



Hilco™

Valuation Services

Pulp Industry Perspective

1ST QUARTER 2014

INDUSTRY

INFORMATION

>> Prices for different grades of pulp can diverge based on small changes to furnish percentages by major world consumers of pulp.

>> Capacity increases in eucalyptus hardwood pulp from South American producers will eventually total more than four million tonnes between 2012 and 2015.

RECENT VALUATION/ LIQUIDATION EXPERIENCE

Tembec Inc.

Neucel Specialty Cellulose

Resolute Forest Products Inc.

Catalyst Paper

China's Impact on Pulp

By Jesse Marzouk

North American paper grade pulp prices increased slightly in the first quarter of 2014. Prices for NBHK in the U.S. increased \$15 per tonne to \$875. NBSK list prices increased \$40 per tonne, however, from \$990 to \$1,030. Actual transaction prices (for contracts) did not increase as much as average discounts are trending higher in 2014 than 2013.

With the current ongoing economic slowdown in China, Hilco will analyze China's impact on the market. China is the world's largest purchaser of market pulp, importing 16.9 million tonnes in 2013. This accounts for more than 25% of worldwide market pulp demand and was an increase of 2.4% over 2012 imports. Much of the pulp is imported from North America, Europe and South America. China is fiber deficient and must import a large percentage of its pulp needs.

Thus far, China's economic slowdown has yet to affect market pulp prices, which have been on a steady march higher since

the middle of 2012. Market list prices in North America for NBSK have increased from \$900 per tonne to \$1,030 per tonne over the last 24 months. This came at a time when little softwood pulp capacity was added to global production. Market list prices for NBHK in North America have increased from \$760 to \$875 over the same period. Interestingly enough, the hardwood price increase came during a time of large South American capacity additions of eucalyptus pulp, which competes with NBHK.

Over the last few years, the Chinese government has ordered older less efficient paper machines shut. The cuts have been modest, however, and have been dwarfed by the building of new paper machines, mostly producing containerboard and tissue products.

As has been widely reported, the government in China more recently is trying to balance economic growth with environmental concerns. One of the environmental issues that China strug-

gles with is the lack of clean water. Producing paper and board products is an extremely water intensive process, although the majority of the water can be treated and reused. Another issue that China has recently been struggling with is lending to unprofitable industries. China's competitive advantage has historically been its cheap cost of labor. Labor is a small percentage of the overall costs of producing paper, with the majority of costs coming from fiber, electricity, and chemicals. As a result, China is a relatively high cost producer of paper products, especially because it imports a substantial portion of its fiber. While Hilco has no inside knowledge of the Chinese government's plans, it seems to make sense that the paper industry would be a target of more aggressive closures of older machines as they are likely not profitable and consume a significant amount of a scarce resource. If this were to happen, it is likely that pulp prices would decline.

Jesse Marzouk is a vice president and forestry products specialist. He has appraised numerous U.S. and Canadian pulp, paper, and lumber-related companies involved in manufacturing and distribution. Jesse received his MBA in finance from Kellogg School of Management at Northwestern University, and has a degree in finance and accounting from Indiana University.



For Further Information, Please Contact:

Jesse Marzouk | 847-849-2959 | fax 847-521-7896 | jmarzouk@hilcoglobal.com

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