

Vol. X, No. 10**January 20, 2011*****New Year's Message from the Director***

Happy New Year! I hope that you enjoyed a very refreshing holiday season and that the start of 2011 finds you safe, healthy, and a bit more optimistic about the coming year. Real GDP is growing at 2.56% in comparison with 1.72% a year ago, and the national unemployment rate at 9.4% is down slightly from 9.8% a year ago.

The pulp and paper industry continues to adapt to the economic downturn, as well as to longer term structural shifts. According to the latest data available, at the end of 2009 there were 12,779 establishments in the paper and allied products (SIC 26) industry, employing 607,169 workers, slightly down from 619,276 in 2008. In current dollars, total estimated sales in 2009 was \$128.7 billion, a modest rise from \$125.8 billion in 2008. California had the largest number of pulp and paper establishments, 1,467, which represented 11.5% of the total. Texas and New York each has 6.7% of the industry's establishments, followed by Illinois, Ohio, and Florida with just over 5%.

In 2009, 67% of pulp and paper establishments were standalone (a single location with no branches or subsidiaries), 8.9% were headquarters (a business location that has branches or divisions reporting to it), and 24% were branches (a secondary location of a business). And only 13% of the establishments were public. Less than 3% of establishments in the US were foreign owned, and less than 4% received government grants or contracts. Controlling interest was held by a woman in 17.5% of the establishments.

Of the 12,779 establishments, 4,053 were in the pulp mill (SIC 2611), paper mill (SIC 2621), and paperboard (SIC 2631) sectors. Average employment per establishment was 49.8 workers and average sales per establishment was \$12.9 million. In contrast, the 8,726 establishments in other sectors of the industry (SIC 2652 through SIC 2679) employed 46.4 persons on average

and had estimated per-establishment sales of \$8.7 million.

Like the industry, CPBIS is transitioning to new economic realities, yet with a continuing commitment to serve the industry and other stakeholders as a business and business-related knowledge resource. Key to this is the continuing development and some restructuring of the Center's Web site that more fully links to pulp, paper, and more broadly, forest product resources data, and existing research relevant to business strategy, marketing, and associated business areas. CPBIS distributes its monthly newsletter, under the expert stewardship of Dr. Tom McDonough, conducts 'in-house' research projects, and collaborates with industry when opportunities arise.

During the past year, the Center completed research projects on carbon footprints, bankruptcy, the market valuation effects of bankruptcy, and Georgia's changing pulp and paper industry from 1990-2008. In addition, we collaborated with Forest Web on a project gathering public information on companies with interests in renewable energy.

In the coming year, CPBIS will increase its role as a business knowledge resource for the industry and other stakeholders through the Center's newsletter, by providing information and data relevant to the Center, alerting the industry to research and reports, and seeking more collaborative opportunities. We will continue to work with Dr. Norman Marsolan, Director of The Institute of Paper Science and Technology (IPST), in ways that will enrich both CPBIS and IPST. Finally, we will explore opportunities for funding and development that will enhance the Center's ability to serve the industry.

I welcome any and all feedback that you might have on how the Center can be of even greater value to the industry.

With Warm Regards,

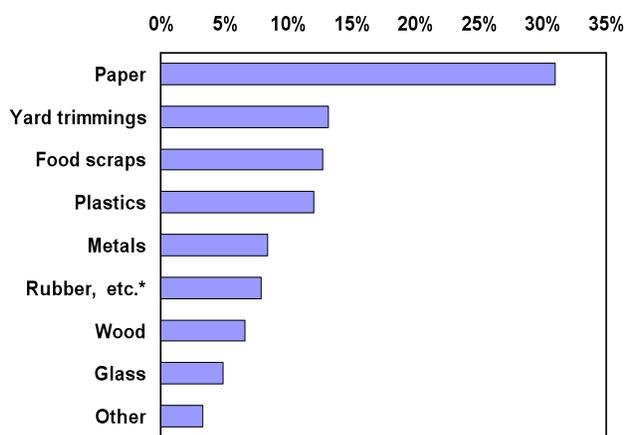
Pat McCarthy,

Director, Center for Paper Business and Industry Studies

Recycling Trends

Paper Stock Industries (PSI), a national chapter of the Institute of Scrap Recycling Industries, Inc. (ISRI) held its annual Fall Conference November 9 – 12 in Palm Beach Florida. The keynote address was delivered by Jerry Powell of Resource Recycling (Portland, OR). His presentation, “Looking Forward: Trends and Issues Affecting the Recovered Paper Industry” examined the current state and likely future directions of the recycling industry. Among the statistics he presented in support of his arguments were some that are of particular interest in regard to paper recycling.

