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JOHN FARACI

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There is an article you can read in our news on page 6 that sums up what is wrong with the “free trade” fundamentals the U.S. government lives by and hands down to its manufacturing community. And I’m not vilifying the Obama Administration. This is something that for years can be attributed to both Democrat and Republican-lead governments.

Blue Heron Paper shutdown its employee-owned Oregon City paper mill on March 4 citing the steep climb in price for its primary raw material, recycled paper. Along with the mill’s 175 workers who are now out of a job, the surrounding communities will be feeling the sting from the loss of tax revenues generated by the company, with more jobs teetering on the edge as a result.

Blue Heron’s president, Mike Siebers, in a written statement, didn’t beat around the bush as to what pushed Blue Heron’s management to close the mill.

“Mills like Blue Heron are where the actual recycling of the collected waste paper you set out at the curb takes place. But China and other far-East countries have developed an insatiable appetite for recycled fiber to support their own paper plants which are then subsidized by their parent countries in other ways to maintain their jobs. This allows them to drive up the price for waste paper to unsustainable high levels for periods of time, giving them an unfair advantage over companies like ours,” Siebers charged.

The key to Mike Siebers’ comment is his reference to “unfair advantage” and he’s right. China does play with a stacked deck, especially when it comes to the way they handle the concept of free trade. Everything is on their terms.

Case in point: China’s undervalued currency. Paul Krugman, an Op-Ed columnist for The New York Times, wrote, “The International Monetary Fund expects China to have a 2010 current surplus of more than $450 billion — 10 times the 2003 figure. This is the most distortionary exchange rate policy any major nation has ever followed."

When “pressured” by the IMF last fall about the value of the Yuan, China’s Prime Minister Wen Jiabao simply warned European leaders not to meddle with his country’s currency policy because a sharp Yuan devaluation would have devastating effects on China’s manufacturing industry.

And that’s that. Is there any part of the Prime Minister’s explanation diplomats and world economists don’t understand?

Yet, I don’t blame China one bit for watching out for itself. Mr. Wen fully understands that a healthy domestic economy relies on manufacturing and export, and he’s willing to take a hit to his global popularity rating to provide the means needed to allow his country to become the most dominant manufacturer in the world.

I’m not insinuating that President Obama should artificially manipulate U.S. currency in the world market, but he needs to address the issues of some of the costs related to domestic manufacturing, while creating incentives for the producers. Stepping in and granting the EPA the additional time it requested to re-access the new Boiler MACT rules would be one step in the right direction.

As for Blue Heron, the company tried to do it right. It used recycled paper to produce its products — green jobs producing green products.

It’s a scary thought that a manufacturing concept our government insists is the future of this country doesn’t warrant support from its biggest promoters.

Mr. President? I’ve got a Mr. Wen on line one. He mentioned something about an overdue payment.
Now you can “triple your winnings” in your deinking process by reducing chemical costs in three ways with one additive! The new DEKA can replace one-half of your costly surfactants, improve your pulp brightness, and lower ink residual numbers as well.

Sound too good to be true? In documented mill tests DEKA has replaced fully 50 percent of expensive surfactant dosage without adversely affecting deinking performance. And laboratory studies prove DEKA usage increases pulp brightness up to 5 GE brightness points. Plus, additional lab deinking tests have demonstrated ERIC values lowered by 74 percent.

DEKA is also versatile—flotation or wash deinking processes both benefit from this revolutionary new deinking aid.

Contact Thiele today for details on how your deinking process might benefit from using DEKA. We’ll be glad to show you the test results and set up a trial in your mill.
Blue Heron Paper Company in late February said that it is permanently curtailing operations at its Oregon City specialty paper mill and had issued WARN notices to its employees related to permanent closure of the facility.

On December 31, 2009, Blue Heron filed for bankruptcy protection and since then has been operating under Chapter 11 as it has refined its reorganization plan and tried to emerge.

According to Mike Siebers, Blue Heron’s president, immediately after filing, the company went through a downsizing in which it cut about 3,000 tons per month of newsprint production, reduced headcount, increased worker flexibility with the support of its union employees, and began a focused effort to grow a new product line of environmentally friendly commercial toweling grades.

“The initial plan was successful in restoring profitability and the company received meaningful support from its suppliers and other creditors,” said Siebers. “But lately those profits began to erode due to escalating waste paper prices and limited availability of that raw material. All the paper products we manufacture use a high percentage of recycled fiber in them.”

Concurrent with refining its reorganization plan, Blue Heron lately also actively sought an investment partner or buyer who could provide additional capital standing to secure trade credit and strategic or operating synergies with the company. But, the company has been unable to identify an investor willing to proceed at an appropriate value.

“Unfortunately things have come to a quick head due to an unforeseeable and dramatic increase in waste paper cost in February,” Siebers explained. “In [February] alone, our delivered cost for recycled paper has increased by $24 per ton adding around $240,000 to our monthly cost of production and basically wiping out any potential for profit in the near-term future.

“Our waste paper suppliers have told us to either meet the market price or they will not deliver,” Siebers added.

On February 23, Siebers announced that the mill would shutdown before the end of the month as it ran out its remaining supplies. Beyond that, he said it was unclear if the operation would ever be re-started.

Blue Heron is a 100% employee-owned company that has been in business since 2000. Currently, it employs about 175 union and non-union workers. The company is an integrated producer of newsprint, high brights, bag, towel and specialty papers.

Boise Inc. and Tharco Packaging have approved an agreement under which Tharco will be acquired from an investor group led by Tricer Pacific Capital, Inc.

The $200 million all-cash deal will result in Tharco becoming a wholly-owned subsidiary of Boise.

“This step is consistent with our strategy to profitably grow our packaging business and create value for our shareholders and customers,” said Alexander Toeldte, president and chief executive officer of Boise Inc.

“Acquiring Tharco achieves several important goals: it expands our presence in packaging markets, which are growing long term, and is a good geographical fit, extending our reach from the Pacific Northwest to California, Colorado, Arizona, and Georgia. It is consistent with our goal to increase our containerboard integration with our downstream corrugated converting operations to over 85% from approximately 70% today. This reduces our exposure to export markets and enhances margins.

“When complete, we expect annualized synergies of approximately $8 million, achieved primarily through the increased integration,” said Toeldte. “We anticipate these synergies will be fully realized in 18 months.”
THE RESULTS ARE IN
HP LASERJET PRINTERS PREFER COLORLOK® PAPER

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According to a recent study by Buyers Laboratory, Inc. (BLI), ColorLok paper can help extend the life of LaserJet printers while delivering less reprints, more cost-efficient printing, and consistent professional print quality, compared to abrasive, large-particle filler papers tested which don’t meet the ColorLok® quality standard.* Any way you look at it, ColorLok paper helps your ideas stand out, making it HP’s recommended solution for LaserJet printers.

For the latest on ColorLok Technology, go to www.hp.com/go/colorlok and register for The ColorLok Report eNewsletter.

HP recommends the ColorLok paper quality standard for LaserJet printers.

* Based on testing by Buyers Lab Inc., Aug 2010. For details www.buyerslab.com and www.hp.com/go/colorloklaserprinting. Tested papers that did not meet the ColorLok® quality standard were manufactured in Asia, are primarily sold in China and India today, and contained high percentages of abrasive, large particle fillers (ground calcium carbonate, talc). ColorLok® papers are validated for smoothness and low percentages of abrasive, large particle fillers.
AbitibiBowater to Permanently Close Paper Machine at Coosa Pines Mill

AbitibiBowater announced that it will permanently close its No. 4 paper machine at its Coosa Pines, Alabama operation and cease its pilot project to manufacture recycled lightweight and ultra lightweight packaging and linerboard grades by mid-March. The company said that it remains committed to its fluff pulp assets at the facility.

Approximately 150 employees are affected by this closure.

PM 4 produced newsprint up until May of 2010 when AbitibiBowater completely shifted the machine’s production to lightweight recycled containerboard and bagpaper grades. The mill’s other machine, PM 3 (newsprint), was idled in September 2009.

“Coosa Pines has made progress in the production of recycled lightweight and ultra lightweight packaging and linerboard. Upon review, however, the substantial capital investment that would be required at the site to make it low-cost in these grades could not be justified,” said Richard Garneau, president and CEO of AbitibiBowater.

“The decision to cease paper production at the Coosa Pines mill was difficult as we are mindful of the impact it will have on affected employees,” added Garneau. “The company also remains committed to customer service and delivery of high-quality products and will work closely with customers to ensure a smooth transition.”

