

THE STATE OF MAINE'S PULP AND PAPER INDUSTRY: There's Good and Bad News in the Maine Pulp and Paper Industry



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Turmoil has marked the past year in Maine's pulp and paper industry, and it's not over yet. While there has been investment, stabilization and innovation at some mills, the headline is certainly the loss of markets – many permanently.

The bad news first...

Coming into 2015, Verso closed its mill in Bucksport, Maine. This mill was later sold for scrap and demolished – paper won't be made there again. This mill had been an important market for spruce / fir. In addition to the loss of the paper mill, a new biomass boiler - which began operations in 2012 – was idled.

In August, Verso announced the idling of a pulp dryer and paper machine at its Androscoggin mill, shrinking a major regional market for spruce / fir, hemlock and pine pulpwood

In September, Expera announced the closure of their mill in Old Town, Maine. The company had acquired the facility in December 2014, and less than a year later walked away. The mill – which produced pulp only – had been opened and closed

by a series of owners since Georgia Pacific closed the facility in 2006 and disabled tissue making capacity on site. In addition to pulp operations, Old Town had been a research and development facility for wood-based biofuels and biochemicals, used by both the mill and the nearby University of Maine. The future of this mill site is uncertain, but it is very unlikely to be producing pulp (or paper) ever again.

At around the same time, the Lincoln Pulp & Tissue mill announced bankruptcy. This facility – which had not been producing pulp or purchasing pulpwood since a boiler explosion in September 2013 – was sold at bankruptcy auction in November. While the purchaser has stated they would sell the site to someone willing to operate the mill, a re-start seems very unlikely.

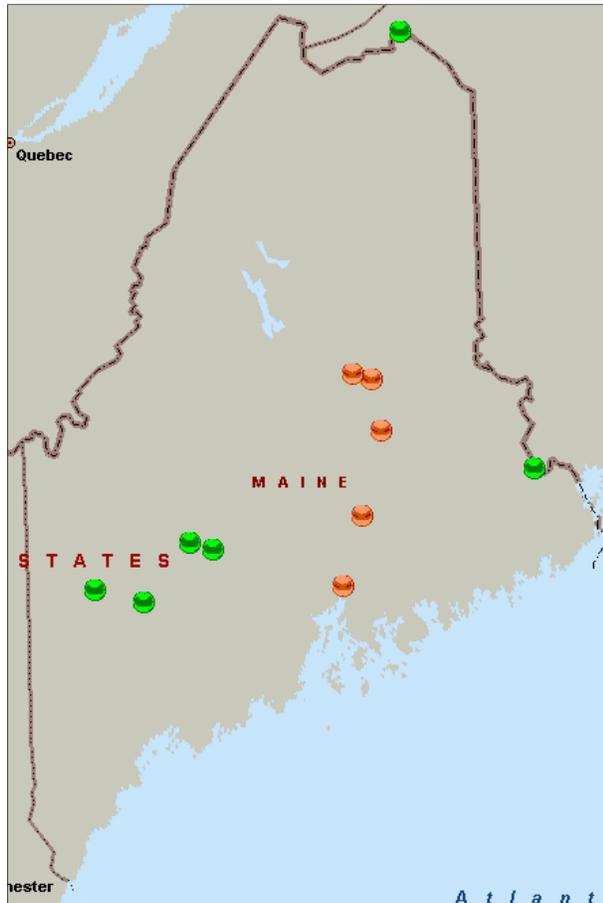
The good news...

While 2015 was a rough year for Maine's paper industry – and the supply chain that relies upon strong markets – it wasn't all bad. In Woodland, the mill will soon start up two new tissue machines – transforming this mill from "pulp only" to



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producing a value-added product (the tissue will be sent to another facility – out of state – for final processing to be customer-ready). This investment of \$120 million in new tissue making capacity is expected to add 80 jobs at the mill.



For some reason – probably because for most of America Woodland, Maine (aka Baileyville) is the end of the earth – this significant new investment in paper making hasn't attracted as much attention and enthusiasm as I would expect. I would suggest that this investment should be Exhibit 1 in remembering that each mill is unique, with markets, supply, ownership and other factors shaping the health and future of the facility. All too often we think of the paper industry as a monolith – and in some ways it is – but a closure of one facility (or several, as was 2015) does not mean that all mills have one foot in the grave.

