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A Conversation with Katherine Buckman Gibson

Kathy Buckman Gibson, Chairman of the Board of Bulab Holdings, Inc., succeeds her father, Robert Buckman, as head of the company her grandfather, Stanley J. Buckman, created in 1945. She holds an undergraduate degree from Duke University and a law degree and MBA from Emory University. Prior to joining Buckman Laboratories, Buckman Gibson worked as an analyst for Citicorp and at Smith, Gambrell & Russell as an associate in mergers & acquisitions. In 1993, Buckman Gibson joined Buckman Laboratories International, Inc. as Vice-President, Legal and Corporate Secretary and was named Chairman of the Board of Bulab Holdings, Inc. in 2000. She has been a member of the Board of Directors of PIMA and TAPPI, and has served as Vice-Chairman of the Board of Executives of CPBIS.

We recently had the opportunity to speak with Ms. Buckman Gibson about a number of issues that are uppermost in the minds of paper industry leaders today.

CPBIS: From the vantage point of a major supplier to the industry, how would you characterize the likely long-term effects of the current economic mess on the North American pulp and paper industry?

KBG: The current severe economic downturn highlights the need for most segments of the North American industry to figure out how they can successfully compete in a global economy. I say "most segments" because at least one, tissue, is already doing a good job of that. Tissue producers have recognized and are acting in response to critical needs for capital investment, innovation, and new product development. Other segments of the industry would do well to view their current predicament as a wake-up call. Newsprint continues to shrink, and board is not doing all that well, either. Investment in R&D has been on the decline for nearly two decades; many grades are plagued by excess capacity, despite recent reductions; paper machines and other capital equipment are aging to the point of being

noncompetitive; and, perhaps most important, not enough priority is being given to innovation

How would you characterize the recession and its implications for the U.S. in general?

It is undoubtedly the worst decline since the Great Depression. Among the factors leading up to it, the most important was excessive and unsustainable reliance on consumer spending as an economic driver. As a nation we need to find other ways to create GDP growth.

If you had to pick the most critical challenge facing the pulp and paper industry today, which one would be at the top of the list?

At the top of the list would be the need to find ways to become competitive globally by placing more emphasis on innovation. In Brazil, where I have spent a lot of time over the past 15 years or so, industry leaders have recognized the need to look at themselves in a global context. As an example, Aracruz is now the world's largest pulp producer largely because it has positioned itself to be competitive in the global marketplace, not just in Brazil.

What advice would you offer industry leaders as they prepare to meet these challenges?

Do more long-term thinking. The North American industry has been good at making short-term decisions such as when and where to take capacity offline. By and large, however, we haven't done a good job of preparing for future challenges.

What strengths can the industry draw upon to ensure that it will survive and grow stronger?

Although its position has eroded in recent years, the U.S. pulp and paper industry is still one of the largest in the world. We can use that position to champion investments in science and education. Historically, North American industry has excelled on the basis of innovation, and we have an opportunity to do so once again. This need for innovation goes beyond the narrower need that exists within the industry itself.

Serving customers in more than 90 countries, Buckman Laboratories is noted for its international reach. From this perspective, how do you see the global character of the pulp and paper industry changing in response to current economic and social pressures?

North America differs sharply from developing countries in respect to population growth and maturity of markets. Demand for traditional products is increasing at a much greater rate elsewhere than in the U.S. and Canada. Again, this highlights the need for innovation and new product development in North America. Big unknowns here are what the economy will look like five to ten years down the road, the extent to which consumer spending will make its way back into the system, and what will supplement or replace it. On these questions, we need political leadership.

On a global basis, one fundamental factor that will continue to put pressure on the industry is consumers' desire to see demonstrated sustainability practices from companies that supply them products. Companies in North America and Europe have made great strides in implementing sustainable forestry practices. I anticipate we will see a greater level of effort put into the development and implementation of similar practices with regard to operational parameters and product characteristics.

More specifically, what will be China's future role, both as a producer and a consumer of paper? What will be its role relative to paper industry suppliers such as Buckman?

In many grades, there is still a lot of room for demand growth in China. Tissue use, for example is still far from universal there. The per capita consumption of all other paper products remains low. As the income level for the average Chinese consumer increases, consumption of all grades will also increase. China will continue to increase its production capacity to meet this rising growth in demand. To suppliers, of course, China is immensely important.

Buckman earns a lot of respect for its commitment to, and expertise in, knowledge sharing and continuing education. What can the paper industry learn from your experience in these areas that will help it to survive and prosper?

First and foremost, that investment in people is perhaps more important than investments in equipment and materials. Too often, training, like R&D, is one of the first casualties of budget cutting when times get tough. Buckman has come to recognize the importance of

investing in human resources as a result of its worldwide operations and relatively lean labor force. If we lose an experienced associate, we have lost a valuable and difficult-to-replace asset. Knowledge sharing is important because it amplifies the effectiveness of a labor force thinly spread over a wide area. Each associate can tap into the broader knowledge base of all associates together.

