

A ROUNDUP OF INDUSTRY NEWS

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coated paper assets of South African producer Sappi, the resulting company would manage 26% of coated paper capacity in North America.

Sources said there was persistent speculation about Verso and Sappi.

"I wouldn't be surprised if a Verso-Sappi deal isn't done by end of the year, and I fully expect NewPage to shut some coated equipment when they get the Stora Enso deal done," commented one merchant.

"Rumors about Verso buying Sappi have been around for some time, but then so were the rumors that NewPage was going to buy Stora. Those were just quieting down when the (NewPage/Stora Enso) deal was announced," said another contact.

Due to poor profitability, Sappi Fine Papers has closed a combined 190,000 tons of North American capacity in the past three years. The company produces close to 1.3 million tons of paper at four North American facilities in Cloquet, MN, Muskegon, MI, Skowhegan, ME, and Westbrook, ME.

Deutsche Bank analyst Mark Wilde noted recently that Sappi has struggled with global competition. In a presentation at RISI's North American Forest Products Conference in San Diego in October, Wilde's report showed that Sappi's EBITDA margin in 2003-2006 averaged 13.4% compared with an average of 19% in 1999-2002.

Wilde cited both Sappi and Verso as consolidation candidates.

CORPORATE STRATEGY

Domtar counts on sustainability

Domtar pres/CEO Raymond Royer recently said his company must focus more than ever on sustainable manufacturing, and be disciplined to compete

globally in uncoated freesheet (UFS) and market pulp.

He said market forces have changed in the North American pulp and paper industry. The UFS market today in North America faces declining demand, more imports than ever before, and US printer demands for even quicker turnarounds and with specialty demands, including recycled-content paper.

"The traditional supply chain has left the station," said Royer in an Oct. 11 presentation at RISI's 22nd annual North American Forest Products Conference in San Diego, where for the second time in five years, he was named the North American CEO of the Year.

He said the new supply chain for Domtar, which became the largest UFS producer by capacity in North America after the \$3.3 billion merger with Weyerhaeuser's fine paper unit, requires Domtar make and deliver paper on a just-in-time basis with strong service and breadth of products, and must run on a "no waste" production philosophy.

To compete against low-cost UFS from Asia and from Brazil, Royer said his company can create an advantage by being a sustainable producer. He said this year the company for the first time will produce 400,000 tons of its Earth Choice branded recycled content and FSC-certified papers.

Domtar also must meet the customized wants of customers, he said, and digital printing offers a new, growing avenue for Domtar.

Royer said the traditional major US commercial print markets of Chicago, Los Angeles, and New York are now joined by "specialized" printers in digital markets that often need "different kinds and sizes of paper." He said these digital markets expansively range from "Vancouver (BC) to Miami," and from "San Diego to Boston."

The driver for sustainably made products comes from customers who are pres- ▶

HE WILL BE MISSED

METSO'S LEO ALLO PASSES AWAY



Leo Allo, Senior Vice President, Communications, Metso Paper, passed away on November 4 at the age of 61 in Helsinki, Finland.

Leo was part of Valmet Paper Machinery and Valmet Paper right from the start of the company. In 1987, as an experienced journalist and communicator, he became responsible for marketing and communications of the newly-established Valmet Paper Machinery, and held various positions in marketing and communications with Metso Paper until the end of his life.

In most recent years, he focused especially on press relations. He was a highly esteemed professional and due to his friendly, open personality, many work relations developed into life-long personal friendships.

Leo was a legend among the editors. I was lucky enough to know him since he started at what was Valmet. Over the years I was able to enjoy many memorable pulp and paper trips with him, visiting mills around the world. Not only was he the best at organizing the technical end of a trip, i.e., mill visits, press conferences, seminars, we always knew that once the day was done, the social aspects would be unforgettable. As one editor wrote, although Leo had a few years on most of us covering the industry, he was still the first up and the last one out and about at night.

He helped develop what PPI Editor Justin Toland refers to the "rite of passage" for editors covering this industry, the annual Survivors' Trip.

Leo was one of a kind: always entertaining, very knowledgeable about the industry and supportive of our efforts. As Justin said, "He appreciated the value of good, unbiased editorial."

I, and my editorial colleagues, will miss him greatly.

Graeme Rodden, Editor,
Pulp & Paper

PAPER CLIPS

BRIEF NEWS AND REVIEWS FROM AROUND THE INDUSTRY

- Aldabra 2 Acquisition gained US antitrust approval to acquire the paper and packaging assets from Boise. The deal, valued at about \$1.63 billion, should close during first quarter.

