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## Upcoming RISI Conferences

**10th RISI European Pulp & Paper Outlook Conference**

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 Lisbon, Portugal

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**This week:**

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**Deinking material prices continue rising, hitting a 12-year high while OCC holds and creates largest gap with levels to China**

A blistering two year-plus run on deinking material pricing continued this month and contrasted with bulk grades where US mills, by largely holding their levels, carved out possibly the largest ever differential against rising export prices to China.

US mill prices for old corrugated containers (OCC) and mixed paper hardly changed -- even though US export OCC to China rose \$25/ton over the last six to seven weeks and was up another \$6/ton last week. This formed a \$30-40/ton differential between US mill and Chinese mill pricing for American OCC as well as for mixed paper and even special news deink quality old newspapers (ONP) 8, which rose \$5-10/ton this month even though generation and mill supply appeared high.

Traders and mill buyers shook their heads at the run on deinking materials sorted office paper (SOP) and sorted (postconsumer) white ledger (SWL), chief materials for recycled content tissue makers. All deinking material prices tracked by *Pulp & Paper Week* were up mostly \$15-20/ton. SOP has led the surge with

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**Newsprint sector to see more consolidation with White Birch owner ready with \$350 million to buy SP Newsprint**

North America's fourth largest newsprint manufacturer, SP Newsprint, has been bought for \$350 million in cash by affiliates of Peter Brant, controlling shareholder of White Birch Paper, the No. 2 producer on a capacity basis.

The deal announced last Friday is to close by April, making SP Newsprint a White Birch subsidiary.

SP Newsprint's two mills at Dublin, GA, and Newberg, OR, produce about 950,000 tonnes/yr of recycled newsprint, making the privately held company the second-largest producer of 100% recycled newsprint in North America.

The sale also includes the company's wholly owned recycling subsidiary, SP Recycling. White Birch and SP Newsprint consumed 1.5 million tons of recovered paper in 2006 at their mills and would be North America's sixth or seventh largest consumer this year.

The acquisition gives White Birch control of about 2.1 million tonnes of North American newsprint capacity, and

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**US NBSK pulp finishes move up to \$880/tonne; no signs of a seasonal lull as hardwood supply issues continue offshore**

There were few signs last week of a typical seasonal slowing in market pulp demand in North America because disrupted production offshore is crimping supplies globally and US paper-makers are sucking up available tonnage on the domestic market.

Solid demand worldwide and a move from Canfor Pulp to lift its domestic price \$10/tonne led the effective list price on benchmark northern bleached softwood kraft (NBSK) pulp to \$880/tonne, from \$870-880/tonne in December. Southern bleached softwood kraft (SBSK) was unchanged at \$840/tonne.

While NBSK's rise furthered a 12-year high to \$20/tonne over the \$860/tonne recorded in January 1996, according to *Pulp & Paper Week*, producer contacts note that adjusted to inflation today's high price for pulp pales compared to a decade ago. Also, when considering the elevated dollar in Canada, where most NBSK capacity runs, mill profitability isn't high enough to reduce the possibility of closures down the line if prices edge back in the second half of this year, as many market participants still expect.

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## SBS Paperboard

### IP, G-P, MeadWestvaco plan February \$40/ton increase on folding carton grades

Three of the largest US producers of solid bleached board (SBS) announced \$40/ton price increases for mid-February, according to sources.

International Paper (IP), North America's largest producer, announced the increase on SBS folding carton grades, effective with shipments Feb. 15. IP's increase includes cartons as well as specialty carton grades, which include polyethylene-coated grades.

Georgia-Pacific and MeadWestvaco announced a similar increase with shipments beginning Feb. 18.

This is the first SBS carton increase since last July.

If fully implemented, 16-pt folding carton C1S moves to \$890-950/ton, up 8.2% year-over-year or about \$70/ton, according to a *Pulp & Paper Week* survey.

**SBS exports up.** US SBS folding output domestically declined 1.3% in 2007 and by 25,000 tons while SBS exports rose almost 13% and by about 100,000 tons, according to American Forest & Paper Assn (AF&PA) figures.

Operating rates for SBS mills remain very high, near full rated capacity of 100% for much of the year, according to AF&PA.

December's operating rate was 98.9%, up from 96.7% a year ago.

Though retreating somewhat in December due to seasonal weakness, backlogs for SBS inched higher since October. SBS machine backlogs at the end of December were an estimated 3.5 weeks, longer than PM backlogs last year at that time, contacts said.

Unmade orders steadily increased from an average weekly total of 342,000 tons in September to 382,000 tons in December, according to sources and the AF&PA. Through the last week of December, unmade orders were up more than 30,000 tons compared with the year-ago period.

• **Graphic Packaging** stockholders last week approved the previously announced combination with Altivity Packaging. A total of 88% of the outstanding shares were cast in favor of the transaction. "Today's vote is the latest demonstration of the strong support for the combination of our two companies," said Graphic Packaging pres/CEO David Scheible, in a release.

## Tissue

### Cellynne to double tissue capacity with second PM

Increasing its tissue paper capacity to almost 100,000 tons/yr, Cellynne Holdings will start up a second tissue paper machine

during first quarter 2009 at its Haines City, FL, operation.

Cellynne, headquartered near Orlando, ramped up its first PM in the summer of 2006 and with the second one seeks to grow its business and reduce its open market demand for tissue rolls. The firm converts parent rolls into tissue/toweling products such as toilet tissue and paper towels, serving both the away-from-home (AfH) and consumer markets.

Metso Paper said the new 2.7-m PM should produce up to 143 tons/day of paper for facial, bathroom tissue, and towel grades, and run at 2,000 m/min. That's slightly more capacity than Cellynne's first PM, which a Cellynne official said had 135 tons/day of capacity.

The new PM's capacity totals about 50,000 tons/yr over a typical 350-day year operating schedule, and will allow Cellynne to reduce its open market buying of parent rolls and possibly send rolls to its two other converting plants in Las Vegas, NV, and Green Bay, WI.

With the new PM, Cellynne's total tissue/toweling making capacity roughly doubles to an estimated 97,000 tons/yr. Cellynne is the largest independent paper converter in North America, according to Metso Paper.

Metso Paper will supply an Advantage DCT 100HS tissue PM that includes an OptiFlo II TIS headbox, an 18-foot Metso Yankee cylinder, Advantage AirCap yankee hood, sheet control and tail threading equipment, reel and roll handling systems as well as stock preparation equipment. Cellynne's first PM was also a Metso Paper Advantage DCT 100HS.

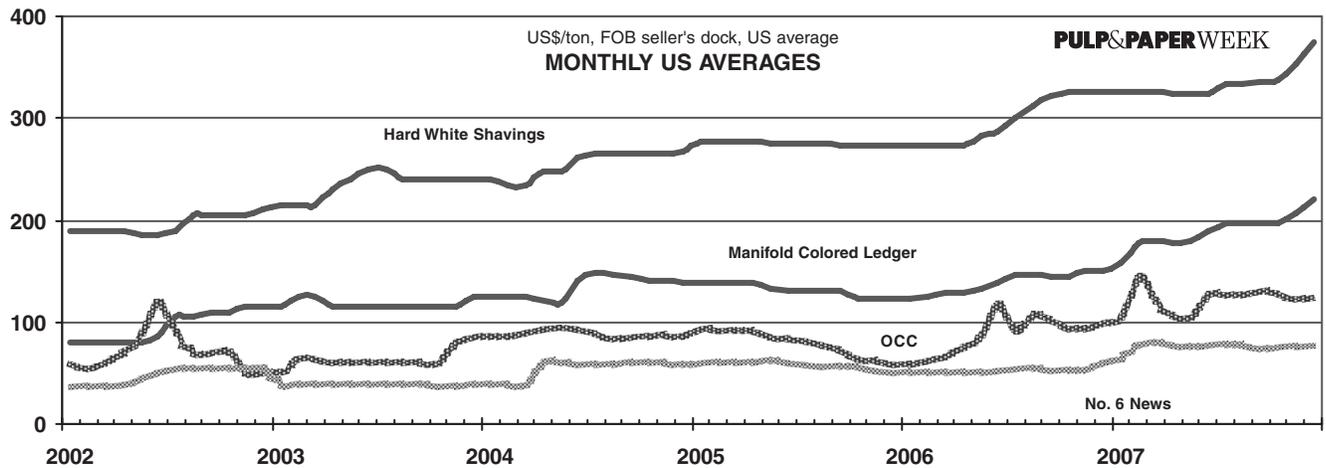
• In Mexico, **Fabrica De Papel San Francisco** ordered a second Metso Paper Advantage DCT 100TS tissue PM, with startup planned for second quarter 2009 at company mill in Mexicali. The tissue PM, which would be the company's fourth, is designed to produce 30,000 tonnes/yr of 100% recycled-content tissue paper, and run at 2,200 m/min with a wire width of 2.6 m. The PM's tissue paper will be used for making bathroom tissue, napkins, and towels. The order includes an OptiFlo II TIS headbox, a 16-foot Metso Yankee cylinder, an Advantage AirCap yankee hood, sheet control, tail threading equipment, and an Advantage SoftReel P reel. In 2006, Fabrica De Papel San Francisco started its first Metso Advantage DCT 100TS tissue PM. Mexico produced about 800,000 tonnes of tissue paper in 2007 and during the previous four years Mexican tissue output grew by roughly 4% annually, the company said. Recently, Kimberly-Clark de Mexico started a new tissue PM at its Ramos Arizpe mill.

