



George Harad: Executive Papermaker of the Year

BY JOHN O'BRIEN, MANAGING EDITOR

The editors of PaperAge are proud to announce that George Harad has been selected as our "Executive Papermaker of the Year." This is the second time that Mr. Harad has received the award, the previous honor being in 2001.

SINCE 1988, PAPERAGE has annually selected recipients of the Executive Papermaker of the Year award based on corporate vision, strategic accomplishment and leadership both within the individual's company and in the industry as a whole. As is tradition, the award ceremony will take place at the Waldorf=Astoria Hotel in New York City on March 22 during Paper Week.

It is noteworthy to mention that Harad has also been elected Chairman of the American Forest and Paper Association.

George Harad's career at Boise Cascade began in 1971, when he joined the company as administrative assistant in the housing group. It was in April 1995 that he was named Chairman and Chief Executive Officer, a position he holds today.

The big news from Boise came in mid-July 2003 when Harad announced plans to purchase the office products distributor, OfficeMax. The deal was accomplished for approximately \$1.3 billion, and a gradual integration process involving Boise Office Solution is underway.

PaperAge caught up with George Harad to discuss Boise, the OfficeMax deal, and some pressing issues within the industry.

Editor's Note: The talk wasn't entirely business though. In a previous interview, George had confessed to being a fan of the Boston Red Sox. The final question/answer will surely be of interest to baseball fans everywhere.

PaperAge: You were the recipient of our award in 2001. At that time you stressed that the industry must do a better job of earning its cost of capital. Overall, is the industry doing a better job? How about Boise?



George Harad: The past three years have been extremely difficult for the North American paper business. Many grades have experienced declining final demand and, until very recently, rising imports captured much of the demand growth that did occur. Given that environment, I'm encour-

aged that producers have taken steps to remove inefficient capacity and match production to orders. Last year, for example, Boise reduced its production of uncoated free sheet, our largest grade, by roughly 5% relative to capacity in order to keep our inventories in line. We also continued to closely control our unit operating costs, despite the lower level of production. When demand starts to recover, I think Boise and the industry will post sharp improvement in returns.

Has interest in recycling waned in the past couple of years, particularly as ceilings in North America have been approached in recovered corrugated, brown, paperboard, and now newsprint fibers?

GH: I don't think that interest in recycling has waned. In fact, the member companies of AF&PA recently increased the industry's waste paper recovery goal from 50% to 55% in response to continuing consumer demand for higher levels of recycled content in paper products. I think that goal is challenging, given the high levels of recovery in the grades you noted and the move toward "single-stream" collection by municipalities trying to reduce their costs, which particularly affects mixed office papers. I also think that higher recovery rates may not translate into higher recycled content papers in the U.S. market if exports to offshore purchasers continue to increase.

From an environmental standpoint, at least from a customer's perspective, Boise is now offering a 100% post consumer recycled office paper (with no chlorine containing compounds), in addition to a 30% post

consumer content grade, and of course the grades made at Jackson, Ala., with pre-consumer recycled fiber. What demand is there for recycled office papers these days? What are the driving forces? What are some general customers, by type?

GH: We offer a variety of recycled content papers to respond to our customers' interests. Aspen 100™, our 100% post-consumer fiber copy papers, are especially popular with the universities and schools served by Boise Office Solutions. With the acquisition of OfficeMax, I expect that we will continue to increase the amount of recycled papers we sell, and broaden the product line as well. However, I think the overall share of recycled papers we make within our product mix will only grow slowly. For many customers, the preference for recycled papers is conditioned on quality and price being equal to virgin papers; and as we already mentioned, the availability of waste fiber may be limited even with higher recovery rates.

What is Boise's current read on the North American newsprint market? Is this a sector the company is committed to for the long-term? From Boise's business perspective, do you foresee any expansion into or contraction away from this market?

GH: As you probably know, Abitibi-Consolidated markets all of the newsprint that we manufacture at our mill in DeRidder, Louisiana, which is the only facility we have that makes newsprint. Given the strategic location of that mill, but our very small position in the newsprint market overall, I think that arrangement works to the benefit of both companies. We don't see ourselves expanding in the newsprint business, and in fact have looked at alternatives for the mill, but concluded that we are better off maintaining our position for now.



What are some of the major drivers in the general office paper market? Is home office paper utilization still increasing, and what is the outlook for this? What about the growth of small businesses in recent years...during the next decade?



Demand for office papers is largely driven by trends in white collar employment in large businesses and the rate of business formation, which is another way of saying growth of small businesses. It is also affected by changes in information technology, which causes shifts in the type of paper being used and where it is used. For example, the use of paper for business forms is being rapidly displaced by electronic media, but the increase in personal printers being used in both the office and at home will continue to support the growth of cut-size papers, especially the higher quality ink-jet and laser papers. We're optimistic about the continued growth of paper demand for small businesses and the home, which is one reason why we are excited about combining OfficeMax with our Boise Office Solutions business.

You created some big news last July when you announced that Boise had reached an agreement to buy OfficeMax. The \$1.3 billion deal was sealed in December and seemed to go without a hitch. Do you view OfficeMax as a "turnkey" business for Boise or is that an oversimplification? If operational changes are to come what would they involve?

