

Indian Paper Scenario – March 1998

Most US forest-products companies' first -quarter earnings will rise from a year earlier, reflecting higher prices for many grades of paper. Earnings will rise at International Paper Company, Weyerhaeuser Company and Champion International Corporation as strong demand and little new production capacity boosts paper prices from year -earlier lows. Last year, lower prices and ample supplies of paper pushed down earnings or widened losses at most companies, making improvement from last year an expected result. A year earlier, the industry was absorbing new capacity in printing and writing papers, while trying to shed large inventories of such papers. Containerboard makers were also expanding their ability to make the paper used to make corrugated boxes. This year, some companies are cutting production to keep inventory from rising as demand from Asian economies weakens and a stronger US Dollar makes producers there more cost-competitive. That has led analysts to lower their expectations citing declining pulp prices and shipments as one offshoot of lower Asian demand and cheaper exports from that region. Prices of other grades, such as printing and writing papers, have been slipping throughout the quarter.

Earnings at paper companies are now expected to rise 380 per cent from a year earlier, compared with the 460 per cent increase analysts expected when polled in January. North American prices for Northern Bleached Softwood Kraft, a benchmark pulp, fell about 5 per cent to about US\$ 550 a tonne in March from as much as US\$ 580 a year earlier. Prices were as high as US\$ 610 in November and December. Earnings at Weyerhaeuser, Atlanta-based Georgia Pacific Corporation and Stamford, Connecticut-based Rayonier Inc. may fall short of estimates due to their large pulp businesses.

Printing and writing papers prices increased about 17 per cent to US\$ 750 a tonne from US\$ 640 a tonne year ago, as inventories fell from year-earlier levels. Prices have fallen from the fourth quarter, though, as customers, aware of lower pulp costs, refuse to pay higher paper prices. New York based International Paper will likely meet estimates, as higher prices for containerboard and strong demand for white paper in Europe offsets weak pulp prices. Prices for linerboard, used in the outside layers of corrugated boxes, have risen 26 per cent to US\$ 390 a tonne. The Asian financial crisis also means some companies are postponing large capital investments in new pulp and paper making equipment. That is good news because it reduces the risk that supply will exceed demand growth. For the rest of the year, the outlook is more uncertain.

Indonesia's newspapers are shrinking before their reader's eyes as they are caught between rising newsprint prices and falling advertising revenues. With the economic crisis slashing advertising revenue and the dramatically weakened Rupiah almost quadrupling the cost of newsprint, readers have been greeted each morning with thinner papers and dire pronouncements of worse to come. Mr. Mohammed Mansur, Chairman of the Indonesian Pulp and Paper Association, said it would get worse for local newspapers as a pricing agreement between paper producers and publishers would expire in March, after which market prices would prevail. They are selling locally at US\$ 505 per tonne while in the international market it is US\$ 590 and producers from North American and Scandinavia have said starting from April 1, 1998 the price will be US\$ 640.

The Indian Paper Makers Association (IPMA) has expressed serious concern over the dwindling forest cover in the country and offered to work jointly with the Government to

reforest rapidly degrading forestlands. The Chairman of Indian Paper Makers Association, Mr. Harsh Pati Singhania said that as good corporate citizens and manufacturers of wood based products, the paper manufactures are committed to regenerating the degraded forestlands to the benefit of the environment as well as the industry.

The anti-dumping division of the Union Commerce Ministry has recommended variable duties to be levied for imports of newsprint from Canada, Russia and US. This is the first time that the division is recommending variable duties for any product. The duties, which have been recommended after final findings will be the difference between a reference price, fixed by the division, and the landed value of imports. The reference prices have been based on the average of either the injury margin or the dumping margin of the product during the period of investigation - April-October 1996. The lower of the two margins has been kept as the reference price, commerce ministry official said. The reference price for each company is different. The landed price of the product will be calculated on the basis of the current export price, currently prevailing customs duties and the current foreign exchange rates. If the landed price works out to be lower than the reference price then the duty charged will be difference between the two prices. The ministry has decided to have a variable dumping duty because the price of newsprint has not fluctuated much.

ITC LIMITED: This company has decided to phase out production of newsprint, bond, carbon and thermal paper at its Tribeni mill. It has also sent a high-level team to Europe to scout for a joint venture partner for its speciality paper business. The company is keen to forge an alliance in the speciality paper business as it hopes that the involvement of an international heavy weight will add to the brand equity of its products. While cigarette paper will continue to be a key product for the company considering its synergies with the tobacco business, sources said that the plan was to trim down the number of manufactured products to around three and be a part of a select club internationally in these segments. The company has revived exports of speciality paper this fiscal after many years, with main export markets being West Asia, Pakistan and Bangladesh. Developing regional markets outside the country will now be a thrust area for this business.

SUN PAPER MILLS LIMITED: This company is planning to implement a project for power co-generation. Although the cost for the project is likely to be the Rupees 235 million, the company plans to raise just rupees 35 million from the public. The company is also setting up a high-capacity boiler for producing steam which apart from finding application in paper manufacturing would be used in generation of power.