Fulida Buys Neucel Specialty Cellulose

Fulida Group Holdings Ltd has purchased Neucel Specialty Cellulose Ltd. from a consortium of investors led by Wellspring Capital Management and GSC Group.

Fulida, together with Zhejiang Fulida Ltd, which had established a minority equity position along with a strategic supply agreement with Neucel in 2010, is now assuming full ownership of the company.

Financial terms of the deal were not disclosed.

“We are very pleased to become fully integrated into the Fulida organization given their leadership in the rayon market and their strong support of our Port Alice mill,” said Bob Taylor, president and CEO of Neucel, who will continue to lead the business. “The new ownership enables Neucel to explore new growth opportunities while continuing our aggressive cost and capacity initiatives.”

Jianer Qi, chairman of Fulida Group Holdings, noted, “Viscose rayon fiber competition in China has become intense. With the purchase of Neucel, Fulida gains a stable supply of dissolving pulp along with cost advantages and quality assurance which extends the value chain of our business.”

Catalyst Paper Begins Energy-related Projects at Canadian Mills

Catalyst Paper will spend $4.7 million in federal funding for an energy-related project at its Port Alberni mill and use $13.3 million in federal funding for a new green-energy project at its Powell River mill.

Both mills are located in British Columbia. Funding for the projects comes from Canada’s Pulp and Paper Green Transformation Program.

The Port Alberni project is aimed at improving the mill’s efficiency and reliability of biomass-based energy generation, while further reducing greenhouse gas and other air emissions. The project involves three upgrades to the main power boiler (PB4): a new secondary air system, a larger “economizer” or heat-exchange system, and a new gas monitoring system.

The Powell River project will involve new waste-wood handling equipment, a sand recycling system and other upgrades to an existing power boiler (PB19), and installation of a steam condenser on the generator (G12).

Work is underway at Powell River and with completion expected within about 12 months. At Port Alberni, work will not begin until late in the year, but the project is expected to be completed during an extended annual boiler maintenance shutdown planned for October.

News stories and photos should be submitted to John O’Brien by email: jobrien@paperage.com
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As the only independent, full-line supplier with a global presence, Albany International offers sustainable, value driven solutions. Focusing on our core business – Paper Machine Clothing, Albany’s products and services create value by reducing Total Cost of Operation through process improvements, increased efficiency, and reduced energy, chemical and water consumption.

Albany Global PMC: Creating value through sustainable solutions.
Central National-Gottesman Buys Large Stake in Turkish Paper Merchant

Central National-Gottesman (CNG) announced that its European subsidiary, Central National-Gottesman Europe has acquired a 78% ownership interest in Korda Kağıt Pazarlama ve Ticaret, one of Turkey’s leading paper merchants.

The remaining 22% share of Korda will remain with Korab International Holding S.A., CNG said.

Korda was founded in 1996 and is now one of the largest distributors of printing papers and packaging grades to the Turkish market. The company is headquartered in Istanbul, where it maintains a 10,500 sq meter (113,000 sq ft) warehouse and administrative offices.

Korda also operates three additional regional warehouses, with locations in Ankara, Izmir and Adana.

“Central National has had a substantial and successful business relationship with Korda and Korab International for more than a decade,” said Ken Wallach, chairman and CEO of CNG.

“Korda has excellent management and a fine sales and support team, which has enabled the company to expand its operations while building a superb reputation for quality and service. We look forward to working closely with Korab International and the current management of Korda to support and grow Korda’s position in the Turkish market,” Wallach added.

Domtar Distribution Group Is Now Ariva

Domtar said that its distribution business will take on a new identity under the name Ariva.

Formerly Domtar Distribution Group, the Ariva name and brand replaces all of the company’s legacy brands: RIS the paper house in the U.S. and Buntin Reid, JBR La Maison du Papier, and The Paper House in Canada.

According to Domtar, the company’s new tagline, “Paper to pixels. The way forward.”, conveys Ariva’s commitment to innovating new ideas and solutions to meet the evolving needs of customers in the digital age.

“Our customers’ businesses and needs are changing in ways no one could imagine a decade ago,” said Mark Ushpol, Senior Vice-President of Ariva. “Our new identity reflects our recognition of these fundamental changes and our commitment to work as a unified team to deliver new products and solutions to give our customers a competitive edge.”

Ushpol said the Ariva brand provides a strong, unified identity for the company in all of the markets where it operates, including the U.S., Canada, Mexico, the Caribbean, and Latin America.

Mercer Considers Production of Dissolving Pulp at Two NBSK Mills

Mercer International announced that it has completed a preliminary feasibility analysis for its Celgar (British Columbia, Canada) and Stendal (Germany) mills with respect to enhancing their operations and margins.

In addition to other enhancements, the preliminary analysis identified that, for a capital cost of approximately $30 to $40 million per mill, they could have the capacity to produce both NBSK pulp, as currently, and dissolving pulp (DP) when market conditions are favorable.

The enhancements would permit the mills to become “swing mills” capable of swinging production from NBSK to DP to opportunistically maximize realizations, Mercer said.

Mercer said that initially it would most likely implement the project at one mill. As part of a final technical and feasibility study, the company is implementing a process to select which mill and timing.

Mercer expects to complete a final technical and feasibility study and make a decision in mid-2011.

LATIN AMERICA

UPM Rafelatac to Acquire Labelstock Coating Business in Brazil

UPM Rafelatac said that it will acquire Gumtac, the Brazilian labelstock coating and slitting business of BIC Group. Gumtac is located in Rio de Janeiro and employs approximately 35 people.

“UPM Rafelatac has in recent years developed a widely recognized brand in Brazil,” said Jouko Lähepelto, senior vice president, Americas & Asia Pacific. “Through our distribution terminal in Jaguariuna, Sao Paulo, we have served key customers in this rapidly growing market. Gumtac’s well-managed operation will give us an excellent platform to extend our product offering and further support our customers’ growth in the region.”

The deal is subject to obtaining appropriate licenses from local authorities, UPM said.

CHINA

Nine Dragons Starts Up Two New Containerboard Machines

Metso said that the two containerboard machines it supplied to Nine Dragons Paper Industries have successfully been started up in Taicang, Jiangsu Province, China.

PM 29, which came on stream January 15, is a three-ply multi-Fourdrinier machine with a WinDrum winder and produces testliner in the basis weight range of 115-175 g/m².

PM 30 started up on January 31. The machine produces fluting in the basis weight range of 70-90 g/m².

The wire width of both machines is 7.25 meters, Metso said.
Finally, you can have it all – more flexibility, more choice and greater savings. As today’s paper mills evolve, it’s even more important to find new technologies that have a positive effect on your bottom line.

Welcome to fulfill™ High-Filler Technologies, the breakthrough solution that is redefining high-filler. fulfill™ is not simply a product, but a series of solutions designed to provide you with the ability to increase the amount of filler content in your paper by 1-10%, and beyond. More filler means less dependency on fiber, and that means substantial operational savings.

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The forest industry of Finland recorded an annual production increase of some 12% in 2010, but production volume did not yet rise to the level achieved in 2008, according to Finnish Forest Industries Federation (FFIF).

Pulp and paper industry production was up about 11% and the wood products industry’s production increased by some 14%. The continuation of this positive development after industry companies have finished implementing structural changes will depend on whether or not domestic costs are kept in check, FFIF said.

“Exports account for one half of Finland’s prosperity, so changes that affect the operating environment of industry are of huge significance,” said Timo Jaatinen, Director General of the FFIF.

“Rising domestic costs have a direct impact on the competitiveness of the forest industry’s export products. Energy and fuel taxes will top EUR100 million this year alone, and this is eroding our ability to compete in the international markets,” Jaatinen said.

“The tax credit granted to the energy-intensive forest industry must be boosted to an extent that places Finland on an equal standing with its competitor countries. The forest industry of Finland is far away from the markets of Central Europe, which means that the rising cost of sea transports increases our level of expenses further. Last year’s collective bargaining agreements were laudably moderate within the forest industry. Inflationary pressures mean that Finland cannot afford to erode national competitiveness on this front either,” Jaatinen added.

The FFIF estimates that the value of forest industry production increased to over EUR19 billion in 2010, up almost 25% from 2009. The pulp and paper industry accounted for the bulk of the increase (about EUR 14 billion) and the wood products industry accounted for the remainder (about EUR 5.5 billion).

