



## STORA ENSO PREPARING TO SELL MARKET PULP

The joint venture between Stora Enso and Arauco that will yield a new eucalyptus pulp mill with an annual production capacity of 1.3 million tons, already has a start-up date: the mill located in Montes del Plata, Uruguay, is confirmed to begin operating by the end of the third quarter of this year.

The US\$2.5 billion investment is the biggest ever made in the small Latin American country and promises to move not only the regional market, but also the global market as a whole. "With the 650 thousand tons of pulp, which is Stora's part, we aim to service the European, Asian, North American and South American markets," said Alexandre Nicolini, Vice President of Sales & Marketing, responsible for globally commercializing the pulp owned by the Swedish-Finnish player.

In the Interview to *O Papel*, the executive reveals how the company's strategy of installing itself in Uruguay started out and became a reality, providing details on the project's progress and analyzing the short and medium-term scenarios encompassing projected start-ups in the pulp industry over the next few years.

**O Papel** – When and why did your company decide to establish a joint venture with Arauco?

**Alexandre Nicolini** – Stora Enso already has a joint venture experience in Latin America, with Fibria, which gave rise to Veracel in Brazil. A few years ago, the company had its eye on other business opportunities that were not limited to only paper. Then appeared this opportunity in Uruguay, following the decision by Spanish pulp producer Ence to sell the forest base it owned in Uruguay. Stora entered the business by acquiring 50% of this forest area coupled with the construction project of a new pulp mill. The successful experience in Brazil was paramount for investing in Uruguay in a partnership with another Latin American producer, Arauco.

**O Papel** – How does Uruguay position itself in relation to global pulp players? Is it a competitive country at producing this commodity?

**Nicolini** – Yes and, without doubt, the factors involving this industry's competitiveness were taken into consideration when Stora made its decision. In addition to the opportunity that surfaced with the sale of a ready forest base by the Spanish group, Uruguay offered important tax benefits. Even though it is small, the country offers lower investment risks compared to its Latin American neighbors. In summary, Uruguay stands out as a stable, democratic country with little risk for capital-intensive investments due to the fiscal benefits of a free trade zone. It is also important to point out that, so far, the country has only one pulp mill in operation, UPM, and has, in addition to Montes del Plata, the capacity to absorb an eventual production site with an annual capacity of 1.5 million tons of pulp. This entire context led Stora to invest in the business.

**O Papel** – And already thinking ahead about the pulp production flow, is the installation of a mill in the country a strategic positioning?

**Nicolini** – Logistics stands out as another very

important factor of competitiveness in this industry. Therefore, we are building our own port to unload the Montes del Plata's production. Its construction is keeping pace with the progress of the mill's construction work. The intention is to utilize this port only to ship the pulp produced at the complex. With this strategy, we intend to bypass the infrastructure bottlenecks, as seen in Brazil currently. The port of Santos is the largest in Latin America, but has a huge list of problems that causes export losses for the country.

**O Papel** – What is the current status of the mill project? Is start-up still projected for the third quarter this year?

**Nicolini** – The project is 88% concluded and, yes, our expectation is that start-up will take place in third-quarter of this year. Once it begins operating, we will undergo one month of start-up pulp production, a period when pulp production begins, but not yet with the ideal quality to be marketed. We aim to produce market pulp, in fact, starting the second month of production. There is also the learning curve period, which goes on for roughly 11 months, until reaching the nominal capacity of 1.3 million tons/year.

**O Papel** – What are the company's total forest assets at present? Does the company aim to become self-sufficient in wood production?

**Nicolini** – Total land amounts to an average of 246 thousand hectares of eucalyptus, of which 138 thousand hectares are planted areas and 100 thousand hectares are protected areas, all certified by FSC – Forest Stewardship Council. The amount of planted hectares currently satisfies 70%-80% of the mill's demand. The rest of the wood comes from third parties. This proportion between company-owned and third-party wood is considered the best alternative in terms of cost by the majority of fiber producers. Additionally, the Uruguayan forest base has interesting characteristics from a quality perspective.

Nicolini: "One of the forms for the pulp industry to become more competitive and have greater discipline over prices will be through consolidation"

The wood mix is different from that produced in Brazil and results in a stronger fiber with excellent qualities compared to pulp produced in Iberian countries. We are going to compete on an equal basis with any Brazilian producer.

**O Papel** – What markets do you intend to serve?

**Nicolini** – Considering the 650 thousand tons of annual pulp that is Stora's part, 100% of production will be earmarked for the market. In other words, this volume will not be integrated by any of our paper mills. We envision a global distribution of pulp, without any specific delimitation regarding buyer markets. We aim to serve the European, Asian, North American and South American markets. Obviously, we are keeping an eye on movements in emerging markets such as China, which currently stands as the biggest virgin pulp consuming country and has made a series of investments in paper machinery, particularly for producing tissue paper. Aware of China's potential, Stora is also developing a hybrid project in the country and is projected to start up in 2016. It is a packaging paper plant that will include a eucalyptus pulp mill with a 900 thousand ton/year capacity. Our focus is to expand operations in the country and build an important portfolio for clients until then.

**O Papel** – In view of the global economic scenario that involves the pulp and paper industry, what are your perspectives for 2013 and beyond?

**Nicolini** – One factor that stands out in the pulp and paper sector are the various projects underway. We are talking about 7.5 million tons of pulp entering the market between 2013 and 2016. This, in a certain way, causes concern, but at the same time, there exist exogenous factors that could benefit the industry as a whole. This year, for example, promises to be much better than 2012. While Eldorado, which was supposed to begin operating in the middle of last year, but only began producing market pulp practically in the second quarter of 2013, Jari closed down its activities, eliminating 450 thousand tons of market pulp this year. There is also a Nordic mill

that belongs to the Sodra group in Sweden, which is expected to close down its operation in August, eliminating another 360 thousand tons from the market, whereby, of this total, 110 thousand tons are eucalyptus pulp. Within this context, we also see the tissue segment's good performance, which continues growing at a fast pace in emerging countries, both in Asia and Latin America. All this continues to make the scenario positive from a price perspective. It is not by chance that three consecutive price increases in hard and softwood pulp took place between November 2012 and April 2013.

**O Papel** – Do you believe that the announcement of projects start-ups close to one another can cause negative impacts down the road?

**Nicolini** – In 2014, in addition to Eldorado, which shall have reached its nominal capacity, we will have the start-up of our Montes del Plata mill, totaling more than 1.3 million tons/year. There will certainly be a market impact, but I don't believe it will be that significant at first, as there are good expectations for purchases resuming in China. Therefore, I believe that the market will have conditions to absorb this extra pulp production foreseen for next year. Besides, this volume represents the annual growth expectations for pulp demand. However, yet in 2014, we will have the start-up of Suzano's mill in Maranhão – which then, could compromise market dynamics. In 2015, we will have CMPC's start-up in Guaíba, and the eventual start-up of Klabin in 2016. This means that between 2014 and 2016, the pulp industry will face a more turbulent period on account of new capacities entering the market. At the same time, there is an optimistic outlook as we foresee the closing down of high-cost mills particularly in Canada, China and Nordic countries. Lastly, but not less important in this medium term analysis, we see a consolidation movement in the sector. This is a theme already being discussed for several years. Today, the hardwood pulp market is highly fragmented. One of the forms for the pulp industry to become more competitive and have greater discipline over prices will be through consolidation. ■