

UTIPULP

EDINBURGH - SEPTEMBER 17th, 1999

GENERAL MEETING

MINUTES

UTIPULP

EDINBURGH - September 17th, 1999

- ATTENDEES -

UTIPULP CHAIRMAN :

Mr José Manuel BYRNE Chairman

UTIPULP Secretary :

Mr Bernard LOMBARD Secretary

AUSTRIA :

Mr Paul BARTMANN NEUSIEDLER AG
Mr Helmut MEISL SAPPI EUROPE S.A.

BELGIUM :

Mr Fred VAN DEN KEYBUS DENAEYER PAPIER N.V.

FRANCE :

Mr Michel BALDUIN AHLSTRÖM PAPER GROUP
Mr François LATOUR INTERNATIONAL PAPER
Mr Jean-Olivier ROUSSAT PAPETERIES DE CLAIREFONTAINE

GERMANY :

Mr Klaus-Dieter KIBAT V.D.P.
Mr Klaus KRIEG PAPIERFABRIK SCHEUFELN GmbH
Mr Andreas LÖHR ZANDERS
Mr Franz-Josef OHLE STORA CELL INTERNATIONAL
Mr Peter WINKLER HAINDL PAPIER GmbH

ITALY :

Mr Antonio BOTTEGA CARTIERE FEDRIGONI
Mr Luigi LAZZARESCHI DELICARTA
Mrs Gloria RICCONI CARTIERE BURGO SPA

NETHERLAND :

Mr Victor KAMM SAPPI EUROPE S.A.
Mr Théo Van Der STEENSTRAETEN Inkoop-combinatie De EENDRAGT b.v.

PORTUGAL :

Mr João Gorjao CLARA RENOVA F.P.A S.A.
Mr João A. LANCA RODRIGUES CELPA

UNITED KINGDOM :

Mr James DAGLISH TULLIS RUSSELL
Mr Chris DEEVEY UK PAPER
Mr Brian DILLON INVERESK plc
Mr Jim HARWARD THE PAPER FEDERATION OF GREAT BRITAIN

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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 Verona on April 16th, 1999. Minutes were circulated on May 21st, 1999.

III GENERAL ISSUES

- a) Countries Delegation to UTIPULP and the Executive Committee
- b) UTIPULP statistics :
 - Release to international press, associations, private companies
 - Analysis of UTIPULP statistics
 - Quality of UTIPULP statistics
 - Other issue(s)
 - Spain : membership
 - Japan : trade companies inventories
 - NORSCAN figures : statistics and information
 - Presentation of UTIPULP at EPIS General meeting, Sintra, 28/05/1999
- c) UTIPULP 1999 accounts
- d) EUROPULP : the European Pulp Sellers Association
- e) Date and location of next meeting

IV ANALYSIS OF THE PULP AND PAPER MARKETS

V MARKET PULP : FORECASTS

- a) Market pulp capacities : 1990 - 2003
- b) Market pulp supply / demand : 1990 - 2003
- c) Market pulp main producers : 1990 - 2003

VI EURO AND PULP & PAPER PURCHASING

VII ENVIRONMENTAL ISSUES

- a) Forest certification
- b) Cluster rule

VIII MISCELLANEOUS

- a) « Study shows quality of 30% recycled papers equal to virgin grades », PULP&PAPER ON LINE, June 1999
- b) « Publishers set to make the most of the millennium effect », PPI THIS WEEK, 21/06/1999
- c) « An opportunity not to be missed », PIMA'S PAPERMAKER, February 1999
- d) « The future of the market pulp business », JAAKKO POYRY CONSULTING, 1999

- MINUTES -

Mr José Manuel BYRNE, Chairman of UTIPULP, opened the meeting at 8:30 a.m. He welcomed the participants with a special address to Mr Victor KAMM (AUSTRIA).

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 Verona on April 16th 1999 were unanimously approved. The minutes were circulated on May 21st, 1999.

III - GENERAL ISSUES

a) Countries Delegation to UTIPULP and the Executive Committee

More and more companies have their headquarters, and purchasing department as well, in Brussels. This evolution could create some troubles within the National Delegations according to some participants.

The Secretary reminded all the participants that the members of UTIPULP are countries and not individuals or companies. It is consequently the responsibility of each country and its National Association to choose its National Delegates. The number of the Delegates depend on the country and are fixed within the statutes. The Chairman also remembered

that the National Associations accept only companies that own paper mills operating in their country.

⇒ *The Secretary will check with the National Associations the list of the National Delegates country by country.*

b) 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 month. The Secretariat makes the release by e-mail as soon as possible. More than 40 persons receive every months our statistics : 7 newspapers, 5 trade associations, 22 private companies. The number of financial institutions and brokers companies is gradually increasing.