Production volumes increased in all sectors of the forest industry. Finland produced 6.7 million tonnes of pulp last year, 22% more than in 2009. Paper and paperboard production rose to 11.8 million tonnes, up more than 11% from the previous year, while sawn timber production increased by 17% from 2009 to 9.4 million cubic meters.
German Paper Industry Saw Increased Volumes in 2010

Germany’s pulp and paper industry experienced increased volumes in 2010 and appears to be on the road to recovery from the difficult economic conditions in 2009.

Dr. Wolfgang Palm, president of the German Pulp and Paper Association, and owner and CEO of Papierfabrik Palm, at the Association’s annual press conference, said that production and sales for German papermakers increased in 2010 by more than 10 percent to 23.2 million tons, surpassing the pre-crisis performance in 2008.

Dr. Palm indicated sales rose in 2010 by 17 percent to EUR 14.4 billion, but rising costs for raw materials negatively affected profits. In 2010, recovered paper prices rose on average by over 80 percent and pulp prices climbed by some 70 percent, compared to 2009 figures.

Due to the steep rise in input costs many manufacturers have announced price increases for their products, Dr. Palm noted.

Packaging papers saw a marked increase in volume. Production in 2010 was 13 percent higher than in 2009.

Graphic paper production also improved, up about 10 percent in 2010, although still down 5 percent from its 2008 level.

Makers of hygiene papers saw 6 percent growth in 2010 over 2009, while technical and specialty papers experienced a marked recovery with a 15 percent improvement in 2010 after a heavy decline in 2009.

According to the Association, the driving force within the paper industry in 2010 was foreign sales, which performed better than domestic sales, improving by 15 percent compared with just 6 percent within Germany. Western Europe remained the largest foreign market.

The industry is hoping this year for greater stimulus from the domestic economy, Dr. Palm concluded.

INDUSTRY SUPPLIERS

Eka Chemicals Purate Technology Approved for Use as Paper Machine Biocide in Canada

Eka Chemicals said that it has been granted permission by the Canadian Pest Management Regulatory Agency to use its Purate® technology to produce chlorine dioxide for applications to control microorganism contamination in pulp and paper mill process water.

“For over 40 years, Eka Chemicals has been designing, building and operating chlorine dioxide systems for applications ranging from pulp bleaching to water disinfection for drinking and food processing,” said Mario Houde president, Eka Chemicals Inc.

“Purate is proven technology with more than 300 on-site chlorine dioxide production units around the world,” Houde said. “We are really excited to be able to offer this technology to the Canadian Pulp and Paper Industry as it is the most cost effective chemistry to control biofilm in the papermaking process.”

Metso in Talks with Suzano on Supply of Complete Pulp Mill

Metso said that it is in advanced talks with Suzano Papel e Celulose about concluding a contract for the supply of all main pulp making technology for Suzano’s 1.5 million ton per year greenfield pulp mill to be built in the state of Maranhao in the northeastern part of Brazil.

Metso did not disclose the value of the deal or further details of the proposed contract.

Start-up of the new pulp mill is expected in first half of 2013, Metso said.
Ahlstrom Corp. has appointed Liisa Nyyssonen as vice president, corporate communications. Nyyssonen joins Ahlstrom from the Helsinki office of the PR firm Hill and Knowlton.

Cascades Inc. has named Mario Plourde as chief operating officer of the company. Currently, Plourde holds the position of president and chief operating officer of Cascades’ Specialty Products Group, a position he will retain until a successor is selected.

Fibria has appointed Marcelo Strufaldi Castelli to the position of CEO, effective July 1. Castelli currently serves as Director of Forestry, Paper, Strategy and Supplies.

Glatfelter announced that its chairman, George H. Glatfelter II, has informed the Board of Directors of his intent to resign as chairman, effective at the company’s 2011 annual meeting on May 4. Glatfelter’s Board has unanimously elected Dante C. Parrini as Mr. Glatfelter’s successor effective immediately following the annual meeting.

Rayonier announced that Paul G. Boynton, Rayonier’s president and chief operating officer, has been elected to its board of directors.

Sonoco has elected Kevin P. Mahoney senior vice president of Corporate Planning. In addition, Ritchie L. Bond has been elected vice president, treasurer and secretary.

Wausau Paper has named Henry C. Newell as executive vice president and chief operating officer. Newell formerly served as senior vice president – paper.

BASF announced that Dr. Uwe Liebelt will become president of BASF’s Paper Chemicals division, located in Basel, Switzerland, effective April 1. Dr. Liebelt is currently senior vice president, dispersions & pigments North America located in Charlotte, North Carolina. Dr. Liebelt succeeds Dr. Ehrenfried Baumgartner, who is retiring. In addition, BASF has named Brett Fenske as technical manager for its Paper Coatings business in North America. Fenske, previously, was product engineering manager with Appleton Coated in Combined Locks, WI.

SKF has appointed Poul Jeppesen president, SKF North America, with an overall responsibility for Canada, Mexico and the United States. Jeppesen previously served as president of SKF USA Inc.

The Pulp and Paper Technical Association of Canada (PAPTAC) at its annual February meeting elected Patrice Mangin as chairman. Mangin is general director of CIPP and professor of chemical engineering at University of Quebec in Trois-Rivieres.

Dr. Harry Cullinan on June 1 will assume the position of Director of Technology Deployment at Auburn University’s Alabama Center for Paper and Bioresource Engineering. In this new role, Dr. Cullinan will focus on the commercialization of several biorefining technologies currently under development at Auburn.
Presenting the POWER OF PANTHER

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- **Professional Services**. Panther’s professional services include IT consulting, mill transitions, custom dashboards, and more.

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From a Paper Mill Customer:
“When our legacy control system crashed, our incumbent vendor failed to respond when needed. We called Panther Systems and they were here the next day. We installed their measurement and control system, and as a result, the mill has now surpassed all historical production records.”

From a Large Paper Industry Corporation:
“In response to the question of why did we choose to install all of Panther’s products in each of our mills, I’d say that no one else provides the quality of service that Panther provides.”

From a Non-Woven Production Customer:
“Panther was able to provide a basis weight profile management solution which allowed us to save money and gave us a differentiation within the industry. We consistently produce a better quality product because of Panther’s solution.”

Providing High Quality, Low Cost Solutions

Panther has the products, the experience, the expertise, and most importantly, the right people to provide the production solutions you need. We invite you to put the Power of Panther to work for you!

Contact Panther Systems, Inc. at sales@panthersys.com or 360.750.9783
The overall North American market for printing and writing grades has certainly posted a big turnaround from the steep three-year downward spiral that finally hit bottom in 2009. Demand for full year 2010 will post an increase for the first time in several years and significant price gains were posted for almost all grades and sectors.

The rebound has been particularly strong for grades that rely upon advertising to a significant degree, notably coated papers, high quality uncoated groundwood grades and some uncoated fine paper grades. Nevertheless, while demand for uncoated freesheet grades has improved relative to the crash in demand experienced over the 2007 to 2009 period, nagging concerns about the future remain.

As noted, a recovery in the overall U.S. economy in 2010 resulted in a positive change in direction for printing and writing paper markets including uncoated freesheet grades. The U.S. economy grew strongly in the fourth quarter as real Gross Domestic Product (GDP) rose 3.2%. Market analysts had expected growth to be somewhat under that level, but holiday retail spending ended the year on a solid note, helping to drive up overall growth. Growth in third quarter GDP was revised up to 2.6%, and for 2010 U.S. GDP grew 2.9% from 2009, compared to 2009’s negative 2.6% level.

North American printing and writing paper shipments rose by 3.0% in 2010 over shipments in 2009, the Pulp and Paper Products Council reported. Total U.S. paper production rose 3.7% in 2010 according to AF&PA, with production of printing and writing grades posting a strong 4.8% gain to 20.3 million tons, aided by inventory restocking up and down the supply chain.

In contrast, while U.S. uncoated freesheet shipments improved from the depths of the downturn, they finished the year down about 2% compared to 2009 at 9.5 million tons (see table). Exports and imports also rose but remain fairly minor in terms of the overall market. Imports rose about 11% as mills around the world targeted tonnage at the relatively high U.S. price levels. Imports rose substantially from Europe, notably due to the new machine in Portugal (Portucel).

It may seem odd to view a decrease in shipments in a positive light, but nevertheless it represents a significant improvement compared to the huge demand losses endured in the prior two years. Even more importantly, the “recovery” in demand coupled with continued capacity adjustments resulted in a shift in pricing power back to producers who pushed through a series of price increases that raised prices back near previous highs.

