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MELHORAMENTOS INCREASES ANNUAL PRODUCTION CAPACITY TO 90 THOUSAND TONS

In the pulp and paper industry for 123 years, Melhoramentos continuously invests in innovation to always be at the cutting edge. This innovative profile intensified even more as of 2009, when Melhoramentos Papéis was sold to Chilean CMPC. “It was certainly the beginning of a new phase for the group,” says Sérgio Sesiki, the company’s superintendent.

With regards to this new cycle, Sesiki also highlights the decision of focusing on strengthening Melhoramentos Florestal. “We underwent a period of significant research where we identified global market trends for high-yield pulp,” he said.

The \$42 million investment to expand the Camanducaia (MG) production facility – 70% by Banco de Desenvolvimento de Minas Gerais (BDMG) and 30% with the company’s own cash –, is fruit of this intense market analysis journey.

In the following interview, Sesiki talks about the results of the company’s assessment regarding the market and its trends, revealing the status of the project that aims to increase annual production of high-yield pulp by 30 thousand tons and also makes projections for further expansion in 2014.

O Papel – In what context is the high yield pulp market inserted, how is this segment currently performing, who are the main buyers and the main producers, and where does Melhoramentos stand in relation to these players?

Sérgio Sesiki – At present, the global production of high-yield pulp amounts to roughly 44 million tons/year. Of the

total produced, 97% is consumed by producers themselves. This shows that the majority of producers are integrated, that is, they consume the own high-yield pulp they produce. Melhoramentos Florestal is part of the remaining 3% of global production. We have been operating as pulp producers for third parties since Melhoramentos Papéis was sold to CMPC, in 2009.

We kicked off the group's new cycle knowing of the need to offer a differentiated product to customers. We analyzed certain aspects in order to identify where we could innovate and expand. It was a period of intense research, as we knew that offering differentiated quality to producers was more important than efficiency, with improvements reflecting at the end of the chain, with end consumers seeing differentiation on store shelves.

O Papel – Is the launching of the NEOLUX fiber the result of this research period?

Sesiki – Yes. In order to deliver value to clients, we invested not only in improving the product, but also in developing a new concept that would represent quality and innovation. Among various options, we registered five brands. The first to reach the market, aimed at differentiating from the old pulp, mechanical pulp or simply the fiber concept, was NEOLUX. This product underwent quality improvements, given its 75% brightness and its 100% eucalyptus composition, with a new brand that came to recognize all the technical work effort involved in making improvements. We are working on a marketing strategy to position NEOLUX as an additive and graphically show the improvements it offers, especially in terms of end product thickness and absorption.

O Papel – What are the company's expectations with the announced capacity expansion?

Sesiki – The Camanducaia (MG) unit had an annual production capacity of 60 thousand tons. Structurally speaking, there were difficulties in expanding it to hundreds of thousands of tons given its location in a touristic region, full of mountains and difficult for planting. We came to the conclusion that the best alternative was to expand as much as possible the production capacity of the unit with the resources from our own land. The first step was to bet on changing the forest plantation: the 80% pine and 20% eucalyptus ratio in the product's composition was inverted. Once we increased the use of eucalyptus and noticed the improvements in production quality, we saw the market's capacity of absorbing extra volume and also sufficient raw material to reach 90 thousand tons/year. So we kicked off an expansion project based on facts, such as growth in the packaging and tissue papers segments. The packaging area, specifically, tends to accompany demographic and GDP growth, without suffering major impacts caused by the new information technologies. The tissue segment also presents good perspectives, which reflects in opportunities for capturing this market through added value. We envision our product as an additive that provides better yields in client machines, with higher speeds and less fibers usage.

O Papel – So, in addition to the packaging sector, the strategy is to focus on a new segment: tissue paper?

Sesiki – Our long-term target is 10% of this market. Right now, with the current expansion project, we aim to capture a 5% share. This

perspective is possible since almost all of our current production is already absorbed by our traditional cartonboard markets. Therefore, it is absolutely plausible to think about more production, here in Brazil, also focusing on tissue. In addition to the internal market being capable of absorbing this extra production from our expansion project, there is also the possibility of crossing oceans. We are already prospecting four clients in the Iberian Peninsula.

O Papel – What is the current status of your expansion project?

Sesiki – The entire project consists of increasing the unit's production capacity by 30 thousand tons/year. To achieve this increase, the project was broken down into two phases. The first phase, of improving the single dewatering line, comprises extending the wire part of the machine, changing the head box and also installing a 4,700 hp electric motor in substitution of a less powerful one. This stage was concluded in the end of January, increasing production capacity from 60 thousand to 70 thousand tons/year. Expansion for the remaining 20 thousand tons represents phase two of the project, which is expected to be concluded by the end of April. We acquired a used machine from Adamas and contracted refurbishment services for the D'Andreas machine, to be supervised by Pöyry. In fact, the equipment is a dewatering machine similar to one we already have, but with the advantage of a drying stage. With the installation of this second line at our unit, we can even consider a future expansion to 120 thousand tons/year – something that is already being planned for 2014.

O Papel – What factors will be determinant in the next expansion stage to 120 thousand tons/year?

Sesiki – Raw material in the region is scarce, which would cause a bottleneck in the capacity to produce pulp for this second expansion. In order to produce another 30 thousand tons/year, we need to put into place a forestation project. At present, we have 5,000 planted hectares, but we need another 1,500 for the second project. We are developing a forestry project capable of ensuring this additional pulp, which will force us to increase the current distance radius to an average of 35 to 50 km. There is another bottleneck we are looking to solve: today, energy generation at the production unit is at its limit, due to a limitation in the cabling of power lines. An investment already included in the current expansion project aims to solve this challenge with the energy concessionaire.

O Papel – What modes will be used for transporting wood and the flow of production?

Sesiki – We are expanding our maneuvering yard and there are also two docks being developed. However, we will continue utilizing highways to transport raw material and finished goods. Our mill does not possess railroad lines nearby nor waterway alternatives. As such, we will maintain the current structure, with logistics being based on highway transportation. ■