Nova Scotia's Pulp & Paper Sector Back from the Brink of Disaster

By Peter Woodbridge

Three years ago, Nova Scotians were stunned by the closure of two of the province's long established pulp and paper mills—New Page paper mill at Port Hawkesbury and Resolute's Bowater Mersey newsprint mill at Liverpool.

Another casualty was soon to follow. The Minas Basin recycled paperboard mill had operated since 1927. It too shut permanently, in November 2012.

The three mill closures resulted in the loss of 1,455 direct jobs along with numerous indirect and spin-off jobs. Negative impacts were proportionally even greater in certain communities. Small woodlot timber suppliers lost their markets—and some lost their livelihood. Sawmills lost their local markets for wood chips. Several lumber and other wood product mills closed for ever.

Out-of-work forestry and mill employees went straight to the airport, and flew to Alberta's oil patch for work. Others found jobs in other sectors in Nova Scotia, but many simply gave up on forestry as a future.

The province's Treasury also suffered. Export earnings by the sector fell by more than 50% in 2012 (Figure 1). The outlook looked extremely bleak. Without a viable pulp and paper sector to buy sawmill residual woodchips, hog fuel and private woodlot timber, the province's forestry sector was on the verge of an almost total meltdown. A complete collapse was imminent.

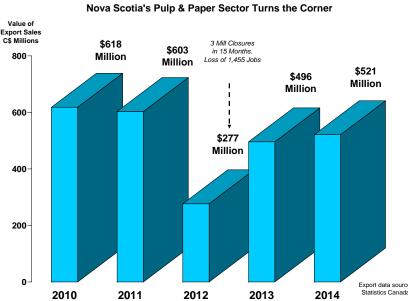


Figure 1

Back from the Brink of Disaster

Nova Scotiats Pulp & Paper Sector Turns the Corner

Today, the story is very different. Nova Scotia's pulp and paper sector has pulled back from the brink of the 2012 mill closures disaster. The industry is smaller, of course. Now the pulp and paper sector comprises just two mills—Northern Pulp at Abercrombie and Port Hawkesbury Paper.

The two firms have different owners than those who controlled the sector prior to 2011. The new owners are investing substantial new capital to rebuild these mills into state-of-the-art, globally competitive and long term sustainable enterprises.

Not just new capital investment is involved.

Ron Stern's group of investors and senior managers are re-positioning Port Hawksbury as long term global competitor in value added publication and printing papers. Jackson Wijaya, the young Chinese entrepreneur who owns Northern Pulp, has introduced an innovative new business model into Canada—focused on manufacturing tailor-made long fibred pulps to meet the needs of Asia's rapidly growing paper and tissue industries.

Both businessmen have brought fresh new ideas, new attitudes and innovation. As a result, Nova Scotia's pulp and paper sector—which almost disappeared three years ago – is now emerging as a more profitable and sustainable long term contributor to the province's economy. Many existing jobs were saved, and new ones created.

Although it's smaller, the pulp and paper sector has recaptured 85% of the export sales revenues it lost in 2012. Today's jobs are more secure. The sector continues to improve its environmental performance. With help from Canada's declining dollar, export earnings are set for growth. This is truly a 'back from the brink of disaster' story.

Accolades to the Nova Scotia Government

It is unfashionable to congratulate politicians and government ministry employees on a job well done. But that is exactly what the people of Nova Scotia should be doing today. It was a few brave political leaders, as well as deputies and staff from a handful of ministries, who stuck out their necks and acted to help save the industry.

It was a tough battle. There were times when mill rescue efforts could have fallen apart. But finally they worked.

There were some important back-stories that heightened the drama. At the time, there was legislation on the books to reduce the level of clear-cutting by 50% over five years. This would have increased the industry's wood costs substantially. The province purchased, and subsequently reallocated, the Resolute lands and other assets. There were regulations to limit other aspects of Crown timber harvesting, and to reassign Crown lands to protected areas and parks—taking them out of the province's 'working forest'.

Like the regulatory environment governing the sector today, steps taken to achieve environmental goals over the long run are a fair reflection of how Nova Scotians want their province to be managed. They are not wrong.

The process of achieving these goals, however—and particularly the timetables that some would like to impose on the private sector—have to take global competitive realities into account. If they do not, Nova Scotia's forest industry soon could revert to the 'brink of disaster' that existed in 2012.

