

UTIPULP

ZÜRICH - OCTOBER 9th, 1998

GENERAL MEETING

MINUTES

UTIPULP

ZÜRICH - October 9th, 1998

- ATTENDEES -

AUSTRIA :

Mr Paul BARTMANN NEUSIEDLER Aktiengesellschaft

BELGIUM :

Mr Fred VAN DEN KEYBUS DENAEYER PAPIER N.V.

DENMARK :

Mr Eilif LADEGAARD STORA PAPYRUS A/S

FRANCE :

Mr Michel BALDUIN AHLSTRÖM PAPER GROUP
Mr François LATOUR AUSSEDAT-REY
Mr Olivier ROUSSAT PAPETERIES DE CLAIREFONTAINE

GERMANY :

Mr Klaus-Dieter KIBAT V.D.P.
Mr Klaus KRIEG PAPIERFABRIK SCHEUFELN GmbH
Mr Andreas LÖHR ZANDERS
Mr Peter WINKLER HAINDL PAPIER GmbH

ITALY :

Mr Antonio BOTTEGA CARTIERE FEDRIGONI & C s.p.a.
Mr Armando CAFIERO ASSOCARTA
Mr Luigi LAZZARESCHI DELICARTA
Mrs Gloria RICCONI CARTIERE BURGO

PORTUGAL :

Mr José Manuel BYRNE PAPEIS INAPA S.A
Mr Joào Gorjao CLARA RENOVA S.A.
Mr Joào A. LANCA RODRIGUES CELPA

SWITZERLAND :

Mr Michel FÄSSLER SIHL Zürich
Mrs Isabelle HUNZIKER ZPK
Mr Nicolas MUHLEMANN PAPIERFABRIK BIBERIST AG
Mr Jörg BITTERLI TELA AG

UNITED KINGDOM :

Mr Richard L. BAXENDALE SAPPI EUROPE WOLVERCOTE PAPER MILL
Mr Chris DEEVEY UK PAPER
Mr Brian DILLON INVERESK plc

SECRETARY :

Mr Bernard LOMBARD UTIPULP

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General Meeting

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- AGENDA -

I - APPROVAL OF THE AGENDA

II - APPROVAL OF THE PREVIOUS MEETING'S MINUTES

- The previous meeting was held in Brussels on March 27th, 1998.
- Minutes were circulated on May 14th, 1998.

III - GENERAL ISSUES

- a) UTIPULP statistics release to international press, trade associations and private companies
- b) UTIPULP statistics :
 - Analysis of UTIPULP statistics
 - Quality of UTIPULP statistics
 - Monthly statistics release by e-mail
 - Other issue(s)
- c) UTIPULP 1998 accounts
- d) Elections : Chairman & Vice-Chairman, Executive Committee member
- e) Date and location of next meeting

IV - ANALYSIS OF THE PULP AND PAPER MARKETS

V - FUTURE MARKETS INTERPRETATION AND INFLUENCE

VI - ENVIRONMENTAL ISSUES : FOREST CERTIFICATION

VII - MISCELLANEOUS

VIII 12.00 noon - EURO : THE USE OF A NEW CURRENCY AND ITS IMPACTS ON COMMODITY MARKETS **Mr Jean-Louis VILLAME Head of International Corporate Desk / BANQUE NATIONALE DE PARIS**

- MINUTES -

Mr. Richard BAXENDALE, Chairman of UTIPULP, opened the meeting at 8 : 30 a.m. He welcomed the participants with a special address to Mr Jean-Olivier ROUSSAT (PAPETERIES DE CLAIREFONTAINE).

I - APPROVAL OF THE AGENDA

The agenda was approved.

II - APPROVAL OF THE PREVIOUS MEETING MINUTES

The minutes of the previous meeting which took place in Brussels on March 27th, 1998 were unanimously approved. The minutes were circulated on May 14th, 1998.

III - GENERAL ISSUES

a) UTIPULP statistics release to international press, trade associations and private companies

- Mr Bernard LOMBARD, Secretary of UTIPULP, provided the list of the newspapers, the trade associations and the private companies to whom are sent the UTIPULP statistics (tables 4,5,6) every months. The monthly release therefore consists in : global consumption, global inventories (tonnes) and global inventories (days) for the 10 countries. Mr BAXENDALE reminded all the participants that the aim of this release is to give better

information to the market. Mr LOMBARD said that he has received one demand from private companies per month in average over the last few months. In order to ease the work of the Secretariat, M. LOMBARD was allowed to make the release by e-mail as soon as possible.

b) UTIPULP Statistics

- Analysis of UTIPULP statistics

Mr. LOMBARD made a short comment on UTIPULP statistics.

