

# THE STATE OF PULPWOOD IN THE STATE OF MAINE

## SIGNIFICANT CHANGES BRING CHALLENGES, OPPORTUNITIES AND UNCERTAINTY

BY ERIC KINGSLEY

*"The reports of my death have been greatly exaggerated."* — Mark Twain

Maine's paper industry—and the pulpwood markets it supports—has seen real change in the past year. Media reports of closed mills, bankruptcy court proceedings and workers clocking out for the last time have dominated the news. And while it's all true, it's also true that some Maine mills have invested millions in new equipment, and others have been acquired by new owners who are expected to help stabilize the market and diversify product mixes to better compete in the global economy.

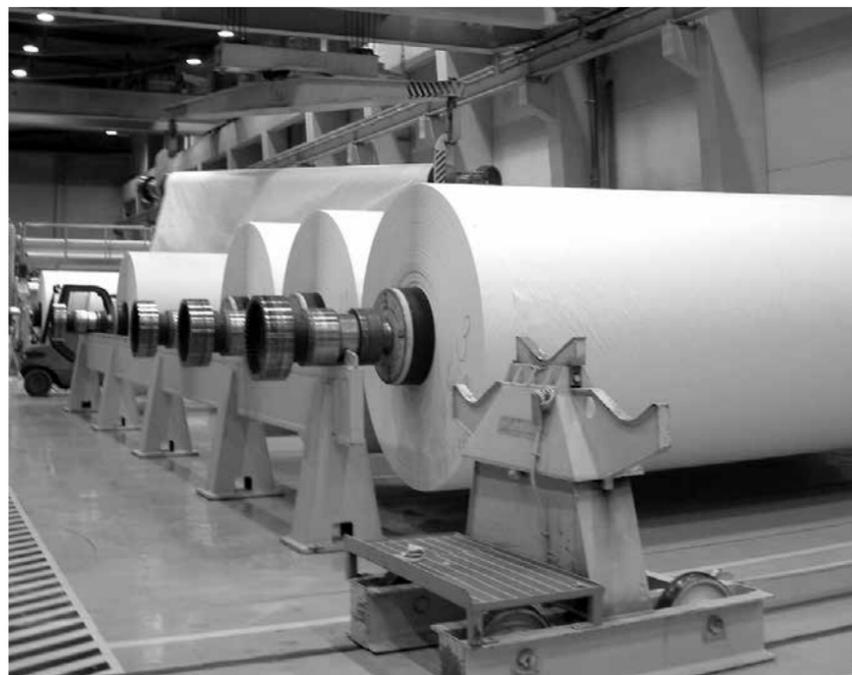
First, the good news. After bankruptcy forced it to close late last year, Old Town Fuel and Fiber has been sold to Expera Specialty Solutions, a paper company that currently owns and operates four mills in Wisconsin. In early January, the mill reopened, putting hundreds of people back to work producing pulp and serving an important market. The company has indicated that it wants to be up to speed processing all softwood—including pine—by later this year, instead of hardwood. When it does, a critical new market for softwood will be established in the central part of the state, helping landowners, loggers and

softwood sawmills sell their roundwood and residue. Lacking the ability to produce paper, the Old Town mill expects to ship the pulp it produces to sister mills in the Lakes States, or sell it into the open market.

Downeast, Woodland Pulp has announced an investment of \$120 million by its affiliate, St. Croix Tissue, in two new tissue machines. Currently under construction, this expansion project represents an enormous boost for the Woodland mill. Tissue markets are strong both domestically and abroad, and by converting the mill—which that previously only shipped pulp—into a fully integrated tissue production facility, Woodland Pulp's owners are clearly positioning their mill for the future.

Other mills have been working to do the same, though at nowhere near the level of investment seen in Woodland. SAPPi's mill in Somerset, for example, has invested millions to reduce bottlenecks in the operation, including wood yard improvements that suppliers will no doubt notice and appreciate.

As part of Verso Paper's recently-announced merger with New Page Corp., New Page's Rumford mill was sold in



Major upgrades at some Maine mills provide some hope for the future.



Diversifying markets for pulp-grade wood give loggers more flexibility and options.

January to Catalyst, a Canadian paper company from British Columbia. Loggers who supply the Rumford mill, as well as those hauling wood into Verso's mill in nearby Jay, were relieved by this development. They were concerned about the prospect of one company owning two large mills less than an hour apart, which could have decreased competition for pulpwood in the region, likely resulting in reduced prices. Catalyst has plans to run the Rumford paper machines on consistent grades, which has the potential to help the mill's competitiveness in the marketplace—also good news for wood suppliers.