It's all a question of balance. That calls for continuation of today's 'Steady Eddie' implementation of appropriate regulatory policies. Desirable economic, social and environmental goals are clear to most ordinary Nova Scotians. They may not study the forestry industry in great depth, but they know what is right and what is wrong.

Positive Global Outlook for the Forest Industry

In making their lifestyle and community sustainability decisions, it is important for Nova Scotians to know that the outlook for the province's forestry industry is bright. They should be optimistic about its future, and about economic security for their families and communities. It is 'not all roses'. But, managed with a steady hand on the 'regulatory policy steering wheel', potential for higher personal incomes and sustained jobs could be very good.

Pulp

The kraft pulp industry (in which Northern Pulp is now a global player) has become refocused on the world's fastest growth market for imported pulps—China. Tough competition exists. In the southern hemisphere, new state-of-the-art pulp mills produce large volumes of low cost, high quality hardwood pulps. Based on fast-growing, highly productive plantation species, they are set to capture the lion's share of global pulp demand.

How can Northern Pulp compete with these low cost pulps that are now setting the baseline for future global pulp prices? The mill's response is that, as a producer of softwood long fibred kraft pulps, it can fill a niche market need in fast growth export markets. Long fibred pulps are essential—and make up 10%-15% of papermakers' imported pulp requirements. The innovative Northern Pulp business model, based on high utilization of manufacturing

capacity, substantial upgrading of capital equipment and high maintenance levels throughout the mill—which were neglected by previous owners—already is achieving significant success.

Northern Pulp has been a steady and, in recent years under its new ownership, a growing success story for Nova Scotia. Although there is some domestic demand for market pulps, the upgraded mill is now able to compete strongly in international markets. Figure 2 shows that Nova Scotia's export earnings from its high quality, and tailor-made, pulp exports hit a recent record—rising to \$238 million in 2014.

Figure 2.

Nova Scotia's Pulp & Paper Sector - Sustainable Recovery Under New Owners C\$ Millions Value of Export Shipments 800 \$512 **Million** 600 **PAPER** Sept 2011 New Page Mill Closure June 2012 Abitibi 400 **Bowater** \$283 Mill Closure Million \$168 \$238 200 Million Million **PULP** Oct 2012 March 2011 **New Page** PE acquires Restarts **Northern Pulp** as PHPP 0 2007 2008 2009 2010 2012 2013 2014 2011 data source: Statistics Canada Cansim

Paper

In many respects, Port Hawkesbury Paper – producing grades of paper for which global consumption growth is slow—faces an even tougher uphill battle against global competitors. Yet the company is making good headway.

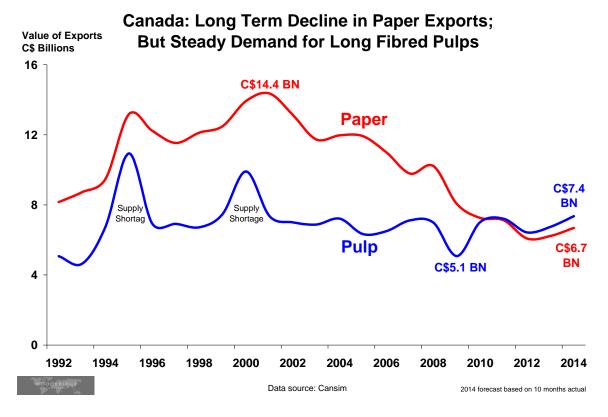
Closures of papermaking capacity in Canada, the U.S. and Europe are helping the paper mill. But significant additional mill capacity outside Nova Scotia needs to be closed before market equilibrium will be achieved. Management has not waited around for this to happen. Instead, large investments are being made in people and in targeted marketing of its high quality papers.

To understand the magnitude of Canada's lost capacity in papermaking—and why Nova Scotia's recently improved competitive position needs to be nurtured carefully—it is insightful to look at the data in Figure 3.

Over the past decade or more, dozens of paper mills (newsprint and publication papers; printing papers and paperboards) in Canada and elsewhere have been closed permanently—because they were no longer financially viable. In part this is a consumer demand driven situation (e.g. declining demand for newsprint in developed countries). Demand for these grades has shifted in part to new fast growth markets, such as Asia.

