



**RISI World Printing & Writing Paper
Market Outlook: Looking for Green Shoots of
Recovery Amid the Still-Smoldering Ashes of Disaster**

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Vice President

November 2009



- ▶ John Maine, VP World Graphic Papers, RISI, Inc.
 - Co-Founder of Resource Information Systems, Inc.
 - With RISI More Than 30 Years
 - Developed RISI P&W Models
 - Works With Over 200 Graphic Paper Clients Worldwide
 - Assisted by 5 Local Economists in RISI Regional Offices
 - Directs Numerous Multi and Single-Client Studies on Graphic Paper

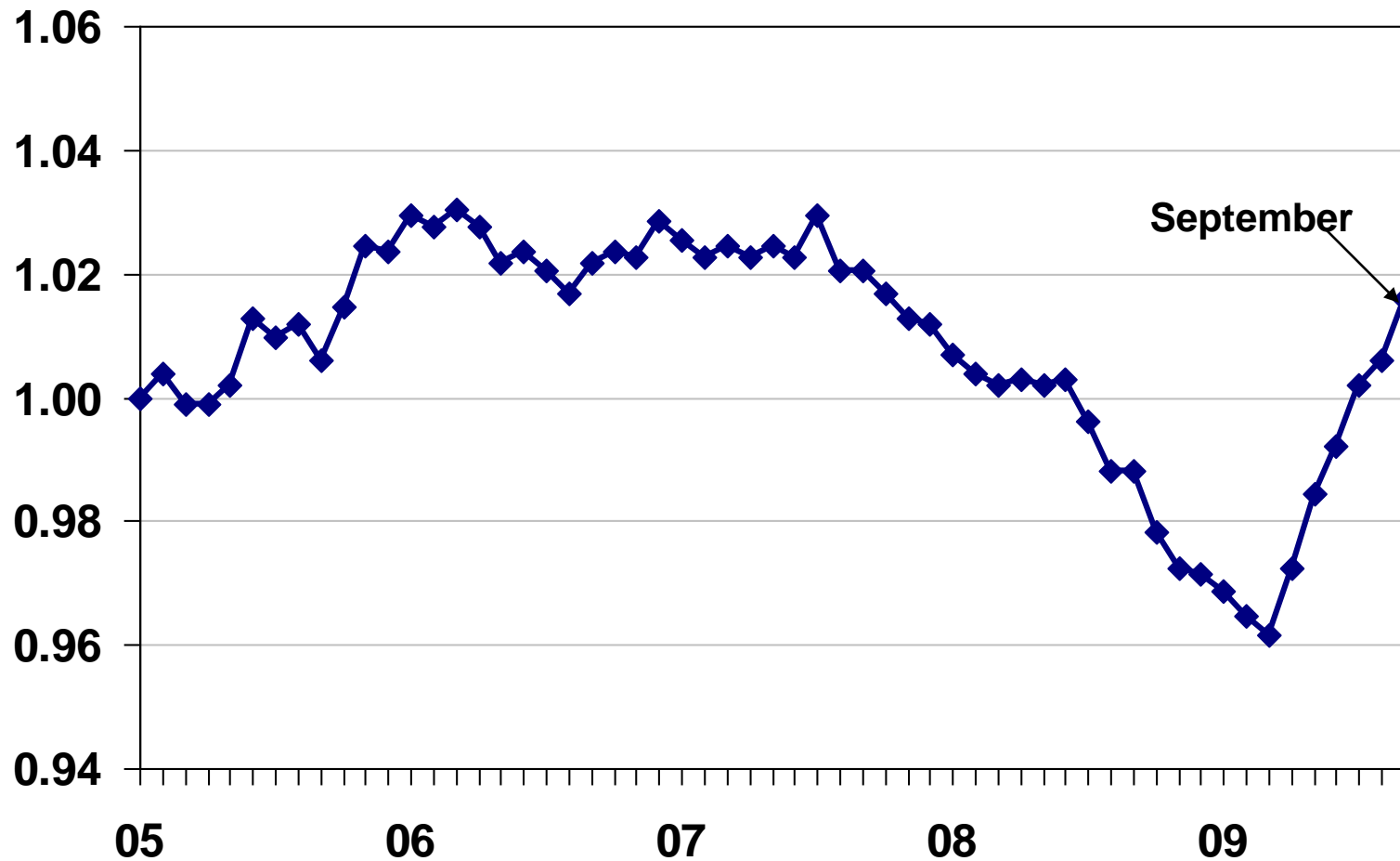


RISI Growth Projections for 2009 Presented to GPC Last Year (11/08)

	Last Yr's Fcst. For 2009	Current Est. For 2009	Current Fcst For 2010
GDP (U.S.)	-0.4%	-2.5%	1.9%
Paper Demand (N. America)	-3%	-18%	1%
CFS	-4%	-23%	3%
CGW	-4%	-24%	4%
UFS	-4%	-12%	-1%
UGW	-2%	-18%	1%
U.S. Catalog Circulation	-5%	-15%	0%

US Economy Has Hit Bottom and Is Recovering

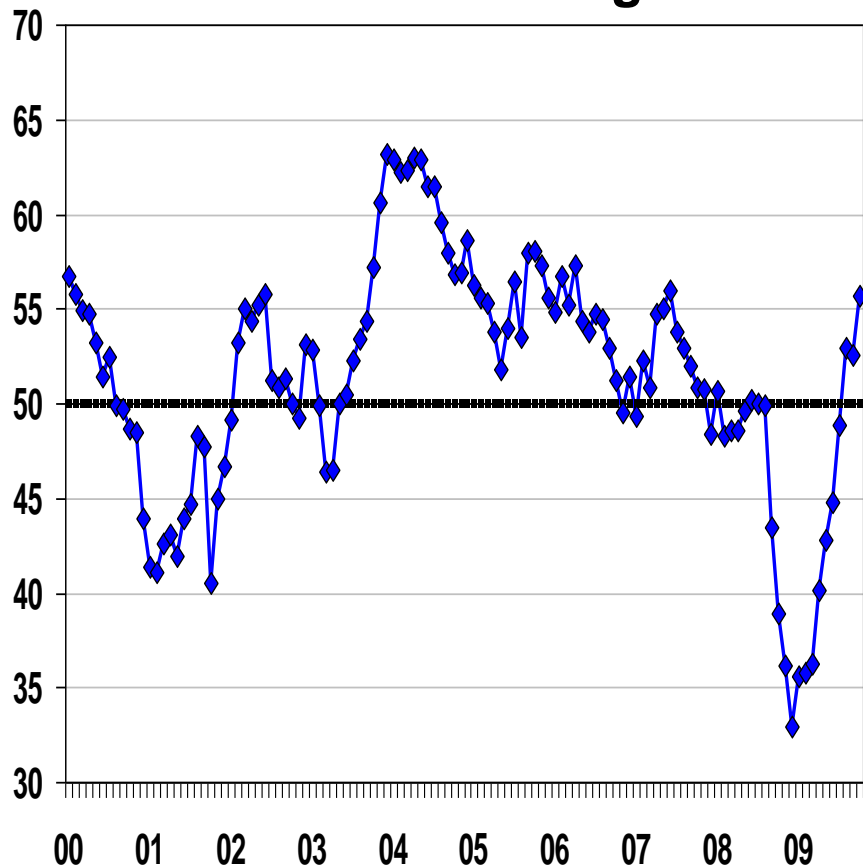
(Index of Leading Indicators, Jan 2005 = 1.00)



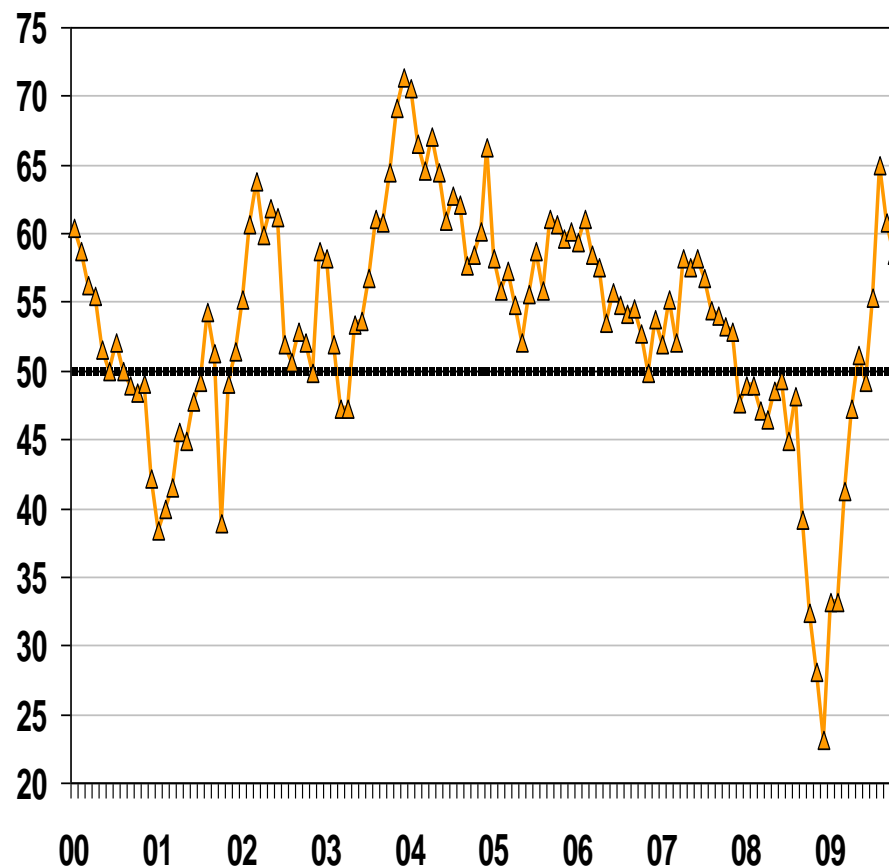
US Manufacturing Activity Finally Expanding

(ISM Purchasing Managers' Indices)