Mr LOMBARD provided a **list of all the participants e-mail address** and encouraged them to provide the Secretariat with the missing ones in order to make easier the datas transmission.

- **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 the **global stocks have decreased since the beginning of the year**. This is due to the high level of market pulp consumption, especially in Western Europe and in the USA, since the end of the 1st quarter on the one hand, and to the decrease of the producers' stocks on the other hand. Of course a significant part of these volumes went from the producers' mills to the buyers' mills.

The **UTIPULP inventories remained very high at end-August** (1 419 thousand tonnes, 21% higher than at end-August 1998), partly because of the traditional downtimes taken at the South-European mills. It represents 39 days of consumption.

It is interesting to note that **the market pulp price evolution (NBSK and Eucalyptus) roughly follows the UTIPULP inventories evolution with a 1 or 2 month delay** since the beginning of 1996. The strength of the US Dollar versus the Euro during the 2nd period of 1998 and the first months of 1999 increased the price of the NBSK.

Market pulp mills are running at a very high level. The average evolution of the NORSCAN inventories at end-September is -60 000 tonnes.

- **Quality of UTIPULP statistics**

Mr LOMBARD presented a table showing the last revisions implemented on the UTIPULP monthly statistics. **Revisions of the statistics** were relatively moderated concerning the stocks since October 1998. On the contrary, revisions on consumption figures appeared to be heavier over the last few months, especially on April and June (around 25 000 tonnes).

Mr WINKLER (Germany) read a letter of a North American sales executive saying that because of some huge revisions, he no longer uses the UTIPULP data. In this letter, there is also the testimony of an analyst who considers the revisions as a way to influence the market pulp prices.

The revisions made by UTIPULP are much higher than the ones made by NORSCAN.

Mr Klaus KIBAT (Germany) said that providing the Secretariat with data around the 15th or the 16th requires some estimations because of the great number of mills reporting figures.

Once more, Mr BYRNE told that he understands the difficulty of this task but asked all the countries to **be very careful with the statistics they provide** the secretariat with and urge the companies to send their monthly statistics as soon as possible. Only limited revisions are acceptable if we want UTIPULP statistics reliability to improve.

The revision have to remain possible, as it is the price to pay for estimations and quick information according to Mr BYRNE. **Quick availability is more important than accuracy** as a lot of people throughout the world now wait for our statistics every months.

Mr LOMBARD said that UTIPULP figures released to the press are much more detailed than NORSCAN figures and a large table is given within PPI THIS WEEK for example.

As UTIPULP has released its statistics since approximately 2 years, Mr BYRNE proposed to arrange an interview with the press (like PPI for example) to talk about UTIPULP and its functioning.

<p>⇒ <i>All the countries are asked to be very careful with the statistics they provide the secretariat with and to urge the companies to send their monthly statistics as soon as possible ;</i></p> <p>⇒ <i>An interview has to be arranged with the press to promote the image of UTIPULP.</i></p>

- **Other issue(s)**

- Spain : membership

It seems that no delegation can be obtained for the moment from the Spanish Pulp & Paper Association ASPAPEL. Mr BYRNE reported about the contacts he has had so far directly with some Spanish companies. **3 Spanish companies, which could be interested in joining UTIPULP, will be contacted.**

<p>⇒ <i>Concerning the Spanish membership, talks with Spanish companies officials have to go on.</i></p>
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- Japan : trade companies inventories

The Japanese Paper Association sent an answer to a question related to the composition of the Japanese market pulp stocks. The answer is that the **trade companies stocks are not included** in the data UTIPULP currently receive. It seems that these figures don't exist or are not available.

- South Korean inventories

Despite ongoing efforts, **no figures from South Korea have been obtained regarding inventories.**

⇒ *M. James DAGLISH will try to provide the Secretariat with South Korean inventories figures.*

- NORSCAN figures : statistics and information

M. LOMBARD presented a new page of statistics concerning the NORSCAN figures which is composed of :

- a 1st table giving the evolution of inventories, production, deliveries and capacity utilisation rate on a monthly basis ;
- a graph illustrating the 1st table and showing the evolution of the NORSCAN inventories seasonally adjusted ;
- a 2nd table giving the average evolution of the NORSCAN inventories for each month over the last 5 years, 10 years, 20 years.