## US BOXBOARD GRADE SUMMARY -- DECEMBER 2007

	(000 tons)					
Production	Dec. 2007	Dec. 2006	YOY % chg.	2007 YTD	2006 YTD	% chg.
<b>Folding boxboard</b>						
Solid bleached folding	161.5	177.3	-8.9%	2,076.7	2,104.9	-1.3%
Solid bleached folding exports	79.1	71.3	10.9	900.7	797.7	12.9
Unbleached kraft folding	182.8	171.5	6.6	2,077.1	1,883.9	10.3
Unbleached kraft folding exports	28.9	40.1	-27.9	474.2	578.6	-18.0
Recycled folding	172.3	174.9	-1.5	2,279.7	2,351.3	-3.0
Clay coated	155.2	153.5	1.1	2,013.3	2,048.0	-1.7
<b>TOTAL</b>	<b>625.6</b>	<b>636.3</b>	<b>-1.7</b>	<b>7,824.4</b>	<b>7,733.8</b>	<b>1.2</b>
<b>Food service</b>						
Cup stock	71.4	66.6	7.2	814.3	817.9	-0.4
Milk carton	51.7	53.5	-3.4	586.6	600.5	-2.3
Total export	47.4	41.2	15.0	558.8	532.9	4.9
<b>TOTAL</b>	<b>229.2</b>	<b>212.8</b>	<b>7.7</b>	<b>2,570.2</b>	<b>2,556.2</b>	<b>0.5</b>
<b>Recycled paperboard</b>						
Gypsum wallboard						
Gypsum wallboard	121.4	120.8	0.5	1,520.2	1,615.6	-5.9
Tube, can & drum	113.4	112.7	0.6	1,441.1	1,484.6	-2.9
<b>TOTAL BOXBOARD/PAPERBOARD</b>	<b>1,198.9</b>	<b>1,187.1</b>	<b>1.0</b>	<b>14,813.2</b>	<b>14,838.0</b>	<b>-0.2</b>
<b>Operating rates, %</b>						
Solid bleached packaging <sup>1</sup>	98.9	96.0	n.m.	98.9	96.7	n.m.
Recycled boxboard	91.8	89.7	n.m.	95.3	94.1	n.m.

Note: Production numbers are included for main grades based on volume. 1. Includes solid bleached boards such as liner and folding board; milk carton stock; plate, dish, and tray stock; cup stock; and exports. Bristols are not included. n.m.= not meaningful.  
Source: American Forest & Paper Assn.

## PRICE WATCH: RECOVERED PAPER

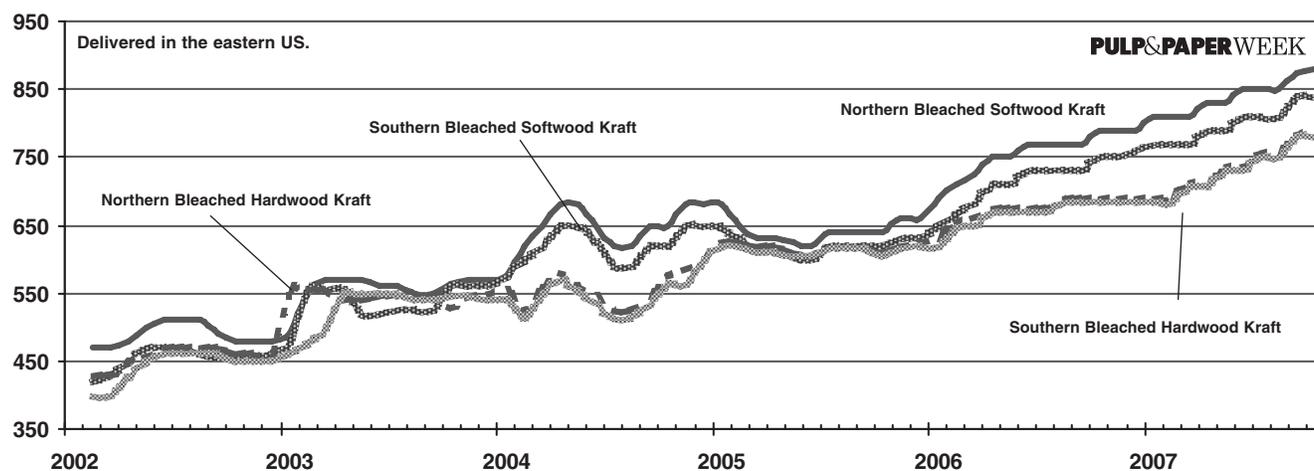


(\$/short ton, FOB seller's dock)

Grade*	January 2008						— US average —	
	New York	Chicago	Atlanta	San Francisco- Los Angeles	Dallas- Houston	Jan. 2008	% chg. year ago	
Soft mixed paper (2)	80-90 (0)	\$90-95 (+7)	\$80-90 (-5)	\$100-110 (0)	\$90-100 (0)	\$92.50	72.9%	
News (6)	75-80 (0)	75-80 (0)	70-80 (+2)	75-90 (0)	70-80 (0)	77.50	28.1	
Boxboard cuttings (4)	90-95 (0)	90-95 (0)	85-95 (+5)	90-95 (0)	85-90 (0)	91.00	55.6	
Corrugated containers (11)	120-130 (+5)	110-120 (0)	120-125 (0)	135-145 (0)	115-120 (0)	124.00	55.0	
New double-lined kraft corrugated cuttings (13)	135-145 (0)	125-135 (-2)	125-135 (-5)	155-160 (0) <sup>1</sup>	125-130 (0)	137.00	36.3	
Special news, deink quality (8)	115-120 (+17)	100-110 (+10)	100-110 (+5)	125-135 (0)	115-120 (+7)	115.00	29.9	
Magazines (10) <sup>2</sup>	120-125 (+5)	105-120 (+15)	105-115 (+5)	130-140 (+10)	115-125 (+5)	120.00	53.8	
Coated groundwood sections (44)	130-145 (+10)	120-140 (+15)	125-135 (+10)	145-160 (+12)	130-145 (+10)	137.50	66.7	
White blank news (24)	200-220 (+10)	190-210 (+10)	195-205 (+10)	225-235 (+10)	200-210 (+10)	209.00	28.2	
Unprinted bleached board (47)	375-410 (+17)	365-405 (+20)	340-370 (+20)	350-380 (+20)	340-390 (+25)	372.50	22.1	
Hard white shavings (30)	380-410 (+20)	370-405 (+20)	340-370 (+20)	350-380 (+20)	340-400 (+20)	374.50	15.2	
Hard white envelope cutt. (31)	400-450 (+10)	400-435 (+12)	380-410 (+20)	385-425 (+15)	390-440 (+15)	411.50	12.9	
Sorted office paper (37) <sup>3</sup>	180-235 (+10)	180-225 (+12)	175-225 (+17)	190-220 (+20)	205-225 (+15)	206.00	60.9	
Manifold (preconsumer) Colored ledger (39)	225-250 (+15)	210-235 (+12)	220-225 (+15)	195-225 (+20)	210-220 (+12)	221.50	47.2	
Coated book stock (43)	195-235 (+5)	205-230 (+15)	200-225 (+12)	195-215 (+15)	205-235 (+20)	214.00	54.0	
Bleached board cuttings (45) Heavily printed	210-230 (+10)	215-235 (+20)	210-230 (+20)	200-225 (+17)	n.a.	219.38	48.1	
Sorted (postconsumer) White ledger (40)	310-320 (+10)	300-315 (+7)	300-310 (+15)	285-310 (+17)	310-320 (+15)	308.00	32.8	
Manifold white ledger (41) <sup>4</sup>	315-320 (+10)	300-315 (+7)	300-310 (+15)	285-310 (+17)	310-320 (+15)	308.50	33.0	
Bleached board cuttings (45) Lightly printed	280-290 (+15)	275-290 (+10)	260-285 (+10)	270-280 (+15)	270-290 (0)	279.00	41.6%	

