In my November/December 2010 comment I described how bad things were for the Europeans. I said that more permanent capacity closures were needed and that more cost-effective mergers were necessary to restore the industry’s profitability. I am now astonished at what’s happened in the last six months. There has been a massive and rapid change in activity.

Seven companies have cut or closed nearly 2 million tonnes of capacity, sadly with job losses. There has been an ice-breaking consolidation deal and huge investments have been made in Eastern Europe, Russia and South America by European companies.

For the last three years, rising input costs and a recession have forced companies to focus on cash flow management and defer any type of expansion. However, this gave paper producers time to rethink their situation and make future plans. Accordingly, they have chosen to cut high cost capacity and look for ways to consolidate, merge or expand.

Cuts
The year began with Arctic Paper’s (Sweden) decision in February to cut 45 jobs at its Munkedals mill. The group makes 810,000 tpy of bulky book paper and graphic fine paper at four mills in Poland, Sweden and Germany.

Also in February, Holmen Paper (Sweden) announced plans to shut down PM 61 — the smaller of its two PMs — at its mill in Madrid, Spain. PM 61 has a capacity of 170,000 tpy and produces LWC and improved newsprint.

Over-capacity in Europe.
M-real, through divestment and/or closures, will reduce its annual paper production capacity by about 500,000 tonnes — about 430,000 tonnes of uncoated fine paper and 70,000 tonnes of coated specialty papers.

The capacity reduction is nearly 10% of the group’s production. Around 170 jobs will go. Holmen acquired the mill in 2000, by which time PM 61 had been operating for two years. In 2005, PM 62 was installed for the large scale production of newsprint. After PM 61’s closure, PM 62 will give the mill a capacity of 330,000 tpy.

At the time of writing (early May), Stora Enso restructured (code language for cuts and job losses) at its fine paper business in Nymolla, Sweden; Oulu, Finland; Uetersen, Germany, and sheeting plants in the UK and Belgium.

Then came a startling decision by M-real (Finland) to divest the entire Gohrsmuhle mill in Germany, which produces 240,000 tpy of uncoated fine and specialty papers. M-real also plans to discontinue its carbonless paper converting operations at its Reflex mill, also in Germany. About 480 jobs will go.

M-real has, in recent years, tried to sell its Alizay mill in France. If it cannot be sold by September, it will be closed with the loss of 330 jobs and 310,00 tpy of fine paper. M-real’s long-term plan is to focus on packaging board.

Consolidation
A lot was said about consolidation last year, mainly rumors that Stora Enso and Holmen were in talks with Norske Skog (Norway) for its newsprint business. They were denied. But Norske Skog managed to generate some cash by selling 22,000 hectares of Brazilian forests for $64 million and used some or all of the proceeds to reduce debt.
But the benchmark deal at the end of 2010 was UPM Kymmene’s $1.1 billion acquisition of debt-laden Myllykoski (Finland) and Rhein Papier (Germany). Clive Suckling, Global Leader - Forest, Paper & Packaging for PwC, described it as “…a watershed in the evolution of Europe’s pulp and paper sector.” For Myllykoski, the deal marks the end of a long era of Finnish family ownership going back to 1892. The deal will lead to a greater concentration in magazine grade paper and newsprint in Western Europe.

But there were other deals in Europe, the largest being the $1.5 billion sale of Ontex by Candover to other private equity firms TPG and Goldman Sachs. Ontex is Europe’s leader in private label hygienic disposable products. Candover was hit by the credit crisis and forced to unwind its assets last fall.

The third largest deal in the region was by another private equity firm Carlyle Group, which sold its French corrugated maker, Otor, for $311 million to UK firm DS Smith.

**Expansion**

The usual suspects (in this case, global regions) for European expansion were South America, Central and Eastern Europe, and Russia.

Stora Enso and Arauco (Chile) agreed to build a $1.9 billion hardwood pulp mill in Uruguay with a planned capacity of 1.3 million tpy. The project includes a new port and a biomass energy source. Start-up is planned for end of first quarter 2013.

Also in Uruguay, UPM has acquired 25,000 ha. of land from a forest owner to supply pulp to its Fray Bentos mill. This will increase UPM’s forest ownership in the state to 225,000 ha. UPM has been in Uruguay since 1990.

Rising living standards in Eastern Europe have persuaded Stora Enso to install a new 455,000 tpy containerboard machine at its Ostroleka Mill in Poland. Similarly, Metsa Tissue and SCA will build four tissue machines (two each) in East Germany, Poland and Russia.

And last, but certainly not least, International Paper’s 50:50 joint venture partner in Russia, Ilim Group, will spend USD 700 million to build a 720,000 tpy bleached softwood pulp mill in Bratsk to supply the Chinese market. Start up is expected in the second half of 2012.

When you think what hasn’t happened in the last three years, this current phase is breathtaking in scope, and appears set to continue.

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