There Are Concerns

However, worrisome signs began to emerge about the true direction of uncoated freesheet demand even as markets improved. One red flag is that gains on a monthly basis compared to prior year levels weakened and began to look worse as the year progressed. The trend continued into early 2011, as U.S. shipments of uncoated freesheet grades in January were 785,100 tons, an incremental gain of just 0.1% from December and 3.7% lower than in January 2010. This continued a series of year-over-year declines posted during 2010, according to AF&PA. Inventories also rose to 931,400 tons marking the highest level since January 2010 and the fourth consecutive increase. Mill operating rates were also weak at 87%.

Central to the problem facing uncoated freesheet producers is that while demand ceased to plummet, it continues to be tepid despite solid growth in the economy that historically would have led to expanded demand. The fundamental problem is that demand continues to falter for a wide range for uses and grades, including two of the largest grade

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Shrinking Demand Remains Major Hurdle for Uncoated Freesheet Markets

The plummet in uncoated freesheet demand was arrested last year as advertising-driven markets recovered and replenishment of inventories provided a boost to demand. However, high unemployment and technology-driven losses continue to undermine long term demand for key grade segments.

By Harold M. Cody
segments: bond and writing and envelope grades. These two sectors account for 55% of shipments, with bond and writing alone the largest single segment, accounting for 44% of total shipments at just over 5 million tons. Office papers, i.e. cut size grades such as copy, laser and inkjet papers continue to be hurt by stubbornly high unemployment levels in the 9% to 10% range, which includes white collar workers, as well as continued shifts in technology that result in reduced paper use per capita.

Similarly, envelope grades continue to be battered by ongoing losses to other forms of communication. In addition, envelope use declined due to the severe drop in advertising, which includes direct mail, in the last few years. The other large segment is offset printing grades, which account for about 22% of shipments, and which are used for a wide range of direct mail and other printing. Offset shipments posted a solid gain last year with shipments rising 7% over 2009 levels.

**Price Recovery in 2010 Was Big News**

As indicated, without doubt the best news for producers over the last year or so is that the combination of improved demand and tighter supplies as producer’s carefully trimmed capacity provided them with the leverage necessary to raise prices. Prices climbed significantly across the board for almost all printing and writing grades, and for that matter most pulp and paper products. The increases were the most widespread gains enacted in recent memory.

Uncoated freesheet paper prices rose for much of 2010 before they reached a peak in the fall following the successful implementation of most of a $60/ton increase that was officially effective in May. This was the third increase in prices since late 2009, when prices bottomed out during the collapse in demand that occurred during the worst of the economic downturn. By late 2010, prices had rebounded to the same range as the last peak in prices, which occurred in 2008, when cut size grades hit about $1,100/ton and offset hit the $950/ton range.

Producers would likely be struggling to avoid a retrenchment in prices if supply and demand were the only factors involved. However, part of the equation behind the increases and an important factor going forward as well was the cost push to prices provided by high fiber and other input costs.

Pulp prices remain high and even though some correction may occur in 2011 it appears likely that pulp prices will remain reasonably high this year and not post a significant decrease. Pulp capacity growth is limited and rising input costs continue to bear on manufacturing costs. The recent spike in oil prices due to unrest in Libya is a factor to watch and likely will provide further cost pressures that will avoid a serious fall in paper prices. In fact, there are already rumblings being felt about a second quarter price increase on some graphic grades including coated papers.

Putting it all together we have a somewhat mixed but overall positive picture for 2011. Printing paper demand in both North America and Europe has weakened substantially recently, after posting a solid recovery in late 2009 and for most of 2010. Although near-term demand trends may be weak, global demand is expected to post modest gains and it appears pricing will remain at profitable levels. However, the recovery in demand for printing papers, including uncoated freesheet, is muted by historical standards. One reason is that developments in technology are accelerating and, more importantly, they are being adopted more quickly by consumers than was the case in the past. A number of these developments could reduce paper use even further and bear careful scrutiny.

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Harold Cody is a contributing writer for PaperAge. He can be reached by email at: HCody@paperage.com.

### 2010 U.S. UNCOATED FREESHEET PROFILE

<table>
<thead>
<tr>
<th>(000 tons)</th>
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Source: American Forest & Paper Association
heads up

European Newsprint in Steady Decline

A combination of familiar and irresistible forces is now seriously weakening this sector. There is a realistic possibility that traditional newspapers could be marginalized like typewriters, old black telephones, and black and white television.

By David Price

Let’s start off by looking at the numbers. In 2009, Europe produced 9.3 million tpy of newsprint and consumed 8.6 million tpy. These represent declines of 11.6% and 13.7%, respectively, versus corresponding 2008 figures — so ended a five-year period of newsprint production which was consistently above 9 million tpy.

There was also a corresponding drop in sales value for daily newspapers — $54.9 billion in 2008 and $49.8 billion in 2009.

Clive Suckling of PricewaterhouseCoopers (PwC) estimates that this downward trend will continue, including:

• a fall in print advertising to $23 billion by 2014, well below the peak of $31 billion in 2007.
• a decline in circulation of daily newspapers to 70.7 million by 2014. The circulation of paid dailies peaked at 85 million in 2005.
• a 1.1% annual decline in “free” dailies, who’s circulation peaked in 2007.

So are we seeing the death of newspapers? Since the days of William Randolph Hearst newspapers have been in decline, although no one really believed they would disappear. And they probably won’t. But there will be less of them around. Every reader knows of a newspaper that has folded and why it did.

Deceptive

A cursory glance at the European market is misleading. It has three of the fastest and biggest paper machines in the world: Myllykoski’s PM1 (2020 meters/minute) at Hurth, Germany; Holmen’s PM62 (2000 m/m) in Madrid, Spain; and Palm’s PM3 (2200 m/m) in Germany. Yet production and consumption are both slowing.

In 2008, many newsprint mills cut significant capacity so that by 2009 only one mill, Norske Skog Parenco in the Netherlands, closed capacity, removing 225,000 tonnes from the market. However, there were two capacity increases in 2009. Papierfabrik Palm started up its new mill in King’s Lynn, UK adding 400,000 tpy of newsprint capacity, and in France, Papeteries de Turckheim restarted under new ownership.

Newsprint in Eastern Europe in the past few years has also experienced declines. In 2009 production was down 11% and consumption fell steeply by 22%. Russian demand alone fell by some 38%.

CEPIPRINT, a statistical/grade division of CEPI, blames the usual suspects for the downturn. It included the global recession, reduction in pagination and circulation as publishers struggled to cut costs, destocking, a younger generation that does not buy newspapers, and the relentless drift to e-media and handheld systems.

View from the Top

Five CEOs contacted by this writer were not prepared to comment on the state of the market, but two annual reports gave some clues. Jouko Karvinen, CEO of Stora Enso, wrote in his 2010 annual report, “Printed products continued to
lose share of advertising spending and suffered most from shifts in spending towards digital media. Global demand for newsprint was 1.3% greater in 2010 than the extremely weak 2009, but still 1.4 million tonnes less than in 2008.

Jussi Pesonen, CEO of UPM, wrote of 2010, “...Profitability of the Paper business was weak. Paper deliveries increased, but the business reported an operating loss...Addressing the challenging situation in the European paper business is our top priority. Demand growth is shifting to markets outside Europe. The currently inefficient European paper industry clearly needs consolidation to be able to improve its cost structure and competitiveness.”

Consolidation may help, but I am not certain it will be enough to arrest the fundamental structural decline in this grade.

**Fighting Back**

Although the traditional daily newspaper may no longer be part of our daily habit, newspaper publishers are fighting back by investing in their websites to help attract online advertising. They are also being more pro-active in selling online ads. *The Wall Street Journal* has launched a mobile version of its website for its European edition. In the UK, new smartphones that can access newspaper content are enlarging the audience and boosting digital advertising. *The Daily Mail* reports an increase in online advertising in early 2010, reflecting growth in digital format.

Other studies from the Netherlands, France and Italy demonstrate that growing broadband penetration and growth in newspaper website traffic are increasing the online audience for newspapers at the expense of the print editions.

So what will happen to newsprint mills, especially those with excess capacity? One suggestion by Jaakko Poyry, PwC, UPM, and others, is that many of these mills, if located near forest resources, could re-configure themselves as bio-refineries. UPM is already trialing a BioFore project, which is dedicated to the use of forest biomass. Similar pilot projects are underway in Europe. Of course, not all mills, or their employees, will be so lucky.

