The Current State of Maine’s Pulp & Paper Industry
-- A Competitive Assessment --

PIMA Northeast Division 83rd Annual Meeting
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OVERVIEW

- Maine’s P&P Industry – Where Are We?
- North America Printing & Writing Paper Market
- Maine’s Primary Grades Review – Grade-by-Grade
  - UCFS
  - SC
  - Directory
  - CGW
  - CFS
- Where Can We Go?
Where are We?

- In The Mind’s of Many – Maine’s Forest Products Industry Has Entered *The Beginning of The End* – Much Like *Textiles & Steel*

- Yet – Others View Maine’s Forest Products Industry As Being *On A Doorstep To Revitalization*


- Yet – *The Challenges Are Real, & They Are Major*
So -- Where are We Now -- Really?

  - Older Infrastructure & Dated Technology
  - Declining Capacity, Jobs, Taxes Paid
  - Older Workforce With Age Structure Imbalance
  - Higher Factors of Production Costs – Especially For:
    - Energy, Fiber, Labor, Maintenance
    - Taxes, Worker Compensation . . .
  - Cost Competitive Pressures Are Severe

- Markets In Transition & Under Great Pressure . . .
  - Global Competitiveness Has Escalated
  - Demand Growth Is Much More Constrained
  - Customers Are Stressed & More Demanding . . .
And – What Are Some Key Realities?

- Maine Is Not Viewed As A Premium Place For Basic Industry Operations & Investment . . .
  ✓ Past Political Polarization
  ✓ Tax Structures & Systems
  ✓ State Regulations & Regulatory Processes
    - Site Permitting Requirements
    - Environmental Arena
    - Timberlands & Multiple Use Needs Balancing . . . .

- Industry Attention Seriously Strained
  ✓ Management Focus On Maine’s Operations
  ✓ Investment History And Patterns

- Special Interest Groups Public Conflicts . . . .
So – Where Do We Start & Look?

- The Key Today to Maine’s P&P Industry Is Found in the Printing & Writing Paper Grades
  - Uncoated Freesheet -- UCFS
  - SC Grades
  - Directory
  - Coated Groundwood
  - Coated Freesheet – CFS

- Let’s First Look At Key Printing & Writing Paper Grades For North America As a Whole
Grade Outlook – N. Am. P&W Papers

Recent *Economic Slowdown & Alternative Media Substitution* Have Impacted P&W Demand Negatively:

- Uncompetitive Capacity Being Closed & Modest Demand Increases Will Tend to *Reign in Excess Capacity*

- CFS, CGW, UCFS & GW Grades *Seemingly Collapsing Into One* Relatively Inter-changeable/somewhat Flexible Grade Structure From Consumers’ Perspectives

- These Changes Brought on by *Collapsing Price Structures* of the Grades on Top of Each Other Is a Major Sea Change

- In This Context -- CFS Quickly Becoming *Commoditized -- Displaced* by Improved CGW Grades
Grade Outlook – N. Am. P&W Papers

In Addition -- High End Uses -- Auto Brochures/annual Reports -
- Are Being Replaced by Website Versions

- High Volume *UCFS Under Pressure* From Overseas
  Competitors, and Newsprint Producers Are Converting
  Capacity to UC and CGW Grades

- Financial Returns & Growth Prospects Are Similar to
  Industry Average & Room Does Exists for *Continued M&A*
  Activity

**Implications:** This grade grouping is in *major sea change* with
grades collapsing on one another. Significant repositioning
and redeployment of assets – continued M&A & financial
constraints. Certain segments will suffer net capacity reductions.
Grade Outlook – N. Am. P&W Papers


N. Am. P&W Volume (Short Tons 000s)
Grade Outlook – N. Am. P&W Papers

Significant N. Am. P&W Over-capacity Should Dissipate By 2004
Grade Outlook – N. Am. P&W Papers

N. Am. P&W Real Pricing Is At Historically Low Levels – Grade Prices Have Converged
Grade Outlook – N. Am. P&W Papers

N. Am. P&W Nominal Prices Will Likely Improve Some In 2003 & 2004
Now – Let’s Take A Look At Key Grades In Maine

- All Mill Cost Competitive Data Here Are Provided By Paperloop’s Pulp and Paper Benchmarking Services Group
- Data are:
  - Fourth Quarter 2002 Basis In 2003 Dollars
  - Mill Level Cash Manufacturing Costs
  - Based on Publicly Available Information & Data
  - Representative of Relative/Typical Operating Configuration Assumptions at Each Mill Assessed
  - Based on Regional Unit Cost Data Inputs
Our Competitiveness Assessment Approach

- First – A Brief Macro Overview of Key Factors of Production *For Printing & Writing Paper Grades*
  - Focus on Fiber, Energy & Labor
  - And Aggregate Cost Levels
- Then A Grade-by-Grade With Key Mills Review
  - Uncoated Freesheet
  - SC Grades
  - Directory
  - Coated Groundwood
  - Coated Freesheet
# Key Competitive Issues – P&W Papers

**Factors of Production Cost Comparisons For Maine Mills**

[All Data in USD per Short Ton]

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<td>614</td>
<td>734</td>
<td>814</td>
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Maine’s UCFS Competitiveness

- Product Quality Is Rated as *Competitive*
- Mill Cash Cost Competitiveness = Very High, 4th Quartile
- Key Cost Issues Are:
  - Labor = High – *Unit Costs & Efficiency*
  - Energy = Very High
  - Materials & Chemicals = Generally Competitive
  - Fiber = Very Competitive
UCFS Cost/Supply Curve

