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## *Eldorado Brasil ready to present itself to the global pulp market*

New CEO of the company confirms start-up for November 2012 and talks about the growth plan that projects to reach 5 million tons of pulp production by 2020

**E**very change in command generates a certain amount of expectation in the market. And in the case of Eldorado Brasil this situation was no different. Since last February under the administration of José Carlos Grubisich, the company's new CEO will soon debut in the global pulp sector. With a degree in chemical engineering, the executive developed most of his professional career at Rhodia. His professional experience also includes heading Braskem and presiding ETH Bioenergia S.A., an Odebrecht group company.

"It is a personal and professional achievement to be associated with such a promising project as this one," says Grubisich about the challenge of leading an industrial expansion program that intends to reach

a production capacity of 5 million tons of eucalyptus pulp by 2020. To fulfill this mission of creating a new leader in the global market of this commodity, the executive bets on the competitiveness of Brazil's biomass and expertise adopted.

"Brazil presents spectacular competitive advantages. We will play a leading role in the global market, with high performance teams that focus on innovation and sustainability," he envisions. In the following interview, Grubisich reveals his personal aspirations in taking over the helm, talks about the work progress of Eldorado Brasil's first production line and presents details about the new player's growth program, which aims to position itself among the largest producers of pulp worldwide.

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**O Papel** – What was your perception of the pulp sector prior to becoming president of Eldorado? What reasons lead you to accept the challenge of leading a company in its initial phase?

**José Carlos Grubisich** – I have always considered Brazil’s pulp sector as being one with a huge competitive advantage. Over the years, Brazil developed significant competencies on the industrial side, but, most importantly, in the forestry area. During its entire trajectory, the pulp’s industry innovated and expanded its industrial quality, strengthening its market position and becoming a benchmark. I see Eldorado Brasil’s entrance in this market as an important milestone in the sector’s history, not only in Brazil, but also worldwide. This is a new company that is entering a capital intensive sector, in a cyclical industry, which demonstrates the confidence of our main shareholder (J&F) in the capacity of Brazilians companies to develop and make a difference in the international scenario. This is basically the reason that led me to embrace this new project.

**O Papel** – What is the status of construction at the Três Lagoas (MS) mill?

**Grubisich** – Eldorado’s first production line, with a capacity of 1.5 million tons of pulp, has 72% of its physical structure concluded. The site is already conceived and practically all earthmoving work has been done, potentially foreseeing three production lines. Our plan is to begin heating up the boilers and commissioning the first industrial unit as of the end of October, in order to obtain the cooking of wood and the initial start-up of the pulp line during the month of November. The process is absolutely under control from a timeframe, cost and investment quality perspective.

**O Papel** – The total investment announced at the beginning of the project, back in 2010, was R\$ 4.8 billion. This year, the company began stating a value of R\$ 6.2 billion. Does this mean that the project exceeded the initial amount planned?

**Grubisich** – No. The R\$6.2 billion investment contemplates the company’s production, forestry

and logistics infrastructures. In fact, the amount earmarked for the production unit exceeded the company’s expectations. Since Eldorado bought equipment and contracted services at a moment when investments in the pulp sector slowed down, the company obtained much more competitive conditions than other cases in the recent past. Savings ranged between 10% and 15% of the value relative to similar projects already executed in Brazil. In an intensive capital industry, when we are able to reduce the amount of financial resources by this percentage range, we achieve a very important advantage for the future, which will positively reflect in our cash generation capacity.

**O Papel** – Has the capital investment issue already been resolved by the company?

**Grubisich** – The capital structure of Eldorado Brasil is divided between the J&F holding company (50.15%), MJ Empreendimentos (16.72%) and FIP Florestal (33.13%), an equity investment fund composed of the largest pension funds in Brazil, such as Petros (Petrobras) and Funcef (Caixa Econômica Federal). This composition, coupled with loans from the National Bank of Economic and Social Development (BNDES), Constitutional Financing Fund of the Midwest (FCO) and the Export Credit Agency (ECA), fulfilled the financial investment needs of the company at this moment.