Manufacturing

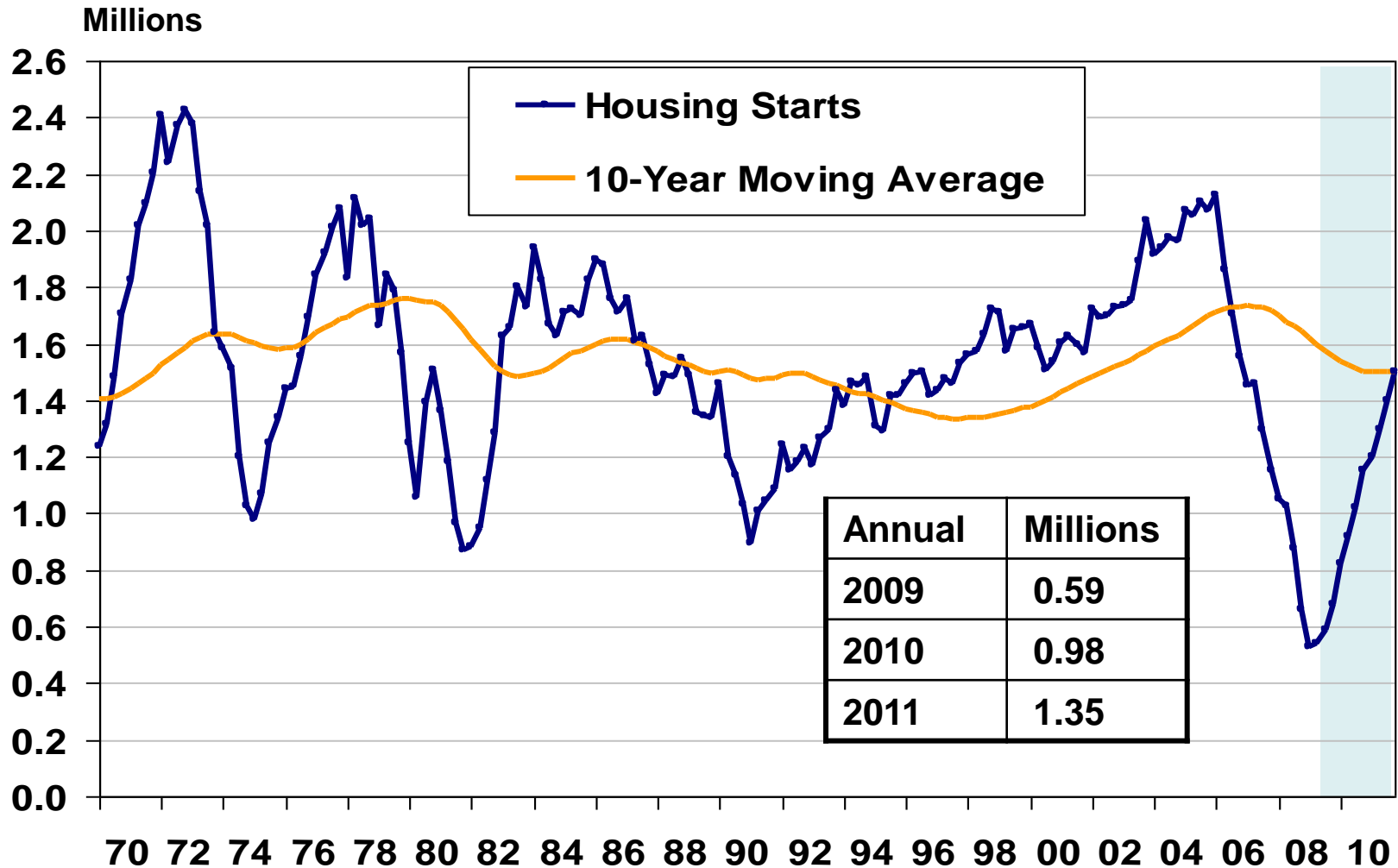


New Orders



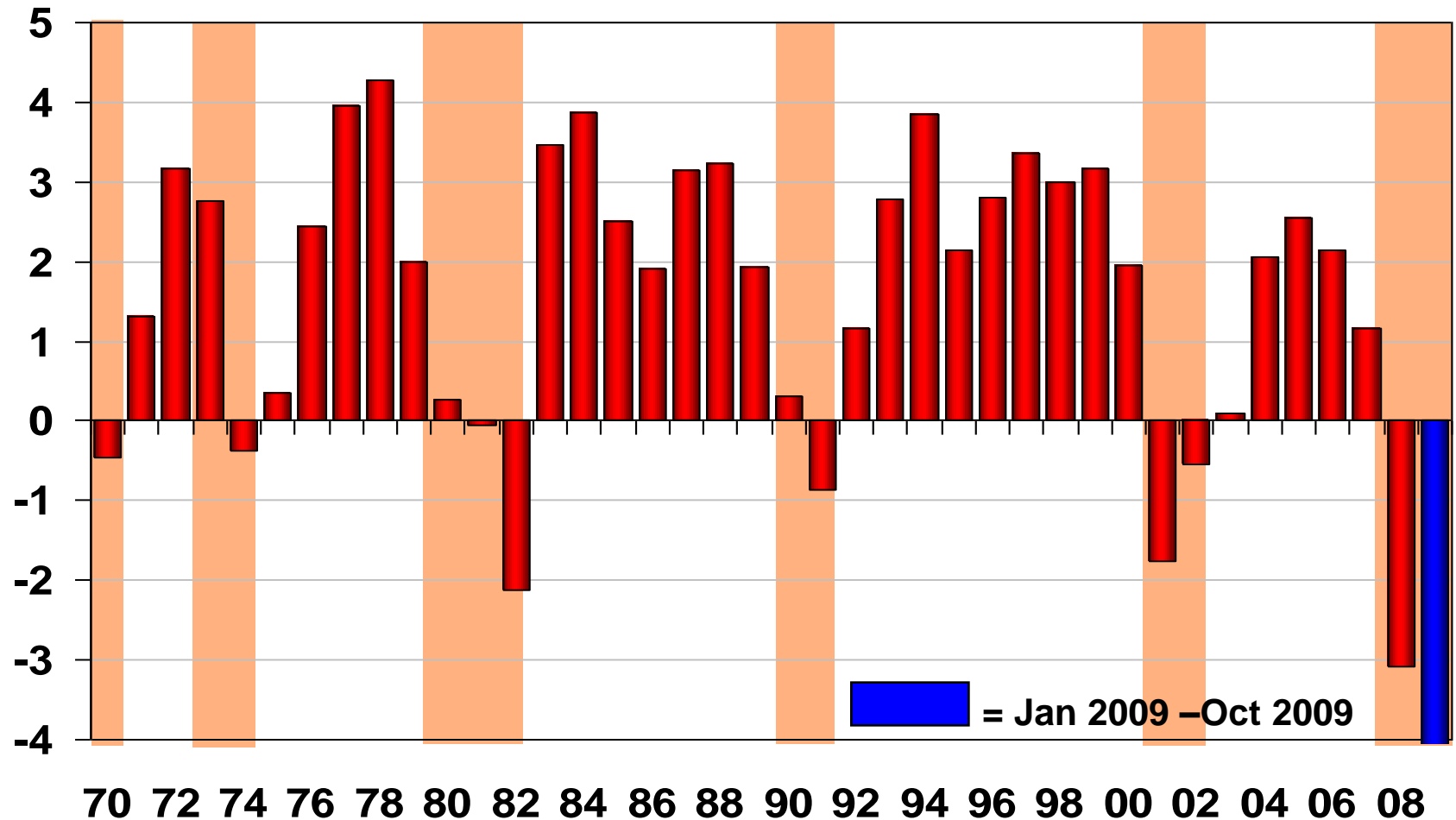
Latest month is October, 2009

US Housing Construction Past Trough



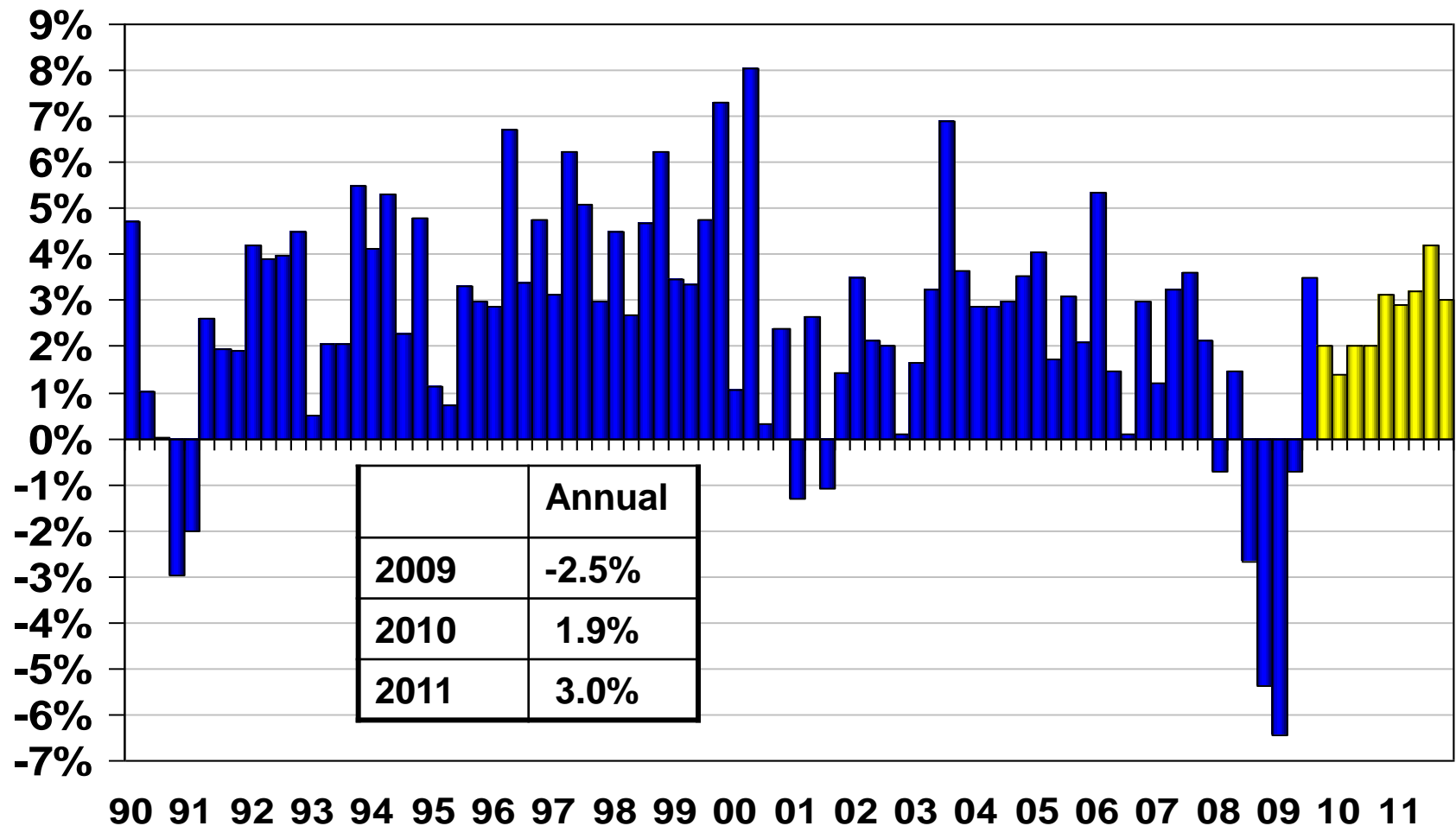
Job Losses High Relative to Previous Recessions

(Change in Total US Payroll Employment, Millions)



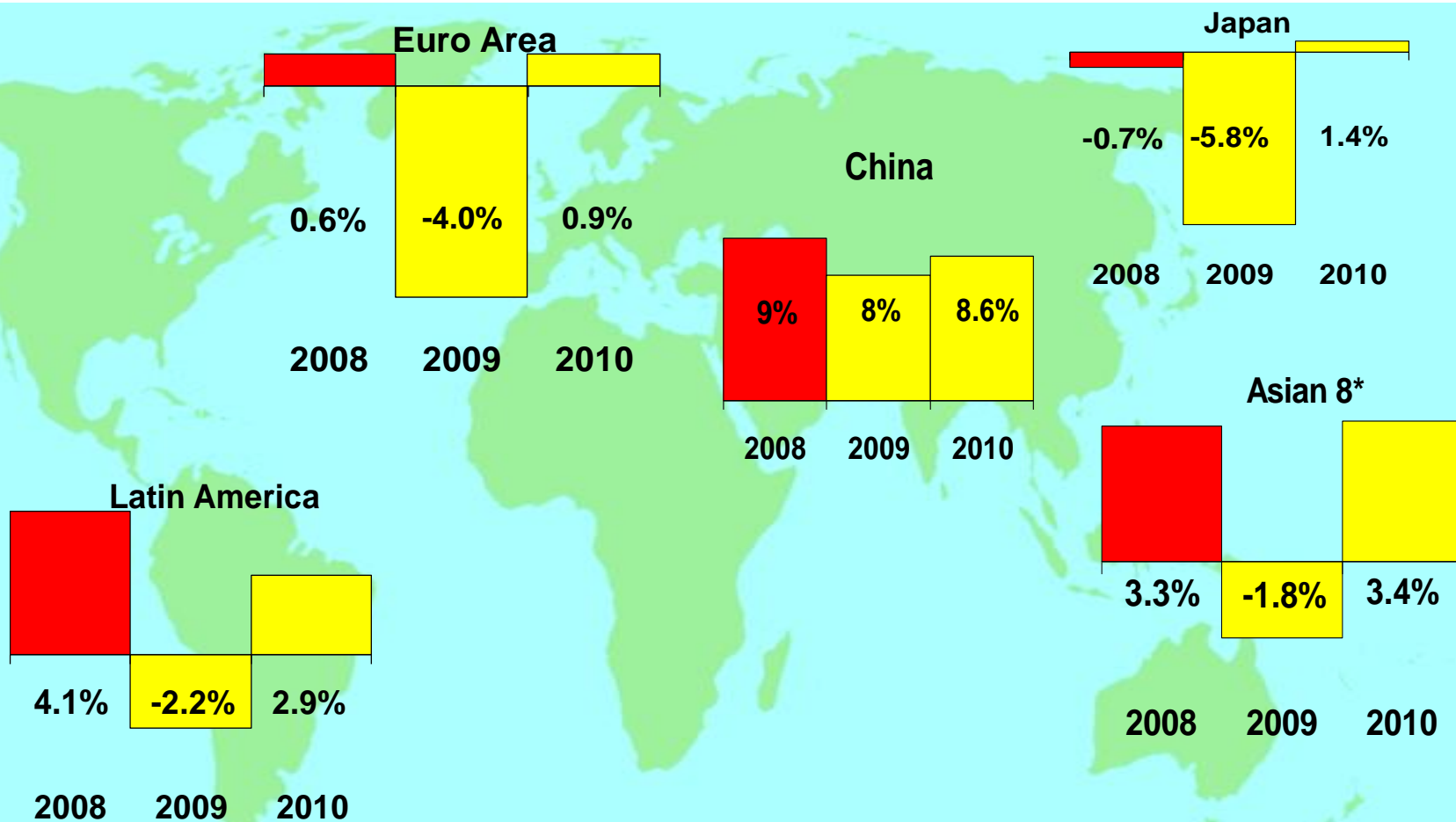
US Climbing out of Deep Recession

(Real GDP Growth, Annualized Percent Change)



...Foreign Demand Will Also Be Weak

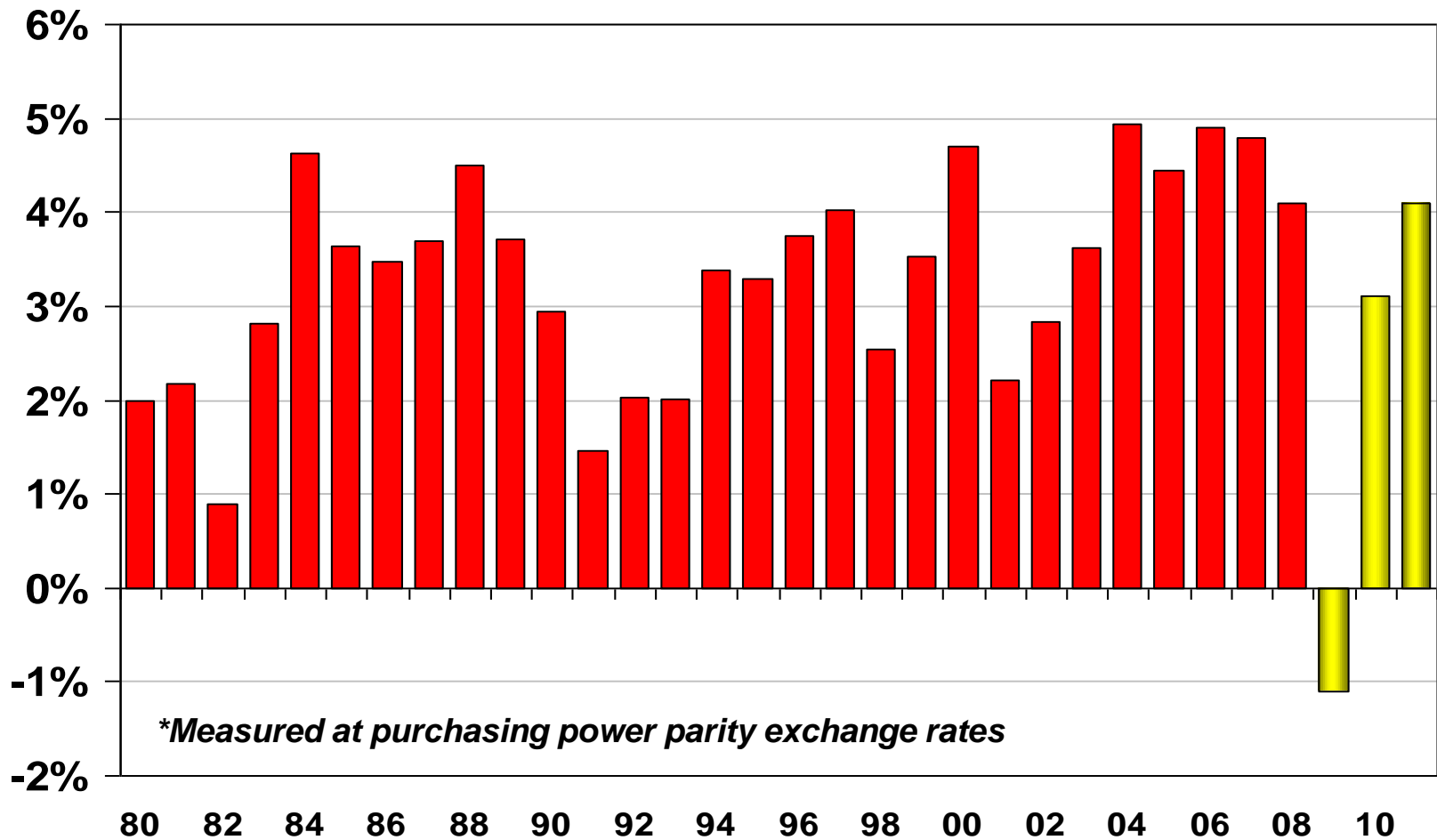
(Annual Real GDP Growth)