\* Numbers after each grade correspond to definitions in the current Institute of Scrap Recycling Industries Scrap Specifications Circular 2007. These are paper and board mill purchase prices, FOB seller's dock, exclusive of delivery charges. Prices are collected during the first half of the month, and are subject to change before month's end. In fact, market volatility can cause prices to change twice or more per month. While the information contained in this report has been obtained from sources believed to be reliable, RISI does not warrant or guarantee the accuracy and completeness of the information. All prices are best estimates of prices, and are composite prices as opposed to median or average prices. NOTE: Figures in parenthesis represent changes. Where the changes were ranges, the average is given. 1. Prices reflect mid-range for mid-quality DLK. 2. Prices apply to both postconsumer and overissue magazines, although overissue can carry premiums of about \$10 over published prices. 3. This refers to a grade sold to mills for making deinked pulp printing and writing papers. It includes sourcing to tissue mills with recycled content. In New York, Chicago, and Atlanta, the regional pricing on the top end is for highest quality office paper, which is sorted, and on the low end is for lower quality office paper, which is shredded. 4. Preconsumer. Source: *Pulp & Paper Week*.

## PRICE WATCH: MARKET PULP



US\$/tonne unless otherwise noted.

Grade	Current months				Year-to-year	
	Jan. 2008	Dec. 2007	Nov. 2007	Q4 2007	Jan. 2007	% chg.
<b>US (delivered in East)</b>						
<b>Bleached softwood kraft</b>						
Northern (Canadian)	\$880	\$870-880	\$850	\$858	\$790	11.4%
Southern (US)	840	840	810	820	750	12.0
<b>Bleached hardwood kraft</b>						
Northern mixed (Canadian/US)	780-795	770-795	750-765	766	690	14.2
Southern mixed (US)	780	780	750	760	685	13.9
Eucalyptus	805	805	775	785	715	12.6
<b>Specialty grades</b>						
Unbleached softwood kraft (Canadian/US)	800-850	800-850	790-820	812	745	10.7
Fluff (US southern kraft, untreated softwood rolls)	880-900	850-880	850-870	862	790	12.7
Deinked (FOB; US air-dried and wet-lap, 100% post-consumer for printing/writing)	680-740	660-720	640-695	675	633	12.2
<b>NORTHERN EUROPE (CIF)</b>						
<b>Bleached softwood kraft</b>						
Northern (Canadian/Nordic)	880	870-880	850r	852	755	16.6
Southern (US)	840-850	830-840r	810-820	818	715	18.2
<b>Bleached hardwood kraft</b>						
Nordic birch *	€530	€540r	€530	€521	€515	2.9
Eucalyptus (Brazil/Iberia) *	€530	€540r	€530	€521	€515	2.9
Northern mixed (Canadian/US)	770	770	740	748	655	17.6
Southern mixed (US)	760	760	730	738	645	17.8
<b>Specialty grades</b>						
Fluff (US southern kraft, untreated softwood rolls)	880-900	850-880	850-870	862	785	13.4
BCTMP (Canadian aspen, 85 GE)	740	740	710	717	625	18.4
<b>JAPAN (CIF)</b>						
Northern (Canadian)	760-770	750-760	750-760	755	715	7.0
Southern (US)	740-750	740	740	740	710	4.9
<b>Bleached hardwood kraft</b>						
Southern mixed (US)	690	660-690	660-690	668	625	10.4
<b>ASIA ** (CIF)</b>						
Tropical mixed from Indonesia	n.a.	n.a.	n.a.	n.a.	610	n.a.
Northern bleached softwood kraft (South Korea)	790	780	780	780	740	6.8
Northern bleached softwood kraft (China)	750-760	740-750	740-750	745	705	7.1%

While the information contained in this index has been obtained from sources believed to be reliable, RISI does not warrant or guarantee the accuracy and completeness of the information. All prices are best estimates of list prices before regular volume and contract discounts and are composite prices as opposed to median or average prices. Actual transaction prices may vary. US prices include normal freight allowance for delivery to consuming paper mills. Export prices are CIF main European ports. Normal terms include a 1.5% discount for cash payment or 60 days. Prices may not reflect some existing contract discounts off list prices still in effect: in North America, typically 8-12%, sometimes higher; in Europe, above 5% for larger buyers; in Japan, up to 4%; in Korea, about 2-3%, sometimes higher; in China 0% (from Canadian producers). NBHK pricing varies according to species used for the pulp. \* Includes Euro-denominated price adjustments due to currency fluctuations. \*\* Asian prices are at the last closed levels, which reflect prior month shipments. Source: *Pulp & Paper Week*.

## Uncoated Freesheet

### Domtar begins 2008 quickly with \$60/ton cut-size office paper increase for Feb. 15

Domtar, North America's uncoated freesheet (UFS) market share leader based on capacity, announced last week that it plans to raise UFS cut-size office paper grade pricing by \$60/ton, effective with shipments beginning Feb. 15.

It is the first announcement for cut-size grades since prices rose last June and the first UFS increase announced since 50-lb offset, laser bond, and other UFS grades rose in price late last fall.

The increase announcement comes earlier in the year and at a higher amount than many industry observers expected.

One converter called the timing of the increase, in February, "very interesting."

Despite lower domestic demand, producers are running at high operating rates, manage lower mill inventories, and are shipping more tonnage offshore because of the weak dollar, according to sources.

November US cut-size shipments were down 4.2%, compared with November 2006 shipments, according to the American Forest and Paper Assn. (AF&PA). For the first months 11 months of 2007, US UFS cut-size shipments declined almost 4% and totaled 4.7 million tons.

Preliminary December UFS shipments were down 5.6%.

Despite weak demand trends, average UFS cut-size prices increased about 5% in 2007 after producers reduced supply and demand declined. Operating rates were 95-97% due to the shut of about 1.4 million tons of capacity last year.

Domtar in December announced the shut of more than 340,000 tons/yr of capacity at two high-cost mills, equaling about 2-3% of North American UFS capacity (*P&PW*, Dec. 17, p. 7).

**Inventories low.** Since a peak of 1.3 million tons in mid-2007, total US UFS mill inventories dropped. Total UFS mill inventories at 1.17 million tons in November were down from 1.25 million tons in November 2006. Cut-size mill inventories at 381,900 in November dropped steadily since mid-2007 and were down 11% and 48,300 tons compared with November 2006's stock.

**Impact of imports.** The risk of imports to offset tightness in the North American UFS market is relatively low due to the weakness of the US dollar, noted RISI's VP for graphic papers John Maine. While offshore shipments are attractive to North American suppliers, offshore producers would rather ship to Europe where UFS

prices are higher than in North America, contacts said.

## Coated Papers

### NewPage says it will shut 447,000 tons/yr of coated capacity and boost output

Acting quickly to integrate the assets of Stora Enso North America (SENA) following its late December acquisition, NewPage said that in coming months it intends to close 317,000 tons of coated mechanical (CM) and 130,000 tons of coated freesheet (CFS) capacity.

The company said production would be moved from slower, lower volume, less strategic machines to machines that could operate more efficiently and produce a higher quality, more consistent product.

Contacts described the move as another example of "an increasingly evident trend" of companies aggressively managing supply to try to improve margins.

NewPage said the restructuring would create the platform it needs to be competitive as a single company, and to obtain the \$265 million of synergies it is committed to achieve.

The closures eliminate a total of 664 positions at the Rumford, ME, Niagara and Kimberly, WI, and Chillicothe, OH, mills.

Although the capacity shuts represent 6.2% of US CM supply and 2.6% of US CFS supply, NewPage said its shipments to the already tight US coated markets would not be impacted because production from the shuttered machines would be transitioned to more efficient machines in its integrated mill system.

**Cuts said to boost output.** "Despite the permanent closures, we are merging the operations in a manner that will actually increase our 2008 North American production by 3-8% compared to the combined production in 2007," said NewPage chmn/CEO Mark Suwyn in a press release.

