

New CPBIS Report on Bankruptcy Effects Now Available

CPBIS researchers Chun-Yu Ho, Patrick McCarthy and Xuan Ye have recently completed another installment in their ongoing studies of paper industry bankruptcies and related phenomena. In this most recent work they examine effects of financial distress on the industry's supply chain, both upstream and downstream. They quantify the "contagion" effects of mill bankruptcies on the paper manufacturing sector and vice versa. In this regard, they demonstrate the existence of an adverse effect of a bankruptcy announcement in the mills sector on the return of a portfolio of paper manufacturing firms and they use event study methodology to estimate the size of the effect. The reverse effect, that of a paper manufacturer's bankruptcy on the valuation of a mills portfolio, was shown to be smaller or nonexistent. Similarly, they examined the effect of printing sector bankruptcies on the pulp and paper sector.

The results of this supply chain study have been combined with those of earlier work by the same authors, in which they studied effects on the valuation of filing firms and rival firms (as described in the June, 2010 issue of this newsletter). The resulting report is now available via the following link:

<http://www.cpbis.gatech.edu/research/working-papers>

AF&PA News

Washington, September 22, 2010. "According to the **August 2010 Recovered Paper Monthly Report** published today by the American Forest & Paper Association (AF&PA), total U.S. industry consumption of recovered paper was 2.71 million tons, down 1% from last month's levels. However, consumption in August was 14% higher than in the same month last year. The U.S. consumed 9% more recovered paper in the first 8 months of 2010 than during the same period last year.

U.S. exports of recovered paper were up 5% in July compared to June. Year-to-date exports of recovered

paper are 2% lower than during the same months last year."

Washington, September 21, 2010. "According to the American Forest & Paper Association's **August 2010 Printing-Writing Paper Report**, total printing-writing paper shipments increased 3% in August compared to August 2009. Two of the four major printing-writing grades posted increases compared to last August. U.S. purchases (shipments + imports - exports) of printing-writing papers increased slightly, up nearly 1% in August. Total printing-writing paper inventory levels increased 2% from July 2010

Some additional key findings include:

- Uncoated free sheet (UFS) year-to-date shipments trail 2009 for first time this year.
- Coated free sheet (CFS) shipments increase year-over-year for the tenth consecutive month
- Coated mechanical (CM) shipments turn negative year-over-year for first time in the past ten months.
- Uncoated mechanical (UM) shipments increase year-over-year for eighth consecutive month."

Washington, September 16, 2010. "According to the American Forest & Paper Association's **August 2010 U.S. Paperboard Report** released today, total boxboard production increased by 3.9% compared to August 2009, and but dropped 0.8% from previous month. Year-to-date production was up 4.2% over 2009."

Washington, September 15, 2010. "The American Forest & Paper Association released the August 2010 U. S. Containerboard Statistics Report today. For the tenth straight month, containerboard production rose over same month a year ago and posted the highest production amount since August 2008. Total production saw an increase of 195,400 tons or 7.0% when compared to August 2009 and rose slightly 0.9% over July 2010. The month over month average

daily production reflected a similar change. Year-to-date 2010 production has increased 9.4% over 2009. The containerboard operating rate for August 2010 rose 10.8 points over August 2009 to 98.9%.

Additional key findings from the report include:

- Linerboard production was highest since August 2008
- Medium production shows growth over same month last year

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.

September 20

Private equity firm Gores Group acquires Weyerhaeuser's closed Cosmopolis, Washington, dissolving pulp mill, plans restart under Cosmo Specialty Fibers name

Dermot F. Smurfit, chairman of the board of Cosmo Specialty Fibers, Inc. added, "The mill's primary products, namely viscose and acetate, are currently in tight supply worldwide and we see strong growth prospects for the products over the next few years.

Buchanan Group's Terrace Bay Pulp plans to restart production at NBSK mill in Terrace Bay, Ontario, on Sept. 27 following 18-month shutdown

The mill should begin to fire up at the end of this month, with pulp production beginning shortly after. The mill can produce more than 1,100 tonnes per day of northern bleached softwood kraft pulp.