**S. Korea, Taiwan, Hong Kong, Thailand, Philippines, Malaysia, Indonesia, Singapore*

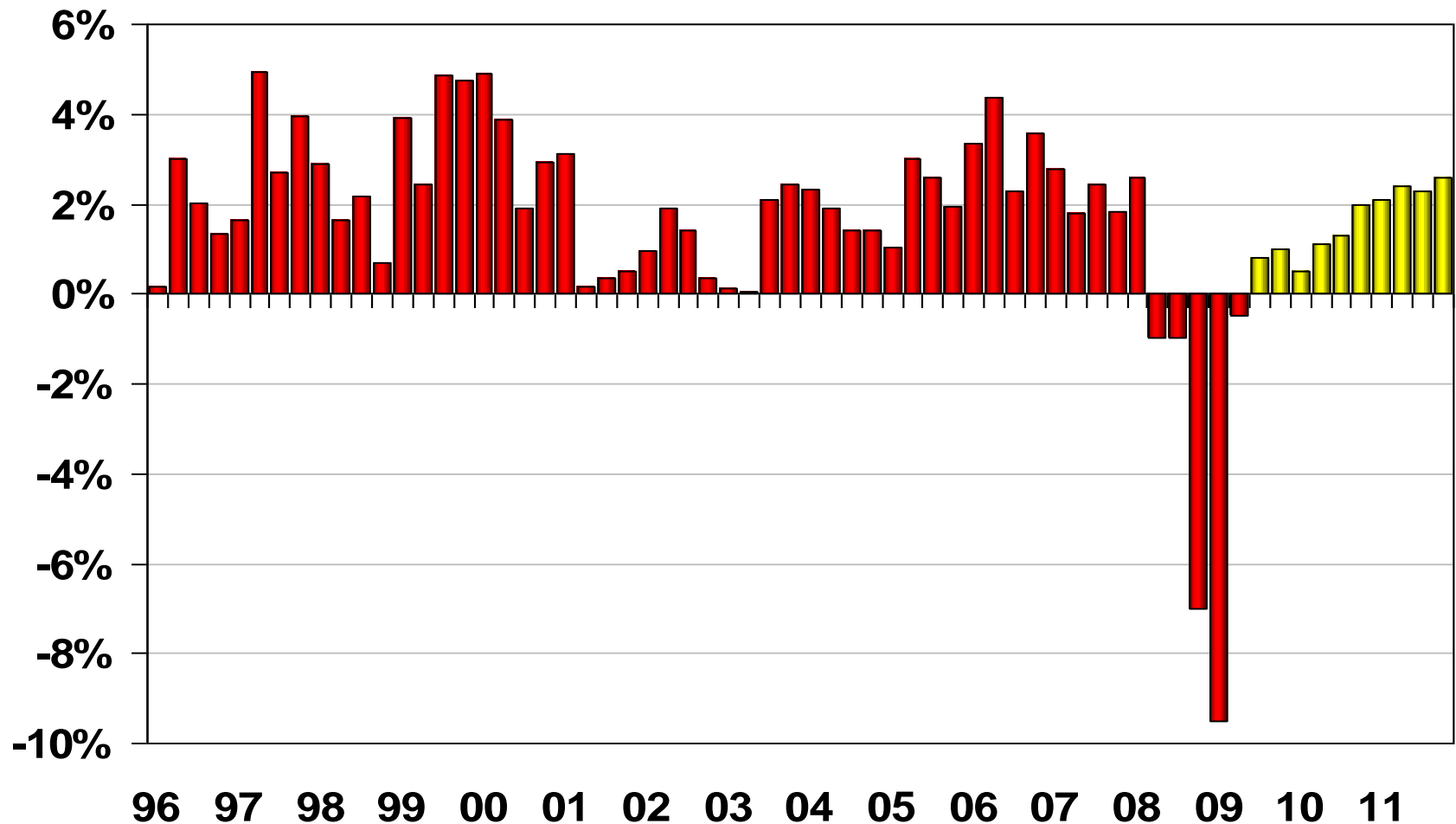
Global Growth Set for Mild Rebound

(Global Real GDP* Growth)

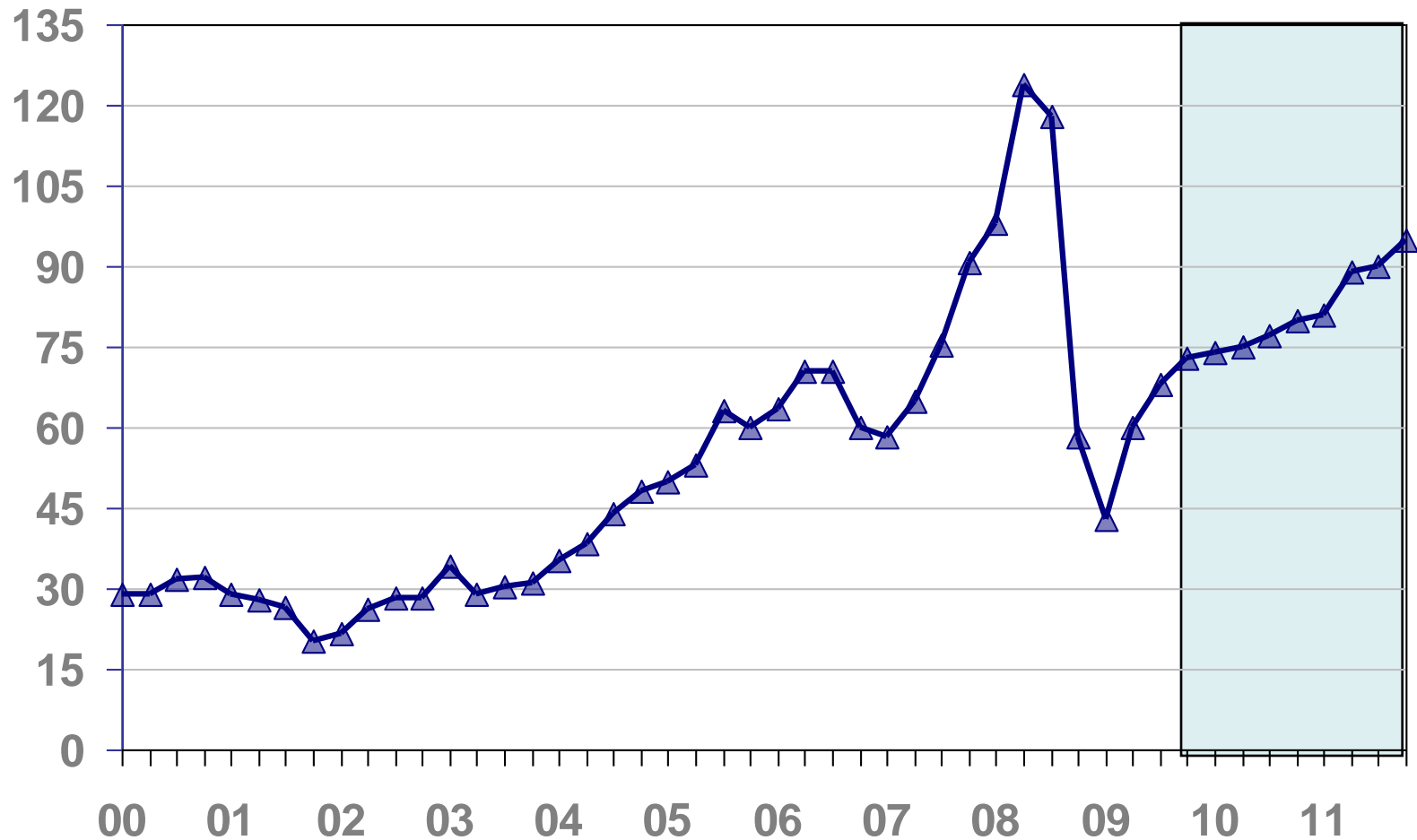


Euro Area at Tail End of Deep Recession

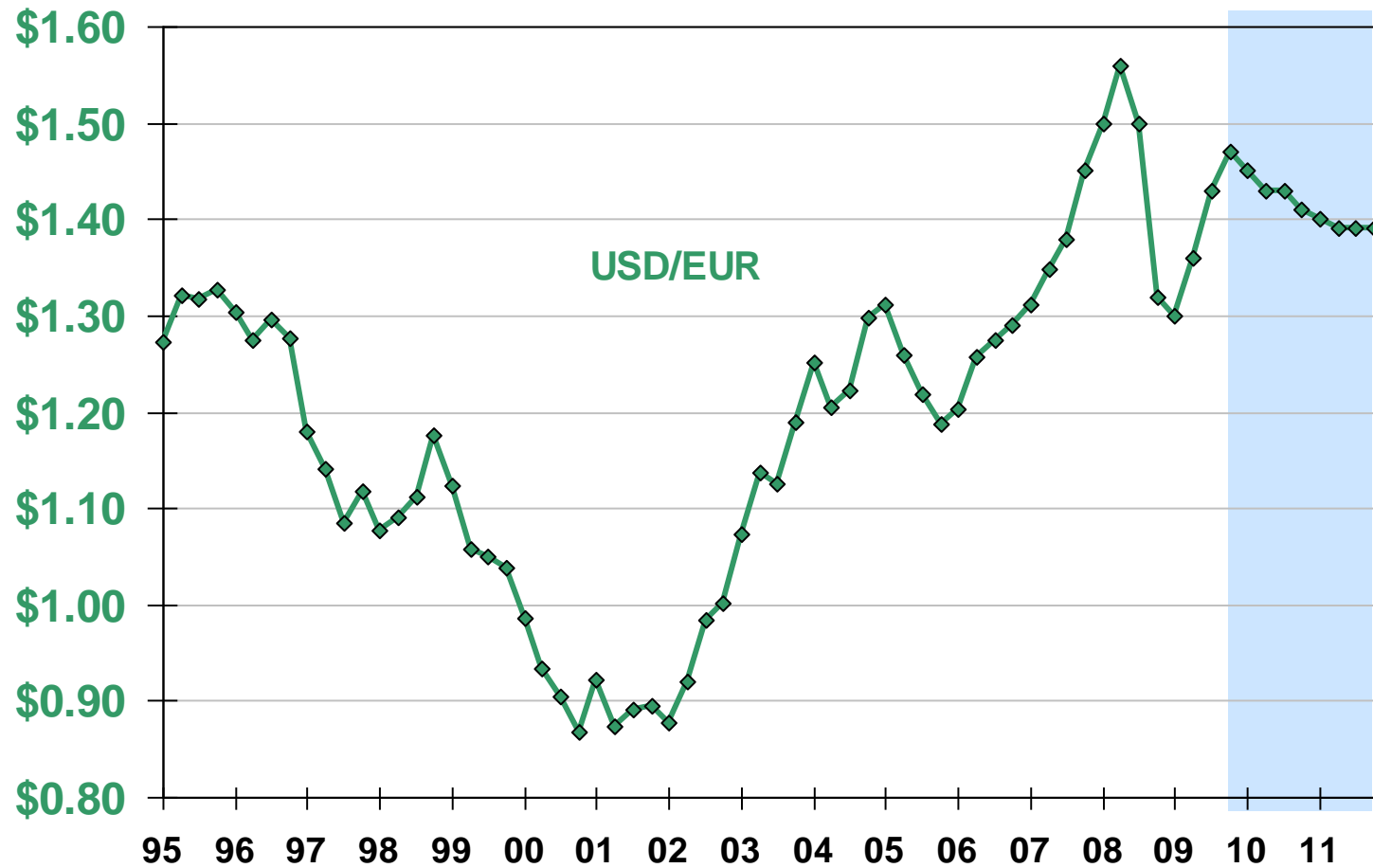
(Real GDP Growth, Annualized Percent Change)