At Catalyst's mill in Rumford, Maine and SAPPi's Somerset mill, the changing market conditions have provided opportunities to secure more wood locally. These mills have also seen improvements in their wood costs and wood availability. While that means less money for the loggers and landowners (and sawmills, and others) that supply them with pulpwood or chips, it certainly helps these mills in a globally competitive market. Both of these mills have been positioning themselves – and may soon be making investments – to both secure wood supply and reduce the cost of fiber going into the mill. In the long-term, such investments in both capital and strategy are critical to the future of Maine's paper mills.

UPM Madison continues along, though reportedly is struggling with energy costs (as is every manufacturer in New England). The mill received some relief this year when a tariff was placed upon competing paper made at a mill in Port Hawkesbury, Nova Scotia (and other Canadian mills – in a controversy too complex to cover here). What relief they did receive has been eroded by a weakening Canadian dollar, which has fallen from over \$1.00 US a few years ago to around \$0.70 US today. With oil prices predicted to stay low, a change in currency exchange rate shouldn't be expected.

What does all of this mean?

For those on the wood supply side – landowners, foresters, loggers and truckers – 2015 was a rough year. With the mill closures listed above (including 2014's Bucksport closure), Maine lost markets for over 2 million tons of pulpwood and chips. Some of these facilities also had associated biomass markets – these are gone as well.

In talking with forest industry around the state, it is clear that this restructuring has been a hard hit, and that not all of the pieces have settled out. For many landowners, markets for some species simply don't exist. That's changing harvest plans, and landowner returns. While land ownership



changes slowly, the recent change in markets have brought up the very real question of what type of returns will current landowners see on their holdings, and what will the market look like when large parcels are on the market. The answer could be years – even a decade – away, but will likely have significant impact on the next chapter of Maine’s forests.

Loggers, on the other hand, don’t enjoy the luxury of watching as their trees grow, or waiting a few years to see if market conditions change. Expensive equipment (and Maine has lots of it) needs to work, and payments are due every month. Already we have seen some loggers returning equipment to the dealer – in essence walking away. We can expect more – at a forum on Maine’s paper industry in November, Dana Doran of the Professional Logging Contractors of Maine speculated that – by Mud Season 2016 – the state would see a 10% to 15% reduction in logging capacity.

While Maine loggers and landowners rely on Maine mills, they aren’t alone. Landowners in New Hampshire, Vermont, and further have long sold wood to these mills, and it isn’t uncommon to see Maine procurement foresters driving around Vermont’s Northeast Kingdom. While geography suggest this will continue as long as the mills operate, we can expect to see less long-haul wood (also known as very expensive wood) coming into the state. That means less – and more importantly less reliable – markets for those regions that have long been on the edge of facility’s procurement area.

What’s Next?

Recognizing the turmoil and restructuring that is ongoing in the state’s paper industry, the Maine Pulp & Paper Association organized a one-day conference in November to discuss the very real challenges – and the opportunities – that the state’s paper industry faces going forward. Roughly 250 people – including a large number of

legislators, state officials and regional economic development leaders – spent the day learning about and discussing the industry. Presentations (including mine) - available at www.pulpandpaper.org – addressed Maine’s supply chain and associated cost structure, energy costs, workforce, transportation and other issues critical to successful mill operations. While not sugar-coating the situation, attendees were left with a sense that the mills currently operating in Maine can and do have a future. It won’t be easy – and there will likely be more closures or capacity reductions in the near future – but there are steps that can be taken to bolster the future of Maine paper mills and the critical market they provide.

As this article goes to press, more changes are underway. Verso has announced that it is entering Chapter 11 bankruptcy, hoping to reorganize its debt and position itself for long-term success. According to a press release from the company, the bankruptcy will have “virtually no impact on the day-to-day operations of the company.”

The future ownership of the Androscoggin mill – by Verso or someone else – will have significant impact on the region’s markets, and will impact suppliers in Maine, New Hampshire, Vermont and beyond. That noted, it is hard to imagine the Androscoggin Mill closing through this process – far smaller and marginal mills have limped along for years through a series of ownerships. A good outcome of the pending restructuring is a well-capitalized owner (Verso or otherwise) committed to optimizing the mill and bringing stability to the market. A bad outcome is a mill that blinks on and off, disrupting markets, bringing havoc to the supply chain and competing mills, and looking for short-term fixes in an industry built on the long game.

So...

It’s not all good news, and it won’t be for a while – maybe never again. That noted, there is good news, and there can be stability. Changes in the



market are disruptive, and painful, but may position the survivors – mills, loggers, truckers, landowners – for a more stable future. There are investments being made – and investments to be made – across the supply chain to make certain that the industry is maximized for profitability and

success. The forest industry has long been nimble and creative, and the mills and suppliers of Maine and Northern New England that best adapt to the changing markets have opportunity in front of them.