Concerning the definition of the NORSCAN inventories, PPI gave some information but not very detailed. More can be obtained from **the Canadian Pulp & Paper Association.**

⇒ *Because of the interest of this new page, M. LOMBARD was asked to join it to the monthly set of statistics ;*
⇒ *M. LOMBARD will provide further elements regarding the definition of the NORSCAN inventories (source : C.P.P.A.).*

M. LOMBARD presented another graph, which aim is to reach a better understanding of the pulp markets. This graph represents the shipments of the NORSCAN and the non-NORSCAN countries in parallel with the UTIPULP purchases. The UTIPULP purchases are calculated by withdrawing stock variation from consumption for each month.

This graph shows that **UTIPULP behaviour in terms of purchases explain most of the producers' shipments.** Significant increases of the shipments occurred in December 1998 and March 1999 which are not directly linked with UTIPULP purchases. As North American and Japanese buyers don't have a speculative behaviour, one may suggest that it may be explained by South-East Asian trade companies.

- Presentation of UTIPULP at EPIS General meeting, Sintra, 28th of May, 1999

EPIS had its annual General Meeting in Portugal at the end of May and invited the Chairman and the Secretary of UTIPULP. EPIS is the European Pulp Industry Sector, that is to say the Market Pulp Producers World Association. 25 persons approximately attended this meeting and seemed interested in UTIPULP presentation. One person expressed his **suspicion about UTIPULP statistics** which he considers as a tool in the hands of the market pulp buyers to drive the markets. It was reminded that UTIPULP has released its statistics to the press since the beginning of 1998 (which is not the case of EPIS).

Mr Bernt STENBERG, Secretary of EPIS, expressed **the wish of EPIS to create a website** to provide mainly its members with some information and statistics on line. He asked Mr LOMBARD whether UTIPULP would accept to have its statistics released on it. One participant said that first of all we need to know what information will be presented on this website and who will be entitled to enter it. Mr Paul BARTMANN (Austria) said that rather than having our statistics released on a website which is not our, **UTIPULP should have its own website.**

⇒ *M. LOMBARD will have to prepare a proposal concerning a website for UTIPULP (content, provisional budget...).*

c) UTIPULP 1999 accounts

- Mr BYRNE presented the UTIPULP accounts for the first 8 months in euros. **A benefit of 3 564 uros is registered** at end-August but by the end of the year a loss of around 1 000 euros is predictable according to Mr LOMBARD. The contributions of 3 countries are still missing on the one hand, and some expenditures are still to be paid (Speaker of the Verona meeting and the Edinburgh meeting costs).
- Mr BYRNE said that according to the statutes (Article 7), **the financial year should be closed on August 31st**. Mr LOMBARD recognised that he didn't pay attention to this point and that from years, the UTIPULP financial year has been closed on December 31st (calendar year). One can think about 2 solutions : either changing the Article 7 of the statutes, or modifying the date of closure of the accounts. With the approval of the General Assembly, Mr BYRNE asked Mr LOMBARD to examine this point and to see whether it's possible to change the statutes easily and at a low cost. Mr LOMBARD added that if the statutes are to be modified, other small changes could be proposed in order to renew a little the statutes.

⇒ *M. LOMBARD will examine the conditions to amend the statutes.*

d) Europulp : the European Pulp Sellers Association

No comments were made on Europulp.

e) Date and location of the next meeting

The Dutch Delegation was thanked for the invitation in **the Netherlands**. The Dutch Delegation proposed to hold the Spring meeting **on the 7th of April in Amsterdam**, with an official dinner on the 6th. Mr LOMBARD will contact Mr Enrico BROUWER from the V.N.P. to confirm the invitation.

IV ANALYSIS OF THE PULP AND PAPER MARKETS

a) Paper markets :

- **The economic climate in Europe has clearly improved** in comparison with the situation registered at the beginning of the year. The strength of the US Dollar versus Euro has supported the activity in most of the countries. The paper markets have benefited in 1999, and will take benefit presumably in 2000, of a GDP growth in the main 3 economic areas : North America, Western Europe and Asia.
- **Optimism is back on the paper & board markets after a relatively weak 1st semester.** Some price increases were reported on the main grades but they remain pretty difficult to implement in some countries, although the Paper Industry need them to limit the margin erosion. One participant said that the economy was running in a non-inflation context. On the overall, the end of the year will be quite good according to the predictions of the participants who nevertheless fear a stabilisation or a slight downturn at the beginning of the year 2000.

Actually, paper merchants may have built some inventories which can be seen as an answer to the paper price increases and the millennium effect.