Referring to the total inventories graph that shows the evolution of the « world » inventories both on the producers side and on the consumers side, it appears that in March, April and May, the global stocks were stable. A shift took place from the producers to the consumers, especially in Western Europe. UTIPULP inventories rose by 15% in March compared to February, +6% in April compared to March. The American producers' inventories remained stable whereas the inventories of the producers of other countries declined significantly. In June and July, the total inventories went up. The evolution of the inventories at the producers mills in North America and in the other countries as well explained this rise. UTIPULP inventories declined by 6.5% between May and July. In August, another decrease took place regarding the inventories in Western European paper mills : -2.5% compared to July.

- Quality of UTIPULP statistics

First of all, Mr LOMBARD thanked BELGIUM for providing monthly statistics. Now, **UTIPULP get the 10 countries reporting monthly.**

Contacts with SPAIN are still difficult to get. The aim is to get SPAIN participating to UTIPULP meetings or at least exchanging some statistics. Mr BYRNE said he will try to be in touch with officials of the Spanish Paper Association (ASPAPPEL) or general managers of Spanish companies. Paper & board consumption was about 5.6 millions tonnes in Spain in 1997. So, one guess that there must be volumes of market pulp consumed and inventories which are not negligible.

Some revisions have been made concerning the 1997 figures. Actually, estimated data have been replaced by « declared » data for SWITZERLAND, DENMARK, the NETHERLANDS and PORTUGAL on the first months of 1997, and for BELGIUM in 1998 for the total.

According to a short survey sent to the National Paper Association before the spring meeting in Brussels, it appeared that **2 countries don't report 100% of their market pulp volumes** : AUSTRIA and SWITZERLAND. These 2 countries were asked to think about the way to solve this problem. According to Mr Paul BARTMANN from AUSTRIA, AUSTRIA reports 66% of its market pulp volumes. The figures reported by AUSTRIA are of good quality according to him and he said that it doesn't make sense to try to reach 100% by extrapolation as the companies that are not reporting have very different profiles. SWITZERLAND prefers to stick to 90% of the total volumes it reports rather than to make an estimation for the left 10% for similar reasons. The Chairman and some members of the Executive Committee expressed their regret concerning these decisions, saying that the 8 other countries have to face the same problems and nevertheless provide each month an estimation for 100% of the volumes of each country. The preference for not extrapolating

limit significantly the volumes covered by UTIPULP and consequently lowers the weight of UTIPULP on the international scene.

Mr François LATOUR, from the French Delegation, talked about **the way of calculating the inventories in days of consumption**. In France, UTIPATES decided not to take into account the August consumption to calculate the inventories in days in August, September and October, because of its weakness. Mr Peter WINKLER, from the German Delegation, said that pulp consumption is low in August in France but it may be not necessarily the case in other European countries. But he acknowledged that other months like December (decrease of the paper mills activity) or February (28 or 29 days) can be weaker. One possibility could be to calculate the inventories in days by taking into account the consumption of the last 12 months instead of the last 3 months. Mr BAXENDALE asked Mr LOMBARD to make a simulation and to send it to the Executive Committee members to gather their opinions. According to Mr BAXENDALE, this new way of calculating couldn't be adopted if significant changes were to appear to the figures recently delivered to the press. All the participants agreed on the fact that the inventories expressed in days are very good indicators of the activity.

Mr BAXENDALE encouraged all the National Associations to provide the Secretariat with monthly statistics as soon as possible and no later than the 15th. According to some participants, sending statistics sooner may cause bad estimations and UTIPULP want to avoid huge revisions as it happened concerning the July figures.

Mr Chris DEEVEY, from the British Delegation, said that now UTIPULP has reached a higher profile and is making a press release, **the reliability of the UTIPULP figures has to be clearly checked**. According to him, it could be useful that statisticians or programmers from paper companies have a look and give their opinion. Mr LOMBARD agreed to this proposal whose aim is to ensure UTIPULP statistics credibility. But he also recalled that the choice was made to allow the countries to revise their declarations. The Secretary added that UTIPULP statistics are opened to all the members who want to check and that he will see how this kind of « certification » can be made, maybe with the help of paper companies in France.

- Monthly statistics release by e-mail

Mr LOMBARD said that some members receive already the monthly statistics by e-mail and seem satisfied. He encouraged all the participants to receive the monthly statistics by e-mail and recalled them that the use of e-mail avoids the documents from being unreadable and allows the re-use of them on a personal computer. The participants can give their e-mail address to the Secretariat in order to have these advantages. It was decided that **the members who choose the e-mail release won't receive the monthly statistics on paper anymore** providing that they get satisfaction with this way of receiving statistics. It will lighten the work of the Secretariat and speed up the global release to all the members before the press release.