USW, NewPage, Sappi and Appleton Coated testify before U.S. International Trade Commission in final phase of hearing to support preliminary tariffs on coated paper imports from China and Indonesia

Leo W. Gerard, United Steelworkers international president, said the preliminary duties placed on coated paper imports are already making a difference but the ITC's final vote next month following today's hearing will reassure the companies and paper workers that the US government intends to enforce the trade laws.

(In a related story, Industry Intelligence Inc. reported on Sept. 22 that "The antidumping margins announced by DOC on imports from Indonesia were 20.13 percent and ranged from 7.6-135.83 percent on imports from China. Countervailing duties on products from Indonesia will be subject to tariffs of 17.94 percent and on Chinese imports range from 17.64-178.03 percent. If the ITC votes affirmatively in their

upcoming injury determination, these rates will apply for the term of the relief. The ITC will vote on October 19 and the transmittal of its views to DOC will occur on November 4.")

APP president says petitioners in Trade Commission hearing regarding Chinese and Indonesian coated paper imports failed to prove they've been hurt by importers, says duties in case will 'cost, not save, American jobs'

The Asia Pulp and Paper president said that hundreds of American printers fear losing jobs and business to offshore printers, if duties are imposed.

September 13

World pulp prices trending downward or stabilizing in September, depending on the region and grade

Some sources expect downward softwood pulp movement in Europe and perhaps in North America in September, but Brazilian eucalyptus pulp producers continue to say their supplies are tight.

Future of lumber mills that sold residues to former LP pulp mill in Eureka, California, could be at risk if project to reopen mill fails, project's backers say

The mill closed in 2008 and was purchased in Feb. 2009 by Bob Simpson, who is seeking \$20 million to restart it. Lumber mills that once sold their waste to the pulp mill now have to burn it or truck it to Oregon for sale to other pulp mills.

September 6

North American newsprint industry will continue to shrink, but trend positive for fluff pulp, says Domtar CEO

Domtar currently sells 150,000 tonnes per year of fluff pulp, and will increase that to 444,000 tonnes/year by December 2010. Fast-growing markets for diapers and incontinence in both developed and developing countries point to high demand for fluff pulp, said CEO John Williams.

NewPage warns EPA of 'significant increases' in costs to forest products industry if review of fuel sources leads to biomass power limits

The EPA is reviewing fuel sources for industrial boilers and what fuels will be allowed for burning.

August 30

North American newsprint mill inventories turn up in July from June while consumer stocks continue to decline amid an 8.5% year-over-year drop in North American demand

Shipments within North America in July were down 9.6% from a year earlier. But shipments overseas remained robust in July, increasing by 20.3% year-over-year.

Oji Paper orders 700,000 tonnes/year pulp line from Metso for Nantong City, China, mill; start-up scheduled for end of 2012

The new pulp mill will produce 700,000 tonnes of bleached hardwood pulp annually and will be integrated with an existing paper machine.

China pulp imports sink in July by 12.6% from June and by 33.2% year-over-year; first seven months drop by 29.7% from year-ago period

Canadian northern bleached softwood kraft imports in July were up 35.5% year-over-year but other major importers into China of BSKP, including Sweden, Russia, Chile, and the U.S., saw year-over-year reductions.

Environmentalists call for generation of power from woody biomass in Scotland to be scrapped; 12 arrested in day of action against energy companies in Edinburgh
According to a spokesperson for the group, "Biomass is exacerbating climate change, destroying precious forests and pulling money away from real, sustainable solutions, like energy efficiency measures, wind, solar and tidal power."

Price of wood in U.K. has increased by 30% in three years, since government started subsidizing biomass power stations to burn timber, says Kronospan executive; 8,700 jobs at risk in wood panel sector

He added: "This could all be avoided if the government decided to subsidize waste wood going to biomass burners instead of subsidizing the clean timber that the manufacturing industry needs."

August 23

Fibria moves start-up date for its 1.5 million tonnes/year Três Lagoas II pulp mill project in Brazil to 2014 from 2016

The project includes the construction of a new pulp production line next to the existing unit. Capacity may be increased to 1.75 million tons in the medium-term by debottlenecking and increase of operational efficiency.

