline under the Baltic Sea to Germany. Finland, a major importer of Russian wood, must give environmental clearance for the pipe to pass through its territorial waters. With Helsinki's decision on the pipeline due later this year, the wood tariffs threat gives Russia extra leverage in the debate. (PPI Europe, May 28, 2009).

(Europe) Norske Skog has announced plans to reduce the workforce across all its divisions, leading to the loss of some 600 positions worldwide, or 9% of its global workforce. The reductions will mainly affect European operations. The company blamed the declining global demand for newsprint and magazine paper, due to lower advertising volumes and structural changes, for the new cost cutting measures. (PPI Europe, June 18, 2009).

(China) The Chinese government has boosted the amount of pulp and paper capacity it has targeted for closure over the next few years by 1 million tonnes. It is now aiming for 7.5 million tonnes to be shutdown by 2011. The decision was taken in a bid to get rid of inefficient, outdated pulp and paper plants across the country, to reduce pollution, conserve water resources and save energy. As part of its policy of mandated closures, in 2007, the Chinese government ordered the shut of all non-wood pulp lines with an individual capacity of 34,000 tonnes/a or less. In addition, hundreds of small mills were forced to shutdown in the run-up to the summer Olympic Games held in Beijing last year. According to China's National Development and Reform Commission (NDRC), a total of 5.47 million tonnes of capacity has been closed by the end of 2008. (PPI Asia, May 18, 2009)

(Chile) Chile' Empresas CMPC on March 16, 2009 permanently ceased production of its Laja pulp mill line 1, located in Santiago, Chile, which produces approximately 110,000 tonnes/a of bleached softwood Kraft pulp. According to the company, the decision was a response to the weak market conditions worldwide. In a statement, CMPC said that it had to dismiss 150 employees and 120 workers from third parties. (PPI Latin America, June 3, 2009)

(Brazil) Aracruz and Votorantim Cellulose e Papel (VCP) in the first half of July 2009 will announce the new name of the company formed by their Real 5.4 billion merger. According to Brazilian newspaper reports, their name has not been decided yet, but it will probably exclude the Aracruz brand. Currently, the companies are deciding on the new board composition. The new company's strategic decisions might be concentrated in the São Paulo head quarters. At the end of April, VCP completed the acquisition of a total of 255 million shares of Aracruz, assuming 84.09% of its control. (PPI Latin America, June 24, 2009).

(Canada) The Canadian government recently announced C$1 billion in funding to aid the country's pulp and paper industry and counter the US alternative energy tax credit being used by kraft pulp mills that could amount to US$6 billion in financial benefits this year. Companies that qualify for the funding are to spend the money over the next three years on improving "energy efficiency and environmental performance" at their pulp or paper operations in Canada, a government statement said. However, Canada's largest P&P union, the Communications, Energy and Paperworkers Union of Canada, railed against the Canadian federal government because it does nothing for workers. The money cannot be used to lower the price of the production of pulp, and make the industry more competitive with the USA. The funding for US kraft pulp producers averages about US$130/ton (or $US140/tonne), US$494 million/month, and US$5.925 billion for 2009 based on PPI Pulp & Paper Week estimates. (PPI P&P Week, June 19, 2009)

(USA) The third US paper maker since January 2009 - Caraustar Industries – filed for Chapter 11 bankruptcy protection on Monday June 1st, 2009 unable to pay off US$190 million in debt. A total of 83% of note holders owed the $190 million agreed to Caraustar's reorganization package that must be approved by a bankruptcy court judge in Georgia. The plan turns the company private with the new majority shareholder, the Minnesota-based Wayzata Investment Partners, which in the last year did two other deals in the North American pulp and paper industry. In January 2009, Smurfit-Stone Container, North America's second largest containerboard and corrugated producer, filed Chapter 11 and AbitibiBowater, North America's largest newsprint producer, file Ch. 11 in April. (Pulp & Paper Week, June 5, 2009).

(USA) The new owners of Tembec's former pulp and paper mill in St. Francisville, LA, Pan American Group (PAC), hope to restart the idle facility as early as July 2009, but are not disclosing what it will produce for competitive reasons. However, speculation in the industry is that the manufacturing mix will include packaging grades, possibly containerboard. A contact close to the project noted, "there were compelling reasons to restart the mill sooner" – a possible reference to the black liquor tax credits that the US kraft pulp producers can currently claim from burning a mix of diesel and black liquor. (Pulp & Paper Week, June 12, 2009).

(USA) Fraser Papers became the fourth North American pulp and paper producer this year to file for bankruptcy protection, citing weak pulp and lumber markets, and high debt and pension payments. It said paper operations would not be impacted by the bankruptcy and noted that its specialty packaging and printing units were profitable. The filing came a day after the Canadian government announced C$1 billion black liquor funding program for pulp and paper mills that make energy efficiency and environmental improvements. (PPI P & P week, June 19, 2009).

(USA) Kimberly-Clark (K-C) said it would cut about 1,600 of its 53,000 jobs in 37 countries by the end of the year to accelerate cost reductions and boost efficiency and effectiveness. The layoffs will come from all regions and business segments of K-C's global operations and will primarily affect salaried and non-production jobs. K-C does not plan to close any of its manufacturing facilities as part of the streamlining. (PPI P & P week, June 26, 2009).

PRODUCT PRICE SUMMARY (US Dollars)

Product	Units	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	Current Price
NBSK Pulp (N.E.)	m. ton	462	525	617	611	681	800	839	628	706	630
BEKP (N.E.)	m. ton	458	502	520	587	642	707	782	516	576	520
Newsprint 48.8 g/m^2 (US East)	m. ton	465	503	547	610	668	585	695	558	560	495
Uncoated. Freesheet No.3 Offset 50 lb (US)	sh. ton	692	628	676	727	815	832	912	851	832	840
LWC 34 lb (US)	sh. ton	867	829	859	997	978	923	1,085	937	922	930
Linerboard 42 lb (US East)	sh. ton	391	371	418	428	488	517	569	536	473	540
Lumber #2&Btr. (W-SPF 2x4, FOB)	Mbf	270	278	394	353	296	250	220	168	198	170
OSB 7/16" (N-C US)	Msf	160	380	369	319	218	160	171	158	175	148
Canadian Dollar	US$	0.64	0.72	0.77	0.83	0.88	0.94	0.937	0.810	0.840	0.865

E = estimated

Sources: RISI Monthly Commentaries (June 30, 2009), Wood Markets Monthly (May 2009) & Economic Outlook RISI (June 5th, 2009) and spot rate of June 30th