But I am intrigued by the following scenario: I am in a lakeside cottage in central Finland, reading the news on my Ipad. Across the lake is the newsprint mill which used to supply the raw material for my newspapers. That mill now provides heat and power to me and my neighbors.

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David Price is a contributing writer for PaperAge. He can be reached by email at: DPrice1439@aol.com.

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Congratulations To

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Chairman & CEO of International Paper

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In July of 2005, John Faraci announced that International Paper would transform itself from a behemoth company that produced a wide range of coated and uncoated grades of paper, chemicals and wood products, and owned millions of acres of forestlands, to a slimmer, fitter, more efficient company which would primarily focus on uncoated paper and packaging.

The transformation plan generated over $10 billion in after-tax proceeds from the sale of non-core businesses, with portions of those proceeds used for debt reduction, the funding of cost reduction programs, and strategic investments in global regions considered to hold the greatest growth potential for the new IP and its realigned product mix.

IP has also strengthened its containerboard operations in North America with the 2008 acquisition of Weyerhaeuser’s packaging business, along with incremental investments in its Ilim joint venture in Russia and its Sun Paper JV in China.

Today’s IP is a much different animal than it once was, and although it has divested huge segments of its former self, the company has grown in efficiency and strength. As John Faraci will tell you, it’s not about growing just for the sake of growth, it’s about growing profitably.

In light of IP’s outstanding performance in 2010 and the vision and dedication of its chairman and chief executive, PaperAge has selected John Faraci as our “Executive Papermaker of the Year.” In the following interview, John Faraci talks to PaperAge about where International Paper stands today and what’s on tap for the future.
This is the second time you’ve received our award, the first time being in 2006 and you were in the midst of International Paper’s “Transformation Plan.” How does today’s IP compare to what the company was pre-transformation?

Today’s International Paper is more focused, stronger, and more competitive. The transformation plan was all about changing the company not in an incremental way but in a transformative way, and the most important aspect of that is not only is the company different, but its ability to generate returns and generate free cash flow has significantly changed for the better.

Is the integration of Weyerhaeuser’s Containerboard, Packaging and Recycling business complete? What’s left to do?

It really is complete. I’d say we’ve gone from integrating Weyerhaeuser’s packaging business with ours to optimizing it. We’ve now got close to an $8 to $9 billion packaging business in North America that we’re optimizing, and there are a lot of optimization opportunities.

Considering the modest improvement in the economy, has IP experienced corresponding recovery in the uncoated free sheet market, relative to volumes?

Overall, the demand for uncoated free sheet globally is growing at about 3 percent, and in some parts of the world even more. However, in the U.S. it’s not a growing market, and having said that, last year, the first year after the recession, consumption in the U.S. is down about 1-2 percent. In some segments, like commercial printing, there was market growth as the economy came back. As unemployment comes down — and it will as the economy continues to improve — slowly we could see uncoated free sheet demand flat or surprisingly up in 2011 or 2012. But underlying that, the structural decline of 3-5 percent per year is still base case and what we’ve got right now is a business cycle moderating that.

You’ve mentioned that it’s important to put capital to work towards lowering IP’s cost base. Is there an area within IP’s mill system that you’re targeting which has the potential for the greatest return?

Yes, I’d say the biggest area for us is energy consumption reduction. We’ve just completed a large project in Kwidzyn, Poland that increased our energy self-efficiency from below 50 percent to above 80 percent, which actually has us buying less energy from the grid — a very attractive return as we make about 27 megs of power that we previously had to buy.

And there are other projects like that. We’ve got a project at one of our mills in Brazil (Mogi Guacu mill) that’s going to take us to 100 percent biomass self-sufficiency for generating steam. We’ve got a project in Russia, which is similar to the one in Brazil, of increased energy self-sufficiency, along with a number of smaller projects here in the U.S. Energy efficiency is one of the ways we can put our capital to work that’s not only good economics but good from an environmental standpoint.

IP’s Ilim joint venture in Russia turned in an exceptionally strong performance in 2010. What drove those results?

Most of Ilim’s production is market pulp and most of that market pulp is sold to China. It’s predominantly softwood, and Ilim’s facilities in Siberia are the closest softwood pulp mills to the Chinese market. So we’re very well-positioned at Ilim from a logistics standpoint. Chinese demand remained strong, pulp prices, especially on the softwood side, were good, so all those things came together and resulted in a record year for Ilim, and that’s continuing on into 2011.

And paper production in Russia?

Most of the paper that we produce in Russia is produced at Svetogorsk, which is our fully-owned facility. The paper
market in Russia is very good — it’s growing at about 5 to 6 percent per year — and we’re close to sold out. We had a record year at Svetogorsk, therefore Russia is a good paper market for us, and we’re actually looking at adding paper capacity at one of Ilim’s mills so we can continue to meet our customers’ demand in that part of the world.

Are there any other projects underway at Ilim?

We’re involved right now in two big brownfield projects in Ilim. One is in Siberia at the Bratsk facility and it involves expanding the pulp capacity we have there, along with lowering our costs and improving our environmental footprint. The second is at the Arkhangelsk facility in northwestern Russia, which will integrate pulp into making uncoated and coated paper for the Russian market.

So, the largest one — the one in Siberia — is aimed at the pulp market for China, and the other one, Arkhangelsk, is aimed at the domestic Russian market. So those are two big brownfield projects for us and that’s what is on our radar screen, and most important, to take the Ilim joint venture to the next level.

Looking at China, could you discuss capital plans for IP’s Sun Paper JV?

Last year we approved a 4th coated board machine for the JV. We’re the number 2 producer of coated board in China, and that’s gone very, very well. We started up a machine a little over two years ago and we’re sold out already, so we have to add more capacity. We’ll be starting that project in 2011. The machine won’t start up until late 2012 or early 2013, but the construction cycle will begin this year.

Our plans with the Sun JV are to continue to be a leader in that segment of the packaging market where we’ve been able to be very successful to date.

You finalized the acquisition of SCA’s packaging business in Asia in June of 2010. What was attractive about that business?

The great thing about SCA’s packaging business is we have plenty of capacity to grow our business. International Paper’s box business in China grew at about 20 percent last year, that’s a huge volume increase in percentage terms. The SCA facilities have given us the ability to double our business without spending anymore major capital.

And since closing the deal, what has taken place so far?

What we’ve been doing since we bought SCA is getting the management team lined out, understanding the customers, determining what the capabilities are of the facilities so we can match them up with the International Paper locations. Most of the SCA plants are in areas where we were not, so we got better geographic coverage and we’re excited about the prospects of that business going forward.

I’d like to add that there isn’t a lot of capital that we’re going to be spending because we’ve acquired enough capacity to take care of the demand for the next several years.

IP’s European packaging businesses saw improvement in operating profits in 2010 vs. 2009. What do you attribute the gain to?

We had a record year in what we call our EMEA business, which is Europe, the Middle East, Africa and Russia, and it
was a record year for several reasons. First of all, our footprint in paper and packaging board is very much skewed to the East — it’s in Poland and Russia. So we’re in the right spot where the markets are growing and the economies are healthy.

The second reason is we had very aggressive plans to consolidate our business and take out a lot of fixed costs by closing some capacity we didn’t need, both in our corrugated packaging business (a mill in France) and in our paper business (a paper mill in Scotland). Getting those two facilities out and closed dramatically changed our cost structure.

The third reason being as the markets close to where we make the products — particularly in Poland — grow, we’re able to sell more product close to home, giving us a big geographic mix upgrade in terms of margins by, say, selling the product in Poland, France, and Germany, opposed to in the Middle East.

I’d say all three of those factors came together last year, and we ran very well. We had a plan, we executed it, and we’re in the right spot in those businesses to benefit from parts of Eastern Europe and Russia that showed good economic growth.

**Are there areas in Europe that look particularly appealing that IP is not in right now?**

Well, we like Eastern Europe. We have a corrugated packaging business that is France, Italy, Spain, Turkey, and Morocco, and serves the fruit and vegetable market. If we could find an opportunity to grow profitably, and it’s important to use the word ‘profitably’ because we’re not going to grow just for the sake of growth, Eastern Europe is a place where we’d like to have a more significant presence.

**In Brazil, has IP made a decision on its option to build a second uncoated free sheet paper machine at the mill in Tres Lagoas?**

We haven’t made a decision yet. We have an option to build another machine on the site where we built the first machine, and that option can be exercised no later than 2013. So, we have some time to evaluate what we want to do.

