



March 2007

Forest Industry News

NEW PROJECTS ANNOUNCED

Planning Phase

[USA] The *U.S. Department of Energy* has announced that it will invest up to \$385 million for six biorefinery projects over the next four years, whose annual output is expected to surpass 130 million gallons of cellulosic ethanol. These projects form an integral part of the Biofuels Initiative that will lead to the wide-scale use of non-food based biomass, such as agricultural waste, trees, forest residues, and perennial grasses in the production of transportation fuels, electricity, and other products.

[South Africa] *Rottneros* and the *NCT Forestry Cooperative* have signed a letter of intent to build a 140,000 t/yr bleached chemi-thermomechanical pulp mill in Richards Bay. Should a final agreement be reached, Rottneros would then be in a position to relocate the CTMP line from its Utansjö mill in Sweden, where rising electricity prices have greatly increased the cost of mechanical pulp production. A \$143 million investment would be required to set up the mill, whose output would principally be destined for the European and Asian markets.

[Finland] *Neste Oil* has signed an agreement with *Stora Enso* to join forces in developing technology for the production of biofuels from wood residues. The first step will be to design and build a demonstration plant at *Stora Enso's* Varkaus Mill in Finland. The \$18.7 million plant is expected to start-up in 2008 and will produce heat and electricity for use locally and crude biodiesel to be refined into commercial fuel at *Neste Oil's* refinery in Porvoo.

[Idaho] *Boise Packaging & Newsprint* will spend \$22.6 million for the addition of a shoe press on the D-1 linerboard machine at its packaging and newsprint mill in DeRidder. The shoe press is expected to be installed by spring of 2008.

[Ontario] The *government of Ontario* has decided to invest \$5.2 million in the *BioAuto Council*, a group that is working to link agriculture and forestry with the chemical and plastics. Opportunities are believed to exist in fine chemical manufacturing using lignin and hemicellulose from trees and enhanced biofibre production for use in composite materials and as a replacement to fiberglass. These materials could then be supplied to auto-parts manufacturers and auto assemblers.

Implementation Phase

[Quebec] *Quebecor World* will fast track the last phase of its three-year press and plant retooling program, completing it by the third quarter of this year, when US publishers and retail customers kick into their busiest publishing period of the year. Thus, the start-up of six new presses and the relocation of 14 web presses will likely be complete by July or August 2007 rather than in 2008.

[Ontario] *Abitibi-Consolidated* has announced an investment of \$84.3 million towards a new biomass energy generator at its Fort Frances pulp and paper mill. Construction is scheduled to begin in the summer of 2007, and the generator is anticipated to be in operation during the fall of 2008. The equipment will use renewable, cost-effective fuel from wood waste to generate steam and 45.5 MW of electricity for the mill. The *Government of Ontario* provided a grant of \$22.5 million to the project through the Forest Sector Prosperity Fund.

[North America] *Flakeboard* and *Metso* have signed a license agreement regarding the installation of dry-resin blending technology at *Flakeboard's* medium density fiberboard (MDF) plants in North America. This mechanical resination technology is based on dried fiber moving through two rollers, which accelerate and disintegrate the fiber flow before the resin is sprayed onto the fiber. By implementing this technology, *Metso* expects savings up to 50% in resin consumption when manufacturing standard MDF, without sacrificing any of the benefits of traditional blow line blending.

[Brazil] *Jari Celulose* is carrying out a major overhaul at its pulp mill in Monte Dourado. The company aims to raise the mill's bleached hardwood kraft pulp capacity from 370,000 to 410,000 t/yr. To this end, a new concentrator and a superficial condensate system will be installed, while the existing heaters will be revamped. Furthermore, the dryer will be equipped with new radiators and more powerful fans. The mill's lime kiln performance will also be improved through the addition of a new mud filter and a vacuum bomb, while new showers will be installed for the chemical washing filters.

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[Germany] *Papierfabrik* is performing trials on a corrugator at its new \$120 million converting plant in Wörth. Commercial production of this 250 million m²/yr unit is scheduled to begin next month.

[Jordan] The *Nuqul Group* is preparing to install a 54,000 t/yr tissue machine at its new Al Snobar Hygienic Paper mill in Amman. The 2,000 m/min machine is being installed at a facility that also boasts of a cogeneration plant, a converting facility as well as an aluminum plant and a food plant. At \$20 million, the price of the PM represents less than a quarter of the whole project's cost.

[Finland] *Stora Enso* has contracted *ÅF* to provide engineering services for a paper machine rebuild at its Varkaus mill. The \$73 million investment will boost the unit's uncoated fine paper capacity from 220,000 to 315,000 t/yr.

[China] *Shandong International Paper & Sun Coated Paperboard* has ordered a coated board line with a capacity exceeding 400,000 t/yr, the value of which is estimated at \$80 million. This advanced production line will contain a complete 3-ply coated board machine with five coating stations, enabling the production of folding boxboard, art board and liquid packaging board in the basis weight range of 150-350 g/m². The line is expected to come on stream in early 2008.

[United Kingdom] *SITA UK* is set to build a \$21 million integrated waste management facility at a brownfield site in West Sleekburn. The plant will include a materials recycling facility (MRF) and a waste transfer station. The MRF will process 50,000 t/yr of newspapers, magazines, cardboard, cans and plastic bottles. The transfer station will handle some 70,000 t/yr of non-recyclable waste, the bulk of which will be transported to the 'Teesside Energy from Waste' plant, where it will be burned to generate electricity. Building work is due to start later this year.