GH: Boise Office Solutions, our historical office products distribution business, is a "contract" or business-to-business distributor, focused mainly on large accounts, including businesses with more than a hundred people in an office or with multiple locations. OfficeMax is a large retailer, focused on both the small business account as well as the individual consumer. Both businesses have a growing position in the "middle market", serving customers who have outgrown the retail store but don't need or want the level of services that a Fortune 1000

company might require. By combining the businesses, we will be able to serve customers in all segments through whichever channel the customer prefers, whether retail, delivery, catalogue or internet.

We will also be able to reduce our costs and improve our customer service by combining merchandising and purchasing, streamlining our warehousing and delivery systems, and eliminating redundant administrative costs. We also expect to accelerate growth, particularly in the middle market, by leveraging the OfficeMax brand with Office Solution's superior service capabilities.

We have already combined the management teams from Office Solutions and OfficeMax to get the process of combining the businesses underway. This is definitely not a "turnkey" approach.

Boise's character has changed quite a bit in the last 10 years, primarily shifting from manufacturing to distribution and value-added products. With the OfficeMax acquisition, what percentage of Boise's business comes as result of distribution versus manufacturing?

GH: This year, we expect our distribution businesses, in both office products and building materials, to contribute roughly 80% of our sales. Office Solutions/OfficeMax will contribute nearly two-thirds of our sales by itself.

OfficeMax should boost sales for Boise's paper business. Can you discuss your expectations in this area?

GH: Before the acquisition, Boise did not supply any paper to OfficeMax. We believe we can create value for OfficeMax, Boise Paper Solutions and our customers by developing the same supply relationship with OfficeMax that we have today with Office Solutions. We're in the process of establishing that supply system now.

Boise is a highly customer-focused company with heavy concentration in value-added products. The SPLOX packaging for large, commercial printers and copiers is one of your most recent and typical examples of this. Could you elaborate on this new paper handling/loading approach based on 2,500-sheet, rather than the normal 10-ream packaging approach, and how it came about?

GH: SPLOX is an acronym for "Speed Loading Box". Our objective is to make the job of loading a high-speed copier or printer easier. By packaging the equivalent of 5 reams rather than ten, we created a lighter package that can be carried with a built-in handle, then opened flat in

one motion to access paper which can be directly loaded without having to remove additional packaging. We believe the system cuts the typical time required to replenish a copier by nearly two-thirds. It also reduces the use of excess packaging.

With SPLOX, I think our paper and packaging businesses have come up with a very creative response to a customer need that our distribution operations helped us to identify. And it's only one of many unique products and product presentations that our deep knowledge of end-use customers has prompted us to create.

At Wallula, Wash., Boise operates an 18,000-acre tree farm that takes cottonwoods to harvestable maturity in about six years. This is roughly comparable to growth of tropical hardwoods in South America and Asia. Some industry observers see North American pulping capacity, especially chemical, on a slow but certain path toward extinction proportional to the rise of cloned eucalyptus (and other exotic plantation species) capacity in Brazil and elsewhere. Might plantation cottonwood eventually be the U.S. answer to cloned tropical plantations?

GH: We think our Cottonwood tree farm has been a success, and now supplies an important portion of the fiber used at both our Wallula, Washington, and St. Helens, Oregon, mills. However, the issue of maintaining a competitive cost position for fiber and pulp in North America is too complex to be addressed with just one response. I believe that Boise, and the industry, will have to continue to improve the productivity of our forests and plantations in both hardwood and conifer species. We have to improve pulping processes to increase fiber yields, and incorporate more non-wood components in the sheet. And, as I mentioned before, we need to keep increasing the amount of waste paper we recover and incorporate in new production.

Will the global paper industry, particularly in North America, finally begin a genuine, long-anticipated recovery, perhaps later this year, as some analysts are forecasting? If so, what areas will show the strongest performance, and what areas will lag? What will drive the turnaround, if it occurs?

GH: Forecasting the paper cycle is a hazardous business! My own view is that we have seen the bottom, and should begin to see improvement in most sectors of the



Boise operates a cottonwood fiber farm of about 15,500 acres near Wallula, Washington. The farm is a stable source of high-quality fiber for making office papers at Boise's nearby pulp and paper mill. The farm supplies about 25% of the fiber used by the white paper machine at the mill.

business in North America as the year progresses. The economy is clearly strengthening, the unemployment rate is falling and job creation has started to improve. That all should lead to higher advertising spending, growth in white collar employment and more demand for packaged goods. At the same time, the U.S. dollar has weakened significantly, which should help exports and discourage further imports. And we are starting the year with a lower base of installed capacity, relatively low inventory levels and no capacity expansion on the horizon. I can't predict the timing, but the conditions for improvement in the paper markets are all in place.

Should Grady Little have pulled Pedro Martinez earlier in Game 7 of the American League Championship series? Or would the Yankees have hit anyone in the Sox's bullpen?

GH: No doubt about it. Everyone in the stadium or watching the game on television knew Pedro was through, except Pedro and Grady, and I'm not certain about Pedro. It's impossible to say whether the Yankees would have hit the bullpen anyway, but it was certain they were going to hit Martinez. The curse of the Bambino continues. ■