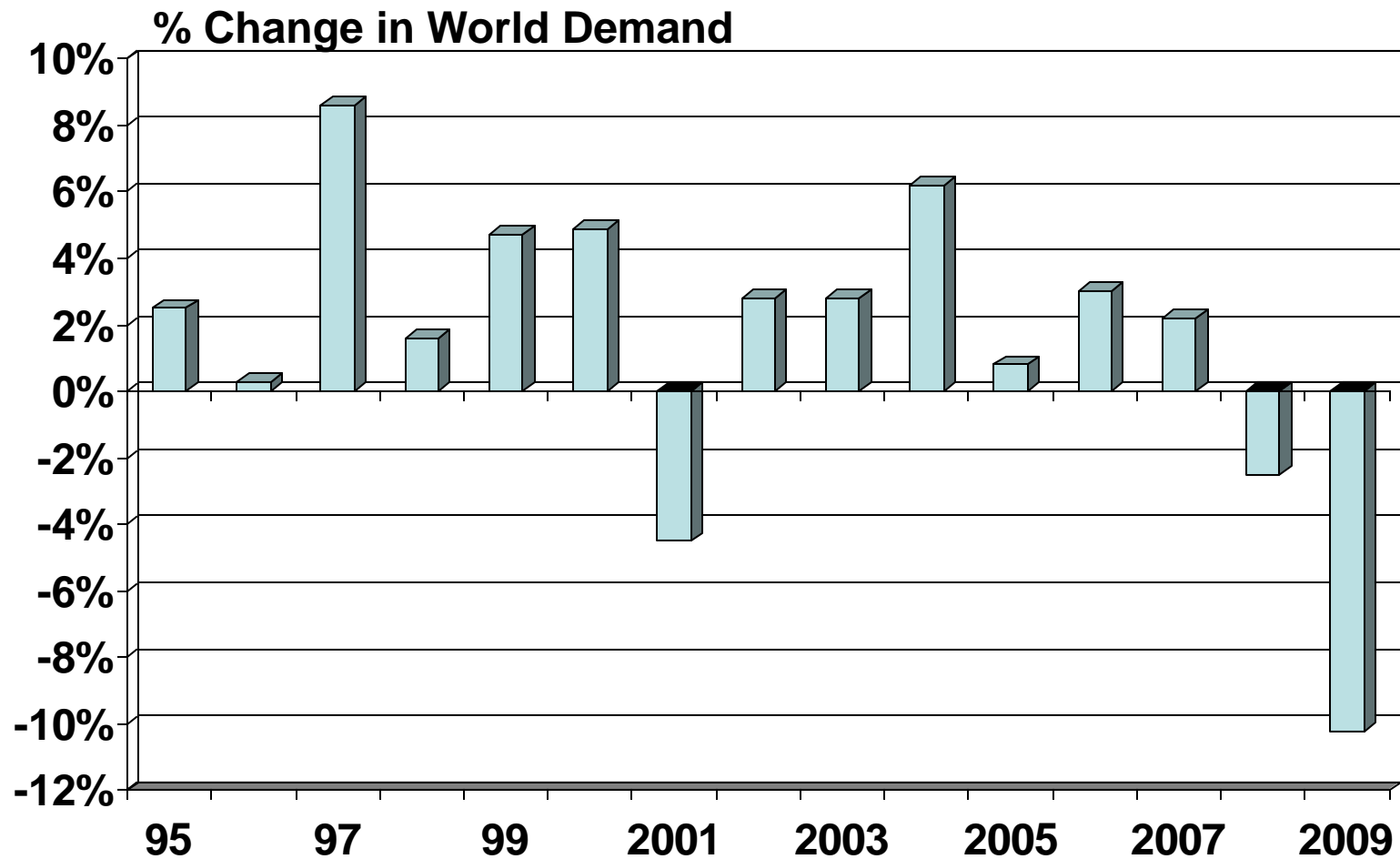
Economic Recovery Will Lead Oil Prices Higher (West Texas Intermediate Crude Oil Price per Barrel, Dollars)



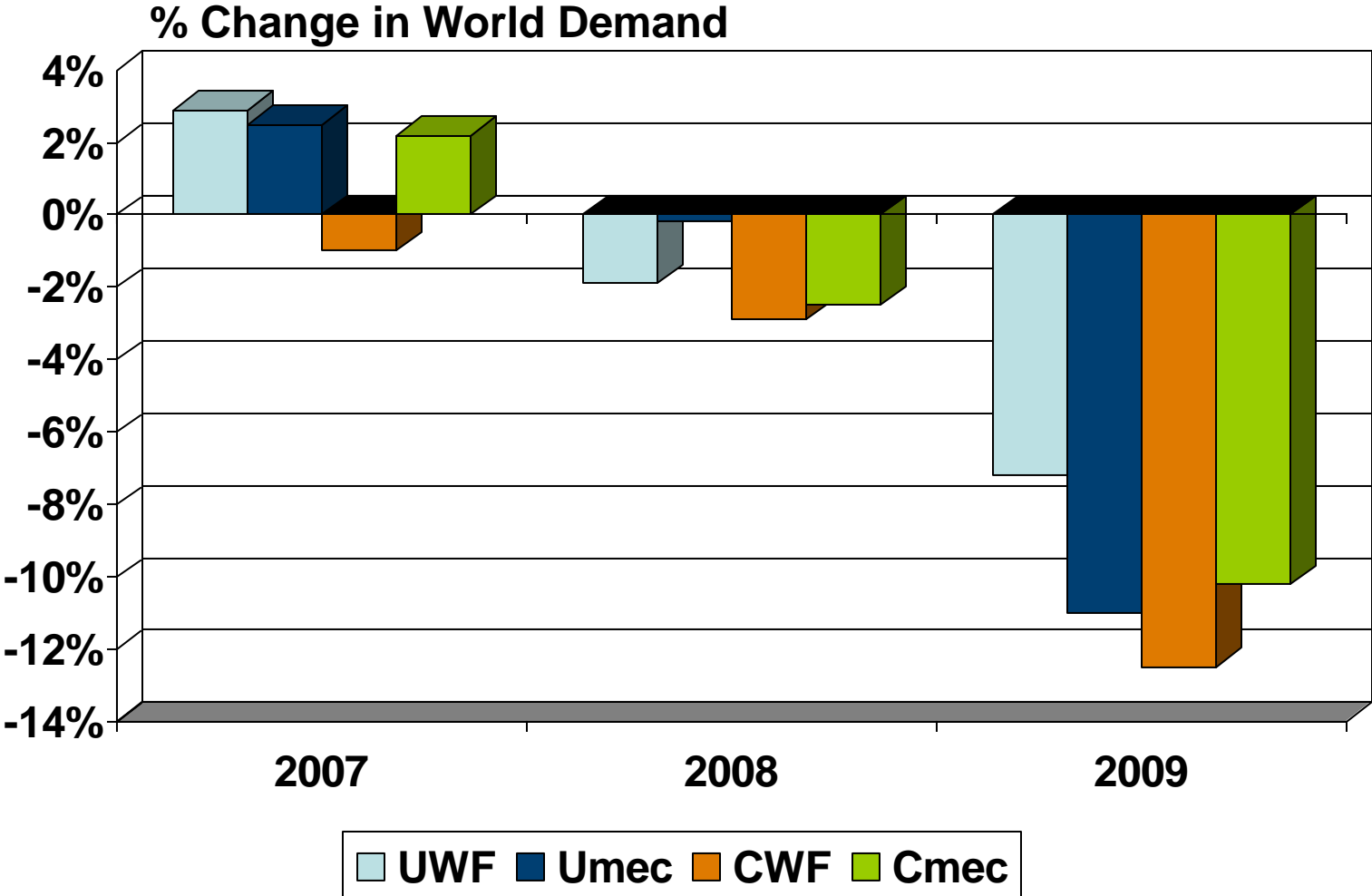
Euro Forecast Dominated by Growth Differentials



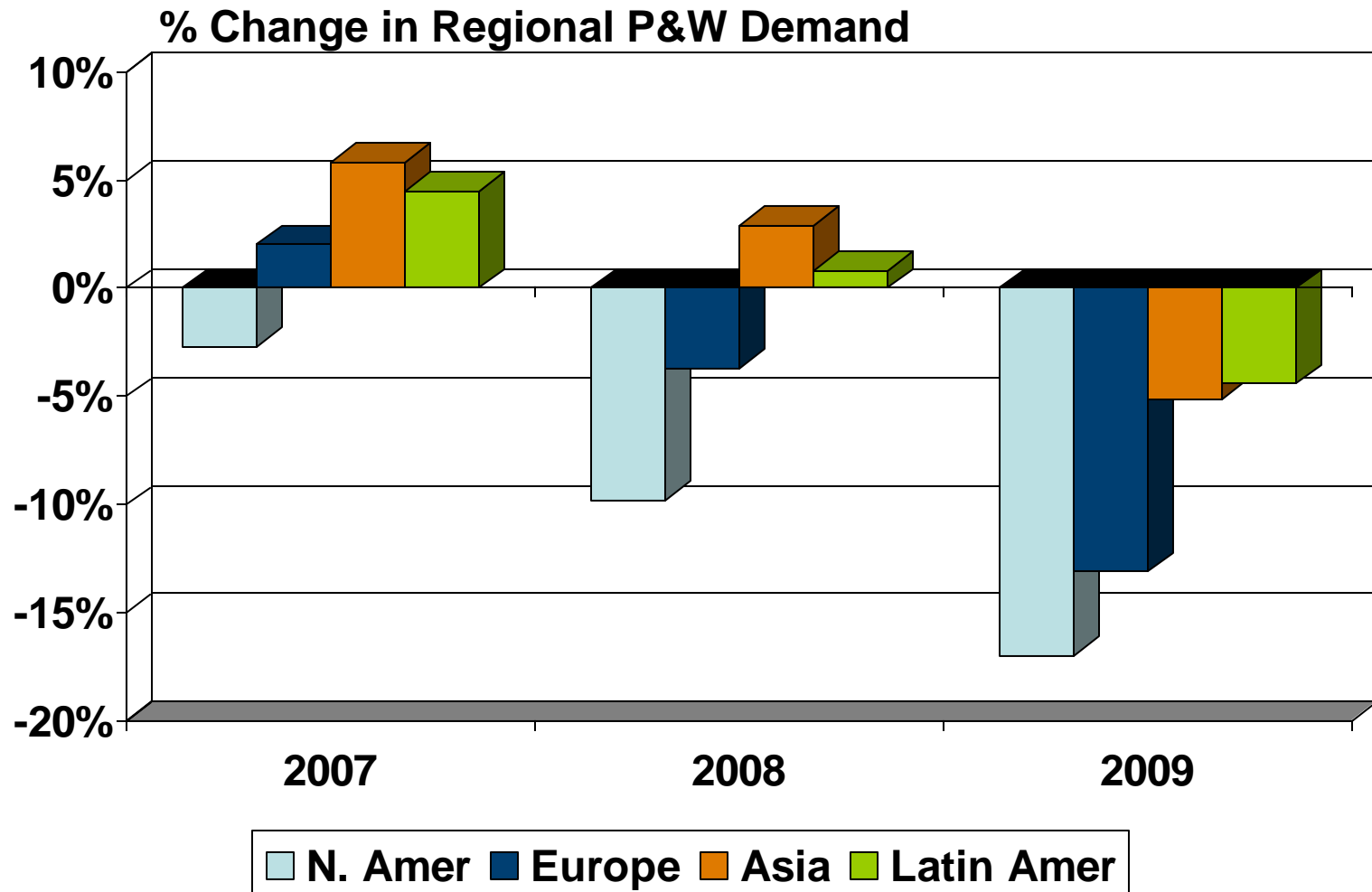
World Demand for P&W Papers Has Collapsed



No P&W Paper Grade Has Escaped the Fall



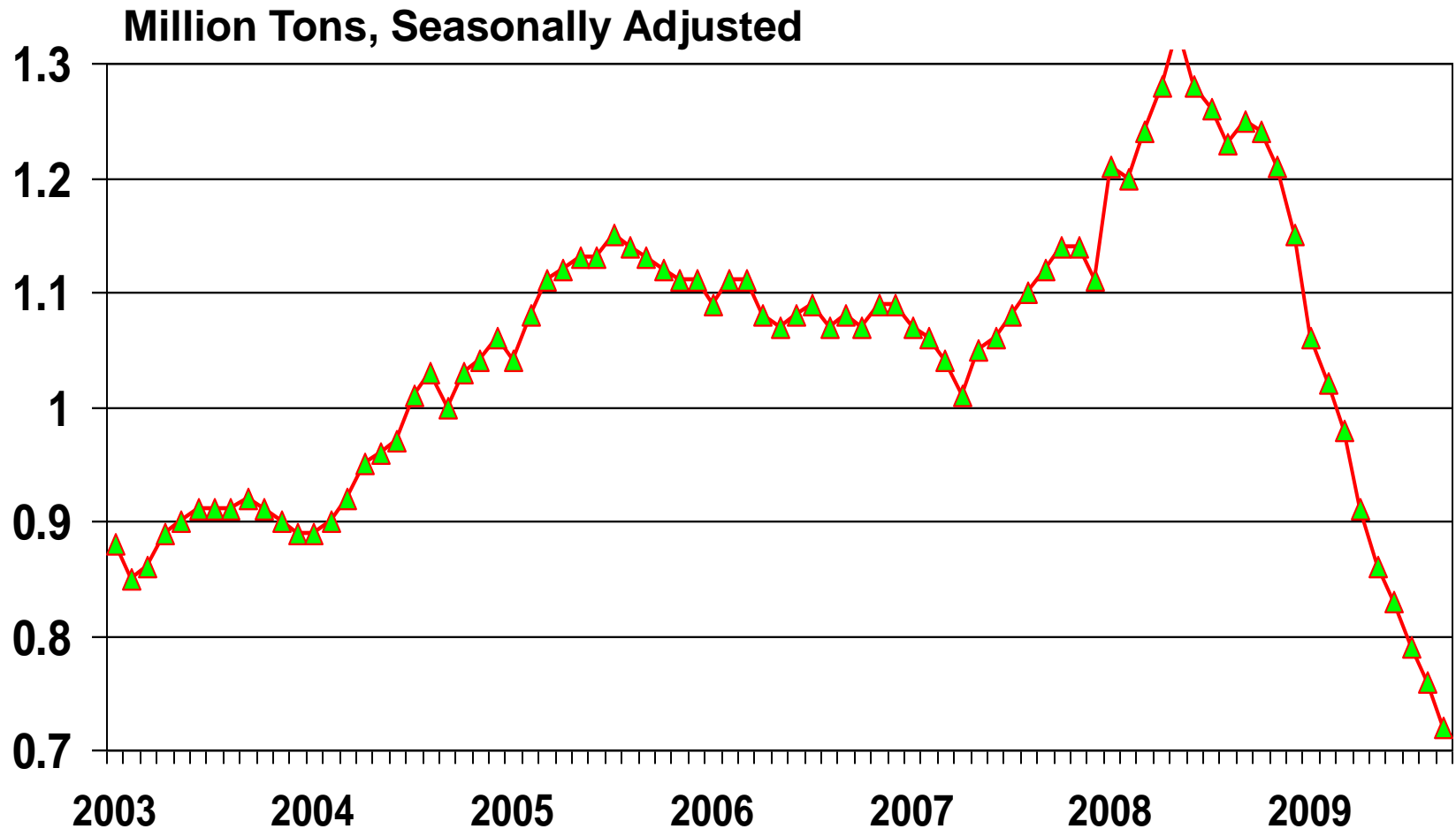
Even the High Growth Developing Regions Are Experiencing Demand Weakness in 2009