Mr LOMBARD and his assistant Mrs BAERTSOËN will improve the quality of the e-mail release within the next few weeks by adding graphs (UTIPULP and world total inventories) and other statistics such as the American monthly figures.

- Other issue(s)

Mr LOMBARD have tried to start some **statistics exchanges with South Korea** concerning market pulp volumes. He hasn't got any answer for the moment but he will try again. Actually, market pulp inventories volumes are sent by the Korean Paper Association (KPMA) to PULPWATCH (HAWKINS WRIGHT). Korean market pulp inventories at the paper mills were about 100,000 tonnes at the end of May and June according to PULPWATCH (USA and Japan roughly 400,000 tonnes, UTIPULP roughly 1,300,000 tonnes).

Mr LOMBARD provided a table showing **the average monthly evolution of the NORSCAN inventories**. The average is calculated by taking into account the last 5 years, the last 10 years and the last 20 years. The participants were interested by this table and asked Mr LOMBARD to check his data base to ensure the reliability of these calculations.

c) UTIPULP 1998 accounts

- Mr LOMBARD presented the 1998 UTIPULP accounts. They show a **previsional profit of 30 390.63 FF**, but **Mr LOMBARD said that some expenses are still to be paid by the end of the year** : the Zürich meeting expenses (estimation : 10 000 FF), the Secretariat expenses for the 4th quarter (estimation : 20 000 FF) and the flight of the speaker on Euro (estimation : 3 500 FF). Consequently, the 1998 budget will be roughly balanced. The 1998 accounts were unanimously approved by the participants.
- **The Secretariat is still waiting for the 1998 contribution of the NETHERLANDS.**

d) Elections : Chairman & Vice-Chairman, Executive Committee member

- PORTUGAL has been chosen to take the chairmanship for the next 2 years. Therefore, **Mr José Manuel BYRNE will succeed to Mr Richard L. BAXENDALE as Chairman of UTIPULP** and will take this responsibility for the years 1999 and 2000. Vice-chairmanship is taken by ITALY also for the next 2 years ; **Mrs RICCIONI is the new Vice-Chairman.**

Concerning all banking operations, the General Assembly gave the power of attorney to Mr José Manuel BYRNE and to Mr Bernard LOMBARD. This power is withdrawn to Mr Richard BAXENDALE.

- According to the statutes, the Executive Committee is composed of the Chairman, the Vice-Chairman, the Secretary + 3 delegates appointed by the General Assembly (1 delegate has to be from Belgium). The delegates are elected for 3 years, but their mandate can't exceed 6 years. As Mr BAXENDALE is leaving, the Chair proposed France to be part of the Executive Committee. The participants unanimously agreed. **France proposed Mr Michel BALDUIN to be the French delegate.** Some discussion took place in order to see how « smaller » countries could be represented as well. The next appointment could concern a delegate from a « small » country.

e) Date and location of the next meeting

The Italian Delegation was thanked for the invitation in **ITALY**. The Italian Delegation will propose a place for the meeting.

The meeting will be held on **Friday 16th of April**, 1998, with an official dinner on the 15th.

IV ANALYSIS OF THE PULP AND PAPER MARKET

a) Paper markets :

- The European economy has to face various threats such as the consequences of the economic and financial crisis in Asia, its spread to South America and the decrease of the Dollar exchange rate. **GDP growth forecasts for 1999 have been revised and reduced in most of the European countries.**
- According to most of the participants, **the actual paper consumption remains on the overall correct.** The significant reduction of the order books which has been registered during the 2nd quarter is confirmed especially for the printing & writing grades. Some downtimes have been observed with regard to some paper grades and prices seem a little under pressure in some countries. Some paper grades such as speciality papers suffer from the Asian crisis. Indonesian paper producers have become more « aggressive » with regard to prices on the European markets according to some participants. The paper producers' customers don't seem to be charged with too much paper stocks.

b) Pulp markets :

- The situation seems very confused to most of the participants who underlined **the oversupply of market pulp** on the market. Some pulp volumes are coming from Asia at very low prices. The NORSCAN inventories are quite high at the end of August (1.9 million tonnes) and their level by the next 2 months will be a determining factor. On the consumers' side, there will be a wish to reduce the stocks at the paper mills with regard to financial matters.
- The feeling that the **pulp prices are near the bottom** is broadly shared by the participants, and among them, some think that a price increase announcement could take place in the early days of November, just before the pulp week in London to have a psychological effect. This announcement could prevent a further drop of the prices for the producers who can't accept lower prices. The majority of the participants don't expect any significative rise before the beginning of 1999.
- **Can the current situation be compared with the situation at the end of 1993 ?** Not really to some participants. The economic situation is better in Europe today than in 1993 and the NORSCAN inventories are lower than 2.5 millions tonnes (level at end-December

1993). The Dollar is roughly at the same level today as it was at the end of 1993 : 5.70 FF and 1.70 DM today, 5.85 FF and 1.70 DM at end-1993.