"Those are good intentions and may be a prediction of what they want to do but you don't just boost production by saying it," said one US buyer contact. "This will initially result in a net decline in the amount of coated paper available in this country and that will absolutely tighten the market."

"The capacity closures will have limited near-term impact since the machines will continue to run for the next few months, and NewPage still expects to boost annual output by 3-8% in 2008. Nonetheless, operating rates in the industry should

clearly move higher," noted Lehman Bros. analyst Peter Ruschmeier.

**NewPage not at fault says union.** The United Steelworkers (USW), which represents about 4,000 coated paper production workers at NewPage mills, said the company's combination with SENNA could not be faulted for the closures. Instead, the union blamed the US International Trade Commission (ITC) for not upholding last year's US Dept of Commerce (DOC) anti-dumping and anti-subsidy duties on low-priced imports from China, Indonesia, and South Korea.

"It is impossible for the coated free sheet paper industry to be bullish about the future when our government encourages illegal dumping and foreign government subsidy support," said USW director Jon Greenen, in a release. "We are urging the company to immediately file an appeal of the trade case against paper imports or re-file a new case, in order to stop these illegal imports with anti-subsidy duties."

At Rumford, NewPage plans to permanently close PM 11, which makes CM and CFS, by the end of February 2008. About 60 employees will be affected.

Niagara mill's two lightweight coated (LWC) machines, PMs 43 and 44, and the facility's pulp mill will permanently close by the end of April, affecting about 319 employees. The company cited Niagara's production as 230,000 tons/yr.

At Kimberly, the 137,000 tons/yr specialty CFS PM 95 will permanently close by the end of May. The PM makes specialty papers for pressure-sensitive or glue-applied labels. About 125 employees lose their jobs.

The Chillicothe converting facility will shut permanently by the end of November once some of its converting machines and volume are transferred to facilities at Luke, MD, and Wisconsin Rapids, WI. About 160 employees will be affected.

"Closing one of our converting facilities and transitioning sheeting operations will result in better geographical distribution, more capacity for sheets, faster turnaround and delivery times for custom sizes, and a wider range of sheet sizes," said NewPage pres and COO Rick Willett.

Willett said the company did not anticipate taking any further steps related to the integration.

The Canadian Press reported that the former SENNA newsprint and supercalendered (SC) paper mill at Port Hawkesbury, NS, "dodged a bullet." Port Hawkesbury, which operates a slow and elderly newsprint PM, had been widely seen as a likely target in any asset rationalization.

## Pulp

### After chip fire, Canfor halts market pulp production at its Prince George operation

A fire that burned in the woodchip processing plant at Canfor Pulp Limited Partnership's 295,000 tonnes/yr pulp and paper mill in Prince George, BC, on Jan. 15 led to the closure of the mill's market pulp production last Thursday.

The fire damaged the mill's chip processing and chip in-feed facilities, but left the digesters, other components of the mill, and on-site chip inventories unaffected, a Canfor Pulp official said last Thursday. No one was hurt.

Canfor Pulp's Prince George mill includes 155,000 tonnes/yr of market pulp capacity, and it typically sells 120,000 tonnes/yr of unbleached kraft and 35,000 tonnes/yr of semi-bleached kraft pulp.

While market pulp production was shut last Thursday, the mill's 140,000 tonnes/yr of sack kraft paper production is operating at full capacity, the company official said. The firm plans to only run the paper mill until repairs are completed.

Canfor Pulp's adjacent Intercontinental Pulp mill and its larger Northwood Pulp mill, which both produce northern bleached softwood kraft (NBSK) market pulp, were unaffected by the fire and normal operations continued at both mills.

"Management is investigating chip in-feed alternatives to minimize production disruptions and to ensure we continue to satisfy customer requirements," said a Canfor Pulp official in a release.

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### NBSK INCREASES \$10/TONNE «« continued from page 1

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**Paper demand drives.** Contacts at coated papermakers, a grade that consumes large volumes of NBSK, said that the December to January period has gone better than usual, with little or no holiday downtime at paper mills and a seasonal up-tick that's just around the corner likely to keep pulp supplies from bulging during the winter.

"We're running full, everything's strong. There's no less demand for NBSK than before," said one contact in the USA. "We hadn't taken any paper downtime all of last year and into this year. Very soon the next big season is annual reports and once that starts hitting any day now, that season will be very busy."

In addition, various US tissue producers are set to raise prices beginning in February and some reported they will

increase their buying of market pulp this year (*P&PW*, Jan. 5, p. 5).

**Export pull helps NBSK.** Prices in Europe are expected to hit the \$880/tonne that was slated by virtually all producers for December business. Some producers quietly agreed to phase-in their hikes last month and most increases ended up \$20/tonne rather than the \$30/tonne that would bring NBSK prices on parity with those in the USA.

The phase-ins hit SBSK as well as NBSK, contacts in North America and Europe said. Supplies of birch pulp -- which were reduced beginning early last year due to producers swinging to softwood production, wet weather making wood procurement difficult, and lower imported Russian wood due to a tariff that kicked in last year -- are expected to make hardwood fundamentals strong this year as well (Apr. 2, p. 7). Virtually all market contacts reported last month's \$30/tonne hike going through in a single month for all key hardwood grades in Europe, and one bleached eucalyptus producer was hinting at a possible \$20/tonne hike for February business, contacts said late last week.

In Asia, NBSK prices rose \$10/tonne across all key markets including China, Japan, and South Korea at the end of December and buyers are bracing for the possibility of another \$10/tonne increase in February.

Last week, Arauco informed customers in China that it would hike bleached radiata pine to \$750/tonne, up \$10/tonne, behind strong paper demand. As a result, shipments of market pulp to China continually rise. Year-to-date shipments of 4.23 million tonnes through November 2007 were up 15.8% from the same time in 2006, and had already eclipsed the 3.97 million tonnes shipped during all of 2006 as well as 3.63 million tonnes during 2005, according to the Pulp and Paper Products Council.

Canfor Pulp told customers in Asia that it will increase NBSK by \$10/tonne effective Feb. 1, to \$760-770/tonne in China. Arauco also slated a \$30/tonne increase on bleached eucalyptus to \$750/tonne but left its unbleached radiata unchanged at \$570/tonne.

**Asian hardwood shortage.** Hardwood kraft prices rose mostly \$30/tonne last month across Asia, where supplies of mixed Indonesian hardwood plummeted due to an ongoing dispute in Riau over illegal logging and raised demand for other hardwood grades. Indonesian pulp and paper association pres Muhammad Mansur told Reuters that pulp producers were expected to produce 1.68 million tonnes of pulp this year, down from an estimated of

5.2 million tonnes in 2007 and 5.67 million tonnes in 2006. Market participants have cited the logging-related downtime since late last spring, and the grade's lack of availability helped drive price hikes in Asia for grades such as eucalyptus, northern bleached hardwood kraft (NBHK), southern bleached hardwood kraft (SBHK), and bleached chemi-thermomechanical grades.

"The ban on mixed top hardwood harvesting means (demand for other hardwood grades) has really shot up," said a contact at a producer that ships to Asia. "Hardwood continues to be extremely tight. We get many requests we can't fulfill. Basically it's because the Far East is buying a lot," said a contact at a producer that ships to Asia.

However, a contact in South Korea said he expects output from the former Kiani Kertas mill -- now Kertas Nusantara with 525,000 tonnes/yr of bleached hardwood kraft pulp capacity -- to come soon, and provide relief for hardwood-hungry buyers in Korea and China.

**Canfor Pulp fire curbs UBK.** While bleached softwood kraft prices moved up over the past year in Asia, unbleached prices declined, but that dynamic could change in the wake of a fire on Jan. 15 at Canfor Pulp's 295,000 tonnes/yr pulp and paper mill in Prince George, BC (see story, p. 6). The firm shut down the facility's market pulp production on Jan. 17 and will not resume production until repairs are done at the chip processing plant. The mill makes 155,000 tonnes/yr of market unbleached and semi-bleached pulp.

Canfor's unexpected downtime comes in addition to Pope & Talbot's (P&T) ongoing 17% slowdown of NBSK production due to low supplies and high woodchip prices since last August (Aug. 6, p. 5). Its temporary capacity reduction has shed an estimated 30,000 tonnes of NBSK.

