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## **S&P Upbeat on Industry Prospects for 2011**

In a January 26 press release, Standard and Poor's Equity Research summarized its prognostications for the pulp and paper industry's performance in the coming year. It notes that successful efforts by producers to optimize output make it likely that current price levels will be maintained. Recent increases in dividend payouts (e.g., by Wausau Paper, Domtar, Buckeye Technologies and IP) suggest that company managements are feeling better about the financial outlook.

Among the S&P predictions are the following:

- Market pulp and fluff pulp prices will remain near current levels.
- Continued declines in domestic newsprint demand will be partially offset by increased demand in emerging markets.
- Although the long-term outlook for printing papers is not promising, conditions will be favorable for higher profits in 2011; no new capacity is expected. The shutdown of about 6% of North American coated paper capacity should lead to higher prices in this category.
- Containerboard markets, though economically sensitive, are unaffected by changes in communications media and are expected to remain fairly strong in response to balanced inventories, capacity closures and a gradually recovering economy.
- Most of the risk for paper producers lies in rising raw materials prices. Market pulp prices, as noted above, are expected to remain high and costs for old corrugated containers has surged in response to burgeoning Chinese demand.

The complete press release can be accessed at <http://www.prnewswire.com/news-releases/sp-equity->

[research-issues-paper--forest-products-industry-predictions-for-2011-114665509.html](http://www.cpbis.gatech.edu/research-issues-paper--forest-products-industry-predictions-for-2011-114665509.html)

## **USDOE Launches Bioenergy KDF**

The United States Department of Energy (DOE) last week launched an Internet-based bioenergy knowledge integration and decision support system dubbed the Bioenergy Knowledge Discovery Framework. It aims to facilitate synchronization of all the steps in the biomass-to-bioenergy supply chain by offering a geographic information system – based framework for storing, synthesizing, analyzing and visualizing vast amounts of information on the availability and use of biomass resources. Users can associate related literature, data and models, search multiple sites, upload data and access data that has been uploaded by other users.

The DOE points out that the system will be of use to a variety of different stakeholder groups: the public, private industry, researchers and policy makers. A company could, for example, access geographical data on biomass feedstock production and supply projections to help identify potential locations for business opportunities, or it could explore the viability of building a biorefinery by examining highway and railroad transportation routes from regional production facilities. Researchers can upload files, customize information online, and exchange knowledge with others.

The site offers text and video tutorials for searching, uploading, mapping and spatially querying data. It resides at <https://bioenergykdf.net/>

## **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.

#### **February 14**

*February pulp prices up in China/Asia for softwood and unchanged elsewhere, with hardwood pulp prices generally flat around world; softwood pulp prices could rise in March globally*

March increases of \$10 – 39/tonne are expected.

*Vega Biofuels to purchase timber, timber waste from The Timber Group to produce biocoal at its planned South Georgia plant; biocoal can be used in existing coal-fired power plants*

Bio-coal is made in a process called “torrefaction,” a partial carbonization process that takes place at temperatures between 475 - 575° in a low temperature environment. It makes the physical and energetic properties of the biomass much more comparable to coal.

#### **February 7**

*New FPAC study delivers roadmap for a new ‘biorevolution’ business model that consolidates economics of wood and pulp/paper production by extracting additional value from each tree harvested*

The premise: Canada is uniquely positioned to take advantage of an exploding global market that reflects a growing environmental sensibility and a paradigm shift towards products that come from natural renewable sources.

*Georgia’s forested acreage remained stable at 24.4 million acres in 2010, has changed less than 2% since 1972, finds annual Forest Inventory and Analysis survey*

Growth has consistently exceeded harvest; acreage lost to development has been offset by conversion of pasture or cropland to forests.

*Washington senators, Commissioner of Public Lands request legislation to help stop conversion of forests to development, say state has lost one-sixth of commercial forests in 20 years*

State lands at risk of conversion would be transferred into a Community Forest Trust.

#### **January 31**

*RockTenn to acquire Smurfit-Stone for US\$3.5B; transaction will create second largest producer of containerboard in North America*

Smurfit-Stone, based in Chicago, emerged from Chapter 11 bankruptcy protection on June 30.

*K-C to streamline its pulp and tissue business, selling or closing five or six of its mills, including one in Everett, Washington, and two in Australia*

The restructuring is expected to cut annual net sales by \$250 million to \$300 million and boost operating profit by at least \$75 million a year by 2013.

#### **January 24**

*British Columbia’s pine beetle infestation has peaked, will slow to an end by 2018, forests starting to rebound, says province’s chief forester*

The beetle kill affected 20% of the timber supply, less than expected.

*Biotechnology company Scarab Genomics and Wisconsin Institute for Sustainable Technology to produce isoprene from paper and pulp mill waste; chemical can diversify revenue opportunities for paper, pulp producers*

Isoprene can be used to manufacture aviation fuels or latex for use in rubber products.

*Scientists developing, testing ‘killer paper’ intended for use as food packaging material that helps preserve foods by fighting spoilage-causing bacteria, contains coating of silver nanoparticles*

The paper contains a coating of silver nanoparticles, which are powerful anti-bacterial agents.

