

POINT OF VIEW

What is happening in our world of Tissue? 2011 was a difficult year

This is not going to be a political article, by any means.

But how will the Euro crisis, the Arab Spring affect tissue consumption in various areas of the world?

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Most Americans have now left Europe, Procter & Gamble and Georgia Pacific have both been bought out by SCA. SCA is aggressive, maybe greedy but... wealthy and successful and will surely, in due time, become the World's N° 1 tissue producer. This is quite an achievement if you have followed its development over the years - from the Molnlycke of the 60's to the SCA powerhouse. Traditionally margins have been lower in Europe than they are in the US, which means that the American model does not really work as well or does not fulfill the expectations of US shareholders. You really need to understand the different cultures and relative working conditions, which vary from country to country. SCA, with its knowledge and flexible model, was out to win and conquer, waiting for EU authorities to give the green light, maybe with some territorial concessions to be made. Only Kimberly-Clark remains in Europe and certainly is getting the results it expects. It is also the only American company which seems to be capable of working smoothly and efficiently with joint ventures.

WE DO LIVE IN A STRANGE WORLD: we see tissue manufactured in the Middle East or Italy, converted in Central Europe and then sold in Northern Europe, something like 3500 Km of mostly road travel! What a waste in terms of CO2 emission due to the distortions that still exist between societies in terms of social cost and taxation. The differences between Western and Eastern Europe will survive for yet another 10/20 years and will somehow contribute to the market growth of tissue-based products. Tissue consumption per capita is 25 Kg in the US, compared to 8 Kg in Europe and only 2/3 kg in the Balkans. We really need to be smarter in terms of production location. While it is relatively easy to invest in Europe, it is still a challenge in Eastern Europe where bureaucracy - amongst other plagues - makes it difficult or impossible to achieve something. Yet the economy is growing and the need for tissue will render these investments an absolute necessity.

K-C AND SCA HAVE UNDERSTOOD THIS, AND SO HAVE SOME ENTREPRENEURS WHO ARE FAST BECOMING LARGE CONVERTERS, getting to a size where back integrating means cutting costs. When a converter gets to a level of 30,000 tons per year, looking at a tissue machine makes a lot of sense, providing they get access to financing. The best example I can think of is Turkey: some 75 million people, an agricultural country moving rapidly towards industrialization.

Phenomenal double-digit growth figures and a tiny tissue production some 30 years ago which today has turned into an overcapacity, exporting jumbo reels to Europe and the Balkans and creating what I think is the first tissue mill owned by a chain of supermarkets. The education level is high in Turkey: good universities, plenty of engineers and smart, conscientious, hard working people, progress-and quality-oriented. There was no papermaking culture but it has been acquired. Many technicians have been trained by the market leader(s) and then snatched by the competition.

EMERGING MARKETS ARE FULL OF POTENTIAL FOR TISSUE DEVELOPMENT but obviously it is not always a priority issue for local authorities because imports can sustain reasonable supply for a while. Smaller countries are often used as a dumping ground for pulp or even products because volume-wise they will not impact the major markets, and so margins are of secondary importance. I remember the supermarkets in Moscow and Saint Petersburg in the early 90's where you could find many US products with short "sell-by dates", beer cans, pasta, dairy products, toilet tissue, diapers, etc... The country was in great need and Russian entrepreneurs were scouting the world for bargains to import

and the image of quality which was supposed to come from the "West".

THE EURO CRISIS HAS RENDERED A LOT OF INVESTMENTS MORE DIFFICULT because the value of money dropped and made imports more expensive. Exports are growing slowly but not sufficiently, money borrowing is getting more difficult to obtain and interest rates are up.

A slowdown is certain for the next 2 to 3 years and most likely nationalistic issues will resurface. Buy French, Italian, German but really meaning buy French-made, Italian-made, German-made, not made-in-Asia! The economy is trying to save jobs and even pay (slightly) more. The Arab Spring might have been beneficial for democracy - only history will tell - but it has been rather negative in terms of tissue consumption.

TOURISM HAS BEEN DRAMATICALLY STOPPED IN CERTAIN AREAS due to insecurity so AFH supply has dropped in countries like Tunisia and Egypt. People have turned to safer havens like Turkey, Greece and Spain and it will take a long time for people to come back in spite of the very attractive prices now offered. Lots of resorts have emptied and hotels closed because of lack of customers. This is like when a hard-built reputation is lost overnight. People have been rather shy in investing into the MENA area, and recent events do not help although the needs and the markets are there.

STILL IF WE GO BACK TO OUR MAIN SUBJECT, THERE HAVE BEEN A LOT OF CHANGES: we talked about SCA but others have been very active too. Sofidel is straightening out its investments and putting things under control, ICT started up a new tissue mill in France, Lucart bought GP Italia with a mill close to Lucca and another one in the south at Avigliano. Wepa is busy restructuring the former Kartogroup mills in Italy trying to realize the synergies they counted on. K-C sold two mills in Spain but it is part of its worldwide restructuring announced in 2010. Metsa Tissue is strengthening its investment in Poland and quite a few converters are thinking of putting in tissue capacity to be less dependent on jumbo reels.

The longer-term future seems bright depending on how Europe will fare during the monetary crisis. If I had a lot of money I would definitely invest in emerging markets... •