Figure 1 shows the composition of the 250 million tons of municipal solid waste (MSW) generated in the U.S. during 2008.



*Rubber, leather and textiles

Figure 1. 2008 U.S. municipal solid waste generation by material. (Total: 250 million tons)

Of this 250 million tons, 45.8% was discarded, 12.6% was burned to generate energy and the remaining 33.2% was otherwise recovered. The 2008 paper recovery rate of 57.7% (63.4% in 2009) compares very favorably with the MSW recovery rate of 33.2%.

Figure 2 compares the recycling rates of various products in 2008. Office papers are second only to auto batteries in the rate at which they are recycled.

Utilization of recovered paper by the U.S. paper industry in 2008 amounted to 58% of the total amount recovered, with the remainder being exported, mainly to China. In the U.S., the importance of recycled fiber as a furnish component varies greatly from one sector to another. As shown in Figure 3, recovered fiber makes up a greater proportion of the fiber going into tissue than into any other type of paper product. Board grades and, to a lesser extent, newsprint, also rely on recycled fiber as a substantial component of their furnish. Relatively little is used in printing and writing grades.

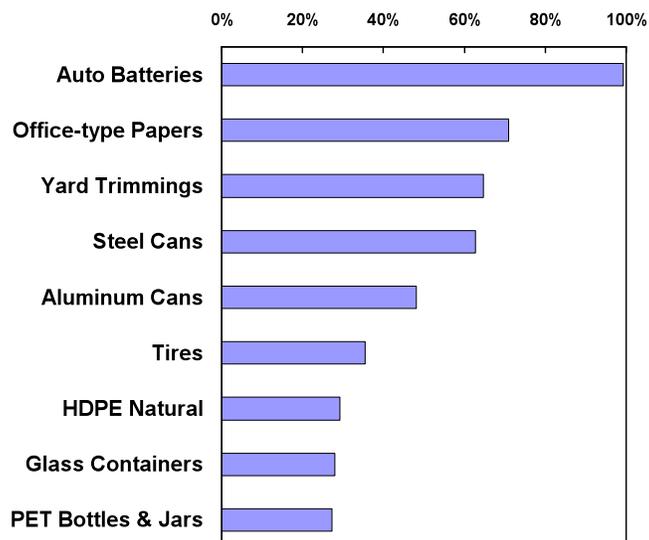


Figure 2. Recycling rates of selected products

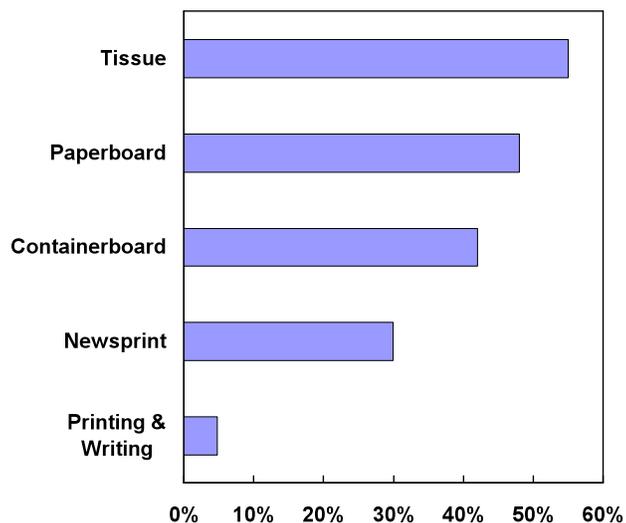


Figure 3. Recovered paper utilization by grade

Powell identified nine issues that will shape the future of recycling:

1. Declining generation: Paper consumption is decreasing.
2. More collection efforts: Business and local community collection programs are expanding.
3. Fewer players: Mergers and acquisitions will continue.
4. Continued high image: Surveys show the paper recycling industry is viewed as superior to glass and plastic (but lagging aluminum and steel).
5. Extended product stewardship: This will become the prevailing waste management model.

6. Significant changes in China: Possible unpegging of the currency; erosion of the Chinese labor cost advantage; increased Chinese paper consumption and recycling negatively impacting North American and European shipments; changes in Chinese buying habits.
7. Downstream auditing: environmental health and safety issues are getting more attention.
8. Reframing: Global warming and life cycle issues will influence decisions to a greater extent.
9. Sustainability: The recycling industry is not yet sustainable and must become so.

The complete presentation can be viewed at https://iguana191.securesites.net/paperstock/files/2010/all/presentations/Jerry_Powell.pdf

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.