RESULTS
Q4-2002 UCFS AND WFU COST OF SUPPLY
SORTED BY REGION THEN CASH COST WITH MAINE MILLS INDICATED

Cash Cost US$/FST

Cumulative Capacity (Millions of FST Per Year)

0 2 4 6 8 10 12 14 16 18 20 22 24 26

Maine North America International
UCFS Cost Curve
UCFS-Value Added Cost Curve
Maine’s SC Competitiveness

- Product Quality Is Rated as Very Good
- Mill Cash Cost Competitiveness = 4th Quartile
- Key Cost Issues Are:
  - Labor = Very High – Unit Costs & Efficiency
  - Chemicals = Relatively High
  - Fiber & Materials = Competitive
  - Energy = Very Competitive
SC Cost Curve
Maine’s Directory Competitiveness

- Product Quality Is Rated as *Very Good*
- Mill Cash Cost Competitiveness = Very High
- in The 4th Quartile
- Key Cost Issues Are:
  - Labor = Very High – Unit Costs & Efficiency
  - Materials = High
  - Fiber & Chemicals = Competitive
  - Energy = Very Competitive
RESULTS
Q4-2002 DIRECTORY COST OF SUPPLY
SORTED BY CASH COST WITH MAINE MILLS INDICATED

Cumulative Capacity (Millions of FST Per Year)

Cash Cost US$/FST

Maine North America International
Directory Cost Curve

CASH MANUFACTURING COST COMPARISON

- Material
- Labor
- Misc.
- Energy
- Chem
- Fiber

This Mill  Ind Avg  Low Cost

Cash Cost US$/PT
Maine’s CGW Competitiveness

- Product Quality Is Rated as *Good To Very Good*
- Mill Cash Cost Competitiveness = Varied, Ranging Across *1st to 3rd and 4th Quartiles*
- Key Cost Issues Are:
  - *Labor = Somewhat High – Unit Costs & Efficiency*
  - *Materials & Chemicals = Competitive*
  - *Fiber = Competitive to High*
  - *Energy = Very Competitive*
RESULTS
Q4-2002 CGW AND WCC COST OF SUPPLY
SORTED BY REGION THEN CASH COST WITH MAINE MILLS INDICATED
CGW Cost Curve
CGW Cost Curve

![Cash Manufacturing Cost Comparison](image)
LWC Cost Curve
Maine’s CFS Competitiveness

- Product Quality Is Rated as Very Good
- Mill Cash Cost Competitiveness = Good, Mostly in 1st and 2nd Quartiles
- Key Cost Issues Are:
  - Labor, Energy, Materials, Chemicals, & Fiber = All Competitive
CFS Cost/Supply Curve

RESULTS
Q4-2002 CFS AND WFC COST OF SUPPLY
SORTED BY REGION THEN CASH COST WITH MAINE MILLS INDICATED

Cumulative Capacity (Millions of FST Per Year)

Cash Cost US$/FST

Maine  North America  International

0  1  2  3  4  5  6  7  8  9  10  11  12  13  14  15  16
CFS Cost Curve
CFS 60# No. 3 & 4 Cost Curve

CASH MANUFACTURING COST COMPARISON

- Material
- Labor
- Misc.
- Energy
- Chem
- Fiber

Comparison between This Mill, Ind Avg, and Low Cost.
CFS-One Sided Cost Curve
CFS-Premium Cost Curve
Current -- Typical CFS Commodity

- Data = Q2 2003 & USD/ST
- Maine not as well positioned
  - Labor – Hourly
  - Materials & Maintenance
- Maine very well positioned
  - Fiber
  - Energy
  - Fuel
  - Total Cash Cost
- Note -- Asia/Europe Fiber Costs = Purchased Pulp Driven and Imported Chips for Asia

<table>
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<tr>
<th>Cost Ranges</th>
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<tr>
<td>Asia 405-650</td>
<td>105 gsm</td>
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<tr>
<td>Europe 525-850</td>
<td>115 gsm</td>
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<tr>
<td>N. Am. 460-880</td>
<td>60 lb #3</td>
</tr>
<tr>
<td>Maine 485-505</td>
<td>60 lb #3</td>
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</tbody>
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So -- Where Can We Go?

- Maine Is Blessed With Tremendous Potential . . .
  - Abundant Natural Resources
  - Wonderful Logistics Infrastructure
  - Superb Location To Largest Global Market
  - Very Experienced & Motivated Work Force
  - Substantial Dependency on P&P Industry
  - Renewed Attention of Political, Labor & Industry Leaders
  - Great Need of Local Communities To Rally

- There Are Great Opportunities To Enhance The Competitive Position of Maine’s Pulp & Paper Mills For The Right Grades

- However --
  - This Will Not Be Easy
  - It Will Require The Combined Attention of Government, Labor & Industry Working Closely Together
  - Many Critical Factors Need Change . . .
In Essence Then . . .

- Maine’s P&P Industry’s Future Has Great Opportunities To Seize -- In Reality -- *It Is In The Hands Of Those That Will Do* . . .
  - The Right Things . . .
  - In The Right Way . . .
  - For the Right Products/Grades . . .
  - At The Right Time . . . *And That Time Is Now*
  - Or Maybe Never. . . *Choose Wisely With Sense of Urgency* – Your Future is At Stake!
And Remember . . . .

In Spite Of The Current State of Affairs
For Maine’s P&P Industry -- As that
Famous Arm Chair Philosopher Ziggy
Once Said . . . .

“You can Complain Because
Roses have Thorns, or you can
Rejoice Because Thorns have Roses”

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