Growing the future:
Global strategies for sustainable success in the forest, paper and packaging industry

In May 2013, 11 senior executives from the Americas and Europe came together to discuss the priorities facing the world’s forest, paper and packaging sectors.

Competition is increasing for the world’s limited land base. As the population grows from seven billion people today to an estimated nine billion by 2050, so too does the demand for what’s known as the “4Fs” – food, fuel, fibre and forests.

The challenge moving forward is meeting the growing demand for resources, while ensuring the world’s forests are sustained long-term for biodiversity needs, as well as for the people and businesses that rely on them.

For the forest, paper and packaging industry the goals are more specific:

• To manage the resource using the smallest environmental footprint possible;
• To optimize the use of fibre for new and existing products and markets, and;
• To operate in a way that delivers return on capital for its investors.
Global strategies for sustainable success in the forest, paper and packaging industry

There are varying opinions within the industry about how to achieve these goals, all of which were debated at an industry roundtable hosted by PricewaterhouseCoopers (PwC) during its 26th Annual Global Forest & Paper Industry Conference in Vancouver in May 2013. The discussion included a dozen senior representatives from forest, paper and packaging companies, industry associations, capital markets and non-government organizations from Canada, the United States, Europe, Israel and Brazil.

Some see increasing yield as the sustainability solution, through scientific means such as genetically modified trees. Others opposed that approach, believing instead in a push towards improving forest management practices and creating more value from the trees already harvested. Greater harmonization of global forestry standards was also seen as a way to develop a more level playing field for industry, which would in turn help to better manage the resource.

The forest industry contributes to greenhouse gas (GHG) emissions from harvesting activities, manufacturing, transportation and product disposal. At the same time forests, soils, biomass and forest products all have the potential to store carbon. As a result, the industry is focused on forest management practices that reduce emissions and increase carbon storage. This is particularly important given society’s increasing reliance on forests and forest products.

The industry is continuously looking for operating efficiencies, while at the same time developing and delivering more innovative products for the future. Some are vying for a “common good” approach, which sees industry competitors working side-by-side to find and promote new markets for wood and other fibre-based products, and positioning these products as a sustainable option for consumers.

While the suggested solutions varied across the sector, there was agreement that collaboration within the industry is key to ensuring the long-term sustainability of the world’s forests.
A global imperative

More than 1.6 billion people depend on the world’s forests for survival, noted Kerry Cesareo, Managing Director, Forests, at World Wildlife Fund. Match that with the $500-billion global trade in forest products and it’s clear what’s at stake.

Cesareo said the industry must do its part to balance the increasing demands on forest lands. With 13 million hectares of forest currently lost each year to forestry, agriculture and urbanization, and the volume of annual wood removals expected to increase threefold by 2050, the goal is to harvest trees using less land and water and reduced environmental impact.

Recognizing the forest industry’s interest and experience in land management, Cesareo said the sector needs to better treat the resources as a much-needed conservation tool.

“If you look out over the next three decades, we have potentially nine billion people to feed. We need to be planning for that,” said Cesareo. “It’s going to require very new and different ways of working, including collaboration across industries.”

Teresa Presas, Director General of the Belgium-based Confederation of European Paper Industries (CEPI), believes the global industry needs to find a more harmonized way to do business, to ensure long-term sustainability.

“There is still a lot to be done with sustainable forest management in the Western world,” Presas said. “We need more harmonization of forest certification from a global perspective. The standards vary tremendously.”

She also points to a number of policies and directives with unnecessary overlap that are costing the industry billions of dollars each year in areas such as energy and climate change, recycling and water, trade and consumer products.

Marcelo Castelli, President & CEO of Brazil-based Fibria Celulose SA, said he’s in favour of global alignment across the industry, but argued the management of resources should reflect national priorities.

“Brazil has a different situation than in Canada or the U.S.,” said Castelli. “We should not pursue the same solution, we should pursue the same standards, but with a different approach in local markets. It should be case-by-case.”
“We aren’t thinking it through, yet we must, and we can’t do it alone,” he said. “This is going to be about developing relationships and partnerships with the allied industries.”

Roberts points to car makers Ford and General Motors working together in R&D to build a new type of transmission for their cars as an example of how industries can collaborate to find better solutions for their products.

“There just has to be a specific goal. It has to be specific and it has to be measured and it has to translate back to shareholders,” Roberts said.

Part of attracting more investment to the industry means growing revenues. In today’s world, where the consumer is more environmentally conscious, it means coming up with better products, such as recyclable or biodegradable packaging. Those products have to be more than just environmentally friendly, they must also perform in the way consumers expect, which includes durability and being easily recyclable in their communities.

Money and new markets

For the industry to be part of the solution, it must remain viable. A sustainable forestry sector also means attracting and maintaining investment, which can only happen if its well managed financially, said Don Roberts, Vice Chairman and Managing Director of CIBC World Markets.

“It goes without saying the industry has to be run sustainably and environmentally, and there has to be a social license,” said Roberts. “From a capital markets perspective, the industry fundamentally has to find a way to decrease the degree of capital intensity … the return on capital is unacceptable.”

One solution is increased consolidation in the industry, to cut down on the number of players operating this high-cost business.

Another way to cut costs is to pull more value out of the wood produced, which is good for the environment, and for shareholders, said Roberts.

Finally, Roberts believes the forest industry needs to build relationships with other, related industries, to help leverage their product offerings.

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David Scheible, President & CEO, Graphic Packaging International Inc.
“If you don’t have demand for the products, the industry is going to struggle no matter what,” said David Scheible, President & CEO of US-based Graphic Packaging International Inc. “From an innovation standpoint, you have to develop paper-based products that are more convenient, that have more functionality and are more sustainable.”