Green Shoots are Clearly Evident in North America Following a Devastating Collapse in Print Media

- ▶ Inventory Reduction at Printers and End-Users Is Over
- ▶ Rate of Demand Decline Is Abating
- ▶ Price Increases Are Beginning to Be Announced

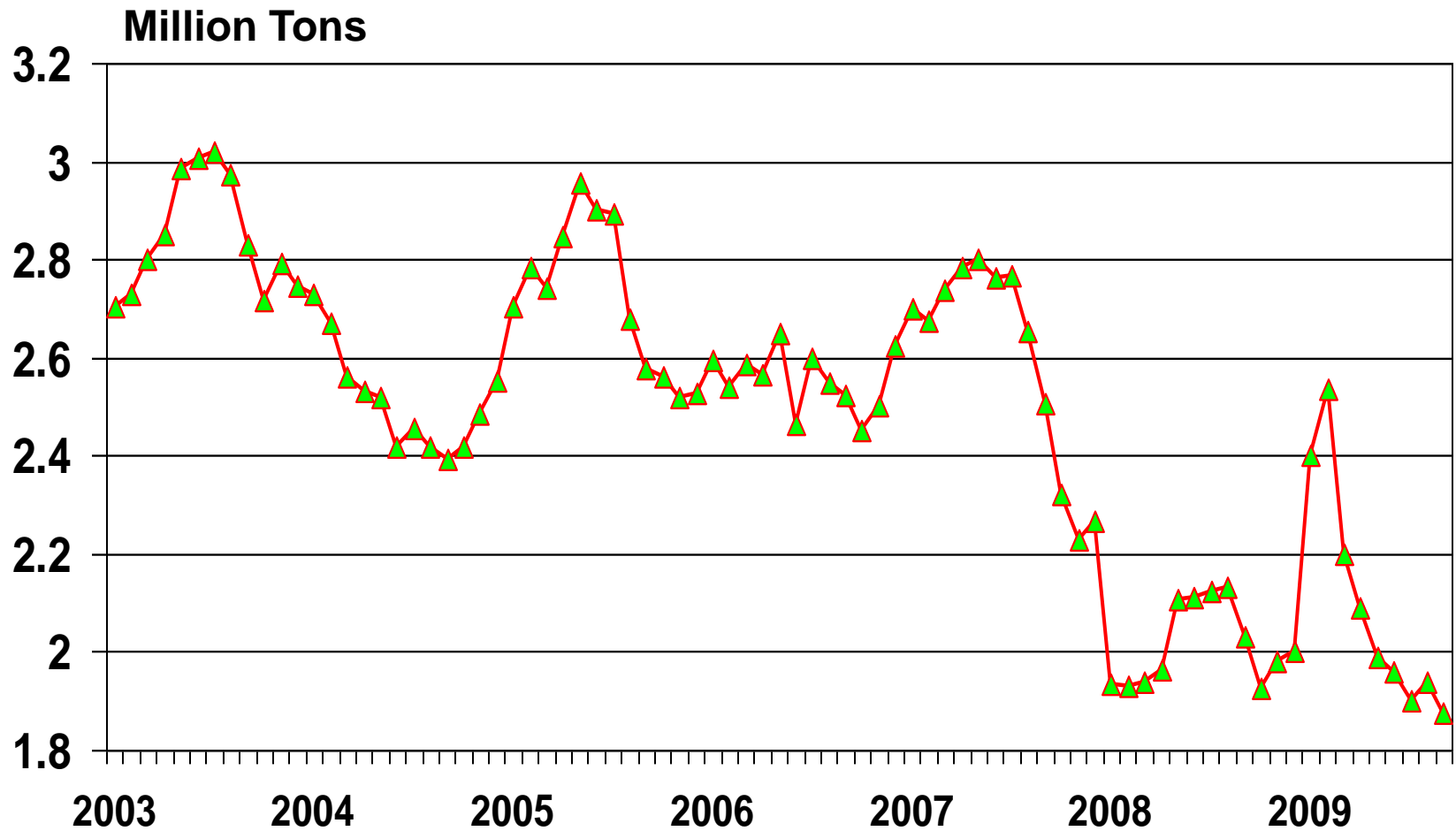
Inventory of Paper at Major N. American Printers -- Inventory Correction is Almost Over (Includes Inventory Owned by Customers)



Data source: Seas. Adjustment by RISI from IDEAlliance data

Last Data Point:
Sept 09

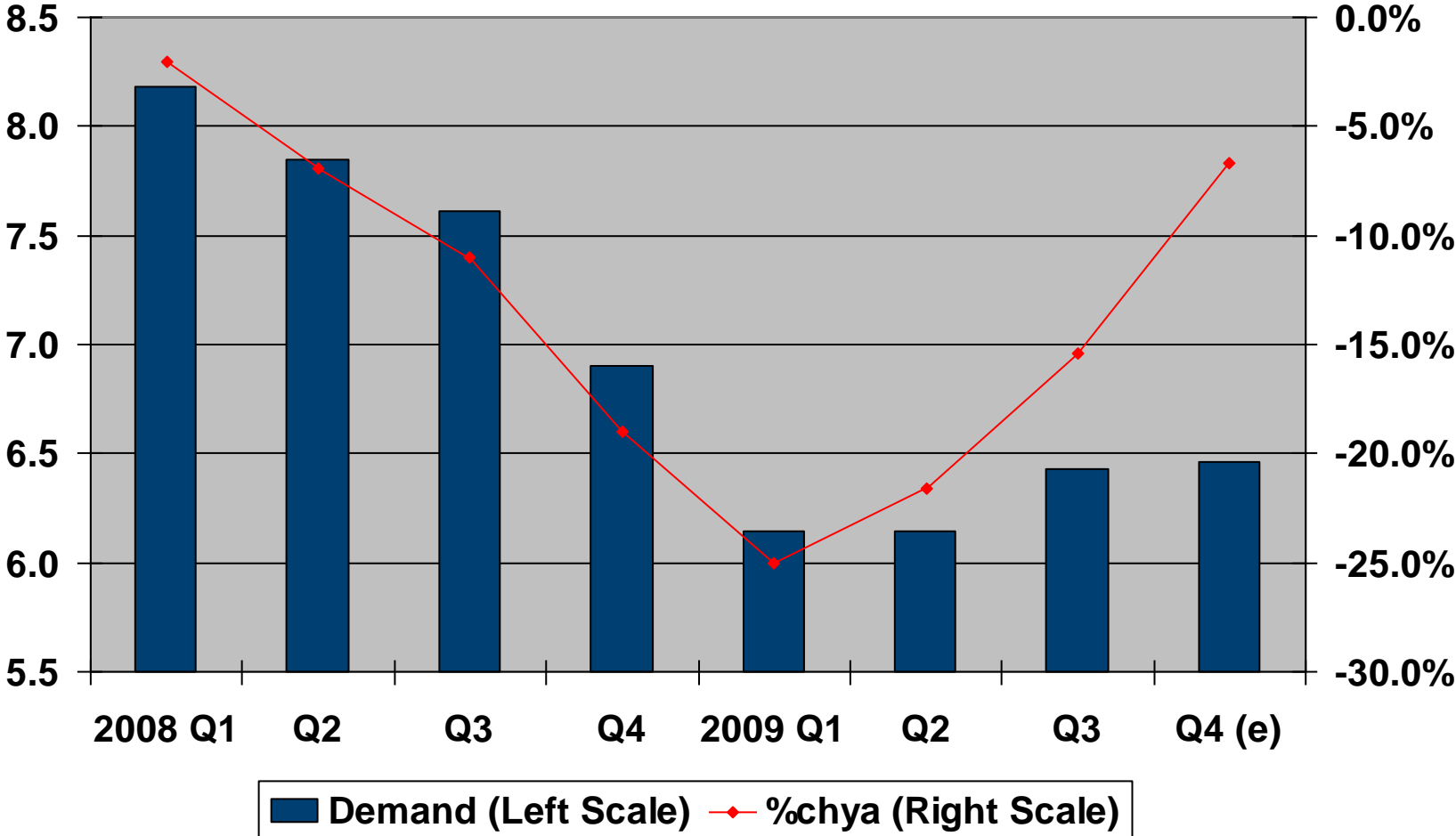
Inventory of Paper at N. American Mills – Trending Down



Data source: PPPC & AF&PA

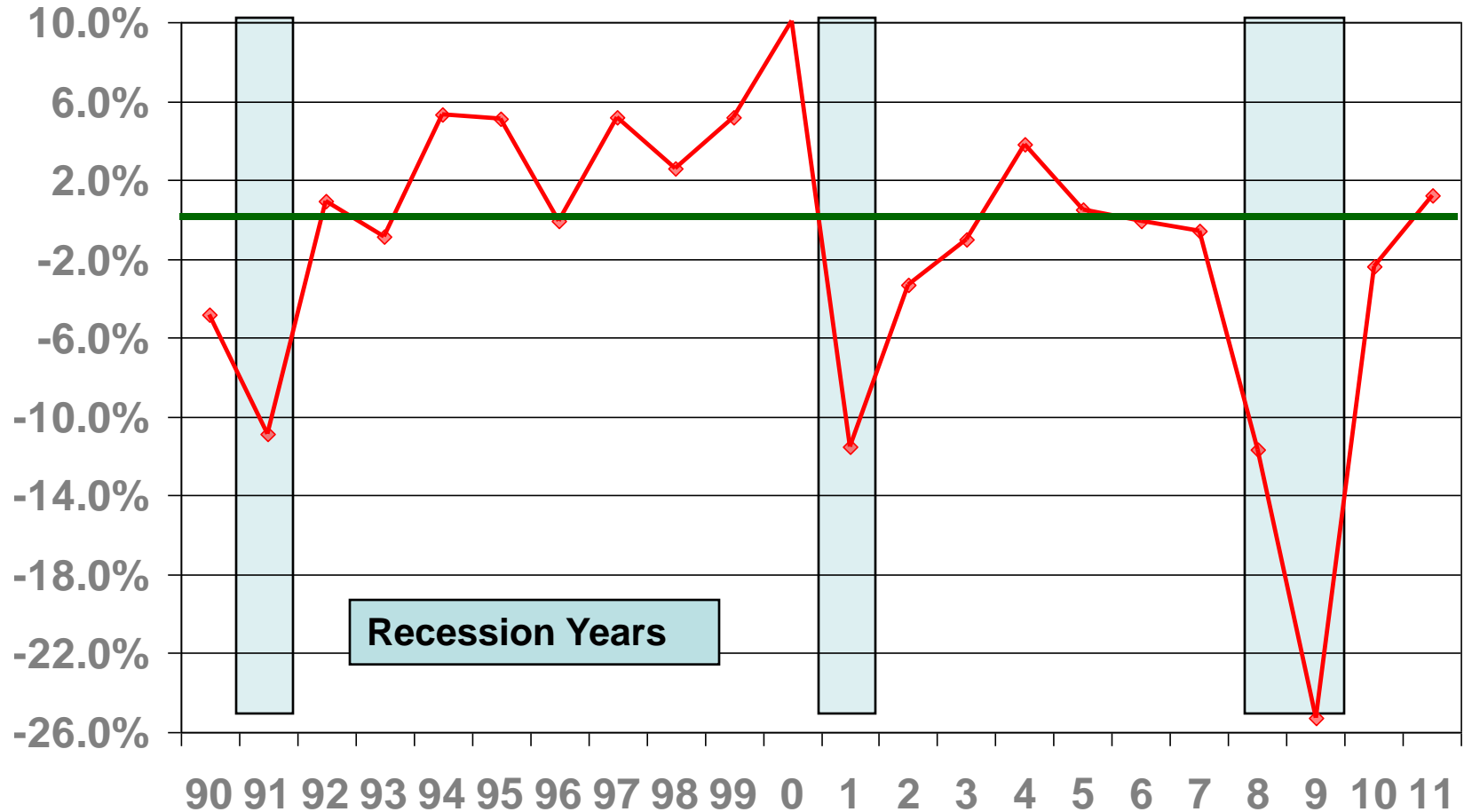
Last Data Point:
Sept 09

North American Demand for P&W Paper Hit Bottom in Q1 2009 and Has Begun to Recover