New Zealand forests planted for carbon credits could increase 10-fold to 30,000 ha./year, as farmers ditch sheep to plant trees for carbon trading program

A New Zealand government carbon trading program that pays sheep farmers more to plant trees than to sell wool and mutton is attracting a growing number of participants

Statistics Corner: Paper Industry Employment

The total number of people employed by the U.S. pulp and paper industry averaged more than 640,000 during the 1990 – 1995 period (shaded Area 1 on Figure 1, below). Since then it has been steadily declining. The rate of decline was more or less steady during the next five years (Area 2), resulting in an average total employment of 605,000 in the year 2000. At that point,

the decline accelerated sharply (Area 3), employment falling to 500,000 in 2004, after which the rate of decline moderated somewhat (Area 4). Then the recession hit, and employment fell sharply from 451,000 in June, 2008 to 406,000 in May, 2009 (Area 5), after which the rate of decline returned to pre-recession levels (Area 6), presaging the current period of incipient recovery (Area 7).

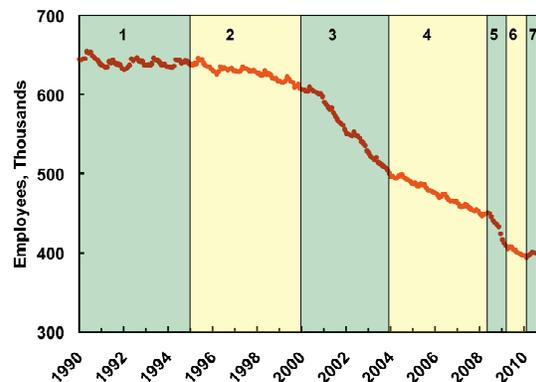


Figure 1. Total paper industry employment, 1990 to present. Source: Bureau of Labor Statistics (BLS)

Percentages of jobs lost since 2000 in all industry sectors were comparable, as shown in Figure 2, although paperboard mills suffered slightly more than pulp and paper mills or converting operations, as is apparent from a careful inspection of Figure 3.

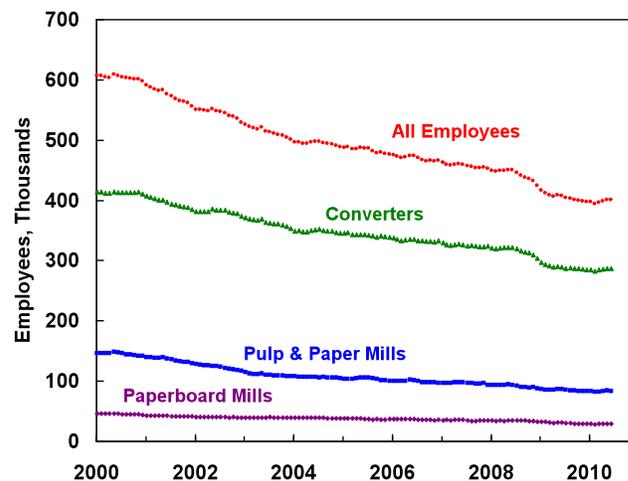


Figure 2. Employment by industry sector, 2000 to present. Source: BLS

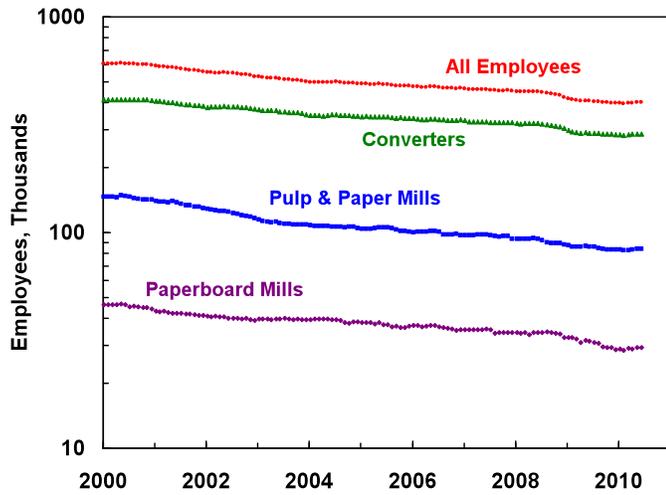


Figure 3. Employment by industry sector, 2000 to present (Logarithmic scale on vertical axis). Source: BLS

The percentages of jobs lost between January 2007 and July 2010 in the pulp and paper, paperboard and converting sectors were, respectively, 14.1, 17.2 and 13.6. ■