

### **New CPBIS Study Probes Bankruptcy Ripple Effects**

Building upon an earlier CPBIS study (Ho, C-Y., P. McCarthy and Y. Yi, 2010) that identified factors that could predict pulp and paper company bankruptcy, Ho, McCarthy, and Ye (2010) have completed a preliminary draft of a new study that examines the valuation effects of failed firms and their competitors in the North America pulp and paper industry. Using event study methodology and focusing upon pulp and paper bankruptcies during year 1990-2009, this study shows that a bankruptcy announcement provides additional information to market participants on firm value, and there is a contagion effect produced by the bankruptcy on other firms in the same industry. Shareholders suffer substantial losses (55%) during the month a bankruptcy occurs, whereas a value-weighted portfolio of the equity of other firms drops in value by 3.6% in the period. Further, the results indicate that the financial cost of filing bankruptcy significantly increased after the financial crisis in 2008, consistent with expectations when firms operate in tight capital markets. From investors' perspectives, the study's results also identify an investment opportunity for holding shares in a distressed firm and selling shares in a rival portfolio in the post-announcement period. This study highlights the importance of controlling the distress risk of firms for shareholders and the industry as a whole. In on-going research, the authors will focus on model improvement and on the impact that pulp and paper bankruptcies have on market valuations in related pulp and paper sectors.

### **Recent Forestweb Headlines**

Forestweb publishes a weekly news report tracking recent developments in and around the paper and forest products industries. Subscription information is at <http://www.forestweb.com/Corporate/index.cfm>

Below is a small sampling of headlines from recent issues, together with brief synopses.

#### **June 14**

*Despite shrinking U.S. newsprint consumption, market remains relatively strong as shipments increase due mostly to export growth; prices continue to gain, though slowly*

North American mills shipped 189,000 tonnes of newsprint overseas in April, which was an increase of 67.1% from a year earlier.

*First five-year report on Washington's forests from USDA Forest Service's PNW Research Station finds state's 22 million acres of forests are a net carbon sink*

The just-released five-year report is available online at [http://www.fs.fed.us/pnw/pubs/pnw\\_gtr800.pdf](http://www.fs.fed.us/pnw/pubs/pnw_gtr800.pdf)

*Massachusetts government study finds biomass-fired electricity releases more GHG emissions than coal; state to revise Renewable Portfolio Standard, re-evaluate its incentives for biomass*

According to the report, biomass for heating and combined heat and power (CHP) facilities would result in a 25 percent reduction in greenhouse gas emissions in 2050 relative to oil, but biomass-fired electricity would result in a 3 percent increase in emissions over coal-fired electricity.

#### **June 7**

*U.S. wastepaper exports up 2.2% year-over-year in Q1, despite 5.9% decline in shipments to China, as all other top-five markets gain*

There were gains in shipments to number-two market Mexico (up 57.5%), third-place Canada (up 24.7%), fourth-highest India (up 9.9%), and number-five market South Korea (up 62.9%).

*U.S. Forest Service chief says America's forests are in crisis, calls for new direction*

USDA official says more than 17 million acres in the West have been decimated by the mountain pine beetle, and ecosystems are in peril as a result of wildfire suppression and climate change.

### May 31

*Canada's paper products industry will lose C\$139M in 2010 before returning to profitability in 2011, after losing more than C\$5B over the past seven years -- Conference Board of Canada*

Despite the expected improvements, the relative strength of the Canadian dollar, competition from Asian and South American producers, and stagnating demand in North America will limit the industry's prospects.

### May 24

*Cascades launches antibacterial paper hand towel following five years of R&D, part of a 'new offensive' for company, which aims to develop new market niche*

Cascades CEO Alain Lemaire, says the innovation responds to a need for improved hand hygiene that is frequently cited by public health experts.

### On the Web: Industry GHG Emissions

The Food and Agriculture Organization of the United Nations is distributing a new report titled *Impact of the Global Forest Industry on Atmospheric Greenhouse Gases* ([www.fao.org/docrep/012/i1580e/i1580e00.htm](http://www.fao.org/docrep/012/i1580e/i1580e00.htm)). The author is Reid Miner, Vice President for Sustainable Manufacturing at the National Council of the Paper Industry for Air and Stream Improvement.

The report examines the influence of the forest products value chain on atmospheric greenhouse gases. Total greenhouse gas emissions from the forest products value chain are estimated to be 890 million tonnes of carbon dioxide (CO<sub>2</sub>) equivalent per year. However, the forest products value chain also accomplishes large net removals of CO<sub>2</sub> from the atmosphere, because a portion of the CO<sub>2</sub> it removes from the atmosphere is stored as carbon for long periods in forests, products in use and products in landfills. When sequestration is taken into account, net greenhouse gas emissions from the forest products value chain decline to 467 million tonnes of CO<sub>2</sub> equivalent per year.

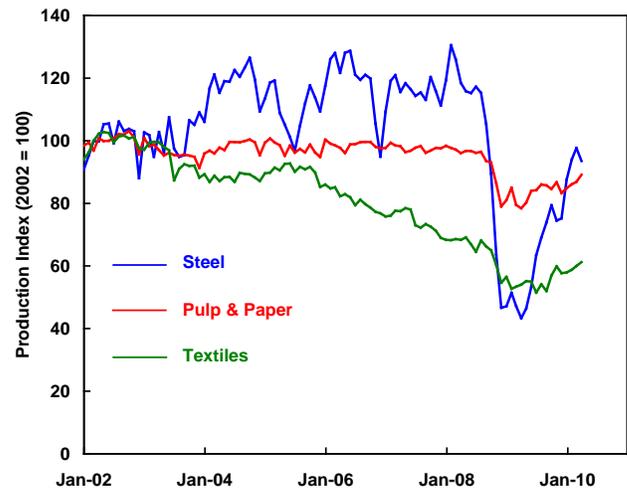
Several aspects of the forest industry's activities are not adequately captured by looking at only the emissions and sequestration accomplished in the value chain. For example, the use of wood-based building materials avoids emissions of 483 million tonnes of CO<sub>2</sub> equivalent a year, via substitution effects. In addition, by displacing fossil fuels, the burning of used products at the end of the life cycle avoids the emission of more than 25 million tonnes of CO<sub>2</sub> equivalent per year, which could be increased to 135 million tonnes per year by diverting material from landfills.

The analysis contained in the report gives strong support to the assertion by the Intergovernmental Panel on

Climate Change (IPCC) that forest biomass-derived energy could reduce global emissions by between 400 million and 4.4 billion tonnes of CO<sub>2</sub> equivalent per year, a goal that the forest products industry can help society to reach through its forest biotechnology research and forest biomass infrastructure. IPCC has stated that 'in the long term, a sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fiber or energy from the forest, will generate the largest sustained mitigation benefit.'

### Statistics Corner: Paper Production Index Reveals Slow Recovery

Federal Reserve Board data document the slow recovery of U.S. pulp and paper production toward pre-recession levels. As shown in Figure 1, the rate of recovery is comparable to that of the textiles industry but lower than that of the steel industry, which suffered a more precipitous drop during the recession.



**Figure 1. Production Indexes for the U.S. Paper, Steel and Textiles Industries. (Federal Reserve Board)**

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