



Finding a Way Forward in Europe

A clutch of annual reports by European companies offer some clues of a way forward for pulp and papermakers on my side of the Atlantic. It's not trailblazing stuff and conditions remain fragile, but their views are mildly encouraging.

By David Price

Last year, of the top ten European papermakers, five posted serious deficits, yet their CEOs were still talking up encouraging prospects for the next two years. Norske Skog, Metsallitto, Stora Enso, and Smurfit-Kappa were the main losers, while SCA and UPM emerged winners — not by much, however. So, why the cautious optimism?

The main issues that bother them are: **Costs.** All the reports state that in a tough market the companies have cut costs to a level where not much more can be cut. The problem is that they're talking about manpower costs, which, these days, lie third or fourth in operating costs. The major hits come from input costs such as fiber, energy and chemicals, which can be as much as 60% of cash flow. Manpower consumes about 11%. Transportation is also getting expensive, but this depends very much on location.

CEOs will continue to look for more inventive ways to cut costs as most of the low hanging fruit has been picked clean.

Competition. Some reports mention competition from Latin America and Asia, especially when it comes to pulp production and price. However, the problem that I see is that too many companies make similar products for some of the shrinking markets.

Newsprint is a prime example. Two newsprint mills have started up in Western Europe in the past 18 months, and



“Our path forward may not be easy, but we are well on our way, focusing on long-term sustainable returns. Not waiting for better times to come, but continuing to build our own better times.”

— *Stora Enso CEO Jouko Karvinen's concluding comments after discussing first quarter results.*

at a time when newspapers are losing ground to on-line culture. I'm aware that newspapers have been losing money for decades, but I'm even more aware that they're currently losing it at a dizzying rate. I don't know what newsprint producers can do in these circumstances except to try and anticipate what newspaper owners will do next.

Global Reach. One of the mantras I heard in my early days in the industry, mainly from the suppliers, was: “We are a global company with a local presence.” This turned out to be very misleading. For example, when Norske Skog expanded from its Norwegian base into Asia 15 years ago, I found that its Thai operations were run by Norwegian managers. Norske Skog is now no longer in Asia.

To become a real global player a company must embrace the foreign culture it's doing business in by hiring and training that region's workers. I know this is easier said than done, but it's a must.

In Europe, with the exception of SCA, Mondi and Stora Enso, most of the companies operate regionally, and

that is one of the reasons why there is a need for more M&A in the region. Only then will a global reach be credible.

I will venture to say that Europe in the next two years will experience an acceleration in M&A activity resulting in the emergence of serious global players.

Bio-energy. The concept of converting biomass into energy and creating a new source of revenue is on many companies' agenda. But the development of this industrial process is getting tangled up with misunderstanding, public policy and fierce competition from the major oil and gas companies.

Too many pulp producers give the impression that bio-energy will lift them onto a new plateau of development and wealth. One argument I've heard is that papermaking is not the way forward for them. The fallacy of this should be obvious.

I do have some sympathy for the pulp makers because public policy on bio-energy in Europe is confusing and exclusive. Large state subsidies are granted for timber procurement for energy creation and the industry's concerns about the threat to timber resources have been made forcefully to legislators.

Some progress on pulp and paper's side is discernible as CEPI (Confederation of European Paper Industries) lobbies tirelessly to a bureaucracy that is beginning to listen. But it's a hard slog because the major energy companies like Shell and BP are also in there banging away for bio-energy, and they are very hard to resist. My old tutor at the UK Forestry Commission used to tell his students that what we need is

"...a balance of the right mix." I think that balance is finally starting to emerge as a result of our industry's efforts.

Getting the Message Across

I commented in the last issue about how surprised I was to hear that our industry is still not getting its message across to the media and the public. WWF, Friends of the Earth, Greenpeace and EIA have moved on from attacking the pulp and paper community. Instead they have gone after illegal logging and the dubious corporations behind it. They are right to do so and my views on the subject are a matter of record. This journal has also bravely published some controversial reports on the abuse.

However, too many press and TV reports on the topic have lumped together illegal logging and the legitimate forest industry's practices. This is inaccurate and unfair which is why the message of the industry's impressive environmental responsibility must be pushed with determination.

A few years ago several of the industry's trade associations developed information modules for schools and colleges across Europe. They now need to be dusted off, revised and vigorously promoted once again. ■

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