In the USA, the effective list price for NBHK drifted up \$5/tonne to \$780-795/tonne as certain producers that quietly agreed to halve their increases last month finished a mostly \$30/tonne hike this month. In some cases, maple-heavy NBHK is pricing a bit higher than mixed and aspen grade NBHK, with some contacts reporting that even though the list prices are \$10/tonne or so higher, discounting dropped due to strong demand from specialty papermakers and open market buyers in Europe, where the birch shortage makes them seek hardwood kraft from global suppliers.

**MDIP rises on strong demand.** In other grades, market deinked pulp (MDIP) prices rose \$20/tonne this month as producers lifted levels in the wake of rising raw material costs and strong demand from papermakers that are producing more

recycled content papers. The effective list rose to \$680-740/tonne and was up \$40/tonne in the past two months after producers reported stronger demand than the small-capacity market could supply, and on the back of rocketing prices for sorted office paper, a key furnish (see related story, p. 1).

In an unusual dynamic, Cascades' recently announced sale of its DIP mill in France led European buyers to seek air-dried DIP from the USA, which could impact the domestic market, one buyer said.

• A US bankruptcy judge last week approved **P&T's** proposed sale of its three NBSK mills to affiliates of the Sinar Mas Group for \$225 million in cash and the assumption of certain liabilities (Jan. 14, p. 11). All new offers for P&T's pulp business must come by Feb. 1, and if a qualifying bid is received, an auction would be slated for Feb. 5. In a court filing, **PT Pindo Deli** was named as the Sinar Mas division that wants the mills.

## WHITE BIRCH SP TO COMBINE «« continued from page 1

springboards the company to an 18% market share.

The market leader, AbitibiBowater, has a 47% share, and No. 3 ranked Kruger 10% -- giving the top three newsprint makers control of 75% of North American newsprint supply. Abitibi-Consolidated and Bowater merged last year.

Contacts said US publishers might protest to regulators about the extent of consolidation in the newsprint industry, even though the SP deal was agreed to with the producer's three publisher owners -- Cox Enterprises, Media General, and The McClatchy Company. The partners announced a strategic review of the business and put SP on the block last May.

"There's no question in my mind that more changes in ownership will be taking place this year. Kruger and Catalyst may well be disappointed not to have bought SP Newsprint and they could decide to take a run at Snowflake," said an analyst.

**Expansion of recycling.** "SP Newsprint's world-class assets, power generating facilities, and recycling organization present a compelling opportunity," said White Birch Paper chmn and CEO Peter Brant. "This acquisition is expected to broaden our geographic ability to supply our US and foreign customers and provide White Birch Paper with a strong platform to expand in the recycling business."

White Birch has four mills at Riviere du Loup, Quebec City, and Gatineau, QC, and Ashland, VA. In addition to newsprint, the

## NORTH AMERICAN NEWSPRINT CAPACITY -- 2008

Company	Share
1. AbitibiBowater	47%
2. White Birch Paper <sup>1</sup>	18
3. Kruger	10
4. NorPac	6
5. Catalyst	5%
<b>Total share of five largest</b>	<b>86%</b>

Note: Total North American newsprint capacity is an estimated 11.385 million tonnes. Capacities include indefinite closures and exclude permanent shutdowns. <sup>1</sup> Assumes White Birch acquires SP Newsprint.  
Source: Canadian Paper Analyst.

company produces directory paper and paperboard. A White Birch contact described SP Newsprint as "a good fit" that would balance the company's operations between Canada and the USA, and not lead to closures north of the border.

## Mergers/Acquisitions

### M&A frenzy expected to go on after \$40 billion in deals over the last three years

Several market leaders, across most grade lines, gained greater capacity share in their sector with a surge of industry consolidation not seen in the North American paper industry for at least five years -- and analysts expect the consolidation fervor to continue this year.

The "Year of Consolidation," as some analysts tout it, showed that while the magnitude of the deals was impressive (with the number of top five players in each market sector participating) the value of companies and deals was not as high as in previous years.

The mergers and acquisitions (M&A) rush in the US pulp and paper industry since 2005 totaled more than an estimated \$40 billion by the end of 2007. While less than the previous three-year high of almost \$53 billion from 2000-2002, various analysts and company officials see a continuing onslaught of "merger mania" in North America this year.

In 2008, at least one big deal is expected to include Weyerhaeuser, which is looking to sell its containerboard, packaging, and recycling unit, which is the largest containerboard and corrugated producer in the USA. Some say the unit could be worth \$5 billion (see story, p. 9).

Other deals are very likely -- and no major product sector is exempt.

Consolidation picked up in North America for various reasons including rising costs, weaker demand, and global

competition. A key in the process also has been the introduction of private equity firms, which have continued to grow their share in the North American pulp and paper industry the last five years.

Other potential M&A targets are bankrupt tissue maker Marcal Paper, market pulp and newsprint maker Tembec, and the AbitibiBowater newsprint mill in Snowflake, AZ, that the US Dept of Justice ordered the newly formed company to sell.

**Two M&As to start 2007.** Last week, two more deals totaling more than \$1 billion were announced: Rock-Tenn plans to buy Southern Container for \$993 including cash and debt, and Sinar Mas, parent of Asia Pulp and Paper, plans to buy Pope & Talbot's three market pulp mills, for \$225 million.

**Big deal in 2007.** Last year's biggest deal was Canadian-based Domtar's merging with Weyerhaeuser's fine paper division in a \$3.3 billion transaction finalized last March that created North America's largest uncoated white paper producer with a roughly one third share of North American capacity.

The AbitibiBowater merger last year was also a major deal, valued at \$1.6 billion, along with Brookfield Asset Management's \$2.15 billion acquisition of containerboard and kraft paper maker, and timberland owner Longview Fibre. Late in the year, NewPage finalized its \$2.52 billion purchase of Stora Enso's North American (SENA) assets. (see story p. 5.)

**Graphic-Altivity merger coming.** The \$1.75 billion merger of Graphic Packaging and Altivity, announced mid-2007, should be completed within a few weeks.

Also in packaging, New-Zealand's The Rank Group actively purchased its way atop the packaging spectrum by buying Alcoa's packaging and consumer businesses for \$2.7 billion last month. That deal followed a year plus in which Rank bought SIG Holding for \$2 billion, International Paper's (IP) beverage-packaging unit for \$500 million, and Blue Ridge Paper Products for \$338 million. In 2006, Rank purchased Carter Holt Harvey from IP for \$1.14 billion.

**Growing influence of private equity.** Several of last year's top deals included equity firms including Brookfield Asset Management; Cerberus Capital that owns NewPage; Metalmark Capital buying the North American specialty packaging business from SCA; Atlas Holdings buying Finch, Prunyn; and American Securities Capital Partners buying Fibermark.

By the end of first quarter, Aldabra 2 Acquisition, a special interest acquisition vehicle, should complete the purchase of privately-held Boise Cascade's paper and

