

# A Shocking Quarter



By David Price

Job cuts, mill closures, a CEO removed and an exit from North America—just an everyday scene in Europe this quarter. What has gone so wrong to provoke such dramatic survival measures?

In one week in September, Stora Enso divested its North American paper operations and SCA removed its CEO, replacing him with an executive from the mining industry. Then, a few weeks later things got worse as Stora Enso (Sweden/Finland) and Norske Skog (Norway) cut deeper.

By mid-November 6000 jobs were forecast to go in Europe, eight mills will change hands in North America, three pulp mills in Europe will close and a search for a new CEO for SCA was underway.

The terms of Stora Enso's \$2.5 billion sale of its N.A. operations to NewPage are now well known. The divestment is designed to improve Stora's long-term earnings and to focus more on Europe. The benefits are significant. Although the company gives up about 3 million tons of publication and fine paper capacity, it will reduce its payroll significantly by trimming 4,350 employees. Stora also gains a 19.9% stake in NewPage, whose paper-making capacity now stands at 4.7 million tons via 12 mills.

Then, in late October, Stora Enso made more cuts. This time it was an annual capacity reduction of



**Stora Enso's chief executive, Jouko Karvinen, said his company's directives to significantly trim pulp and paper capacity, along with a reduction in personnel, "...are crucial for Stora Enso to be competitive long-term. To wait in the hope of better times would lead to more severe actions in the future."**

505,000 tons of paper and 555,000 tons of pulp, which results in 1,700 more jobs being lost. Local effects will be disastrous. The pulp mill in Kemijarvi, in Finnish Lapland, is the only employer in town.

The reasons for the cuts are familiar: higher energy costs, foreign competition, weak markets for newsprint and magazine papers and, crucially for Scandinavia, an 80% increase in Russian wood exports, especially birch, from January 2009. These moves reinforce my conviction that no more pulp mills will be built in Finland and Sweden. Stora's fiber supply will increasingly be sourced from its mills in Latin America.

All the financial analysts agree that what the company has done is cut highest cost newsprint and magazine capacity and its oldest pulp operations. The paper and magazine cuts are a response to market conditions and the NBSK cuts have been made in anticipation of future conditions, namely, higher wood prices.

However, in Belgium and Germany, Stora Enso has invested \$130 million in energy efficiency and bio-energy at Langerbrugge and Maxau newsprint mills.

### SCA and Norske Skog

SCA's serene and solid growth in tissue and packaging took a hit. In September, CEO Jan Astrom, an industry veteran, lost his job after SCA posted some sluggish financial results. His successor, Jan Johansson, is a "suit" from major shareholder Boliden—a mining and quarrying company with operations in Sweden, Canada and Mexico. Johansson is a safe pair of hands until another CEO is found.

And Astrom obviously didn't see the axe coming. He suffered somewhat of an embarrassment after he gave a five-page interview (with forecasts and aspirations) to a European trade journal, which went to press just prior to Astrom losing his job. (The editor told me he couldn't afford to recall, shred and recycle 15,000 copies!)

Like Stora Enso, Norse Skog of Norway is affected by weak demand for newsprint and magazine paper in North America and Europe. Interestingly, the European newsprint market has been distorted by increased imports from Canada. Norske Skog said this led to lower deliveries and overstocking of newsprint. However, some UK ports have been enjoying the benefits of increased Canadian imports.

As a result, Norske Skog announced a reduction of 200,000 tpy for 2008. A 70,000 tpy cut has already been made, but more permanent cuts are planned. Norske Skog has four newsprint mills in Europe—two in Norway and one each in Netherlands (Parenco) and France (Golbey). The shifting European market for newsprint and magazine paper has led to speculation that more mergers may take place. One rumor is that Norske Skog is talking to UPM of Finland.

The steady contraction in the newsprint market follows the decline in newspaper readership due to the rise in online sources and print-on-demand culture. My supermarket and newsagent always have too many unsold copies by mid-day. So, could the mini-mill be back in favor? Newsprint machines are vast, fast monsters. But with newspaper sales continuing to slip, why operate a big machine when a smaller one could do a smaller job for less?

Food for thought. ■

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