Peter Oswald, CEO of Mondi Group’s Europe and International Division, said his company’s growth plans involve developing markets and products that are aligned to customers requirements. For Mondi, this includes increasing its focus on more value-added, innovative, technologically advanced products and following its customers into high-growth consumer markets.

David Lindsay, president and CEO of the Forest Products Association of Canada, agrees the industry needs to try to craft products to meet customers’ needs and move away from its roots of being a commodity-based business.

“That requires a culture shift in management’s approach to how you run your companies,” he said.

Lindsay points to the Canadian industry’s Vision 2020 plan, which sets ambitious goals to propel the industry forward to reach its potential. These include generating an additional $20 billion in new economic activity from new innovations and new markets. Vision 2020 also strives to deliver a 35-per-cent performance improvement in the sector’s environmental footprint.

“Innovations and new technologies

For Dr. Stanley Hirsch, CEO of Brazilian-owned FuturaGene Ltd., part of the solution to sustain the world’s forests and to meet growing demand is through increased research and development (R&D). For Hirsch and his company, that means pursuing the controversial option of genetically modifying trees. It’s a practice that is welcome in places like Brazil, but faces strong opposition in other areas, such as Europe.

Hirsch argues genetic modification increases yield and lowers the industrial footprint, while at the same time decreasing the demand placed on natural forests.

“We need to create the global environment that allows us to deploy technologies into forestry,” Hirsch said.

“We are in the early stages of plant science capabilities … and are just scraping the surface of what can be done.”

Adds Hirsch: “If we aren’t investing in R&D today we are going to be behind, always.”

Elizabeth de Carvalhaes, president and CEO of the Brazilian Pulp and Paper Association, supports new technologies that allow the industry to get more out of its forests, but admits it’s a “complex discussion.”

That’s why the Brazilian industry is having open and ongoing dialogues with a wide-range of stakeholders around the pros and cons of new technologies, such as genetic modification.

“This is the next step in the industry, that we are beginning now,” said Carvalhaes.

R&D also applies to finding new markets for wood products and helping promote the industry as renewable, given that trees are harvested and replanted.

“We need to make the world feel better about using wood products,” said Jim Lopez, President & CEO of Montreal-based Tembec Inc.

42% of forest, paper and packaging CEOs say R&D and innovation is a top priority over the next 12 months; and 71% say they’ll make changes to increase R&D and innovation capacity.

Source: 16th Annual Global CEO Survey: Key findings in the forest, paper and packaging industry. www.pwc.com/ceosurvey
We aren’t thinking it through, yet we must, and we can’t do it alone,” he said. “This is going to be about developing relationships and partnerships with the allied industries.”

Don Roberts, Vice Chairman and Managing Director of CIBC World Markets.

To him, that means coming up with “common good projects,” which also help to develop a larger market for wood products.

Lopez points to the special “self tax” funds set up by the forest industry in Canada and the U.S., money that is used to promote wood products and to find new markets for the use of wood. Money also goes towards R&D to diversify products to adapt to changing markets.

“We have to find these common-good projects … and create those opportunities for the future,” said Lopez. “We need to identify what these are and pool our resources.”

The U.S. has a similar “check off” program, which is helping tell the industry’s sustainability story to consumers, noted Donna Harman, President & CEO of the American Forest & Paper Association.

While there may be varying opinions within the industry about the best ways to operate, Harman noted there is consensus in one key area: “Commitment to a sustainable future.”

“It’s something every country and association around the globe is committed to in this space. Some are further along than others but it’s the one thing we all have in common,” said Harman.
Conclusion and outlook

“This roundtable conversation touched on many of the critical and complex issues facing the industry today,” said Bruce McIntyre, a Partner and Canadian Leader of PwC’s Global Forest, Paper and Packaging practice.

“While there are no simple solutions or easy answers, we see a genuine interest throughout the industry to work together towards a more sustainable future. It will be vitally important that we keep these conversations going for the long-term benefit of the industry, the environment and the communities that rely on the health of both.”

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Jim Lopez, President & CEO, Tembec Inc

Forest, paper and packaging CEO's are cutting costs and making deals

Changing the business model

We believe that innovation will play a critical role in helping the FPP sector transform its business model. So will new types of partnerships within and outside of the industry. When we asked CEOs to tell us their top 3 investment priorities, R&D and innovation and new M&A/joint ventures/strategic alliances tied for second place, right after improving operational effectiveness. This result probably reflects the broadening uses that are now being found for fibre (bioenergy, biofuels, textiles etc.).

Moving a business in new directions inevitably means taking on entirely new types of risk. But the majority of FPP CEOs tell us they don’t plan to change their strategies this year. In our view the industry may need to take another look at risk.

Strong leaders and committed staff to make it happen

FPP companies have already put in place a number of leadership programmes to help their managers cope with all the changes and they’re increasing their efforts to engage with their people more generally too. More than half of FPP CEOs say that their employees influence strategy ‘significantly.’ Sector CEOs also acknowledge that they need to match the pay rates of peers in order to retain talent.

Keeping the focus on sustainability

The FPP industry uses natural resources as raw materials; when it comes to wood in particular, the topic of forest management generates a lot of emotion. Over the past few years, we’ve observed that the FPP industry is acutely aware of the sensitive nature of its business. FPP CEOs also place more attention on increasing efforts to reduce the industry’s environmental footprint.

And they’re trying to get the word out. Nearly one-fifth say they’ll increase their focus on non-financial reporting (incl. corporate sustainability reporting) ‘significantly.’ Many FPP CEOs also say they’ll strengthen efforts to engage a whole range of stakeholders.

Source: PwC’s 16th Annual Global CEO Survey
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