## MAJOR US PULP AND PAPER MERGERS AND ACQUISITIONS -- 2006-2008

Acquiring company	Assets purchased	Estimated value (million US\$) <sup>1</sup>	Year effective
Graphic Packaging Investment firm	Altivity Packaging	\$1,750 <sup>p</sup>	2008
Aldabra 2 Acquisition	Paper and board assets of Boise Cascade from Madison Dearborn	1,625 <sup>p</sup>	2008
Rock-Tenn	Southern Container	993 <sup>p</sup>	2008
White Birch Paper	SP Newsprint	350 <sup>p</sup>	2008
NexBank SSB	Bankrupt Marcal Tissue	166 <sup>p2</sup>	2008
American Securities Capital Partners	Fibermark	n.a.	2008
Rank Group	Packaging and consumer businesses of Alcoa	2,700	2007
NewPage	Stora Enso North American assets	2,520	2007
Brookfield Asset Management	Longview Fibre	2,150	2007
Metalmark Capital	North American specialty packaging business from SCA	400	2007
Georgia-Pacific	Brewton, AL, linerboard/bleached board mill from Smurfit-Stone Container	355	2007
Rank Group	Blue Ridge Paper Products	338	2007
International Paper (IP)	Distributor Central Lewmar	185	2007
US Corrugated	Eight box plants from Longview Fibre	81	2007
Cellu Tissue	CityForest	50 <sup>e</sup>	2007
Unnamed buyer	Blue Heron newsprint site in Pomona, CA	20 <sup>e</sup>	2007
Neenah Paper	Fox River Paper	n.a.	2007
Atlas Holdings	Finch Pruyn & Co.	n.a.	2007
ST Paper	Oconto Falls Tissue	n.a.	2007
Caraustar	Mayers Fibre Tube & Core	n.a.	2007
Apollo Management (Verso Paper)	IP coated/SC paper unit (four mills, 1.7 million tons/yr capacity)	1,400	2006
Texas Pacific Group	Smurfit-Stone's consumer packaging unit (four mills, 39 converting plants)	1,040	2006
Carter Holt Harvey <sup>3</sup>	IP's beverage packaging unit including Pine Bluff, AR, coated groundwood/bleached board mill	413	2006
Thilmany (Kohlberg)	Packaging Dynamics nine flexible packaging plants	268	2006
SFK Pulp Fund	American Fiber Resources (two market deinked pulp mills)	160	2006
Temple-Inland	Joint venture partner Caraustar Industries' 50% stake in two Standard Gypsum wallboard plants	150	2006
KapStone Paper	IP's Roanoke Rapids, NC, 400,000 tons/yr kraft paper mill	155	2006
Glatfelter	NewPage's carbonless business	80	2006
Cascades	Sprague, CT, recycled boxboard mill from Caraustar Industries	15	2006
Cascades	Paperboard unit of Simkins Industries, including two coated recycled mills	13	2006
Remark Paper	Manistique, MI, specialty mill from Kruger	n.a.	2006
Texas Pacific Group (Altivity)	Field Container (two boxboard mills, eight carton plants)	n.a.	2006
MannKraft	Linpac's US unit (Cowpens, SC, linerboard mill, five converting plants)	n.a.	2006
USG	Menasha's idle corrugating medium mill in Otsego, MI (to be converted to gypsum wallboard facing paper)	n.a.	2006
Forest Resources LLC	Ivex Packaging	n.a.	2006
Boise Cascade	Single plant sheet feeder from Central Texas Corrugated	n.a.	2006
Cascades Tissue Group	Shuttered deinked pulp mill in Hagerstown, MD, from Newstech	n.a.	2006

1. US\$ million unless otherwise noted. 2. Being considered by bankruptcy court judge in New Jersey. 3. Owned by The Rank Group. p = pending. e = estimated.  
Source: *Pulp & Paper Week*, RISI database, industry sources.

board assets, now called Boise Paper, from Madison Dearborn, itself a private equity firm.

In 2006, Apollo Management acquired International Paper's (IP) coated and supercalendered papers unit.

**More capacity at top.** One hook for the consolidators may be the increased capacities held by fewer companies at the top of major sectors such as uncoated freesheet (UFS), and coated printing and writing papers.

In newsprint, coated printing and writing papers, UFS, and coated folding boxboard, the top three North American producers in each manage 62-75% of total capacity in the sectors.

In containerboard, if the Weyerhaeuser deal occurs, possibly by mid-2008, a Weyco-Smurfit-Stone Container combination would manage about a 40% share of North American containerboard capacity and US box shipments. With Georgia-Pacific, the combination's share would be about 30%, and with Temple-Inland, the share would be 25-30%.

UFS has the largest capacity share for its three largest producers at 69%. Domtar is largest by capacity, followed by IP and Boise Paper.

**Other deals likely.** The NewPage/SENA deal, completed late last month and quicker than most observers thought, seems likely to fuel further moves in the North American

coated paper sector. Among possibilities are Verso (owned by Apollo Management) and Sappi -- two large players that both seem to be candidates for action, according to Deutsche Bank analyst Mark Wilde.

**Consolidatee benefits.** As Wilde noted, consolidation has often been more beneficial in the past for the consolidatee than the consolidator. For example, Stora Enso acquired Consolidated Papers for \$4.8 billion in 2000 and sold it to Cerberus for \$2.5 billion. Abitibi-Consolidated acquired Donohue in 2000 for C\$7.1 billion, a price more than three times the current Abitibi/Bowater deal.

But the industry may be reaching a "tipping point" where consolidation offers

## MAJOR CANADIAN PULP AND PAPER MERGERS AND ACQUISITIONS -- 2006-2008

Acquiring company	Assets purchased	Estimated value (million US\$) <sup>1</sup>	Year effective
Sinar Mas, Asia Pulp and Paper parent company	Nanaimo and Mackenzie, BC, and Halsey, OR pulp mills from bankrupt Pope & Talbot	\$225 <sup>p</sup>	2008
Superior Packaging	Fort William mill in Thunder Bay, ON, from AbitibiBowater	50 <sup>p</sup>	2008
Domtar	Merger with Weyerhaeuser fine paper unit (eight mills in U.S. and Canada)	3,300	2007
Sinar Mas	Meadow Lake, SK, pulp mill	C\$37.5	2007
Abitibi-Consolidated	All stock merger with Bowater	1,600	2007
Local investors	St. Marys Paper	n.a.	2007
Cascades	Remaining 50% stake in Norampac from Domtar	C\$560	2006
White Birch	Masson, QC, newsprint mill from private investors	135 <sup>e</sup>	2006
PaperlinX Canada	Fine paper distribution assets from Cascades	C\$81	2006
Buchanan Forest Products	Neenah Paper's idle Terrace Bay, ON, NBSK pulp mill	n.a.	2006
Jolina Capital	BCTMP mill in Port Cartier, QC, plus two lumber mills	n.a.	2006
Forest Resources LLC	Roman Corp. recycled boxboard mill in Napanee, ON	n.a.	2006

1. US\$ million unless otherwise noted. p = pending e = estimated.  
Source: *Pulp & Paper Week*, RISI database, industry sources.

some real benefits, according to Wilde. Larger-sized producers can quickly and more efficiently reduce excess capacity, maintain a more disciplined approach to capital spending, and run their mills more to meet customers demand, he said.

However, consolidation won't do certain things -- like preventing new entrants (such as China's Nine Dragons Paper and other major new paper producers in China), eliminating threats from substitution (from plastics and electronic media) or guaranteeing strong performance, according to Wilde.

## Containerboard

### Market appears stable with slowing economy; shipping 'turmoil' slows liner exports

With growing signs of a US economic slowdown or even a recession, box demand remained fairly steady in January with no pressure on containerboard prices due to low inventory levels, contacts said last week.

But there is concern about linerboard export shipments -- a major factor keeping the US market in balance -- not because of any lack of demand but from soaring ocean freight rates and lack of shipping space on vessels.

"The turmoil in ocean freight could be a problem if export production begins to back up into the domestic market and box shipments begin to weaken because of the US economy," one contact said.

But most contacts said that box shipments remain relatively healthy for a seasonally slow period of the year.

"If you're selling boxes to customers in industries related to housing or automobiles, your business is probably bad, but if

you're selling into the food and beverage market, sales are probably still fairly good," one contact with an integrated company said.

Another integrated said his company's box cutup in January was "slightly ahead of plan" for a seasonally slow period of the year and that outside containerboard sales showed no signs of slackening.

A trader contact said there were some signs that the North American containerboard market demand is gradually easing, but almost no discussion about prices by customers. One sign of easing, he noted, was that two major integrations that had been buying heavily in the open market late last year no longer seem to need tonnage.

"They have found nourishment and gone away," he said.

**4Q box shipments weak.** Industrial production of nondurable goods declined

at a 2.4%/yr average annual rate in the fourth quarter, a major reason for the weak box shipments in October and November. The Fibre Box Assn (FBA) releases December box shipments figures on Feb. 1 after a yearend audit. But RISI projects box shipments dropped at a 5.4% annual rate in the fourth quarter, resulting in a 1.2% decline in actual shipments for 2007.

Another reason for the decline is that "consumers aggressively worked off inventories during the same period as converters began to pass through the most recent containerboard price hike," noted RISI VP for packaging Ken Wagborne. As a result, he is forecasting box shipments will show a small increase in the first quarter as end users rebuild inventory.

