

Southern Pulp



By 2010 it is estimated that South American pulp mills will be producing 10 million tons per year of pulp from fast-growing and expanding eucalyptus plantations. Who in the northern hemisphere can compete with that? Will it mean an end to pulp production in the USA and Canada ...and possibly Finland and Sweden? You be the judge.

By David Price

A few months ago the King of Spain, Juan Carlos, showed an interest in our industry. But before the industry and magazines start inviting him to speak at conferences or advertising the royal forests, it helps to know the background to his interest—which, by the way, is in South America.

Uruguay and Argentina are disputing the location of a pulp mill planned by M-Real and Metsa-Botnia of Finland. The mill will be in Fray Bentos, Uruguay, along the river that is the border between the two countries. Argentina claims the mill will pollute the river. But, in my opinion, that is unlikely as modern mills operate zero discharge.

It seems more likely that Argentina is cheesed-off that the mill is not in its territory. So they are in dispute, which is why King Juan Carlos mediated. It may be a coincidence, but Spain's biggest papermaker, ENCE, is also building a one million tpy pulp mill, at a cost of \$1.2 billion, in Colonia in southwest Uruguay.

Pulp is now mega-business. Since 1990, investment institutions have allocated about \$38 billion to finance over 25 million tpy of pulp capacity expansion in the developing world. Much of it will be in Brazil, Chile, Uruguay and Argentina, and most of the production will go from there to China and the rest to Europe.

All the big players in southern pulp are European. ENCE's mill, which is slated to start-up in 2009, will

represent 50% of ENCE activities worldwide. The company said that excess energy generated by the mill from woodchip biomass, estimated at 70 MW, will be sold to Uruguay's national grid.

Finland's Stora Enso, which is a partner with Brazil's Aracruz in the Veracel mill, said that its expansion of pulp production at the site will take it to nearly 2 million tpy by 2011. In 2006 the mill produced 975,000 tons of bleached (ECF) eucalyptus pulp. Laying result to the growing demand

for market pulp, profits for Aracruz in the fourth quarter jumped 65% on rising prices and record sales.

It is worth noting that Stora Enso now finds it cost effective to ship pulp from Brazil to Europe—and China. It is unloaded in Antwerp, then reloaded and shipped to its mill in Oulu, Finland, just south of the Arctic Circle.

Last month, International Paper completed a pulp and paper asset swap with Brazil's Votorantim Celulose e Papel (VCP).



Sitting pretty. Situated in the center of fast-growing eucalyptus plantations, the Veracel pulp mill in Brazil has become an icon for low-cost pulp production.

Moving Out?

In 2005, a ten-week strike by Finnish forestry workers caused a loss of pulp production that ran into billions of dollars. In November, those workers were penalized for the illegal strike and were fined just thousands of dollars. There is now anger between managers and workers which will take years to mitigate.

But the damage is done and it will last. The CEO of UPM said, in an unguarded moment, that Finnish paper-makers should now think of making their pulp elsewhere. This has now started to happen, as Finnish and other European companies invest in southern pulp.

There are additional problems: one is Finnish and the other is European. Forest ownership in Finland is dominated by just over 400 private forest owners. Negotiating annual cutting volumes is a purchasing manager's nightmare. Some strike three-year deals, but the majority is annual. So wouldn't it be much better for a pulp and paper maker to farm its own fast-growing plantations in a low-cost country? There is no longer the hassle of endless wood quotas, prices and rickety labor relations.

And, the markets for southern pulp are closer and more lucrative than those back home. It's a simple choice.

The European problem is about wood. Is it a fuel or fiber? Recent—and skewed—legislation on biomass and green energy has delivered subsidies to forest owners to

encourage them to grow more wood and sell it to power stations (see *PaperAge*, Jan/Feb, 2007).

The paper industry cannot compete with the big bucks of giant power companies in a market where wood prices will rise sharply. Some private Finnish forest owners will have no regrets about selling their entire harvest to a power company. So pulp and papermakers will find they are short of fiber, which also costs more.

So what do they do? They look for southern pulp.

If private equity also becomes active in Scandinavia, and casts an eye over the costs of making pulp in the region, it will also look south.

My forecast for pulp making in Finland, in particular, is that it is doomed. I've spent some time this year talking to the Finns and put this scenario to them. Their responses vary from evasion, uncertainty, denial, and the ever popular '...I agree, but don't quote me.'

There, I've said it. I presume I'll get some "interesting" reader comments on this one. ■



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For more information,
contact **Heather Tarpley at 202-463-2453**
or **Coleman Kane at 202-463-2445**
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