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A Letter from AF&PA

Dear Editor,

While we believe that the Environmental Paper Network's (EPN) recently published State of Paper report is quite comprehensive, our assessment of paper industry performance differs from theirs on several points. As we complete our analysis of the document, we appreciate the report's grounding in data, but we do not agree with many of the conclusions drawn from that data on subjects such as fiber sourcing, carbon neutrality, energy and water performance, and others.

Despite our differing viewpoints, we have and will continue to work with EPN on a joint project to increase fiber recovery, and we look forward to increased dialogue with EPN as we move ahead with the forest products industry's *Better Practices, Better Planet 2020* sustainability goals.

Sincerely,

Jerry Schwartz

Senior Director, Energy & Environmental Policy
American Forest & Paper Association

Editor's Note: In the lead article of last month's issue we noted the appearance of the EPN report and summarized its highlights. We would like to make it clear that by making our newsletter readers aware of the existence of the report and its contents CPBIS neither vouched for the accuracy of the report nor endorsed its conclusions.

Prospects for Forest-Based Biofuels Dim?

It was not so long ago that there was widespread optimism about the role that forest-based cellulosic ethanol would play in the national energy picture. Not least among the optimists were members of the U.S. Congress when they passed the Energy Policy Act in the summer of 2005. The Act provided for a Renewable Fuels Standard (RFS), which stipulated

that motor fuels must contain at least 7.5 billion gallons of renewable fuel, such as ethanol, by 2012.

Then, in 2007, Congress passed the Energy Independence and Security Act (EISA), which promulgated an expanded RFS program (RFS2). RFS2 mandated a biofuels production goal of 36 billion gallons by 2022. This was to be made up of 15 billion gallons of "conventional" renewable fuels, such as ethanol from corn, 16 billion from cellulose, and five billion from other sources, such as biodiesel. The U.S. Environmental Protection Agency is charged with administering RFS2.

The mandated corn ethanol production is on schedule, albeit among much controversy surrounding its alleged negative effects on food prices and the environment and doubts concerning its alleged beneficial effects on greenhouse gas emissions. The cellulosic biofuels targets, however, remain elusive, despite several attempts to commercialize technologies that promised to go at least part of the way towards meeting them. One example is Range Fuels. Funded by government grants and loan guarantees as well as private investment, Range built a plant in Soperton, GA to produce ethanol from wood chips and pulp and paper industry waste. Earlier this year, the company announced that it was closing the newly built plant while it tackled technical problems and sought additional funding.

As reported by David Biello in an August, 2011 *Scientific American* article, *The False Promise of Biofuels*, "... by 2011, the U.S. was supposed to be producing 100 million gallons of cellulosic ethanol a year. Instead in 2010 the EPA rolled back the 2011 goal to just 6.5 million gallons, and it is unclear whether even that amount will be reached." In fact, as pointed out by Robert Rapier

(<http://www.consumerenergyreport.com/2011/08/15/cellulosic-ethanol-targets-mandating-the-nonexistent/>):

"[Actual qualifying production of cellulosic ethanol](#) through June 2011 is zero gallons."

In spite of all of this bad news, not everyone is giving up. Biofuel start-ups continue to receive significant amounts of government and private investor support, and new research partnerships are being formed to find ways to overcome the technical hurdles. Last week automaker Chrysler Group announced a strategic partnership with Colorado-based Zechem, a company that makes ethanol from poplar trees. And recently, two leading research universities, Clemson and the University of Queensland, entered into a memorandum of understanding to exchange research and create a framework for a biofuels research program.

Some say that the lack of success to date suggests that efforts to commercialize cellulosic biofuels production should be abandoned. Others, imbued with confidence in the American capacity for innovation, advocate forging ahead. Stay tuned.

AF&PA News

The American Forest and Paper Association recently released three of its ongoing series of industry reports, dealing respectively with printing and writing paper, containerboard, Kraft paper, and boxboard. Following are brief summaries:

- Total printing-writing paper shipments decreased 6.8% in July compared to July 2010. All four major printing-writing grades posted decreases compared to last July.
- U.S. purchases (shipments + imports - exports) of printing-writing papers decreased 4% in July. Total printing-writing paper inventory levels increased 6% compared to June 2011.
- Containerboard production rose 4.6% when compared to June 2011, and the month over month average daily production was up 1.2%.
- The containerboard operating rate for July 2011 was down slightly, 0.6 point over July 2010 to 98.1% but it gained 1.2 points over June's operating rate.
- Total Kraft paper shipments were 132.5 thousand tons, an increase of 0.1% compared to July 2010. Total inventory was 69.3 thousand tons.
- Total boxboard production decreased by 1.3% compared to July 2010, but increased 1.5% from last month.

For more information, see <http://www.statmill.org/>

Recent Forestweb/Industry Intelligence Headlines

Forestweb and its sister company, Industry Intelligence, publish weekly news reports 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 recent headlines, together with brief synopses.

August 21

Domtar signs definitive agreement to acquire incontinence products manufacturer, supplier Attends Healthcare for US\$315M, expected to close Q3; high single-digit global growth expected in market

Attends operates a 775,000 square foot facility in Greenville, North Carolina. It will use fluff pulp produced in Domtar's nearby Plymouth, North Carolina mill.

Fibria awards US\$9.2M contract to ITT for ozone systems to its pulp bleaching line at pulp, paper mill in Jacarei, Brazil, increasing bleached pulp production by 15% from 1.1 million tons/year

The mill uses ozone in the production of 3,600 tonnes of bleached eucalyptus pulp per day.