**O Papel** – Is the forestry project keeping up with the construction of the industrial complex? How many hectares have been planted so far?

**Grubisich** – Last year, 31,000 hectares of eucalyptus forests were planted by Eldorado. At present, the company possesses a total area of 80,000 hectares of forests earmarked for pulp production, of which 20% correspond to land areas owned by the company. For 2012, the forecast is to plant another 35,000 hectares. This strong planting program will extend over the next few years until Eldorado achieves 100% of company-owned forests in 2017. In an integrated project such as this, it is necessary to define an average radius in order not to have to bring raw material from very distant

locations. As such, we stipulated an average range between 80 km and 100 km from the industrial unit. It is also important to point out that Eldorado will already start up activities with a program that includes certification by the Forest Stewardship Council (FSC) of all its forestry areas by 2017.

**O Papel** – With regards to logistics investments, at what stage is the project?

**Grubisich** – First of all, I would like to say that the Eldorado mill location is another competitive advantage, since it allows for integrated logistics. Installed in an area of 900 hectares along the Paraná River, in Três Lagoas, the company will count on three logistic modes for receiving raw materials and moving its production. Our objective is to utilize the highway/railroad and waterway/railroad modes, which present greater economies of scale and lower environmental impacts. In order to put this into practice, we have already acquired our own fleet of locomotives and railroad cars specially developed for Eldorado, to be used in transporting pulp to the company's terminal at the Port of Santos, from where it will be shipped to the main markets in the world. Initially, the company intends to export the commodity to China and Europe.

**O Papel** – Is labor qualification also being carrying out in parallel with the site construction? Will Eldorado give priority to inhabitants in the region when contracting people?

**Grubisich** – Today, Eldorado has 2,000 direct employees and will employ another thousand when the mill begins operating, which shall benefit even more development in eastern Mato Grosso do Sul state. We are focusing on building high performance teams. For such, a series of training and qualification programs are being developed. One of the programs is called *My First Profession*, where 190 high school youngsters are undergoing training at Senai, in the industrial maintenance and pulp production process areas. We also have a qualification program in the forestry area, particularly in harvesting and moving wood in forests, through training based on a virtual reality system. These and other programs

we've been developing will expand the number of youngsters available to work not only at Eldorado but also other companies in the region.

**O Papel** – What is the structure of the growth program which foresees producing 5 million tons of pulp by 2020?

**Grubisich** – The pulp market is growing at full speed. The estimate is that this market demands a mill with an annual production of 1.5 million tons every year and a half. Taking this into consideration, our growth program is structured into three phases: first, start-up of the single production line of 1.5 million tons of pulp starting November 2012; second, in 2017, when we will start operating the second 1.5 million tons production line; and third, in 2020, also with a capacity of 1.5 million tons. With the operational optimizations and efficiency improvements, however, we believe that these three phases combined shall reach a production volume of 5 million tons.

**O Papel** – Is it already possible to envision the main challenges to be faced by Eldorado throughout this expansion project? How does the company intend to overcome them?

**Grubisich** – The first question we ask is the following: will there be a market for so much pulp? The answer resides in the fact that the global pulp market is on the rise, registering growth rates between 2.5% and 3% a year. With specific regards to the hardwood pulp market, growth estimates are even higher, between 4% and 5% a year. These figures sustain the analysis that the world will need a mill with a 1.5 million tons hardwood pulp capacity every year and a half. Such growth forecast will certainly lead to a new cycle of investments in the pulp market worldwide. Within this context, Eldorado has many positive factors to become even stronger, such as a solid capital structure, with an adequate balance and without the burden of high debt in relation to its cash generation capacity. This is a significant competitive advantage, since we can have a high return and use our capacity to generate cash to finance future growth programs. ■