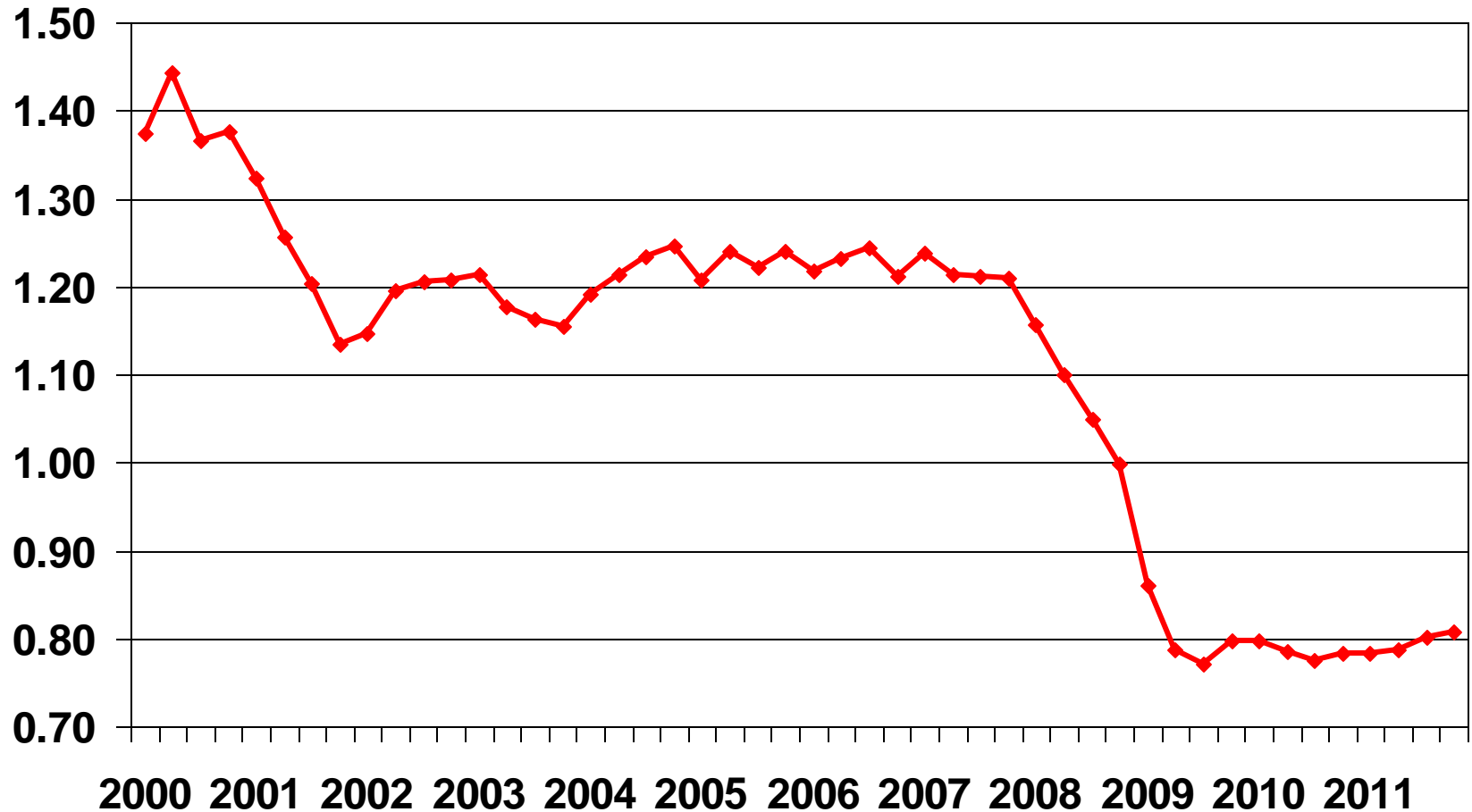
US Magazine Ad Page Decline Affected by Both Cyclical and Structural Issues

(PIB Magazine Ad Pages, Year-Over-Year Percent Change)



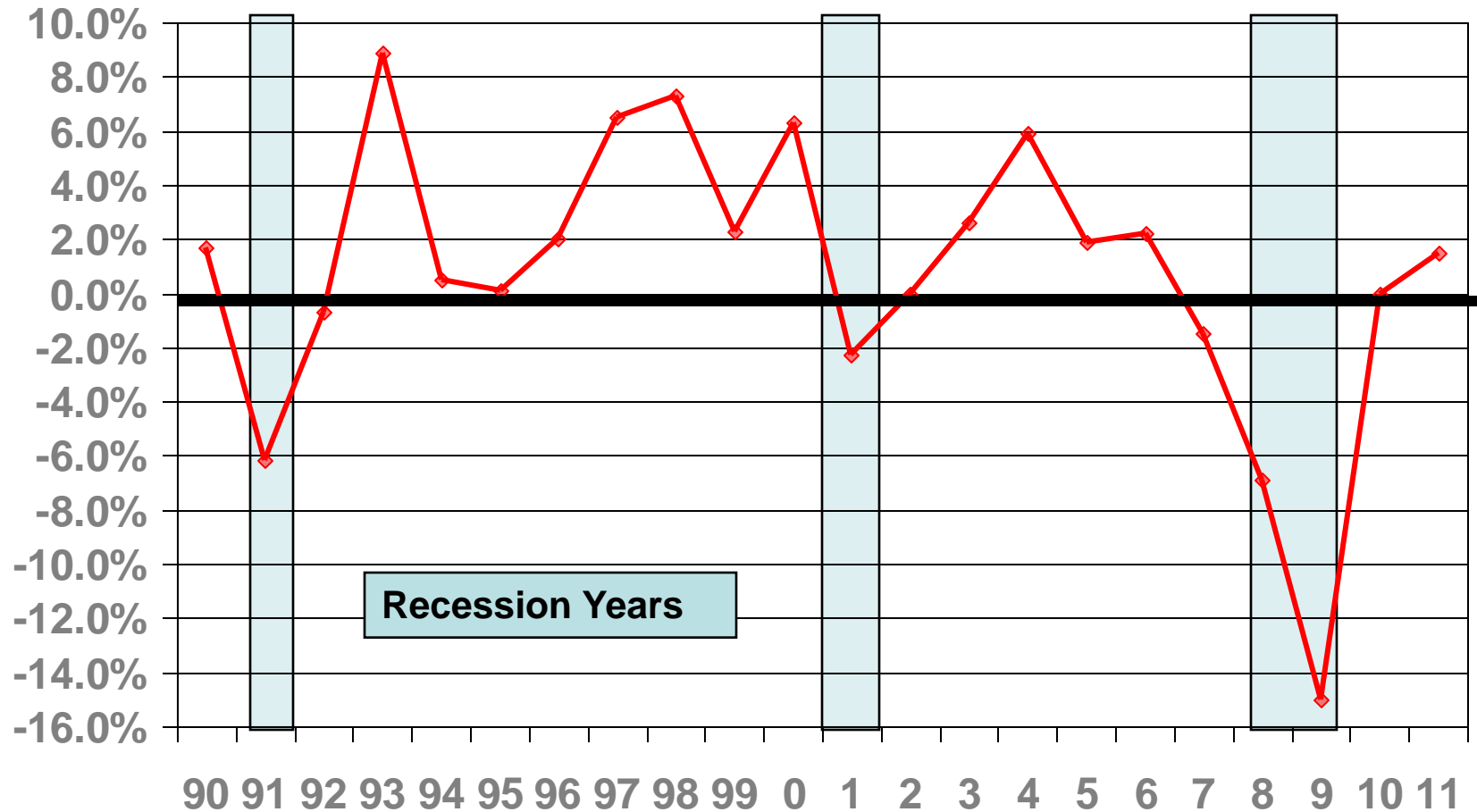
US Magazine Ad Pages on Long-Term “Stair-Step” Decline

(Quarterly PIB Magazine Ad Page Index, 1982=1.0)

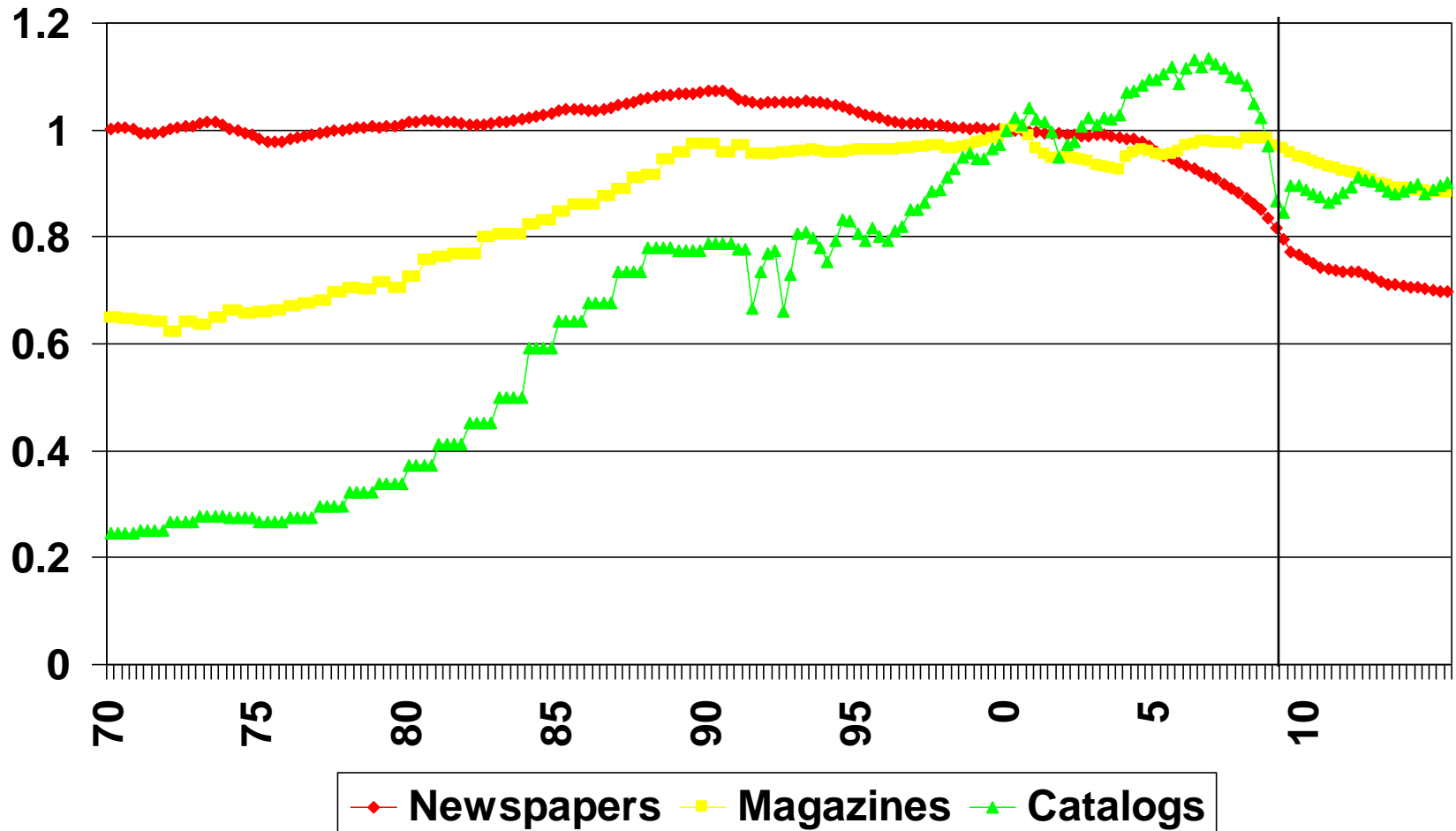


US Print Catalog Circulation in Multi-Year Decline While Pagination and Trim Sizes Also Fall

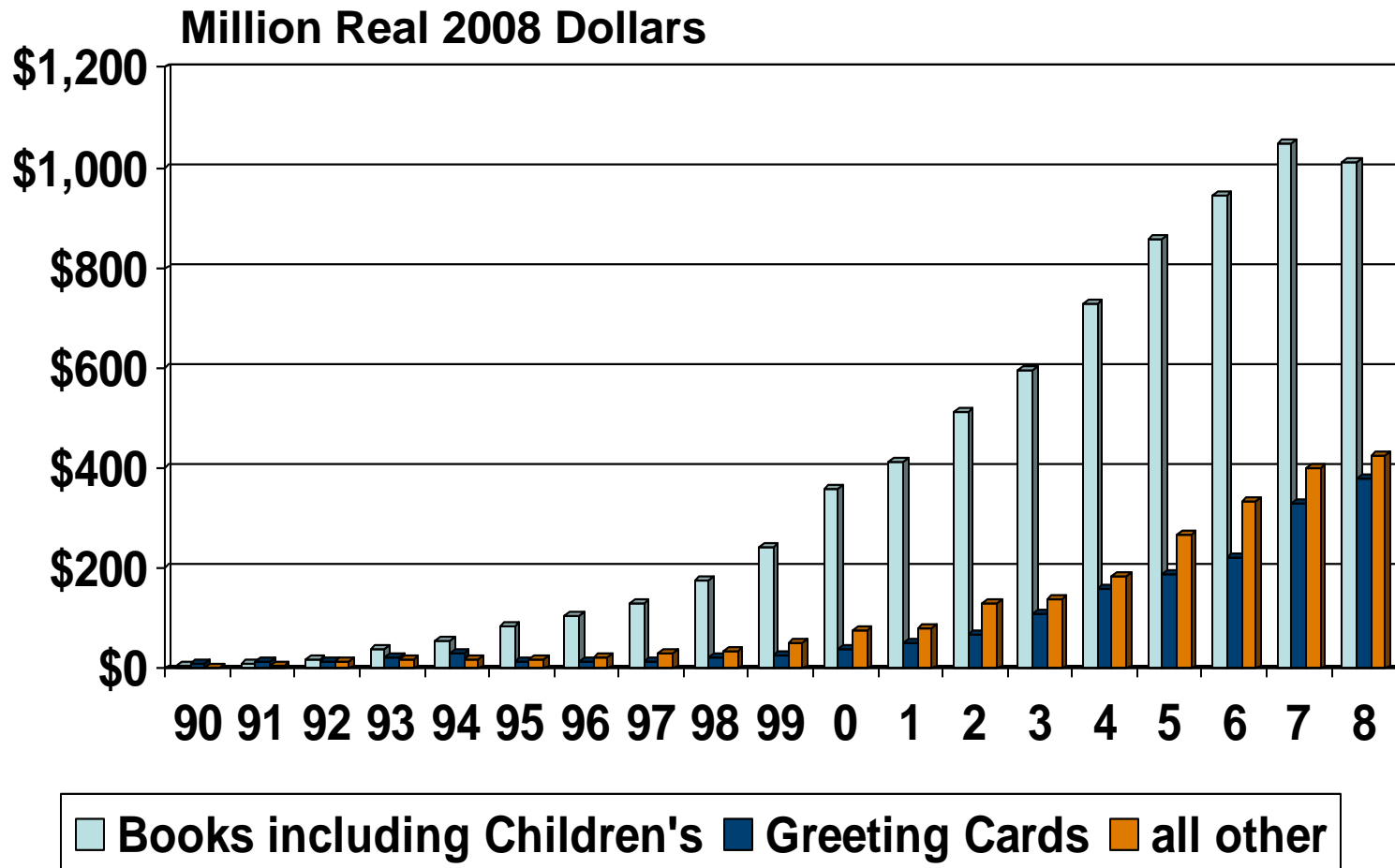
(RISI Catalog Circulation Index, Year-Over-Year Percent Change)