- Longview Fibre plans to close two machines over the next several months. The machines run a combined capacity of 54,000 tons/yr of specialty kraft paper grades, according to RISI's *Lockwood-Post Directory*. As a result of the closing, the company said it would no longer produce bleached, colored, and certain natural machine-glazed papers, bleached and natural ribbed extensible (Ductkraft), and machine-creped specialties.

- Tembec said it added 10,000 tonnes/yr of capacity with the startup of a new tertiary refiner line at its high yield bleached chemi-thermomechanical (BCTMP) market pulp mill in Chetwynd, BC. The effort at Chetwynd increases the mill's capacity to about 191,000 tonnes/yr and raises Tembec's total market pulp capacity to about 2 million tonnes/yr.

- Lee & Man Paper, China's second largest containerboard producer and the second largest buyer of US recovered paper, started commercial production on Oct. 8 on a new 300,000 tonnes/yr recycled containerboard machine, PM 10, at its Changshu city, Jiangsu province mill in eastern China just north of Shanghai, according to *PPI Asia News*. PM 10 can make recycled linerboard and corrugating medium, white-top linerboard, and gypsum wallboard facing paper. Lee & Man also plans to start a 330,000 tonnes/yr recycled containerboard PM 12 at its Hongmei mill in April.

- North America's fifth largest consumer of recovered paper last year, Abitibi-Consolidated announced a public/private recycling partnership with Houston and Texas-based grocer H-E-B in which the company puts its recycling drop-off containers at 28 H-E-B stores in the Houston area. Abitibi-Consolidated will collect paper, plastics, aluminum, and metals, weigh the materials, and pay the local affiliates of Keep Texas Beautiful.

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suring their stores for such changes, he said.

A 'striking transformation.' This drive is in its "infancy," Royer said, and is the "most striking transformation since I've joined" Domtar in 1996. He said it requires a "fundamental rethinking" of business operations by pulp and paper companies in North America.

For Domtar, it means reducing its carbon footprint, generating clean energy, and running more fuel efficient trucks, Royer said.

NEWSPRINT

AbitibiBowater must sell Snowflake mill

Abitibi-Consolidated and Bowater's \$1.6 billion merger will be completed by the end of this month after the two companies signed an agreement with the US Dept of Justice (DOJ).

Under the agreement, the new AbitibiBowater must sell the 375,000 tonnes/yr Snowflake, AZ, newsprint mill that also includes 125,000 tons/yr of corrugating medium capacity. AbitibiBowater agreed to seek a deal to sell the mill in the next 120 days. While seeking a deal, the mill continues operating.

At Snowflake, in eastern Arizona, two machines make newsprint and a third one produces corrugating medium for Smurfit-Stone Container, the largest containerboard producer in North America, by capacity. The mill's newsprint capacity represents 6.5% of the combined company's newsprint capacity.

To further allay US government antitrust concerns, AbitibiBowater must notify the DOJ before buying any interests valued at more than \$2 million that the companies own jointly with a third party.

"Without a divestiture, the combined company could have strategically closed

capacity and raised prices. This divestiture will ensure that newsprint consumers continue to enjoy the benefits of competition," said Deputy Asst Attorney General Deborah Garza who is in the DOJ's Antitrust Division.

The DOJ filed a civil antitrust lawsuit in US District Court to block the merger unless the Snowflake mill is sold.

While a go-ahead without any strings attached was not expected, the requirement for the combined company to sell Snowflake took the industry by surprise.

"We're puzzled by the DOJ's logic in this situation, but it appears that the mill sale is the price of deal approval," said Deutsche Bank analyst Mark Wilde.

"It's their best mill. The DOJ really kicked Abitibi," commented one US supplier contact.

The Snowflake mill also is one of only two newsprint mills that the combined company operates on the West Coast. The other one is Bowater's newsprint mill in Usk, WA, that is owned with four newspaper publishers (Copley, Gannett, McClatchy, and MediaNews) and runs capacity of 249,000 tonnes/yr.

Letdown for AbitibiBowater? "It must be a bit of a disappointment because I imagine Snowflake would not have been (AbitibiBowater's) first choice," said an analyst in Canada.

RISI's benchmarking services considers Snowflake a first quartile producer of newsprint and ranks it third out of 43 mills in terms of total cash cost of manufacturing. Its key advantage lies in low energy costs, due to its 56 MW co-generation plant that provides 95% of the mill's power need.

Even so, some financial analysts say the mill's reliance on high cost recycled fiber makes it a marginal contributor to the company's newsprint performance, and that the DOJ's choice of Snowflake was "modestly favorable" to AbitibiBowater.