### **Statistics Corner: Capacity and Capacity Utilization**

As shown in Figure 1 below, paper manufacturing capacity utilization (operating ratio) began a steep slide in the middle of 2008 when the full force of the recession began to be felt. In fact, production was hit even harder than the drop in operating ratio would suggest. This was because, as Figure 2 shows, capacity was being reduced at the same time as the operating ratio was falling. Beginning in April 2009, the picture began to improve. Although capacity reductions continued, the operating ratio increased at a rate that reflected an overall production increase. ■

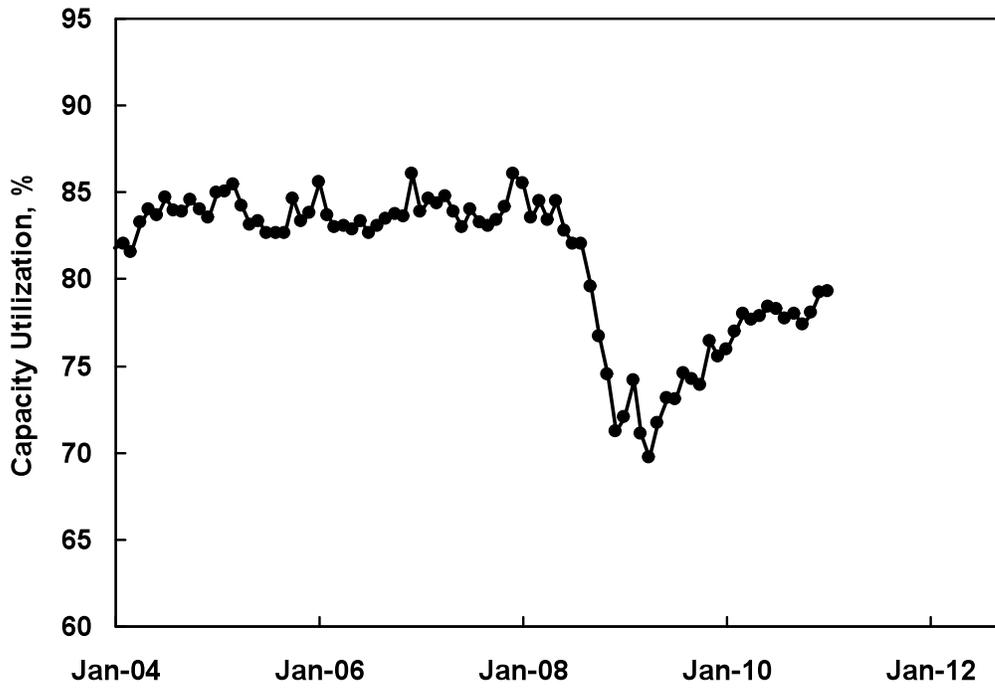


Figure 1. Paper manufacturing capacity utilization, Jan. 2004 – Jan. 2011 (Federal Reserve)

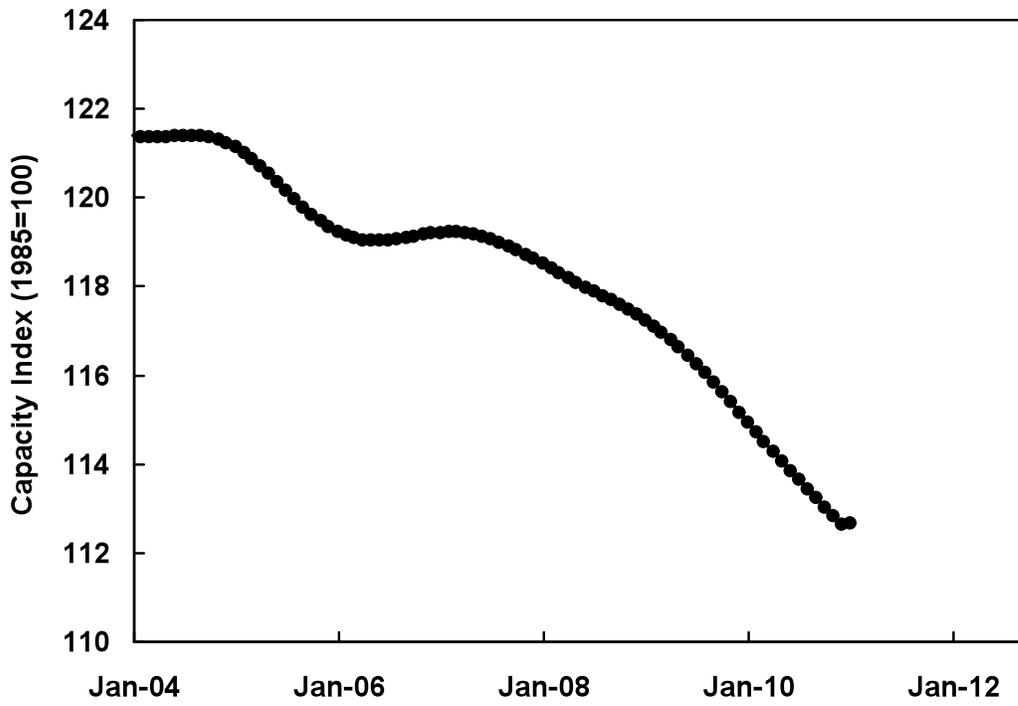


Figure 2. Paper manufacturing capacity, Jan. 2004 – Jan. 2011 (Federal Reserve)