



September 2005

Forest Industry News

Hurricane Katrina slammed an important region of the Gulf Coast paper and forest products industry, idling paper mills and sawmills, destroying timberlands, and snarling the supply chain system in the region, following the devastating storm, which struck Louisiana and southern Mississippi and Alabama on Aug. 29, 2005. Most mills were spared major damage, and industry employees were generally reported safe, with no casualties at operations, yet dislocation for residents made it difficult for workers to return to mill jobs.

Louisiana Forestry Assn., says LA may have sustained \$600 to \$700 million in timber damage from Hurricane Katrina.

U.S. Department of Agriculture Forest Service reported that Hurricane Katrina damaged or destroyed approximately 19 billion board feet of timber estimated at a value of \$5 billion in Mississippi, Alabama and Louisiana.

The International Woodfibre Report estimates losses at \$12 billion to the industry.

Georgia-Pacific announced it would reopen two previously idled wood products plants in Mississippi that would benefit from damaged timber supplies and building material demand.

NEW PROJECTS ANNOUNCED

Planning Phase

West Coast Paper Mills, India has unveiled plans to build a greenfield pulp and paper mill adjacent to its existing plant in Dandeli, in the southern province of Karnataka. The company is in talks with potential foreign and domestic suppliers for the Rupee 8.2 billion (\$187 million) project, which comprises a 100,000 t/a fine paper mill and a 150,000 t/a bleached hardwood kraft (BHK) pulp plant.

Scott Paper is investing in an expansion project at its KTG LP mill in Memphis, TN. The first of the two investments will cost \$10 million to speed-up two machines already in operation at the mill, increasing the mill's production capacity by 10,000 t/a in Q1 of 2006. A second investment of \$20 million U.S. will see the rebuild of an idle paper machine, a project that when completed will add 37,000 tonnes of capacity in 2007.

Unnamed Finnish Company is looking to build a 400,000 t/a greenfield newsprint plant in India, according to the country's Central Pulp and Paper Research Institute (CPPRI). The agency's director A.G. Kulkarni told Paperloop that CPPRI is assisting the Finnish firm with the preparation of a feasibility study for the US\$250 million investment.

Heinzel Group is to install a new 300,000 t/a bleached kraft paper machine at its Zellstoff Pöls mill in northern Styria, central Austria.

Stora Enso is buying land in Uruguay and southern Brazil with the aim of building up 100,000 ha of plantations in each country. This would provide enough fiber to feed a modern greenfield pulp mill in both Brazil and neighbouring Uruguay. Stora Enso has also made preliminary plans to build a second eucalyptus fibre line at the Veracel Pulp Mill in Brazil.

Implementation Phase

Smurfit-Stone Container Corporation has opened its new Smurfit-MBI corrugated container plant located in Milton, Ontario. With 100 employees, the new 250,000 square foot plant specializes in the production of corrugated packaging solutions. Construction of this facility was completed in April, and commercial production started in May 2005.

Metsä Tissue, Berlin has brought a new tissue machine online at its Kreuzau mill in western Germany. The firm dismantled its 17,000 t/a PM 1 at the end of May and installed the new 100 t/d OverMeccanica machine in its place. The Kreuzau mill has three other tissue machines with a combined capacity of 112,000 t/a.

International Paper has restarted the cartonboard machine, PM 4, at its Kwidzyn mill in Poland following \$80 million rebuild work to increase the unit's capacity from 160,000 t/a to 210,000 t/a and to improve print performance.



Unipak Tissue Mill, Beirut has started commercial production on a new 15,000 t/a tissue machine at its plant in Halat, Lebanon. The unit, PM 2, is expected to produce some 3,000 tonnes of tissue this year, based on 100% virgin fibre. The 2.7 m wide machine was supplied by Recard and has an operating speed of 1,200 m/min.

Dongguan Jianhui Paper has brought a new 300,000 t/a white-lined chipboard (WLC) machine online at its mill in Dongguan city, Guangdong province, China.

MERGERS, ACQUISITIONS & PLANT CLOSURES

Abitibi-Consolidated Inc. announced that it has concluded a share purchase agreement with Norske Skog pursuant to which ACI will divest its 50% share ownership in Pan Asia Paper Company Pte Ltd. for a cash consideration of US\$600 million, plus a cash purchase price adjustment of up to US\$30 million depending on the achievement of certain financial performance objectives in 2006. This price represents a total enterprise value of approximately US\$1.85 billion for PanAsia. The transaction is conditional upon the approval of certain elements by the Corporate Assembly as well as the shareholders of Norske Skog and competition authorities. This transaction will reduce ACI's net debt level by more than C\$1 billion.

Norske Skog have reached an agreement whereby it will acquire the 50% shareholding in PanAsia Paper Company held by Canada's Abitibi-Consolidated. This will make Norske Skog the sole owner of PanAsia, and will become the world's largest manufacturer of newsprint through the acquisition, with 30% of its newsprint capacity located in Asia.

UPM, Helsinki is planning to shutdown two kraft paper machines at its Kymi mill in Kuusankoski, southeast Finland, at the end of the year, representing some 20,000 tonnes/yr of bleached machine-glazed kraft papers.

Norampac announces the permanent closure of PM 1 at its linerboard mill located in Red Rock, Ontario. This mill currently has two paper machines. Machine No. 1 was used to manufacture kraft linerboard and was producing approximately 150,000 t/a.

Papier Masson and its integrated one paper machine newsprint mill at Gatineau, Que., are on the block with BMO Nesbitt Burns, the investment arm of the Bank of Montreal.

The **Ontario Government** announced an assistance package targeted at the provincial forest industry, which is worth \$330 million over the next five years. The financial community does *not* believe the package will have a meaningful impact on those companies with significant assets in the province (Tembec: Marathon, Smooth Rock Falls, Kapuskasing; Domtar: Espanola, Cornwall; Cascades: Provincial Papers in Thunder Bay; Norampac remainder of Red Rock; Neenah Paper)

PRODUCT PRICE SUMMARY (US\$)

Product	Units	1995	2001	2002	2003	2004	2005E	2006E	Normalized	Current Price	Comments
NBSK Pulp (N.E.)	m. ton	880	547	462	525	617	615	655	630	585	Flat
BEKP (Europe)	m. ton	867	485	458	502	526	568	550	576	587	Falling
Newsprint	m. ton	670	585	465	503	547	605	650	605	625	Flat
Uncoated Freesheet	sh.ton	990	715	692	628	676	735	770	700	700	Falling
Light Weight Coated	sh.ton	1,226	1,017	867	829	859	995	1,060	1,015	1,010	Falling
Linerboard	sh.ton	510	444	427	421	468	475	490	450	445	Flat
Lumber #2&Btr.	Mbf	250	286	270	278	394	345	305	310	355	Flat
OSB	Msf	245	159	160	380	369	285	225	205	410	Rising
Canadian Dollar	US\$	0.73	0.65	0.64	0.72	0.77	0.81	0.82	0.79	0.85	Falling

E= estimated