[California] The *California Debt Limit Allocation Committee* has approved \$100 million in tax-exempt bond financing for *CalAg's* proposed rice straw recycling plant. The CalPlant I project will use recycled rice straw to make formaldehyde-free medium density fiberboard (MDF) as a substitute for existing wood-based products in homes and commercial buildings. By recycling the straw instead of eliminating it via decomposition, *CalAg* estimates it can save 35 billion gallons of water each year and cut methane emissions by 120,000 t/yr.

[Venezuela] Equipment supplier *Dieffenbacher* announced an order for a new Oriented Strand Board (OSB) mill in Southeast Venezuela by the state-owned forestry company *CVG Proforca* and its partner *Petróleos de Venezuela*. The project will include a 200,000 m³/year OSB mill as well as six sawmills with related processing in order to supply wood-based home construction materials. The site is centered on 410,000 hectares of Caribbean pine plantations split between the states of Anzoategui and Monagas.

MERGERS, ACQUISITIONS & PLANT CLOSURES

[Quebec] *Kruger* has announced temporary shutdowns at four of its Quebec sawmills, which produce a total of approximately 400 million board feet annually. The Parent and Gallichan mills will shut down following the Easter break, while the Manic and HCN mills are scheduled for shutdowns in June 2007. The closures will affect more than 1,000 workers.

[Quebec] *Malette International*, a wholly owned subsidiary of *Malette Industries*, has filed a proposal to its creditors under the Bankruptcy and Insolvency Act. Another operating subsidiary of *Malette Industries*, *Malette Harwood Flooring*, has been inoperative since the closure of its plant in Chambly last month. The board of directors is currently reviewing all available options with a view to preserve the value of the business and its assets as it assesses alternatives to satisfy creditors.

[Europe] *Procter & Gamble (P&G)* is selling its Western European tissue and towel business to *SCA*. Included in the transaction are manufacturing assets, *P&G's* Tempo brand in Europe and Hong Kong, and the licensing of Charmin and Bounty trademarks in Europe. The divestiture represents roughly 1% of *P&G's* total sales.

[Alberta] *Tolko Industries* has announced that the closure of its Slave Lake OSB Division is being extended indefinitely. The plant will remain closed until either market conditions for current products improve or value added products are developed. The indefinite closure affects 118 employees. The relatively small scale of this operation, poor market conditions, low prices, and product over-supply are all cited as reasons contributing to this decision.

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[USA] *U.S. Corrugated* is acquiring *Longview Fibre*'s eight corrugated box plants in the eastern U.S. for \$80.7 million. Once the deal is completed, *Longview Fibre*, which is in the process of being acquired by Toronto-based *Brookfield Asset Management* for \$2.5 billion, will be left with seven box plants located in the western U.S., in addition to the 1.1 million t/yr Longview containerboard/kraft paper mill and 588,000 acres of timberland. As for *U.S. Corrugated*, this acquisition will be the latest in a string of deals concluded over the course of the past year, bringing to 24 the number of plants under its control.

[India] *SCA* and *Godrej Consumer Products* have announced the creation of a joint venture for the manufacturing and marketing of absorbent hygiene products, specifically sanitary napkins and baby diapers, in India, Nepal and Bhutan. The joint venture is being set up with an equity capital of \$4.5 million through equal investments by both parents. The new company will immediately have access to the wide distribution network of *Godrej Consumer Products*, whose brands are available in over two and a half million retail stores. For its part, *SCA* will contribute its world leading technology and brands to the Indian market.

[USA] Two tissue makers located in the US South have shutdown their operations and sought protection from their creditors. *Laurel Hill*, which runs a two-PM 46,000 t/yr business in North Carolina, filed for Chapter 11 bankruptcy protection in mid-February 2007. *Augusta Tissue*, located in Georgia, has also declared bankruptcy despite the recent start-up of a new 33,000 t/yr tissue machine. *Augusta Tissue* is currently undertaking actions to separate itself from *Laurel Hill*, which is its lead investor.

[Germany] *Ahlstrom* has shutdown its production of wallpaper base paper at the Nümbrecht plant in Western Germany, citing the facility's general lack of competitiveness as the motive behind its closure. Half of the mill's 10,000 t/yr production will be shifted to the company's Osnabrück mill, also located in Germany.

[International] *Ahlstrom* has signed an agreement to acquire *Fiberweb*'s consumer wipes business. At a price of \$87 million, the acquired business includes four plants, two of which are located in Italy, one in Spain and one in the USA, employing 400 workers altogether. *Fiberweb's* leading pulp-containing wipes technology will allow *Ahlstrom* to introduce additional properties, such as enhanced softness and increased strength, to its wiping fabrics.



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PRODUCT PRICE SUMMARY (US Dollars)

Product	Units	1995	2000	2005	2006	2007E	2008E	Normalized Price	Current Price	Comments
NBSK Pulp (N.E.)	m. ton	880	680	611	681	700	690	655	760	Flat
BEKP (Europe)	m. ton	867	652	587	642	640	644	654	670	Falling
Newsprint	m. ton	670	565	610	668	650	640	635	625	Falling
Uncoated Freesheet	sh. ton	990	755	727	823	800	770	730	810	Flat
Light Weight Coated	sh. ton	1,226	1,065	997	978	940	900	1,000	910	Falling
Linerboard	sh. ton	510	470	478	553	565	550	480	565	Flat
Lumber #2&Btr.	Mbf	250	295	353	296	285	300	320	239	Falling
OSB	Msf	245	205	319	218	180	180	215	138	Flat
Canadian Dollar	US\$	0.73	0.67	0.83	0.88	0.85	0.85	0.85	0.86	Rising

E= estimated

Sources: CIBC World Markets & RISI Info