Of course, as anyone who picked up a newspaper in Maine over the past year knows, it's not all good news. Far from it. Verso has closed its pulp and paper mill in Bucksport, putting hundreds out of work and eliminating a market for pulpwood along the coast. The mill's energy assets, potentially including a new biomass unit, are expected to continue to operate, selling power to the grid. This ongoing market for biomass in the region will ease the pain somewhat. As this magazine goes to press, a deal to sell the Bucksport mill to a company with a history of buying and scrapping other industrial facilities is pending. The firm, American Iron and Metal Company (AIM), hasn't made its intentions clear, and has indicated that it is open to selling the mill to a paper company to continue operations. At this time, however, all signs point to it being dismantled.



Some procurement people have expressed concern that loggers aren't upgrading their equipment spreads enough to respond to increased demand for wood.

That may not be the end of the story, however. The union representing Bucksport's former employees is suing to stop the sale, suggesting that other paper companies were actually interested in purchasing the facility, but that Verso wanted Bucksport's production out of the market for competitive reasons, and made a quick sale to a company with a history of scrapping industrial assets. Alleging that this violates antitrust laws, the union is pressing its case in federal court. To back up the union's case, a handful of companies have written the court, indicating they have an interest in evaluating the mill, with the intention of possibly buying it and continuing pulp and paper production.

The state has weighed in as well, with Maine senior forest products advisor, Rosaire Pelletier, informing the court, "I have worked with at least two serious buyers that had real interest in buying the assets, and that had the experience and resources to continue mill paper making operations, including one that still remains interested in purchasing the mill to operate it as a paper mill." Similarly, Governor Paul LePage has weighed in, stating in a letter that "One of the firms told us they made several attempts to contact Verso prior to the sale to American Iron and Metal Company, but never received a response."

While this remains unresolved as *The Northern Logger* goes to press, it appears that a company or companies "having an interest in evaluating the mill for pur-

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chase" isn't the same thing (in the eyes of the court, at least) as a firm offer to purchase the Bucksport facility. Given no hard evidence that any paper companies have made actual offers to Verso, the sale to AIM appears likely. And while AIM would be free to sell the Bucksport mill to a paper company, such a development appears unlikely.

Further north in Millinocket and East Millinocket, the once mighty Great Northern Paper has closed for good. The mills have been sold through bankruptcy proceedings and are now being scrapped. A significant number of loggers, landowners, truckers and others were owed significant sums by these facilities, and they have little chance of recovering their losses.

Cate Street Capital, the parent company of Great Northern Paper, had big plans for the mills, including the construction of a wood pellet manufacturing facility. It would have produced a unique product for export to European utilities, which are obligated by law to use a percentage of renewable fuel to generate electricity. The shuttering of the Great Northern mills—and the finality of it—has been a devastating economic and psychological blow to Millinocket and the surrounding communities. These are towns, after all, that were built to serve the mills. While their future is far from certain, what is clear is that paper manufacturing won't be part of the region's future.

While Maine's paper industry has undergone many changes over the past year, both positive and negative, pulpwood markets have also been in transition, thanks in part to energy markets. In addition to Maine's four wood pellet manufacturers, which use material that might otherwise become pulp, hardwood pulp supplies and production have been seriously impacted by an expanded firewood market. Emerging from a cold winter and spring that caused many people to burn up all their firewood, loads of hardwood pulp were diverted to this lucrative market.

Firewood use is poorly tracked in the Northeast, including Maine, so it is difficult to quantify the impact firewood demand has had on pulpwood supplies. That said, pulpwood buyers contacted for this article characterize firewood as a significant source of competition. They are hoping that a warmer winter and

continued low home heating oil prices combine to reverse this trend this winter.

On top of all of this, F.E. Wood continues to develop a wood pellet plant near Sebago Lake in West Baldwin. While ground hasn't broken yet, loggers in the area continue to hear about the project, now expected to use to use about 300,000 tons of pulp-grade material—mostly softwood—to produce wood pellets for sale in North America and beyond.

With all of the changes in Maine's pulpwood markets, one might expect to see an oversupply of wood, as some mills close permanently and their suppliers seek out new customers. On the contrary, however, when a tree is felled in Maine, there are at least two (and maybe more) buyers standing nearby ready to buy it. Sourcing enough wood to keep the existing mills going remains a real challenge, and serious concerns about the future of the supply chain are increasingly being expressed by procurement personnel.

Many loggers are working with aging equipment, and fears persist that they won't be reinvesting in new iron. Anecdotally,

procurement foresters interviewed for this article report that they are working with suppliers who used to be counted on for 500 tons per week scaling back production and now bringing in about 200 tons per week. They also say that as suppliers move to cut-to-length harvesting systems, less roundwood pulp is being produced on a weekly basis, though this may be compensated for by the ability of CTL systems to operate for more weeks out of the year.

In summary, a year of change in Maine's pulpwood market has created both challenges and opportunities for everyone involved in the industry. Despite mill closures and changes in ownership, suppliers continue to have a range of markets, and pulpwood remains in high demand. The operations that have made significant investments in their future, provide good reason to think the pulpwood market will remain viable for the long term.

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