Both government and industry now recognize the need for action in response to climate change. In a forest products industries context, this gives rise to a host of public policy and technology issues, among them carbon taxes, carbon footprinting, carbon cap and trade schemes, biofuels, and biorefineries. Are there some among these that you feel warrant special attention?

I am not in a position to discuss the relative merits of specific policies. It is evident, however, that there has been a significant shift in both policy and public sentiment with regard to environmental matters. It is incumbent on the industry not only to continue the strides it has made in reducing environmental impact and increasing sustainability, but also to help its customers deal with their own issues in this regard. Buckman has had a Board committee on the environment since the early 1990s and has for a long time engaged in sustainable product development for our customers. For example, we have developed enzymes that can replace solvents for control of stickies. On the question of biofuels and biorefineries, every company and mill is different and each needs to evaluate its own position.

What is your reaction to the recent commotion (and industry actions and financial claims) pertaining to the alternative fuel tax credit some are taking full advantage of?

A positive aspect of this is that it highlights the fact, unrecognized by the public, that pulp mills have for many years practiced energy generation from renewable fuels. However I believe the benefits to pulp mills were an unintended consequence of the current legislation and will probably go away.

Do you see specific technical areas that offer promise for significant advances in the development of new paper industry products and processes? For example, are nanotechnology and "smart paper" more than just buzz words?

Yes, they are more than just buzz words. They represent the type of innovation I believe we will

need to continue investing in, particularly in North America.

In this same context, what is your view of the evolving biorefinery arena – technically and businesswise?

Each mill has specific strengths and must examine the alternatives available for optimally leveraging its existing resources.

Are you bullish or bearish on the long-term prospects for the paper industry? Do you think the industry can truly prosper over the long term? Why?

On the global industry, decidedly bullish. In North America, bullish on tissue, bearish on news. In other North American segments, I have faith in the industry's potential to innovate and learn to adapt to a changing global marketplace and consumer

Are there other issues related to the paper industry you wish to comment on?

These are definitely interesting times, but we are beginning to see some firming of demand. A key issue now is how we can best take advantage of the recovery. To return to my earlier comments, long-term thinking is key!

Recent Forestweb Headlines

Every week, Forestweb publishes "Newsbeat," a news report tracking recent developments in and around the paper and forest products industries. Newsbeat is available by subscription from Forestweb. See <http://www.forestweb.com/Corporate/index.cfm>

Below is a sampling of headlines from recent issues.

July 20

Global pulp market holding as supplies remain snug and demand is steady, encouraging price hike efforts

U.S. containerboard production flat in June compared to last year, but up 5.5% from May -- AF&PA

Atlantic Canada's forest industry may be on the verge of a slow recovery, analysts say in response to Conference Board of Canada report

Nova Scotian environmentalists slam clearcutting for biomass fuel, raise concerns over Northern Pulp, Nova Scotia Power

July 13

Pulp prices continue to rise worldwide going into July as producers' and customers' stocks tighten

IP says demand for pulp will grow modestly this year, fueled by Chinese orders

Metso to supply world's largest fine paper production line to Zhanjiang Chenming's pulp and paper mill in China's Guangdong province

Zhanjiang Chenming contracts Andritz to supply all process technologies for 700,000 tonnes/year bleached hardwood kraft greenfield pulp mill in China's Guangdong province

July 6

PPPC: North American printing and writing paper shipments down 21.3% year-over-year in May, domestic demand plummets 22.6%

U.S. paper and paperboard production declines 14.3% year-over-year in May, the year's smallest percentage drop

China pulp imports set another record in May, of 1.3 million tonnes; year-to-date imports rise by 34.0%

SCA inaugurates new \$129M pulp line at its Sundsvall, Sweden, paper mill; will allow for increased production of newsprint, coated publication papers

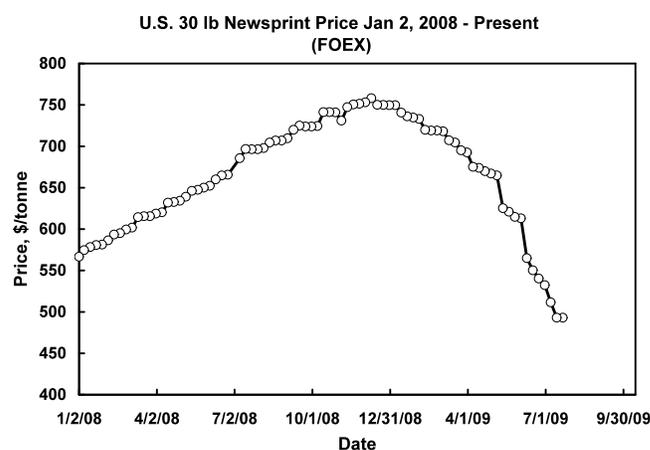
June 29

U.S. Rep. Kirkpatrick introduces bill to exclude black liquor from alternative fuels mixture tax credit, preventing kraft paper mills from claiming the credit

IP launches brochure that aims to address myths and misconceptions of paper, compare eco-friendliness

Statistics Corner: Newsprint Price Update

The graph below shows the FOEX U.S. 30 lb. newsprint price index from the beginning of last year



to the present. It shows only the vaguest sign that the free fall is coming to an end. ■