Indexes of Circulation – 2000Q1=1.00



US Imports of Printed Products from China Also Helping to Reduce Domestic Demand for Paper



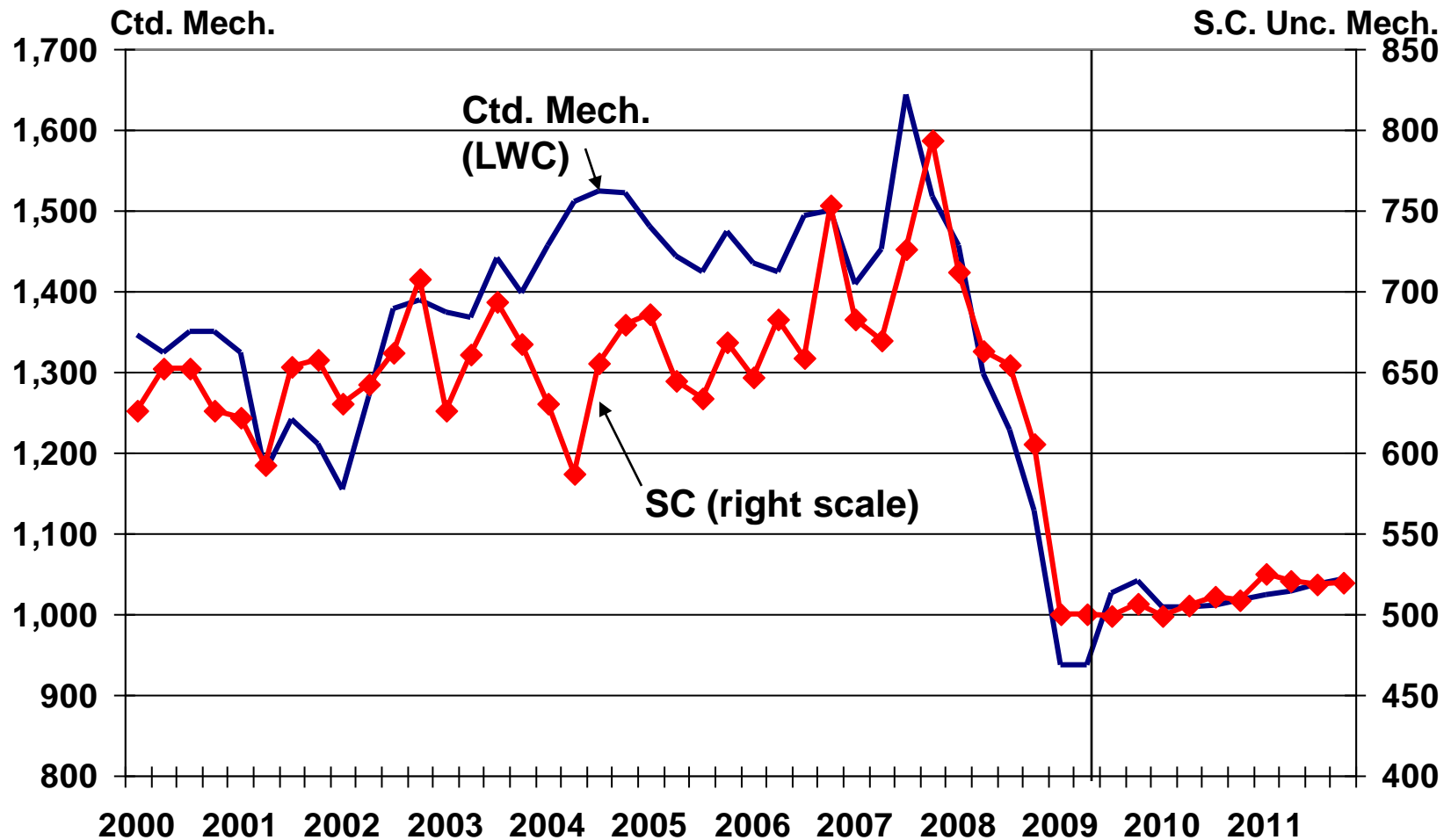
North American P&W Demand by Grade

Million Tonnes, % Change

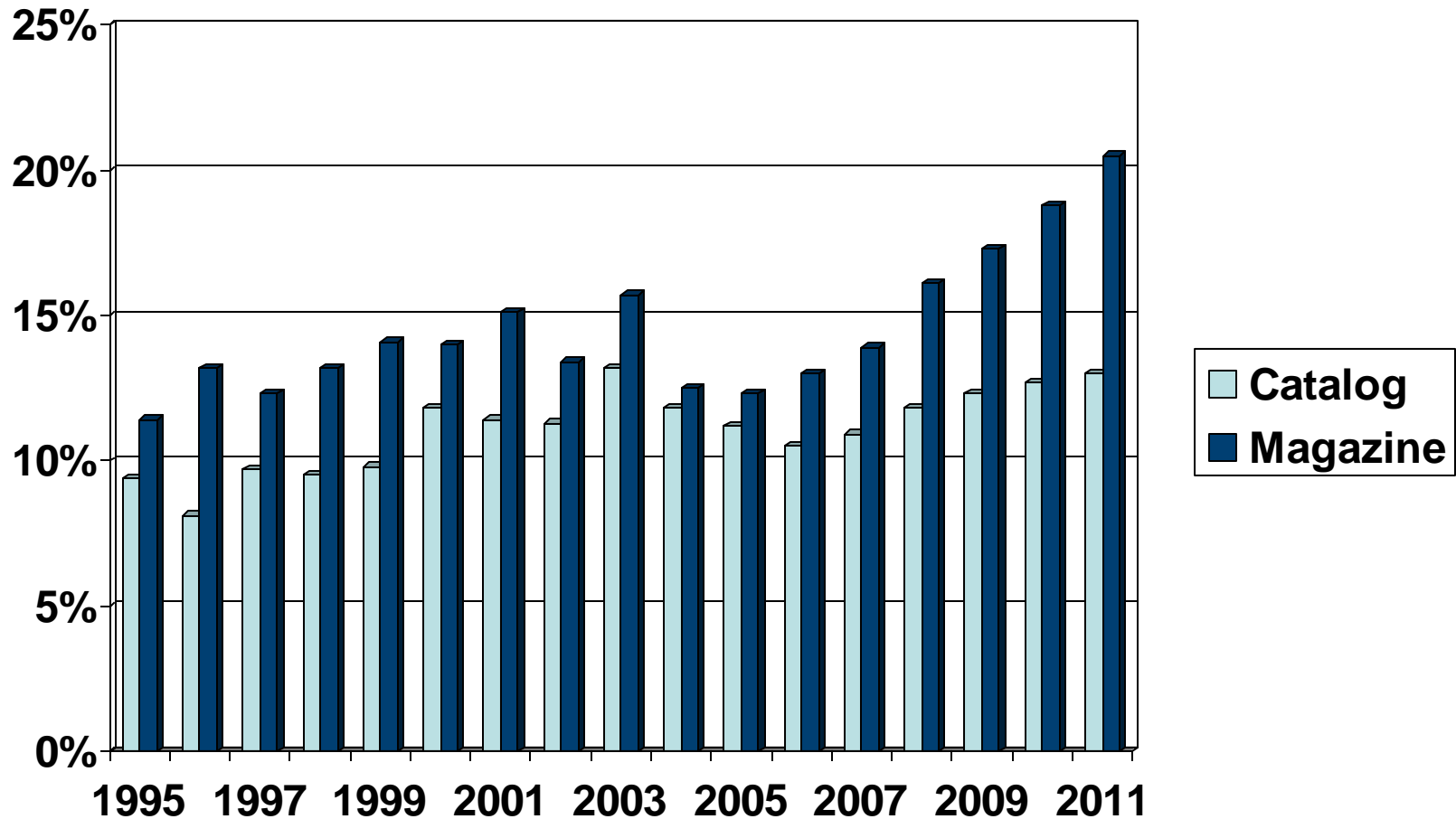
	2007	2008	2009	2010	2011
Ctd. Freesheet *	6.1	5.3	4.0	4.1	4.3
%ch	-8%	-13%	-24%	4%	3%
Ctd. Mechanical	6.0	5.1	3.9	4.0	4.1
%ch	3%	-15%	-23%	3%	2%
Unc. Freesheet *	12.4	11.4	10.0	9.9	9.7
%ch	-5%	-8%	-12%	-1%	-1%
Unc. Mechanical	6.2	6.0	4.9	4.9	5.1
%ch	2%	-4%	-18%	1%	3%
Total	30.7	27.7	22.8	23.0	23.2
%ch	-3%	-10%	-18%	1%	1%

*Includes bristols and cotton

Demand Trends for Key Gravure Grades of Paper In North America (000 tonnes per quarter)

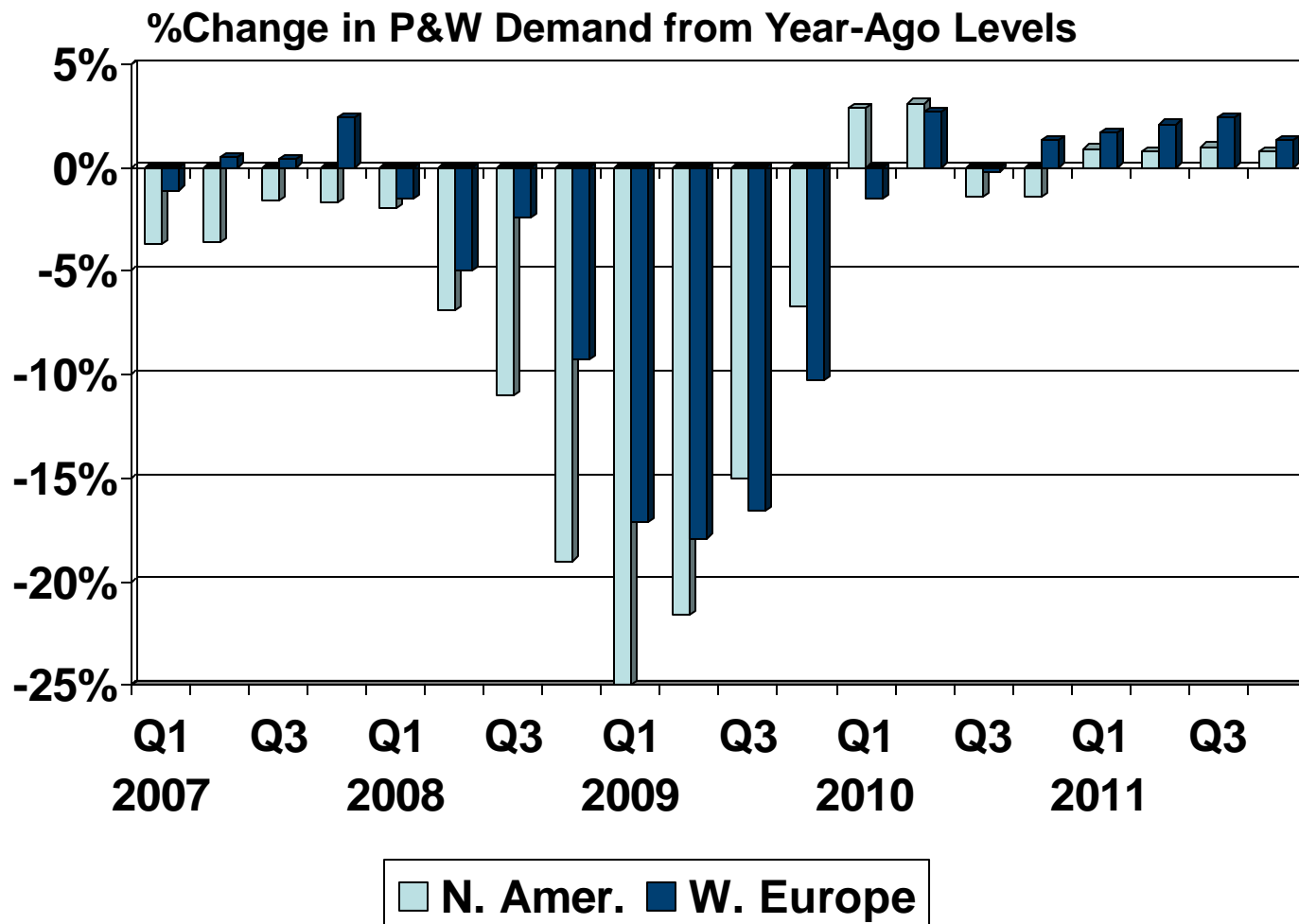


SC Gaining Share of Paper use in Magazines and Catalogs in Effort to Save Money (SC % of Paper use)