**Containerboard output up slightly.** US containerboard production in December rose 1.9% from a year ago and totaled 35.3

## US CONTAINERBOARD /BOX STATISTICS -- DECEMBER 2007

(000 tons)				
	Dec. 2007	% chg.	Year-to-date	% chg.
<b>Box shipments (bsf) <sup>1</sup></b>	n.a.	—	n.a.	—
Average week	n.a.	—	n.a.	—
Containerboard consumption	n.a.	—	n.a.	—
<b>Production</b>				
Linerboard	2,145	3.8	25,145	1.0
Corrugating medium	850	-2.7	10,172	-1.5
Total containerboard	2,995	1.9	35,318	0.3
<b>Exports/imports</b>				
Linerboard	296	-13.9	3,256	8.0
Containerboard imports	80	13.9	911	-9.3
<b>Operating rates (%)</b>		<b>Yr ago</b>		<b>YTD yr ago</b>
Linerboard	97.4	95.6	98.3	97.6
Corrugating medium	96.1	95.0	95.4	95.7
Total containerboard	97.0	95.4	97.4	97.0
<b>Inventories</b>	<b>tonnage chg prior month</b>			
Mill inventories	320	31	—	—
Box plant inventories	n.a.	n.a.	—	—
<b>Total inventories</b>	<b>n.a.</b>	<b>n.a.</b>	—	—

Note: Fibre Box Assn statistics will be reported Feb. 1 due to its yearend audit. bsf=billion ft<sup>2</sup>.  
Source: Fibre Box Assn, American Forest & Paper Assn, US Bureau of Census (imports).

million tons for all of 2007, up 0.3% from a year ago. Linerboard production for last year rose 1.0% to 25.1 million tons, while medium production declined 1.5% to 10.1 million tons, according to American Forest and Paper Assn. (AF&PA) statistics released last week.

Containerboard mills ran at an average of 97% for the year.

Containerboard inventories at mills rose by 31,000 tons in December to end the year at 320,000 tons. This compares "quite unfavorably with average 10-year December monthly decline of 17,300 tons," noted Citigroup's Chip Dillon. Dillon said the board inventory was "a partial picture" until FBA releases its data that includes box plant containerboard inventory.

US linerboard export dropped 13.9% in December to reach 3.3 million tons for 2007, up 8.0% from a year ago, according to AF&PA.

**Shipping shortage impacts exports.** North American export linerboard demand remains strong and pricing is still fairly stable in most world markets, according to export contacts.

But soaring ocean freight rates and lack of shipping space are beginning to impact mill nets and impede export shipment volume.

"The shipping situation really began to worsen during November, December, and January," one company linerboard export manager said.

Linerboard export managers and brokers report ocean shipping delays of anywhere from one to three weeks or even longer -- particularly on less profitable routes to markets such as Africa, the Middle East, or India. In some cases, brokers say they have orders, but can't ship them because no containers are available or space on ships.

Even on major routes, there can be long delays. One broker said an order placed by a customer in Germany in mid-December would not be delivered until probably the first week of March due to repeated shipping delays.

The worst delays are reported to be from the port of Savannah, which serves many southeastern US mills.

"My freight forwarder said, 'Don't go there,'" one export manager said.

One export sales manager estimated total ocean shipping costs (basic rate plus surcharges) rose around \$20/ton each month for the past several months as "emergency" bunker fuel charges and special charges pile on already soaring freight rates.

**Tug of war over freight costs.** Not surprisingly, there is a tug of war between

buyers and sellers over who absorbs the higher freight cost.

On the surface, CIF or CFR prices for heavyweight 175-g+ linerboard have been fairly steady in southern Europe at Euro 450-460/tonne. But one exporter said his freight costs to Italy from the southeastern US rose to \$80-90/tonne from \$50-60 over the past year or two, significantly reducing mill nets.

Buyers of US kraft linerboard in Central and South America, who typically buy on an FAS basis, are beginning to push back on prices because of the rising freight costs -- and in some cases are starting to ask for discounts of \$10-20/ton though suppliers are resisting because demand remains strong.

US kraftliner producers have been selling at around \$450-460/ton FAS in Central and South America to manufacturing customers. First quarter banana box contract prices with medium-sized buyers settled unchanged from the fourth quarter at \$440/ton FAS, with International Paper and Weyerhaeuser winning most of the business. Some US suppliers bid at \$470 or higher.

In Mexico, linerboard export prices remain at \$540-550/tonne at the Laredo border though one major US western supplier was selling below this level, but gradually raised prices to around \$530/ton in some accounts, contacts said.

**Merger mania.** Speculation continues on the most likely partner if Weyerhaeuser moves ahead with spinning off its containerboard, packaging, and recycling division in the wake of Rock-Tenn's surprise purchase of Southern Container last week.

Temple-Inland (TIN) following its three-way corporate breakup is now being discussed as one of the most likely partners for the Weyerhaeuser deal, along with Smurfit-Stone Container. Both would appear to qualify for the type of tax-free "Reverse Morris Trust" deal that Weyerhaeuser appears to favor. There are unconfirmed reports that Weyerhaeuser and TIN managers have begun the due diligence process of looking at each other's facilities.

Both Weyerhaeuser and Temple-Inland run efficient, low cost mills and box plants that focus on national account business. While Weyerhaeuser and TIN appear more similar, a deal involving Smurfit-Stone would offer more opportunities for capacity rationalization since Smurfit-Stone has more older facilities even after its restructuring program, one analyst noted.

"If both companies (TIN and Weyerhaeuser) believe they have the best

plants, how do you close any?" the analyst asked.

## Transportation

### US forest products exporters complain of soaring ocean freight rates, lack of space

Soaring ocean freight rates and a shortage in shipping space are causing US forest products companies to complain to the American Forest & Paper Assn about service provided by world ocean freight carriers.

Among the specific complaints:

- Federal Maritime Commission (FMC) rules are not being enforced with 30-day notice on rate changes.

- Ocean freight carriers are "manipulating and inflating" bunker fuel surcharges.

- New "miscellaneous" revenue generating surcharges are being added to already inflated tariff rates and fuel surcharges.

- Some carriers are downsizing to smaller vessels or removing vessels from lanes that previously called to port causing a shortage of capacity -- and leaving large volumes of paper/board rollstock and recovered paper at ports subject to port storage and rail demurrage charges, and forced rate increases.

- Carriers are not supplying agreed upon container equipment to various ports in the southeastern US and overbooking vessel space.

**Reasons for shipping perfect storm.**

The "perfect storm" in ocean shipping is being caused by the confluence of a number of factors, according to US export managers and brokers.

Carriers cancelled delivery of new ships and dry docked older vessels due to dismal profitability during the last decade. The shrinkage in capacity was taking place as China was emerging as a major manufacturing power sucking in raw material imports from all over the world.

The plunging dollar also spurred US export shipments and paper now competes for available shipping space with manufactured goods that have more attractive freight rates or dry cargoes such as grain that can be loaded more quickly into break bulk vessels.

"I've had my rollstock shipments left at the port more than one time," one export broker complained.

"I can get containers now but not the space on ships," said another export manager.

Contacts see no end to the shipping shortage, but new vessel capacity is to be launched later this year.

## SOP, PULP SUBS RISE AGAIN

<<< continued from page 1

three deinking lines started up or restarted in the USA since February.

Also, another one will start in the third quarter when SCA Tissue fires up the new machine No 14 at its Barton, AL, mill. Last week, a warehouse was being built at the mill complex and foundation laid for PM 14, a company official said. Also, contacts last week said Erving Tissue in Massachusetts would switch to buying 4,000-5,000 tons/month of SOP rather than coated book stock (CBS), and another mill in Mexico was moving from CBS to SOP and pulp substitutes.

One supplier in the East noted that mills last week "are becoming a bit more sensitive to the high prices."

Export demand for US SOP also continues rising, with growing demand from South America, especially Chile, as well as China.

**SOP at 12-year high price.** The average US mill price for SOP has risen \$120/ton and 140% since November 2005's \$86/ton. During this run, only twice has SOP declined and both of those declines were slight.

Pricing for SOP and the brightest pulp substitute, hard white envelope cuttings (HWEC), hit \$235/ton and \$450/ton at the FOB seller's dock in New York and the Northeast this month. Those are the highest levels for the materials since third quarter 1995. SWL at \$320/ton in New York was also at a 12½-year high. Premiums for HWEC and SOP in the East touched \$470/ton and \$245/ton, respectively.

### US RECOVERED PAPER PRICE TICKER\*

(FOB seller's dock per ton)

2008	
January	\$209
2007	
December	\$201
November	198
October	197
September	194
August	194
July	188
June	178
May	177
April	183
March	189
February	169
January	158

\* Ticker is the average from the combined US average prices for mixed paper, old newspapers No. 8, old corrugated containers, hard white envelope cuttings, sorted office, and sorted (postconsumer) white ledger.

Source: *Pulp & Paper Week*.