- Concerning the **printing and writing papers**, the markets are quite strong especially for the coated papers. The order books are good but it seems difficult to increase the prices in order to balance the increased cost of pulp which has occurred since last March. The **packaging grade markets** are better today than a few months before but suffer from significant waste paper price increases. Volumes are correct concerning the **tissue** and some improvement has been observed on **speciality papers**.

b) Pulp markets :

- The **markets have tightened up** significantly due to the high level of market pulp consumption and to the downtimes and the shutdowns of some market pulp mills, especially in North America.
- **The price increases reported at our previous meeting in Verona have been confirmed.** The NBSK is about 560 \$ and Eucalyptus 400 throughout Western Europe. Further announcements have been made : 600 \$ and 430-440 respectively for the 1st of November. Will the producers stick to this level or will they try to get higher prices ? This is the big question for the following months.
- According to Mr Brian DILLON (United Kingdom), the behaviour of Asian market pulp buyers is more structured than in the past but it remains unpredictable. **The Asian sudden and unpredictable buying waves and the pulp mills shutdown are 2 important factors to understand the evolution** of these pulp markets over the last months according to Mrs Gloria RICCONI (ITALY).
- One participant raised the question of **the use of Genetically Modified Organisms within the pulp & paper industry**. In a couple of countries, some customers questioned their suppliers about their attitude. This concern from customers for the use of G.M.O. in wood and starch is likely to develop over the next months.

V MARKET PULP : FORECASTS

Mr LOMBARD gathered a few documents dealing with the evolution of pulp markets from 1990 till 2003 : **supply/demand balance, capacities, main producers**. The sources are JAAKKO POYRY CONSULTING, RISI, RBC DOMINION & SECURITIES, Nordic and North American Pulp & Paper Factbook, Canadian Pulp & Paper Association. Some of these documents were presented at the latest PAPERCAST CONFERENCES in Paris in mid-September.

VI EURO AND PULP & PAPER PURCHASING

- « **Eucalyptus could be quoted in US Dollars instead of euros according to some rumours** », said one participant. Quoting pulp and invoicing pulp shipment is different than fixing price. According to some participants, almost all the market pulp prices are fixed first in Dollars and then converted in different currencies (in euros for eucalyptus).
- **Most of the world raw material markets use only one currency** : oil, copper, coffee... On the contrary, pulp markets use mainly 2 currencies : Dollar and euro. Can this situation last for ever ? One must not forget that countries and companies from the European Union represent almost 45% of the world market pulp consumption.
- Changing from Dollar to euro may represent a valuable evolution for the market pulp producers today but it can be the opposite tomorrow because of the **exchange rate variation** !
- The use of euro on the pulp markets could be one of the items that could be talked about during an interview with the press.
- Very different opinions were expressed about **future markets** and especially PULPEX. According to some participants, PULPEX is a new tool which allows market pulp purchasers to get a fixed price in advance and consequently to hedge a risk of price volatility. Some others consider PULPEX as a casino where a lot of money can be lost. Mr Peter WINKLER said that PULPEX must be seen as a financial tool to protect oneself against volatility and even if PULPEX currently appears a bit too small for big contracts, it will develop in the future as it has been the case for other commodities."

VII ENVIRONMENTAL ISSUES

- Mr LOMBARD presented a document written by CEPI dealing with « **The mutual recognition of credible forest certification systems** ». The aim of this position paper is to clarify the current situation and to define a set of principles rather than making judgements.
- Mr Klaus KIBAT, who is a member of the **CEPI Forest Committee**, explained with more details the current situation and the competition between the different systems, and especially the F.S.C. and the P.E.F.C., which is a European initiative. Today the F.S.C. has more credibility, but this may not be the case tomorrow. From this point of view, mutual recognition is necessary.

- An article from the « Canadian Market Pulp » newspaper, provided by Mr LOMBARD, gives some details about the « **Cluster Rule** ». The Cluster Rule was introduced by the United States Environmental Protection Agency on April 15th, 1998. It combines air and water regulations. The US mills have to meet these rule requirements by 2001. 3 billion \$ will be required according to some estimations. Many mills will likely shutdown instead of investing in new technology. Such rules could be implemented in Europe in a very near future.

⇒ *With the agreement of all the participants, Mr LOMBARD will invite for the Spring meeting Mrs Kathy BRADLEY from the Paper Federation of Great Britain, who is one of the best expert on this issue.*

VIII MISCELLANEOUS

- Mr LOMBARD presented some documents and articles which could be of interest for the participants :
 - a) « Study shows quality of 30% recycled papers equal to virgin grades », PULP&PAPER ON LINE, June 1999
 - b) « Publishers set to make the most of the millennium effect », PPI THIS WEEK, 21/06/1999
 - c) « An opportunity not to be missed », PIMA'S PAPERMAKER, February 1999
 - d) « The future of the market pulp business », JAAKKO POYRY CONSULTING, 1999
- Having gone through all the items of the agenda, the Chairman closed the meeting at 12 : 45 p.m.