We like our business in Brazil. We’re a market leader, we’ve got good margins, there’s good demand growth there. The Latin American market is growing 3 - 4 percent per year and we want to make sure we’ve got capacity to meet the needs of the region, which we can serve from Brazil because Brazil is a very good cost structure and offers access to fast-growing fiber.

**Will IP’s decision on the second machine primarily be based on market conditions or something else?**

It’s mostly the market. Currency, obviously, near-term is not a plus. In Brazil, the currency is quite strong. So in the business like we have in Brazil, about 50 percent of what we make is exported to either other countries in Latin America or to Europe. Considering the strong currency, along with selling that export product in U.S. dollars, having our cost structure base in Brazilian currency is squeezing the margins.

But in looking into the long-term, Brazil has an excellent cost structure, strong margins, and good demand and growth. We’ve got a good business there and we want to continue to keep our leading position in that part of the world.

xpedx is North America’s largest printing paper supplier and distributor of graphic supplies, printer supplies, and printing equipment.

**IP’s distribution business, xpedx, saw improved sales in 2010, but its earnings decreased during the year. Could you comment on this?**

The sales were better than they were in 2009, but sales fell about 20 percent in 2008 and 2009 and we’ve only clawed back a fraction of that. I think our sales last year were up less than 10 percent. So, sales did improve, but we’re a long way away from where xpedx was.
A strategic review of improvement opportunities is underway at xpedx. What business functions does the review focus on?

xpedx has got a significant amount of potential. It’s a distribution business, so the three levers for success in that business are: how you buy, how you run/handle your warehousing system, and how you sell. The strategy review that we’ve been doing has been focused on those three areas and I think there is more upside in that business than we thought.

As the economy continues to improve, and keeping in mind we’ve got a recovering economy and one that’s not fully recovered, xpedx’s reach into the commercial printing and packaging facilities supplies market will enable it to grow revenues.

Since the year 2000, IP mills collectively reduced dependence on fossil fuels by 45%. What type of energy-related technology are you focused on?

First of all, investing to maximize the use of biomass, that’s number one, because that reduces our co-dependence on fossil fuels. But, more importantly, to reduce our energy consumption so we’re consuming less megawatts to generate the same amount of output.

What types of energy efficiency projects have taken place?

The projects we’ve been installing to use more steam to generate electricity just to reduce our energy consumption are really important and those are the ones that have enabled us to reduce our fossil fuel usage. A lot of others have been small capital projects or non-capital projects such as using less water, heating less water; all those things are optimizing our systems so at the end of the day they result in less energy consumption.

You referred to 2010 as a transitional year. How so?

When you think about 2010 for a minute — the first year after the worst recession that we’ve had in 80 years — by any means you have to call it a year coming out of the recession. And although the economy is growing, it’s growing at a relatively slow rate. So against that backdrop, International Paper’s financial performance has been more or less a V-shaped recovery in terms of our financial performance in a demand environment that’s in more of a U-shaped recovery.

And you’ve said 2011 is a break-out year. Again, how so?

The strongest part of our year in 2010 was the second half — the third and fourth quarters — so we come into 2011 with a lot of momentum feeling there are some issues in the economy. But International Paper is well prepared to deal with those issues and we feel as though 2011 should be the year we expected to have in 2009, until the great recession hit. That’s why I see 2011 as having the potential to be a breakout year — one where we’ll show investors what the new International Paper is capable of doing even in an economic climate that is getting healthier, but is not yet fully recovered.
Congratulations International Paper and John Faraci – a shining example of industry leadership

Voith Paper extends a proper applause to John V. Faraci – International Paper's Chairman and CEO since 2003 – for being selected as the 24th Executive Papermaker of the Year.

Under Faraci's leadership, International Paper has listened to customers and developed a keen understanding of market demands. As a result, the company has reinvented itself as a global leader in uncoated paper and packaging and is well positioned for continued success.

Voith is proud to be a global supply partner to International Paper, and we offer our congratulations on the well-deserved recognition of its many accomplishments.

www.voithpaper.com
Wait – China is Buying Kaolin from the USA?

Georgia-based Thiele Kaolin finds China’s paper industry an energetic market.

By John O’Brien, Managing Editor

Kaolin, a fine, usually white clay mainly composed of kaolinite, was first discovered in the mountainous province of Kiangsi, China in A.D. 500. The word “kaolin” derives from the Chinese “kao lin,” which means “high ridge.” The Chinese first used kaolin or “China clay” in the making of porcelain.

Today, China remains one of the world’s largest producers of ceramics. But its thirst for high quality kaolin has increased dramatically over the past decade as the country has evolved to become the world’s second largest producer of paper and paperboard.

A privately held company founded in 1946, Thiele Kaolin Company is a leading source for processed kaolin clay worldwide. The Georgia-based company mines, processes, blends and delivers the full spectrum of kaolin coating and filler pigments, each tailored to meet customers’ needs from its processing facilities in Sandersville and Wrens, Georgia, and slurry facilities in Wisconsin Rapids, Wisconsin, and Gävle, Sweden.

Thiele activities are ISO-9001 certified, and an emphasis on quality has been a company tradition since its establishment.

Over the past decades, Thiele has visited coated paper and board producers and local kaolin producers in China, helping the company to develop direct sales in that country’s fast-growing paper industry. The endeavor has proved to be a learning experience for both buyer and seller.
Recently, PaperAge caught up with Eric Tillirson, Vice President Sales and Marketing; and Randy Mayberry, Director of International Sales, to learn more about Thiele’s involvement in China and what it’s like doing business on the other side of the globe.

**Considering that China is a significant producer of kaolin, why would Chinese paper manufacturers opt to import kaolin products from a US producer?**

While China has vast deposits of kaolin, especially in Guangdong Province in the south of China, the locally produced products have not yet evolved to match the quality of kaolin products developed in the U.S. Of course, many Chinese papermakers still try to use as much locally sourced kaolin as possible due to the relatively high cost of shipping.

In general, kaolin found in other regions such as Indonesia and India is more suitable for filler applications.

**How much of China’s kaolin demand is met by U.S. producers?**

Some large Chinese coating kaolin users reportedly use 100% domestic clay in their coating formulations, while others import significant quantities. Modern Chinese paper machines require kaolin products that have excellent high shear viscosity at high solids, attributes that U.S. produced kaolin readily displays.

With that in mind, we assume that domestic Chinese clay accounts for roughly 55-60% of total clay used in the country, with the balance being provided by offshore producers.

**When did Thiele first begin exporting product to China?**

Thiele began commercial sales in China decades ago. In 2003, Thiele began direct sales by providing product to China’s largest recycled coated board producer. In late 2005, Thiele began a more focused marketing effort in the region.

**Has Thiele’s export to China increased year-over-year?**

Thiele enjoyed an immediate growth spurt in sales to China in 2006. Over the next few years, we experienced a subsequent moderation in sales and ultimately established a solid base from which to grow in 2010.

**Is there opportunity to grow sales?**

We expect significant sales growth in 2011 and beyond. China represents an important and growing market for kaolin, and Thiele is committed to providing value to coated paper producers in this market.

**What qualities/characteristics in kaolin products drive Chinese papermakers to seek pigments from outside their region?**

For Chinese papermakers, like most in Asia, locally produced ground calcium carbonate is the pigment of choice. However, few mills can produce acceptable products with 100% carbonate-containing coating formulations. High quality printing applications usually require between 10 - 30% kaolin — usually fine particle sized clays — in the coating color.

**THE TUSCALOOSA FALL LINE**

Although kaolin is found in other parts of the world, rarely is it as pure and uncontaminated as it is in central and east Georgia. About thirty percent of the world’s consumption is produced in a narrow strip that runs diagonally across the state, from Macon to Augusta. The area is known as the Tuscaloosa Fall Line, a transitional zone between the Piedmont Plateau and the coastal plain.
Thiele is ideally positioned to supply high quality fine and ultrafine kaolins from its vast East Georgia reserves and its Reedy Creek facility in Wrens, Georgia. GuangZe Plus, a tailored, number one fine, high glossing coating clay, is one example of a product designed to meet the specific needs of Chinese papermakers.

**How do you deal with the costs involved with moving bulk quantities to the other side of the world?**

Logistics costs are perhaps the single greatest challenge we face in China and other markets that lack sufficient bulk warehousing capacity at major port facilities. Once the U.S. economic juggernaut slowed in late 2007 and crashed during the financial crisis of 2008, empty shipping containers became difficult to obtain and quite costly.