### US OCC DEMAND TRACKER -- NOVEMBER 2007

	(000 tons)				
	Nov. 2007	Nov. 2006	% chg	YTD	% chg.
US consumption	1,369	1,434	-4.6	15,931	1.1%
US exports	538	515	4.5	5,175	6.9
US mill inventory <sup>1</sup>	444	382	62	n.m.	n.m.
<b>TOTAL demand</b>	<b>2,351</b>	<b>2,231</b>	<b>0.9%</b>	<b>21,550<sup>2</sup></b>	<b>2.7%</b>

1. Year-over-year change is in actual tons. n.m.=not meaningful. 2. Includes end-of-November inventory total. Source: American Forest & Paper Assn, US Census Bureau.

"There is nothing to stop this except for an economic collapse. There is so much demand out there that I don't see anything stopping this thing," said a trader in the West, speaking of primarily OCC and bulk grades as well as SOP and deinking materials.

Various suppliers expected US mills to face pressure by early February to keep up with export pricing surge -- or lose tonnage. They cited a second consecutive monthly freight rate increase of \$5-10/ton for Feb. 1 and ongoing shortages of shipping containers at almost all ports.

**Only half export orders filled.** One Midwest-based exporter shipped just half his orders to China this month due to the container shortage.

Traders said the weak US dollar pushes Chinese buyers to purchase more from the USA than from Europe or Japan. As of last Thursday, the dollar was 13.5% weaker vs the Euro on a year-over-year basis.

Various mill buyers across the country last week said they were in no position with the high pricing to tie up guaranteed supply as protection from exports because suppliers will sell offshore if they can gain higher prices.

One trader expected pricing on most grades to lift by March, behind steady, then strong demand from China after the Lunar New Year in mid-February and a seasonal uptick in US production.

**October stock bulge.** At the end of October, US mills held the highest inventory total (1.027 million tons) in 2½ years. Mill stock rose 22% from July (840,500 tons) to the end of October. About half the US inventory is OCC and brown grades, and 20-25% deinking materials and pulp subs (mostly deinking materials), and about 15-20% ONP.

Several contacts told of board, tissue, and newsprint mills also building stock over the holidays. Several mills that buy brown grades told suppliers specific order totals and would purchase no extra tons, contacts said.

• With plans to process about 125,000 tons/yr of recyclables, **Sonoco** relocated its Charleston, SC, recycling plant to a new 30,000 ft<sup>2</sup> facility on five acres in North

Charleston. Sonoco sold the old plant on 1.8 acres to real estate developers for about \$2.8 million, the *Post and Courier* in Charleston said. The new plant's "additional space ... will allow us to process and warehouse a larger volume of recyclables than we've been able to handle in the past," said Sonoco Recycling VP and gen mgr Myles Cohen in a release. At the new plant, Sonoco processes OCC and other grades of paper, and metals and plastics. Much of the recovered paper ends up at Sonoco's board mill in Hartsville, SC, the company said. Also, the new plant is close to the Port of Charleston and Cohen said that "will expand Sonoco's capability to export recovered paper to Asia and India." In 2006, 1.2% (68,991 tonnes) of US exports of mixed paper came from the Charleston port, with 36,498 tonnes to China and 18,672 tonnes to India, according to reports by the US Bureau of Census and Dept of Commerce. In 2006, OCC exports from the port totaled 32,300 tonnes or 0.7% of total US OCC exports, with 18,641 tonnes shipped to India and 8,215 tonnes to China. Annually, Sonoco Recycling collects and processes about 3.5 million tons of recyclables at 46 locations in North America and Europe. In 2006, Sonoco mills consumed 1.42 million tons of recovered paper, the sixth most among pulp and paper companies in North America, according to a *Pulp & Paper Week* report.

• The 21st Annual **Southeast Recycling Conference & Trade Show** is set for Feb. 24-27 at the Perdido Beach Resort in Orange Beach, AL. The conference includes a trade show on Feb. 24-26 as well as recovered paper market reports. For information, visit [www.southeastrecycling.com](http://www.southeastrecycling.com).

• **Scholastic Books** by 2012 expects to increase its use of FSC-certified paper to 30% and recycled content paper to 25% (of which 75% must be postconsumer waste). Scholastic consulted with the Rainwater Alliance, Green Press Initiative, and other environmental groups on the goals. For fiscal year 2007, Scholastic purchased 95,000 tons of paper for books, magazines, school book flyers, and other products, with 4% FSC certified paper and 11% from postconsumer waste.

## News Briefs

Private equity firm Tricap Partners, which is managed by **Brookfield Asset Management**, and **Quebecor Inc.** last week proposed a \$400 million Rescue Financing Facility, including an immediate \$200 million, to the Quebecor World printing unit. If accepted, Quebecor World gains an immediate \$200 million "to ensure it has sufficient liquidity to the closing date of the Rescue Financing Facility, which is expected to be Mar. 31," a release said. Quebecor and Tricap cited "Quebecor World's liquidity and balance sheet challenges within the current North American credit crisis," the release said. On Jan. 16, Quebecor World also said it was unable to make debt payments totaling \$134.5 million and was still working to gain the new financing from the Brookfield Asset Management group. Brookfield last year acquired **Longview Fibre**, and owns a share in **Fraser Papers** and **Katahdin Paper... R.R. Donnelley & Sons** last week said it gained a \$200 million multi-year contract to print nearly 350 telephone directory titles annually for pan-European distribution by European Directories S.A., which is among Europe's top five directories companies. This contract is a renewal and expansion of a previous one that ended. European Directories reaches about 700,000 customers in markets across Europe, including The Netherlands, Finland, Denmark, Poland, Austria, Czech Republic, Sweden, and Slovakia... Major Japanese papermakers **Oji Paper** and **Nippon Paper** said last week they falsified data about some of their paper products so they would appear to have higher recycled content totals, according to a Bloomberg report. Oji said it falsified the amount of recycled materials used to produce printer and photocopier paper, and its shares then fell the most in more than four years. The company also said it stopped making the incorrectly labeled paper. Nippon Paper falsified data about some of its paper products since 1996 to appear the papers met recycled volume requirements. As a result, Nippon Paper pres Masatomo Nakamura resigned... **Appleton** last week said it was looking to sell its BemroseBooth subsidiary that it acquired in December 2003, and that produces security-printed vouchers and payment cards, mass transit and automobile parking tickets, data labeling, and printed calendars. Appleton CEO Mark Richards said BemroseBooth's business focus doesn't fit with Appleton's long-term business strategy. Generating sales of \$113 million in fiscal year 2006, BemroseBooth employs more than 600 at operations in Derby, Hull, and Teesside, UK. William Blair & Co is assisting Appleton with the sales process... **Avery Dennison** last

week unveiled "the largest coating machine in China" at its Guangzhou plant, a 16,000 m2 facility in southern China's Guangdong province that opened in 2000 to produce pressure-sensitive labels. The \$26 million coater helps the company expand in Asia and China. In China, Avery Dennison produces labels, tags, and tickets primarily for the retail apparel market. Avery Dennison, which has 20 plants in China and spent \$265 million in China in the last 13 years, calls itself the largest producer of pressure-sensitive label materials for the retail apparel sector in China. Since 1995, Avery Dennison said its label revenue grew by more than 20% a year in China. "We fully expect China to continue to build on its phenomenal economic growth record of the last 20 years, spurred over the next few years by an unprecedented surge in its consumer market," said Avery Dennison pres/CEO Dean Scarborough, in a release. Avery Dennison's total employment in China is nearly 14,000 or about 40% of its workforce. Also, last week, the company said it had opened a new plant for \$13 million in Pune, western India, that will produce advanced pressure-sensitive label materials. The plant is Avery Dennison's third one in India. The plant includes a new hot melt tandem coating line. The company's other two plants in India were formerly run by **Paxar**.

## People News

The **von Drehle Corp** promoted Carey Latimer from CFO to VP of Operations and hired Craig Keenan as CFO.

**City Carton Recycling** said Brian Holtz is its new VP of Sales and Marketing. Holtz has more than 15 years experience in the solid waste and recycling industry, and was City Carton Recycling's Quad Cities (IW) Recycling Facility Mgr.

## Supplier news

**Kemira** share prices fell the most in six years in Helsinki trading last Friday after the company reported its fourth-quarter operating profit fell "far short" of targets, according to Bloomberg. A weaker dollar and a slowdown in demand for specialty chemicals kept full-year operating profit at or below last year's level, the company said. The pulp and paper division was impacted by startup delays in Uruguay at **Metsa-Botnia's** pulp mill in Fray Bentos as well as strikes at a titanium dioxide plant. Kemira wrote down 47 million euros in assets in the fourth quarter, with the largest amount coming from the pulp and paper division, the company's biggest.

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