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Nunes asserts that the correlation between global GDP growth and pulp demand is one of the reasons for increasing production capacity at Celulose Riograndense



CELULOSE RIOGRANDENSE KICKS OFF EXPANSION PROJECT

In December 2012, *Compañia Manufacturera de Papeles e Cartones* – CMPC confirmed the start-up of its expansion project of Celulose Riograndense, located in Guaíba (RS). With a total investment of R\$4.6 billion, the production unit, which currently produces 450 thousand tons of pulp annually, will increase its annual capacity to 1.75 million tons.

“The intention is to start up this new unit, which will be responsible for an additional volume of 1.3 million tons of pulp, in the beginning of 2015”, said Walter Lídio Nunes, President of Celulose Riograndense. “We will begin transforming our area into a construction worksite in the first semester of 2013”, he said about the project schedule.

Today, CMPC’s share corresponds to 5% of the global bleached pulp market. With the capacity expansion of Celulose Riograndense, the group aims to increase this figure to 8%. In Brazil, CMPC accounts for 6% to 7% of the hardwood kraft pulp market. With the growth projected for 2015, the intention is to achieve a market share between 11% and 12%.

In the following interview, Nunes provides additional details about the already ongoing project and reveals the commercial strategies behind the expansion that will triple current production at the Guaíba facility.

O Papel – Why did CMPC decide to invest in increasing its current production capacity at Celulose Riograndense?

Walter Lidio Nunes – Implementation of the investment is based on a scenario vision that contemplates two key vectors: market and operational competitiveness of the new unit. In terms of market, we understand that in the next few years there will be a need for additional pulp volume. Some of the reasons for such projection is the correlation between global GDP growth and demand for the commodity. Another factor that boosts demand for pulp is the closing down process of pulp production mills (integrated or not) in other countries, particularly in the northern hemisphere. This trend is being noted due to low competitiveness factors. We know that, in countries with a cooler and colder climate, forestry yields are inferior. This is one of the reasons that has made Brazil stand out with mills capable of producing more than 1,000,000 tons in recent years. This shows that the location of mills and the supply of market pulp are gradually concentrating in the southern hemisphere. Given the major potential it presents, Brazil is one of the countries that stands out not only for all the land and productivity of its forests, but also for all the technology that has been developed by the sector over the years. In terms of the project's operational competitiveness, this factor is boosted by forest productivity, low industrial operating costs and efficient logistics.

O Papel – What markets will be serviced by this additional volume projected for 2015?

Nunes – We aim to service the main consumer markets, including Asia, Europe and North America. It is important to point out that Celulose Riograndense is part of the CMPC Group, which has a comprehensive strategy for producing hardwood kraft pulp, producing this commodity not only in Brazil but also in Chile, where it also produces softwood pulp. This additional production by Celulose Riograndense will be integrated in this globalized commercialization vision that CMPC has as a group.

O Papel – Speaking specifically about the project, what has already been developed so far?

Nunes – We are following a schedule that started out with forestry development, having then moved on to conceptual engineering and basic engineering design, and then the feasibility study that was approved by shareholders. As such, we are now in the implementation period, which is when things start to come off the paper. We are in the final negotiation phase of establishing contracts with suppliers and other practical implementation aspects of the project. On December 18th, we closed our first negotiation that involved the contracting of two Siemens turbo generators. This acquisition determines the critical path related to the project implementation schedule and the starting point of implementation. In January 2013, we will begin implementing the site's basic infrastructures, which will allow setting up the various areas. We will also be resolving final details with other suppliers to close the purchase of other "technological islands" that should also be concluded in the beginning of the year.

O Papel – Will the project's estimated two-year time frame impact the mill's current production?

Nunes – Execution of the project will have no interference on

current activities at the industrial complex. The new line will be constructed next to the already existing one, and the plants will operate independently. In some points of the production units, however, some integration will be done to perfect certain aspects of the mill currently in operation. They refer mainly to environmental aspects, such as greater centralization of control over odor systems. The objective is to integrate both mills in order to further perfect a process that is already efficient.

O Papel – Where will labor come from to build the new line?

Nunes – Part of the labor necessary to implement the project is technical and specialized and is directly associated to the technology suppliers of the various packages or "technological islands". Additionally, a large group of workers, less specialized, will participate in the equipment assembly process. To satisfy this particular labor need, we intend to count on the largest number possible of workers from the local population. Therefore, we are conducting a labor-training program that is already ongoing. It is a program executed in conjunction with the state government of Rio Grande do Sul, called *Gaucho Pact for Education*, where professionals are being prepared for the civil construction, mechanical and electrical areas. Through this program, we seek to train roughly 10 thousand people. During the project implementation phase, we project that between 7,000 and 8,000 direct as well as 21 thousand indirect jobs will be created through 2015. Once the unit begins operating, 2,500 direct jobs will be created, as well as estimated 17,000 indirect jobs.

O Papel – What is the current mode used by the company to move its pulp production and what will be done in terms of infrastructure in the region?

Nunes – for the current flow of pulp production, we use waterway, which links our plant's waterway terminal to the Port of Rio Grande using barges. We plan on increasing the scale of this transportation mode to adequately service the new production volume, but we will continue exporting our pulp through the Port of Rio Grande. We are also investing R\$ 44 million to execute road works next to the plant and in the city of Guaíba, in order to improve urban mobility and cargo transportation logistics. This is a project that's being executed in conjunction with the municipality of Guaíba, and is expected to be concluded in February 2013.

O Papel – In terms of forestry area, how many hectares does the company have today? Is this figure sufficient to cover current production demand and that projected for 2015?

Nunes – In order to satisfy future demand from expanded production, Celulose Riograndense already began provision of its forestry base. Today, the company possesses 218 thousand hectares of land, of which 81 thousand hectares are earmarked for environmental preservation. This makes us one of the biggest private owners of environmental preservation areas in the state of Rio Grande do Sul. Recently, we also negotiated an additional forest area with Fibria, totaling 39 thousand planted hectares located in the southern part of the state. With this, we are currently self-sufficient in wood production necessary to support our future pulp production. ■