To help mitigate this situation, we have established relationships with several of the largest shipping lines in the world and use best purchasing practices to obtain the most competitive ocean freight rates for our customers. Thiele cannot subsidize shipping rates for our customers, but we work very hard to obtain the very best rates and pass on savings whenever we can.

**And your approach to customers when it comes to logistics?**

No customer wants to accept bunker surcharges on a variable basis and many insist on “one price for one year.” However, the ocean lines do not accept this risk, so being completely open with our customers and fully explaining the inherent risk is our preferred approach.

**How does Thiele handle sales and distribution in China?**

We appointed Shiraishi Calcium Kaisha, Ltd. as our exclusive sales agent and distributor effective October 1, 2009. Shiraishi has represented Thiele in the Japanese market for over 40 years, and they had already established a subsidiary company in Shanghai.

**Is Shanghai the only location?**

No. The Thiele/Shiraishi team consists of five local offices located in Xian, Zhuhai, Hong Kong, Guangzhou, and Shanghai that employ technical and commercial experts.

**When it comes to the application of kaolin in the papermaking process, is there a specific product that Thiele developed and demonstrated for coating engineers in China that has been an eye-opener for them?**

Thiele has always taken the approach that what is best for our customers is ultimately best for us. When we entered the Chinese market, high brightness clays claimed the lion’s share of the imported clay market. But from experience in high carbonate containing formulations we knew that often a papermaker could significantly reduce costs by using standard brightness kaolin products rather than the traditional high brightness offerings. Clay could be added to enhance glossing and printability, and the carbonate could take care of the brightness requirements. The development and introduction of GuangZe Plus into the Chinese market is a perfect example.

This was not necessarily an easy sale because the Chinese coating engineers seemed to know only the high brightness clays from the U.S. But now, current sales of standard brightness and tailored clays account for approximately 25% of Thiele’s forecast 2011 sales to China. As this new way of thinking gains greater market acceptance, we expect this percentage to increase.

**What have you learned from the Chinese that you may not have known prior to Thiele’s involvement in the region?**

The Chinese have a unique way of doing business. American business people tend to like to have things tightly wrapped up in a neat package, but this is seldom the way things work in China. Chinese buyers also have immeasurable patience...
during the negotiation process. Of course, they have many more centuries of practice than Americans!

**What gets you excited about doing business in China?**
We have never seen such energy in a market. The potential growth in the Chinese economy is basically unlimited once they fully unleash this energy, and Thiele is excited to be a part of this future.

**Considering all the new coated paper capacity in China, what kind of technological challenges do the newer, high speed machines present for Thiele’s development of kaolin products?**
The greatest challenge we see is getting the Chinese engineers to open up and trust us as a partner. They seem reluctant to change the coating recipes given them on startup of the machines. Some of the European-owned mills will conduct pilot trials at western facilities, but it is rare for a Chinese-owned mill to ask for such support. They seem to try new ideas live on the machine, if at all.

We have good technology to share, but it is difficult to get these ideas into practice. These new machines thrive on kaolin products that have excellent rheology at high speeds, which aligns well with Thiele’s East Georgia product portfolio.

**China’s paper producers face fiber-quality issues. Do you see increased demand from the Chinese papermakers for filler materials? Is this an area Thiele will become more involved in?**
Like their counterparts around the world, Chinese papermakers’ goal is to produce paper at the lowest cost possible. This requires maximum loading of minerals versus using more costly pulp. While filler materials/minerals like carbonates have historically been locally sourced — to varying degrees of success — Thiele is currently developing “smart” filler products to help ease the pressures of high pulp prices in China.

**The difficult economic environment that has persisted over the past few years has forced paper producers to put their costs under a microscope. How has this affected Thiele’s approach to its customers?**
We realize that papermakers are under enormous pressure to produce quality products at low prices. We are dedicated — as always — to partnering with our customers to help reduce overall costs. We have been successful in the past year in Europe partnering with major paper producers in tailoring less costly pigments that allow lower total costs. And part of that effort is continually improving our product offerings, finding efficiencies in our own processes and investing in research and development.
Putting Stock in Outsourcing the Functions of Warehousing and Distribution

Logistics involves the integration of information, transportation, inventory, warehousing, material handling, and occasionally security — tasks that in many cases are better left to the pros.

By Tom Mutz

Companies are constantly trying to find ways to improve supply chain performance, and warehousing and distribution are functions supply chain managers can focus on to optimize efficiencies, while attaining financial objectives. There are indeed means to accomplish both service and cost objectives, which are certainly worth evaluating.

An increasingly popular alternative to “in-house” warehousing and distribution is the outsourcing of those functions to a firm that specializes in logistics.

Deciding to use a third party logistics company is a decision that depends on a variety of factors that differ from business to business. For example, the supply chain model for semi-conductors will vary considerably than that for rolls of paper or woodpulp. The former will be expedited by air, whereas the latter via breakbulk vessels or containers. Choosing a service provider who specializes in handling the products your company produces is of the utmost importance.

And although the warehousing and distribution process varies from industry to industry and by the products shipped, there are a number of common elements that apply to the process. From my industry experience, and working for PENN Warehousing & Distribution, the three major components I see that are consistent throughout the supply chain evaluation are: location, technology, and transportation.

LOCATION

One of the best practices when considering a location for warehousing and distribution is starting at your customers’ locations or defined target market, and then analyzing logistics in reverse to the origin of the product. Therefore, considerations for the inland distribution after arrival and the transport to the port of discharge are critical factors.

When it comes to forest products — aside from the origin logistics of transporting products to the port of loading — the requirement for sea transport is self-evident. When choosing a service provider at the port of discharge, it is important to select one that has the ability to receive breakbulk vessels directly at their facility. It’s a bonus if a container terminal is in close proximity.

At PENN, we have a unique advantage to satisfy both of these considerations at the Port of Philadelphia. The breakbulk vessels are managed by our forest products stedeore operations. Being adjacent to the container terminal provides for efficient and timely handling of containers for both exporters and importers. When considering rail and road transport as part of the formula, transit times can be quite favorable resulting in meeting customer delivery commitments. There are many companies that prefer this cost efficient process, as transloading (stuffing and stripping) containers local to ports minimizes the costs associated with transporting containers over the road. That is especially
relevant to forest products, as most of the containers are overweight (21 – 25 metric tons), which require DOT permits. Having these capabilities are key to reducing handling and distance to storage, thereby minimizing the opportunity for damage and inland transportation costs.

Perhaps one last consideration would be the review of which breakbulk vessels and container vessels call on a respective port. We continue to see vessels getting larger and larger for both economic and environmental reasons. Therefore, draft requirements will come into play when vessel operators consider their ports of calling.

TECHNOLOGY

Technology is an important component of the supply chain evaluation process and can mean different things to different companies. It can also impact individual companies financially at different levels. However, establishing goals of becoming more efficient, improving communication, and becoming more environmentally conscious, are a direct benefit to all companies.

Most companies have one or two relevant numbers that are important to them in the ability to track their products, especially once their products are outside of their direct or physical control. For example, a relevant number may be assigned for a customer reference, an order, a roll, a sales order, etc. When considering prospective vendors, an integral part of that evaluation should be IT capabilities and support. Importantly, the prospective warehousing and distribution firm should have the ability to provide accurate and timely information about any relevant numbers or elements desired to be tracked.

One application that a majority of customers find extremely productive is an inventory management system, which gives the customer the ability to view their inventory on-line. The load details can be viewed in real-time, with the actual roll numbers being processed as they are scanned. This type of system gives the customer real power to promptly access the information they need. As some say, “It’s an eye into the facility.”

If a customer requires or prefers a more sophisticated or specialized reporting capability, a warehousing and distribution company should be willing to work with that customer to provide the tools needed to accomplish their objectives. Whether it’s a report on truck turn times for a quarterly review or the number of times a company has shipped to a specific destination in the past 10 months, a good warehousing and distribution firm should have the unique flexibility to develop and deliver those reports.

For instance at PENN, the preferred method of transmitting complex reports in real-time is an email request sent to our database system that specifies a report to run. The system then responds with a return email that includes the attached report originally requested. Turnaround time for the information to get back to the party requesting it is literally seconds and the report can be processed any time of the day or night. In addition, a system such as this has the ability to develop reporting that can be automatically scheduled to run at preset times daily, weekly, or monthly, with the information emailed or “texted” to the appropriate parties.