Kruger invests US\$316M in manufacturing equipment at its Memphis, Tennessee, tissue mill, to increase production by 18%, or 60,000 tonnes/year, aims to expand presence in North American tissue market

The company continues to expand its presence in the North American tissue market with the installation of this state-of-the-art manufacturing equipment.

August 14

AbitibiBowater completes US\$7M sale of idled newsprint mill in Perdue Hill, Alabama, to MLR Ventures, which plans to sell site for scrap

AbitibiBowater closed newsprint production at the Perdue Hill mill in December 2008, citing higher power costs, and filed for bankruptcy protection in 2009.

P&G to invest US\$100M in new Karawang, Indonesia, diaper factory, its first one in the country; construction to take two years before startup operations

The company says it could supply diapers for approximately 8 million children within five years.

August 7

Wood pellet demand to increase not only in Europe, but also in Asia, North America, driving new opportunities for pellet producers, particularly in Western Canada, Eastern U.S.

Europe, the largest export market for North American pellet producers, consumed nearly 1.5 million metric tons in 2010. It has the greatest potential for increased pellet utilization, as the European Union has a goal of sourcing 20 percent of its energy needs with renewable sources by 2020. But Federal policies in the US that restrict the emissions of CO₂ would ultimately benefit the pellet industry and Asian demand for biomass energy is finally beginning to emerge.

Mercer to defer converting two of its NBSK mills to swing mills capable of producing dissolving pulp
 CEO Jimmy S. H. Lee said, "... we have determined ... to defer proceeding at this time ..." Commenting on the announcement in a research note, RBC Capital Markets paper and forest products industry analyst Paul Quinn said, "Given the collapse in DP prices (from ~\$2,600/mt to ~\$1,500/mt in the last 2 months), the decision to defer a dissolving pulp swing strategy and pursue additional energy producing opportunities, seems wise."

July 31

IP to hire 212 workers for fluff pulp operations at its idled Franklin, Virginia, paper mill; operations expected to begin in mid-2012

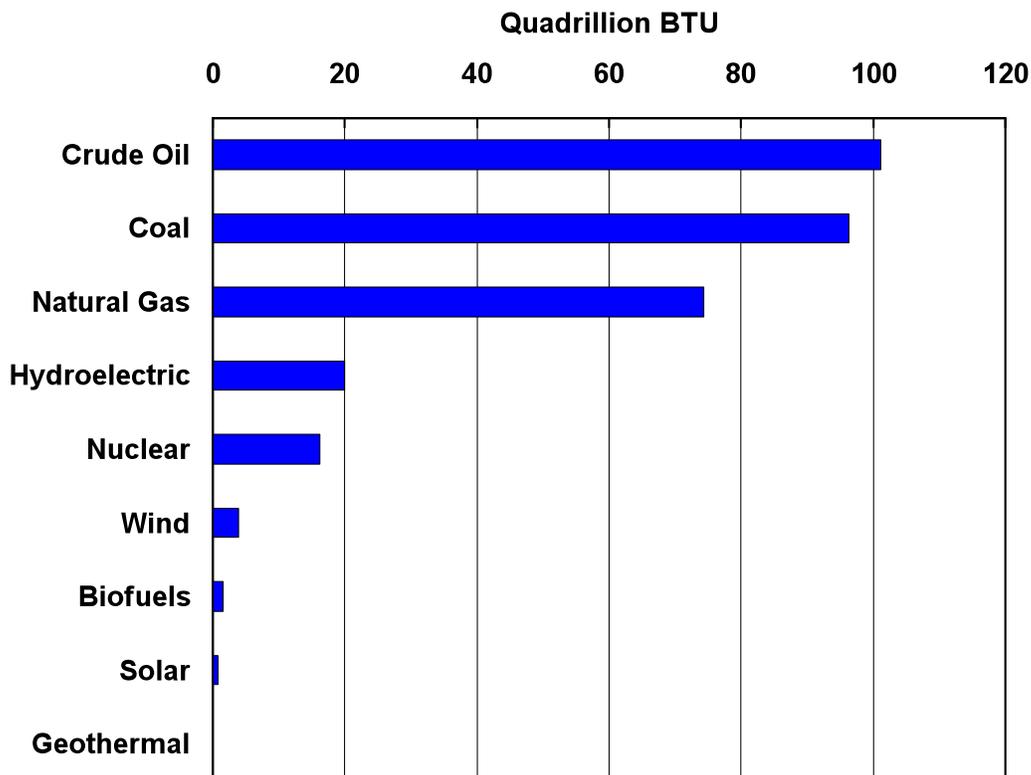
IP closed the Franklin mill in 2010, cutting 1,100 jobs.

Smaller-scale biomass-fueled heat and power projects of 10 MW-15 MW are most feasible option in U.S. for now and continue to draw 'interest,' say experts from University of North Dakota's energy research center

Biomass Magazine reports that Chris Zygarlicke, deputy associate director for research at the University of North Dakota's Energy & Environmental Research Center said. larger-scale biomass projects are being stymied in the U.S. by a lack of incentives, such as those offered in Europe. Fossil fuels will continue to dominate the energy mix in the U.S. until about 2030, said Zygarlicke. The growth of renewables will remain steady but slow, while natural gas will lead the growth at a rate of about 2% yearly, he said.

Statistics Corner: World Energy Production

Figure 1 shows the extent to which fossil fuels dominate the world energy picture, making up 86.5% of the fuel mix. ■



Source: <http://oilprice.com/>

Figure 1. World Energy Production by Source, January 1 – August 24, 2011