In other cases, some Canadian mills have been closed primarily because their supplies of economically accessible standing timber and residual fibre have been compromised or withdrawn. As a result, Canada now has lost much of its former dominant position as a major supplier of paper to the world.

Figure 3



From an export earnings perspective, Canada's loss of global competitiveness in papermaking was a decline of nearly C\$8 Billion in annual revenues over the period from 2002 to 2014. Few other manufacturing industries in Canada have experienced such a fast pace of decline over such a short time.

For the forest dependent communities involved, the impacts have been devastating. In the case of the rural communities which have survived—including those in Nova Scotia—it is imperative that complacency should not cloud their thinking about the future of the surviving mills. There is no free ride.

Competition is not just global, but also regional—especially in the search for economically accessible wood fibre. Nova Scotia's pulp and paper mills compete regionally for fibre supply from sawmills and other wood products plants. Fibre procurement always is a difficult challenge for the province's pulp and paper sector.

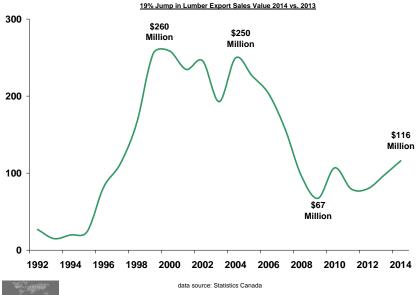
Wood Products and Bio-Energy

Fortunately, Nova Scotia's wood products industry, and its biofuel sector, are integrated closely with pulp and paper manufacturing. To make a profit, sawmillers sell whitewood residual by-product chips and sawdust to the pulp and paper mills. Huge volumes of residual wood chips are involved. It is essential income for sawmills.

Today, there is a strong recovery underway in Nova Scotia's softwood lumber sector. Increasingly, it has focused its attention on the needs of domestic markets in the Atlantic Provinces and parts of Quebec. Exports sales, which plummeted from \$250 million in 2005 to only \$67 million by 2009, are recovering well (Figure 4).

Figure 4

Nova Scotia: Softwood Lumber Exports Moving Higher - Helped by Recovering U.S. Market and Buoyant Demand for Pulpmaking Chips



The Path Ahead

As with all manufacturing sectors, many challenges lie ahead for Nova Scotia's forest industry. The industry today is not the industry that it was just a few short years ago. It is much leaner, more productive and more globally competitive—with an increasingly optimistic outlook and future.

Currency fluctuations are a double-edged sword. Today's CAD-USD rate favours Canada vs. US producers. But now there are rumblings of protectionism from parts of the United States. European producers of forest products, pushed out of traditional fast growth markets by turbulence in the Middle East and North Africa (MENA market), are enjoying a substantial boost to export competitiveness from the low valued Euro. With low ocean rates, they are starting to ship to the US—and the US is buying.

The China market for pulp has slowed recently, but medium to long term consumption growth throughout Asia is encouraging. Nova Scotia's lumber sector is anticipating, within a few years, a 'super cycle' of demand and higher prices. Still left out in the dark, however, are Nova Scotia's private wood lots owners—accounting for over 60% of ownership of the province's forests.

Comparatively few private woodlot owners are involved in commercial transactions with the forest industry. Some do not wish to participate—for a variety of reasons, including a preference for unharvested forests and lifestyle. Many others have indicated that they really do want to participate in commercial markets—but at the right price point and under the right conditions.

For the next decade and beyond, Nova Scotians will have increasing choices about management of their most important renewable resource—the forest industry. Tougher regulations on operators certainly are achievable and in some cases highly desirable. One choice they should not make, however, is to hoist unsustainable regulatory policies on the industry. That's the kind of thinking that helped push it to the brink of collapse in the first case.

'Steady Eddie' but persistent approaches to the implementation of regulatory policies have worked well for Nova Scotia in the past. They seem a prudent way to manage this vital industry in the years ahead.

Peter Woodbridge is President of Woodbridge Associates, a Vancouver BC based forest sector consultancy firm. He is an advisor to several forest industry firms in Canada, including Paper Excellence, and internationally. In 2010, he was commissioned by the Province of Nova Scotia to assess the economic impacts of proposed clear cut reductions on the forest industry. His report is available at www.novascotia.ca/natr/strategy/pdf/woodbridge-may-2011.pdf