V FUTURE MARKETS INTERPRETATION AND INFLUENCE

- At the end of the Brussels meeting, it was said that the French delegation could propose a statement on the Future markets to the UTIPULP participants at the Zürich meeting. Mr LATOUR explained that there had been a discussion about this issue at the last UTIPATES meeting. Mixed feelings were expressed and no unanimity was found to prepare a statement in the press on the Future markets (very low representativity, pressure on the prices...). **A wait & see attitude was decided.**
- Mr LOMBARD presented different graphs showing **the evolution of the PIX index (FOEX) and the evolution of the PULPEX various contracts.** Another graph, presented at the International Planning Conference in Paris on the 15th of September, shows a correlation between the pulpex contract price and the list price. PULPEX could function as an advanced indicator with a 2 month delay.

VI ENVIRONMENTAL ISSUES : FOREST CERTIFICATION

- Mr LOMBARD presented some documents concerning the forest certification. The 1st one was presented by a CEPI official in Austria in mid-september and deals with **sustainable forest management** (history, definition and description of a European initiative launched with 8 European countries in spring 1998 with some outcome expected in the early days of 1999). The 2nd one presents the draft decisions of **the European working group on timber chain of custody.** Some recommendations for the European Commission are prepared. The last one is the draft of **the final report of the European Pilot Project on Timber Certification.** It provides a comparison of certification, declaration and labelling systems in Europe. This report is partly financed by a subsidy granted by the European Community. A forum on forest certification will take place at the initiative of CEPI on the 20th of October in Brussels.
- Some paper companies, especially in Germany and U.K., are facing some pressure from their customers who want them to guarantee **the use of pulp made of wood coming from certified forests.** This pressure may spread to other countries and depends on the customers lobbying.
- Harmonisation within the various countries in Europe is very difficult because of **the wide range of national existing systems.** At the international level, it is much harder. The Forest Stewardship Council (FSC) tries to elaborate some international standards but it seems that few companies have recognised these standards so far. Works at ISO will take a lot of time.

VIII MISCELLANEOUS

- After a long, period of participation, Mr Richard L. BAXENDALE announced that this meeting was his last one with UTIPULP as he is going to retire. He thanked all the members and said that he appreciated the meetings and the quality of the discussions with all the participants. He also thanked Mr LOMBARD, Secretary of UTIPULP, for the work he has done and the Swiss Delegation for the very good organization of this meeting. In return, **all the participants thanked Mr BAXENDALE for his chairmanship, his active participation, his great experience and knowledge which have been of great interest for UTIPULP.**
 - Having gone through all the items of the agenda, the Chairman closed the meeting at 12 : 15 p.m.
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VIII EURO : IMPACTS ON THE PULP MARKETS

- Mr Jean-Louis VILLAME from the BANQUE NATIONALE DE PARIS made a presentation on Euro (please find attached). He is the Head of the International Corporate Desk at the BNP.
 - According to Mr VILLAME, the **Euro will be a very strong currency** during the next 2-3 years because of structural parameters. Euro is the result of a political decision with the aim of containing inflation in Europe. In comparison, the US Dollar is an economic tool to promote economic growth. Moreover, one part of the world central bank reserves will be shifted from US Dollars to Euros.
 - Euro will replace Ecu on the 1st of January 1999. But the « basket » of currencies will be different (the Sterling, the Drachma, the Swedish and the Danish Crown will be out from the Euro basket). This shift may cause some discrepancies with regard to **the value of Euro.**
 - **The Euroland domestic market** will match the US one with regard to its size (number of consumers, internal flows and transactions...).
 - **The financial markets will have a great influence on the use and the exchange rate of the Euro** : the international financial flows are 70 times more important than the « real » transactions.
 - International trade is dominated by the U.S. Dollar today. Euro won't be considered as a reference from the 1st January 1999. It will be a very slow evolution as quite a lot of countries use Dollar or take Dollar as a reference all over the world, especially in Asia and in Latin America. Anyway, Eucalyptus will be quoted in Euro inside Europe and it may be also the case for other pulp grades. If we have a look to the map showing the supply of bleached chemical market pulp to Western Europe in 1996, **it appears that roughly 40% of this supply could be traded with Euro.**
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