January 17

Rising cotton prices boosting market for rayon, dissolving pulp; share prices climb for North American pulp producers Fortress Paper, Tembec, Rayonier

Demand for dissolving pulp has outstripped supply. Prices for dissolving pulp rose to approximately \$2,350 per ton from \$1,550 per ton 12 months ago.

Eldorado Celulose awards Pöyry with €8.4M engineering contract for its 1.5 million tonnes/year pulp mill project in Três Lagoas, Mato Grosso, Brazil

The contract is a continuation of the pre-engineering and preparatory work for the mill infrastructure that Pöyry was awarded in early 2010. The concept of the mill is based on the use of the best available technologies and the best environmental practices.

January 10

AF&PA: U.S. paper and paperboard output drops 3.5% from October to November and by 0.5% year-over-year; operating rate remains unchanged at 90%

Nevertheless, the year-to-date total of 75.67 million tons was up by 5.7% or 4.06 million tons from a year ago.

Canada's pulp and paper sector seeing positive results from government's Green Transformation Program, FPAC says; program an example of 'smart policy and smart spending'

Forest Products Association of Canada (FPAC) members are working toward the ambitious goal of using 100% renewable energy in all their operations.

December 30

UPM to acquire Myllykoski, Rhein Papier in €900M deal; transaction includes seven publication paper mills, 2.8 million tonnes/year of capacity

Myllykoski Corporation and Rhein Papier GmbH consist of seven publication paper mills in Germany, Finland and the United States.

Counsel RB, new owner of former Fraser Papers mill in Gorham, New Hampshire, seeks operator for closed paper mill

Fraser Paper closed the mill in mid-October and laid off 240 employees

December 20

Lenzing to invest €130M in 60,000 tonnes/year fiber production plant in Lenzing, Austria, US\$30M to expand capacity of Mobile, Alabama, site by 50,000 tonnes

The expansion projects are expected to increase the Lenzing Group's annual fiber production capacity by about 25%, a significant step towards reaching the company's 2014 million-ton capacity target. Lenzing's CEO notes that the increase responds to a "tendency towards rising cotton price levels and an ever increasing volatility of cotton quantities, as well as the increasing demand for man-made cellulosic fibers in nonwovens."

Södra to covert paper pulp line to hardwood dissolving pulp production at its Mörrum, Sweden, pulp mill; line will produce 170,000 tonnes/year at full capacity

The planned increase will compensate for decreases in the demand for paper pulp volumes due to the development of digital media. "The demand for renewable, wood-based textile fiber will increase as it replaces cotton fibre and oil-based synthetic fiber," said Gunilla Saltin, CEO of Södra Cell.

Statistics Corner: Packaging Value by End Use

As shown in Figure 4 below, industrial packaging and food packaging represent more than 70% of global packaging value. ■

Global Packaging Market Value by End Use, 2009

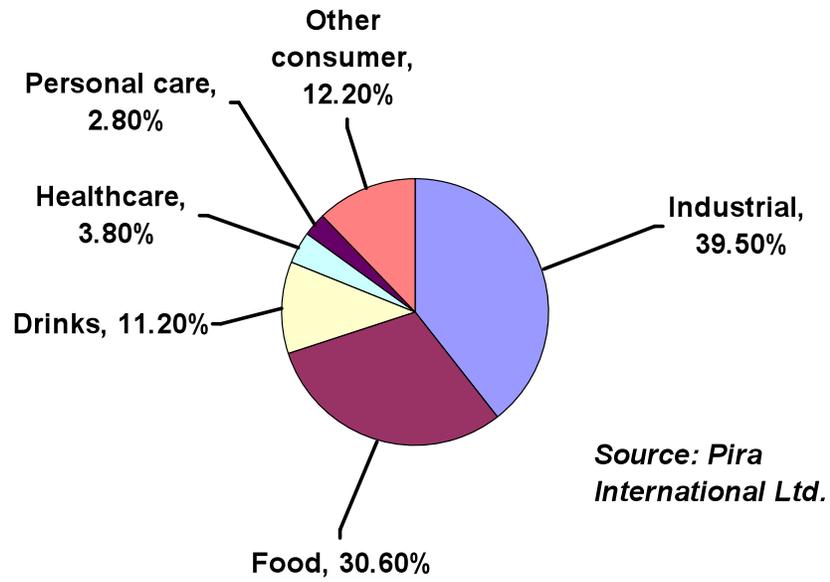


Figure 4. Global packaging market value by end use, 2009