PPI PULP & PAPER INTERNATIONAL

By GUNILLA SALTIN

If world population continues to rise at the current rates, there will be a much higher demand for forest products in the future

FIBER MARKETS – A ROLLER-COASTER RIDE INTO THE FUTURE

The pulp market really is like riding a roller coaster; the market today looks completely different from how it looked a year ago. While the short-term perspective is difficult, however, pulp producers do need to look at the long term and there are factors influencing how the market will look in the future, namely demographics, competing materials, economics and energy policy.

Demand for wood products in the future will be heavily influenced by demographics. World population in 2005 was around 6.4 billion but is projected to rise to 7.5 billion by 2020. That means a lot more demand for forest products. Another important factor is that, in the West especially, the number of people living in single households is predicted to increase by 20% by 2030 compared with 2005, which will also have a significant impact on overall fiber demand, from furniture to construction timber and maybe pulp and paper.

THE MOST IMPORTANT DRIVER?

Economics is another key driver. As living standards rise, demand for forest products increases. Competition from other materials will also be an issue: Will it be important to have a low carbon footprint, to have recyclable materials, or will other factors come into play?

Gunilla Saltin, President, Södra Cell AB

Perhaps the most important driver is energy. Wood was historically used as fuel before being replaced by oil and electricity, but this is changing again. Financial incentives encourage the use of wood for fuel, especially in the EU, which is committed to achieving a 20% renewable energy target by 2020, up from 8.5% in 2005. In the future, energy prices will be a factor in setting the price for wood.

The supply of wood, then, is going to be tight. And while rising living standards generate increased demand for forest products, the tendency to look at forests for conservation and tourism also increases as standards improve, removing more forest from production. Forests remain vulnerable to natural attack too, from pests, fires and storms which can all temporarily affect supply.

BIO-FUELS AND ELECTRICITY – A VALUABLE CONTRIBUTION

Against this background, it's vital that forest companies maintain a focus on improving productivity in forest management. In Södra's case, its mission is to deliver value to its 52,000 member forest owners and to see the future as a challenge not a threat, using it to invent and improve. The company looks at productivity from the forest through the mills to customers, adding value to their processes, and focusing on new ways of providing new materials.

Our competitors are increasingly energy producers as well as other pulp suppliers, which is why Södra is also focusing on energy efficiency and aim-

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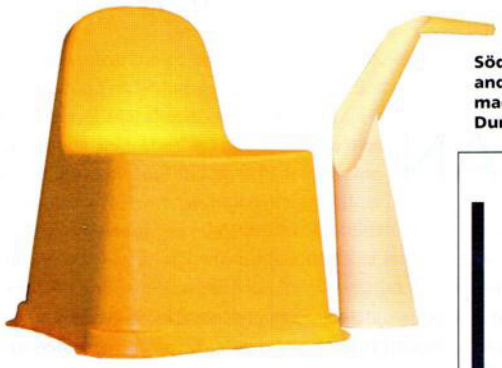

Södra's chair and lamp made from Durapulp

ing for independence from fossil fuels (the Värö mill is already there for day-to-day operations). There's also an opportunity here to enter the energy market as a player – Södra already sells bio-fuel, electricity and district heating which together make a valuable contribution to the bottom line.

Pulp suppliers need to increase productivity for customers by focusing on value-added product development. Södra has 50 people in R&D who work with the mills and customers identifying areas to improve.

New business development is also heavily driven by R&D. By looking at its existing product portfolio and seeing what more can be done, we are starting to ask what else we could do with pulp and its by-products, both to generate new business with existing customers and to create new ones. The chair and lamp made from Durapulp, a brand new composite material made by combining pulp and polylactic acid, are an example. It doesn't mean Södra will become a furniture retailer, but it shows what can be done with pulp, and how pulp mills can use the resources already in place to do things differently, and better, to secure their place in the future.The pulp market of the future is hard to predict but we know it will be difficult to find low cost fiber in the future. PPI

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WHAT'S NEW

Nippon Paper takes steps to reduce waste and enhance recycling

Nippon Paper Industries has taken steps to reduce the amount of waste it generates to help build a recycling-oriented society. The company has confirmed that the granulated ash from burnt paper sludge and coal has weed suppression effects, and plans to develop the business by expanding its range of applications to uses such as at civil engineering work sites.

The Nippon Paper Group has made significant efforts to recycle resources, with a target of recycling 25% or more of the waste generated on the premises into in-house products, thereby reducing the volume of waste ultimately discarded based on the environmental action plan Green Action Plan 2010.

Södra to convert Mörrum pulp line to dissolving pulp

Södra has unveiled plans to convert pulp line 1 at its Mörrum mill in southern Sweden to dissolving pulp production.

Plans for the conversion are already underway, a company spokesperson told PPI Europe. Design plans are in place and orders for equipment will begin soon. Production on the revamped line, which will have a capacity of 170,000 tonnes/yr, is scheduled to commence at the end of 2011.

The company was unable to provide an exact figure for capacity changes at the mill resulting from the conversion, but the spokesperson said that overall production would fall slightly due to technical matters related to the process.

The Mörrum mill currently produces bleached softwood kraft pulp and bleached hardwood kraft pulp on two lines with a total capacity of 445,000 tonnes per year.

Chile's Arauco hikes capex 55% to $700 million

Arauco has authorized a capex of $700 million for 2011, an increase of 55% over its 2010 capex. It will be invested in Arauco's existing pulp, panels and saw timber facilities in Chile and Argentina as well as in forest assets and a future plant in Uruguay. Part of the expenditure will be redirected to the company's new 1.3 million-tonne/yr Uruguayan Montes del Plata bleached eucalyptus kraft (BEK) pulp mill project, which is a 50% joint venture with Stora Enso.

Graphic Packaging undertakes $80M biomass project at Macon, GA, mill

Graphic Packaging International recently announced that it has approved a plan to expand utilization of biomass energy in its Macon, GA, paperboard mill with an estimated cost of up to $80 million. The project, which will include a high-efficiency biomass boiler and a 40-MW turbine generator, will begin immediately.

The objectives of the biomass project are to further the company's sustainability strategy, reduce energy costs and to improve the profitability of the Macon mill in advance of expected increases in electricity costs. The mill currently produces approximately 1,600 tons/day of paperboard.

The company intends to complete the project and begin operations by mid-year 2013.

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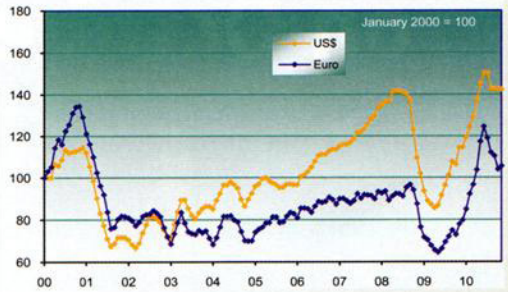
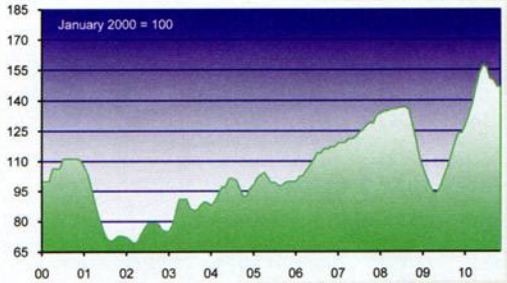
RISI European Pulp Price Index



RISI North American Pulp Price Index



RISI Asian Pulp Price Index