To make things as efficient as possible, EDI (Electronic Data Interchange) should be utilized whenever possible. This is a system where product is validated against the system data to make sure the right product gets delivered to the right place without delay. To facilitate the information flow, all buildings should be linked via fiber optic data connections to enable clean data transmission between the warehouses and the data center. RF (Radio Frequency) scanning should be used to update the databases in real-time.

Timely information is even more crucial today than it was in years past for a variety of reasons as timelines continue to shrink across all aspects of the logistics industry. Offering the customer the information they need in a timely manner is equally as important as getting their shipment out the door, and logistics providers can find themselves being just as much in the information business as in the warehouse and distribution business.

It’s noteworthy to mention that PENN currently is in the process of migrating to a web-based scheduling system, which will facilitate customers’ appointment data, via an EDI link, to update PENN’s database, thereby maintaining
the integrity of the information. Ultimately, a specific warehouse dock door is then reserved for a carrier at the time requested. A viable warehousing service provider must do their utmost to stay out in front of technology in order to provide the best applications for their customers.

SAFETY CHECK
Too often, costs associated with safety and training can easily be overlooked. Take, for instance, forklift operation within a warehouse. OSHA records that about 100 warehouse employees are killed and 95,000 injured every year in forklift accidents. Utilizing the expertise and experience of a reputable warehousing and distribution firm can remove liability in that segment of a manufacturer’s supply chain, while eliminating the costs associated with warehouse safety, time and costs of training, along with the implementation of safeguards in a facility. Thusly, when selecting a warehousing and distribution firm, make sure it has a solid safety performance record.

VALUE-ADD SERVICES
Damage to paper rolls during transit can happen, and a valuable service offered by some warehousing and distribution providers is roll rewrapping. The service provider should have firmly established protocols in place whereby trained employees inspect product as it is being discharged from a vessel or stripped from a container. In the event that damage occurs, the operator would properly assign where the damage occurred, access the damage, (i.e. only the wrap, roll gouged, etc.), mark the roll and take supporting photos. The roll would then be serviced by trained staff that would trim off the damaged portion in compliance with established customer guidelines, rewrap and, if necessary, reweigh the roll, along with amending the weight on the original label that was originally affixed to the roll.

An additional consideration: if a paper producer has rolls that must often be cut to specific sizes for its customers, a converting operation nearby the warehouse or on-site is another value added service to consider.

TRANSPORTATION
Directly linked to “location” is transportation, and how that ultimately impacts the total landed cost of a product. This key and final segment of delivering product(s) to customer should not be treated lightly and should be analyzed on an annual basis. As previously mentioned, selecting a warehousing partner that has the ability to receive breakbulk vessels directly and/or recovering containers with minimal transit or costs, is of the utmost importance. Having these capabilities is a key factor in controlling costs associated with transferring product to the warehouse.

Final delivery costs to end-users is directly impacted by the ability to provide inter-modal rail and truck services. Consideration should be given as to whether the owner of the goods manages the flow of their products to their customers and negotiation of the associated rates.

Lastly, but worthy of mentioning, if a prospective warehousing partner provides distribution services as a service offering, it is more than likely that they will have a cumulative greater volume of business. In turn, they will be in a better position to secure less expensive pricing with recognized and reliable transport providers.

Tom Mutz is Director – Global Business Development for PENN Warehousing & Distribution. He can be reached by email at: tom.mutz@pennci.com.
If you had to choose a kaolin supplier based on one quality, which would you choose?

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Meeting the Optimization Challenges of Today’s Paper Mill

Industry suppliers can help fill knowledge gaps for a mill when its workforce is stretched beyond its limits.

By Dan Duncan

Older equipment, a smaller workforce, a tighter budget — in today’s papernaking environment, it’s more challenging than ever for mill executives to optimize the performance of their people and equipment.

Many mill managers have found that they have to think creatively, plan carefully and take extra measures to improve efficiency and output. For most, this means working smarter. Software packages, maintenance services, employee training and data management are all elements that can help papernakers make the most of their resources.

To keep workflow running smoothly even during personnel changes, mills invest in training that helps their people learn to operate equipment and software. Often the classes they value most are those provided by suppliers. Suppliers know their products inside and out, and are well-equipped to explain the most effective operation techniques.

But educating staff takes time and when people leave, they take their training with them. Well-trained and experienced personnel, capable of operating equipment effectively and making sound decisions, are a must-have for an operation trying to get the most use from its assets. Mills need people who can detect and solve problems, as well as those who can manage systems for maximum workflow and product quality.

FILLING THE KNOWLEDGE GAP

For many papernakers, one of their toughest problems is dealing with the knowledge gap created when highly skilled process engineers depart due to retirements, lay-offs and other personnel shifts. Companies often find themselves having to hire less experienced staff and then quickly bring them up to speed. The knowledge gap this creates can cause problems that reverberate throughout a mill.

A service such as ABB’s Optimization Services can help papernakers compensate by providing access to the valuable process data their people need to make good decisions and maintain safe, profitable operations. Services such as these are capable of generating financial advantages for paper mills, including measurable benefits like process enhancements, production increases and direct cost savings.

ABB has developed a working methodology to optimize machine efficiency and productivity through process steps including: Phase 1 Diagnose, Phase 2 Implement, and Phase 3 Sustain level services.

**Phase 1 – Diagnose.** In this phase, an ABB identifies the underperforming assets that cause reductions in production and conversion efficiencies, and can diagnose and identify existing barriers to optimization and performance improvements in specific process areas.

**Phase 2 – Implement.** After the diagnosis is complete, ABB implements a detailed ROI-based solution designed to improve efficiency, quality and production. Diagnosis and recommendations are clearly spelled out for mill personnel.

**Phase 3 – Sustain.** After performance improvements have been achieved, ABB then works with the mill to sustain that improved performance.

As papernakers struggle to maintain their competitive advantage, they find themselves working hard to overcome challenges like the knowledge gap. Optimization tools such as ABB’s are available to help them cope with these difficulties by providing the services mills most need to handle current papermaking conditions.

Dan Duncan VP, pCoE Pulp and Paper Service, Process Automation for ABB.
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World’s First Pilot Plant for Production of Nanocellulose Inaugurated

Swedish research firm hopes to someday bring pilot program to commercial-scale level.

The world’s first pilot plant to produce nanocellulose was inaugurated on February 22 by the research company Innventia in Stockholm, Sweden.

According to Innventia, the facility makes it possible to produced nanocellulose on a large scale for the first time and is an important step towards the industrialization of a new energy efficient manufacturing process.

“With larger volumes, we can study the use of nanocellulose in applications that require more material,” said Michael Ankerfors, a research manager at Innventia.

Nanocellulose is a material derived from wood fibers. It has exceptional strength characteristics of the class with Kevlar, a light weight material. However, in contrast to Kevlar and other materials based on fossil fuels, nanocellulose is completely renewable, according to Innventia.

Previously, the production process was much too energy-consuming for the commercialization of nanocellulose to be conceivable, says Innventia, but due to the process developments carried out by the research firm, the energy consumption has been reduced by a total of 98%, representing a saving of 29 000 kWh per ton.

To give a comparison, the heating of a normal sized house takes approximately 18,000 kWh per year, Innventia added.

“For a long time, there’s been a great deal of interest from the industry in utilizing nanocellulose as a strengthening component in other materials, such as paper, composites and plastics,” Ankerfors noted. “We can also have the opportunity to continue the development of the process and to show interested parties how it could work in reality.”

Innventia said that all sub-steps are now in place in the process and production began the week prior to the inauguration.

“We’re extremely proud to be able to offer the industry real opportunities to participate in this field, which is so important for the future,” Ankerfors concluded. “Now we begin to work towards the next step — the installation of a full scale process with a partner in the industry.”

The inauguration was attended by representatives from the industry as well as public funders and participants in research related to nanocellulose.

Innventia noted that beyond simply looking at the new facility, attendees had the opportunity to take a closer look at samples of nanocellulose and various examples of applications such as barrier films, textile fibers and nanofoams made from nanocellulose.

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Access to all the necessary equipment used by professional papermakers makes our R&D that much stronger, in Patrik’s eyes. Careful preparation and planning is vital, but practical experience of chemicals, processes, machines and people near and far guides the work in the lab and makes Eka’s innovations truly safe to use.

And every time he’s on site, more ideas are born. All of them with one purpose: making your whole papermaking process that much more competitive.

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