Note: Includes "New" lightly-coated SC made by some producers

Europe Following North America, Although Downturn Is Not Quite As Severe, and Is Also Showing Signs of Recovery



European P&W Demand by Grade

Million Tonnes, % Change

	2008	2009	2010	2011
Ctd. Woodfree	8.4	7.2	7.3	7.5
%ch	-5%	-15%	2%	3%
Ctd. Mechanical	8.2	6.6	6.8	7.0
%ch	-3%	-19%	2%	3%
Unc. Woodfree	10.9	9.5	9.4	9.6
%ch	-7%	-14%	-1%	3%
Unc. Mechanical	5.6	5.1	5.2	5.3
%ch	3%	-9%	1%	2%
Total	33.1	28.3	28.6	29.3
%ch	-4%	-15%	1%	3%

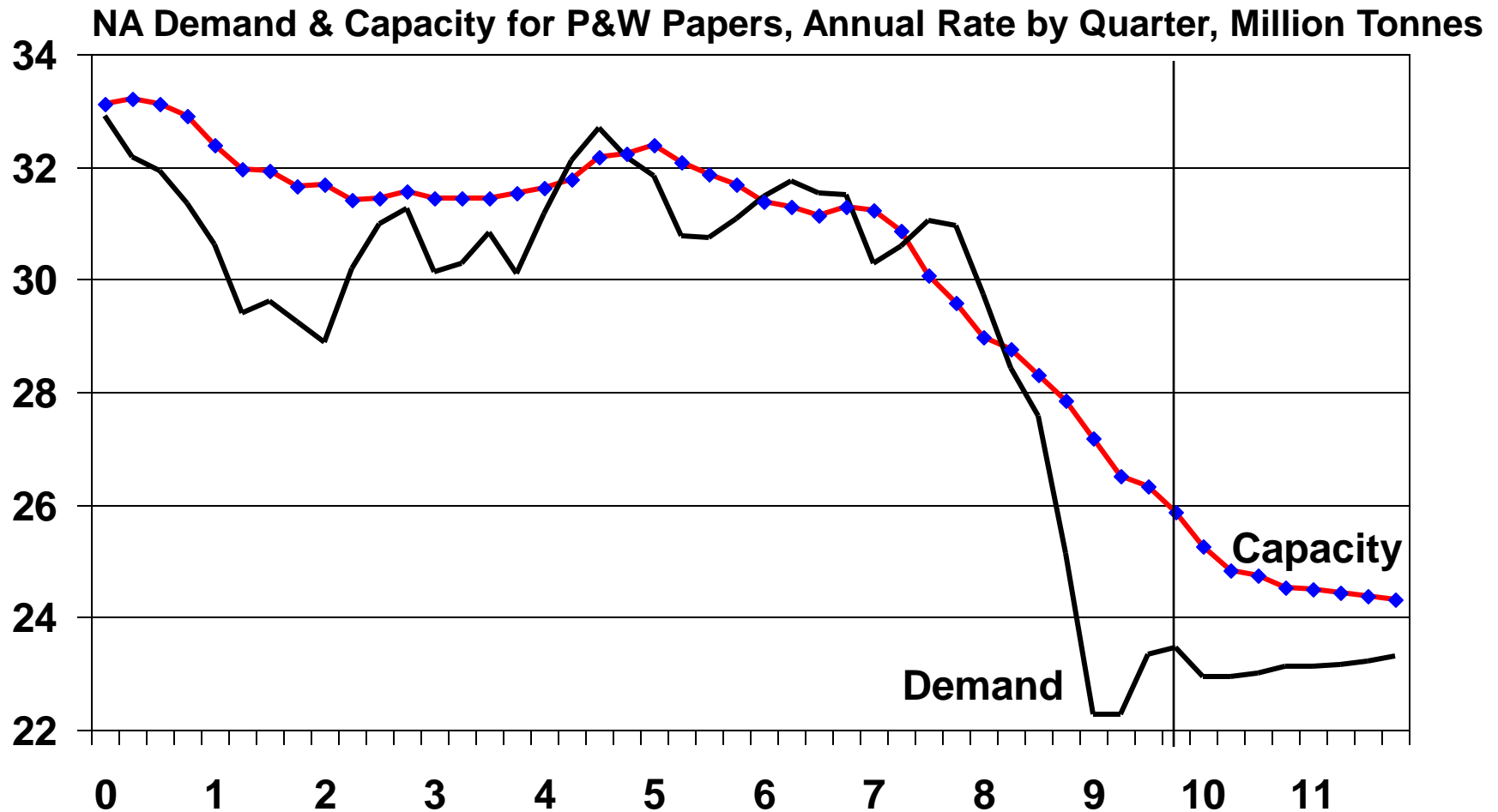
Note: includes eastern Europe

Asian P&W Demand by Grade

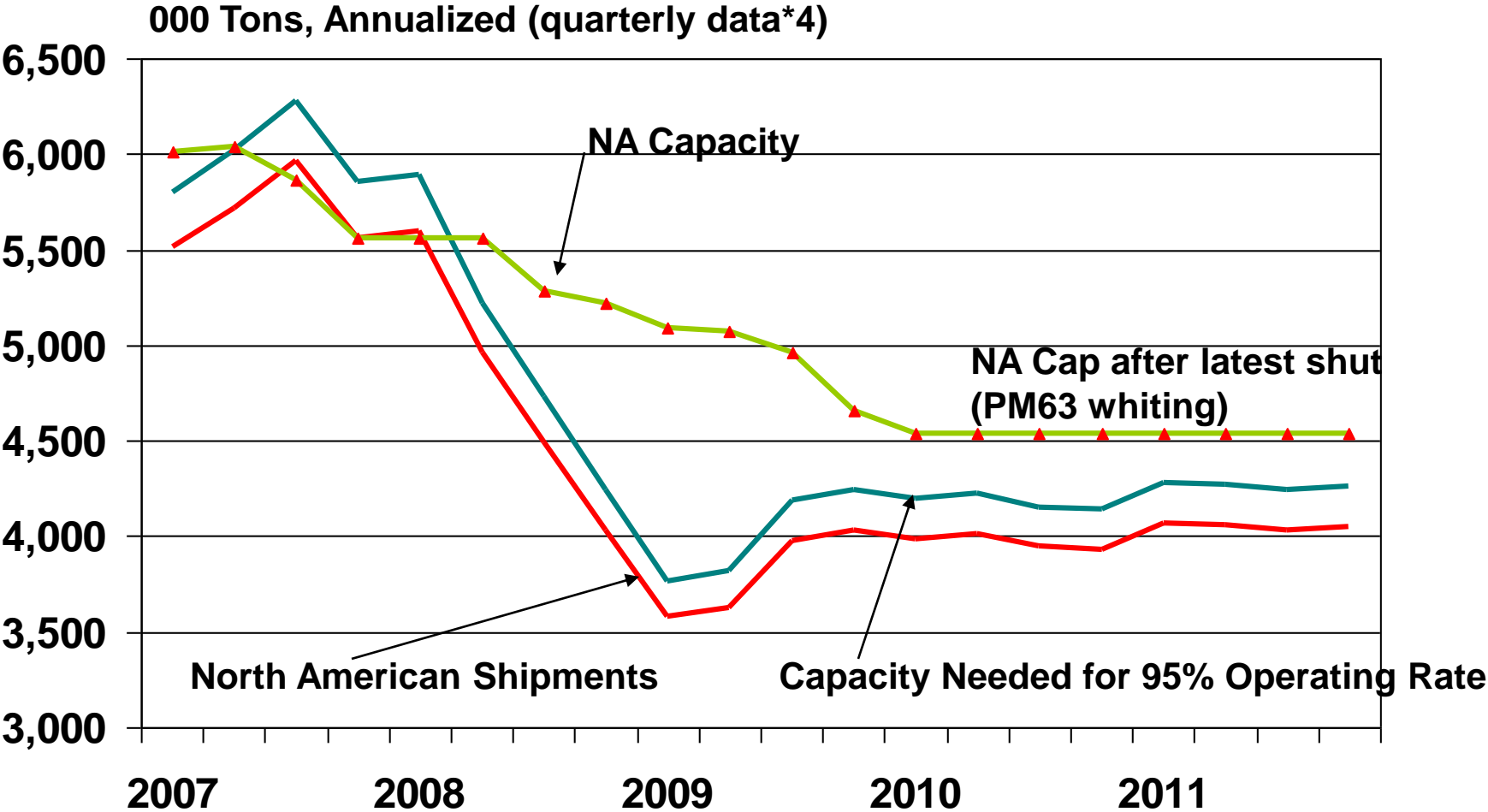
Million Tonnes, % Change

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Ctd. Woodfree	11.8	11.1	11.9	12.4
%ch	1%	-6%	7%	4%
Ctd. Mechanical	3.3	3.4	3.5	3.7
%ch	6%	4%	4%	5%
Unc. Woodfree	23.9	23.6	24.7	25.7
%ch	3%	-1%	5%	4%
Unc. Mechanical	1.8	1.7	1.6	1.7
%ch	-3%	-5%	3%	4%
Total	40.8	39.8	41.8	43.5
%ch	2%	-2%	5%	4%

North American Producers Slow to Shut Capacity to Match Demand in 2009

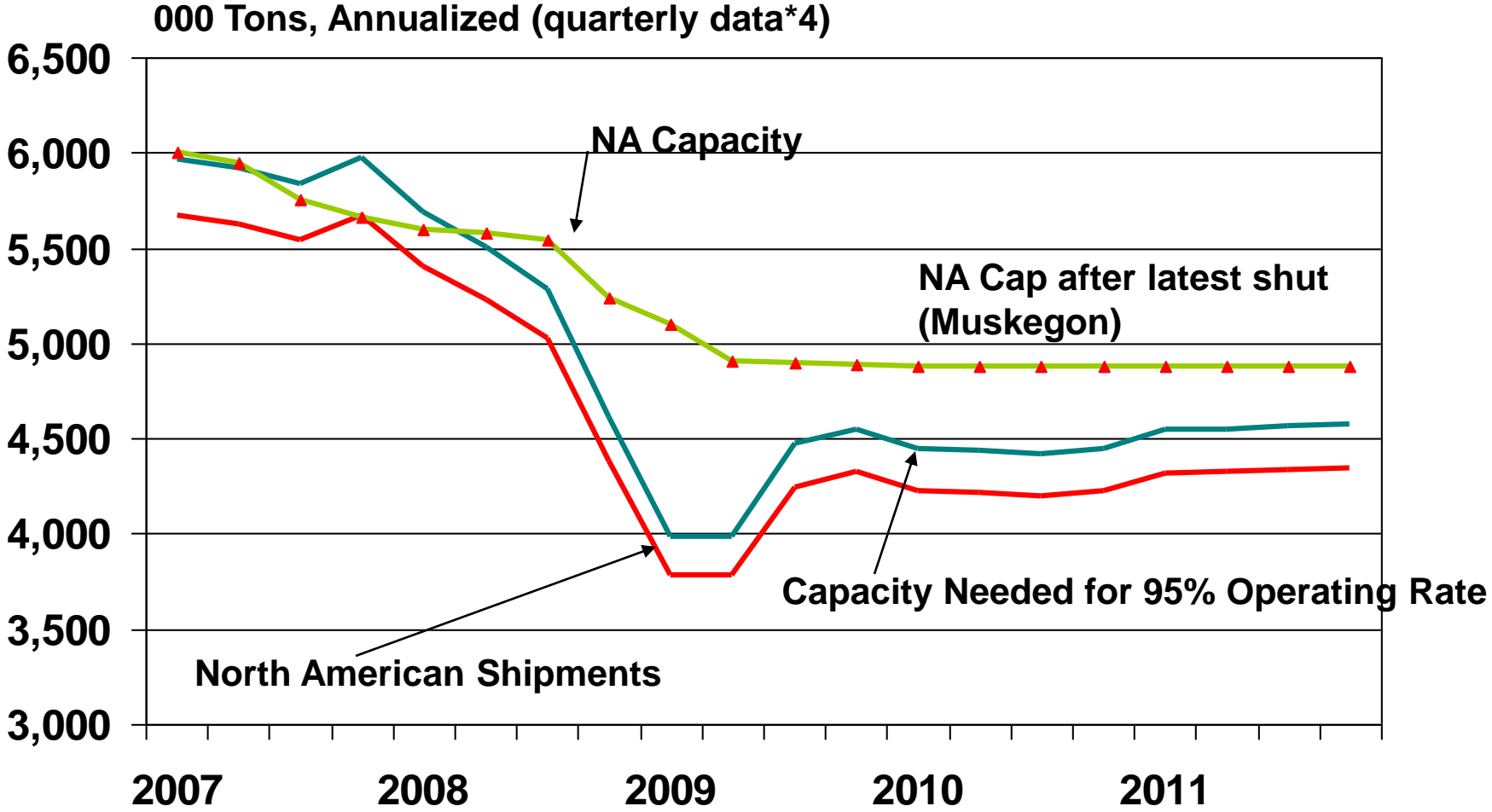


NA Coated Mechanical Shipments vs Capacity



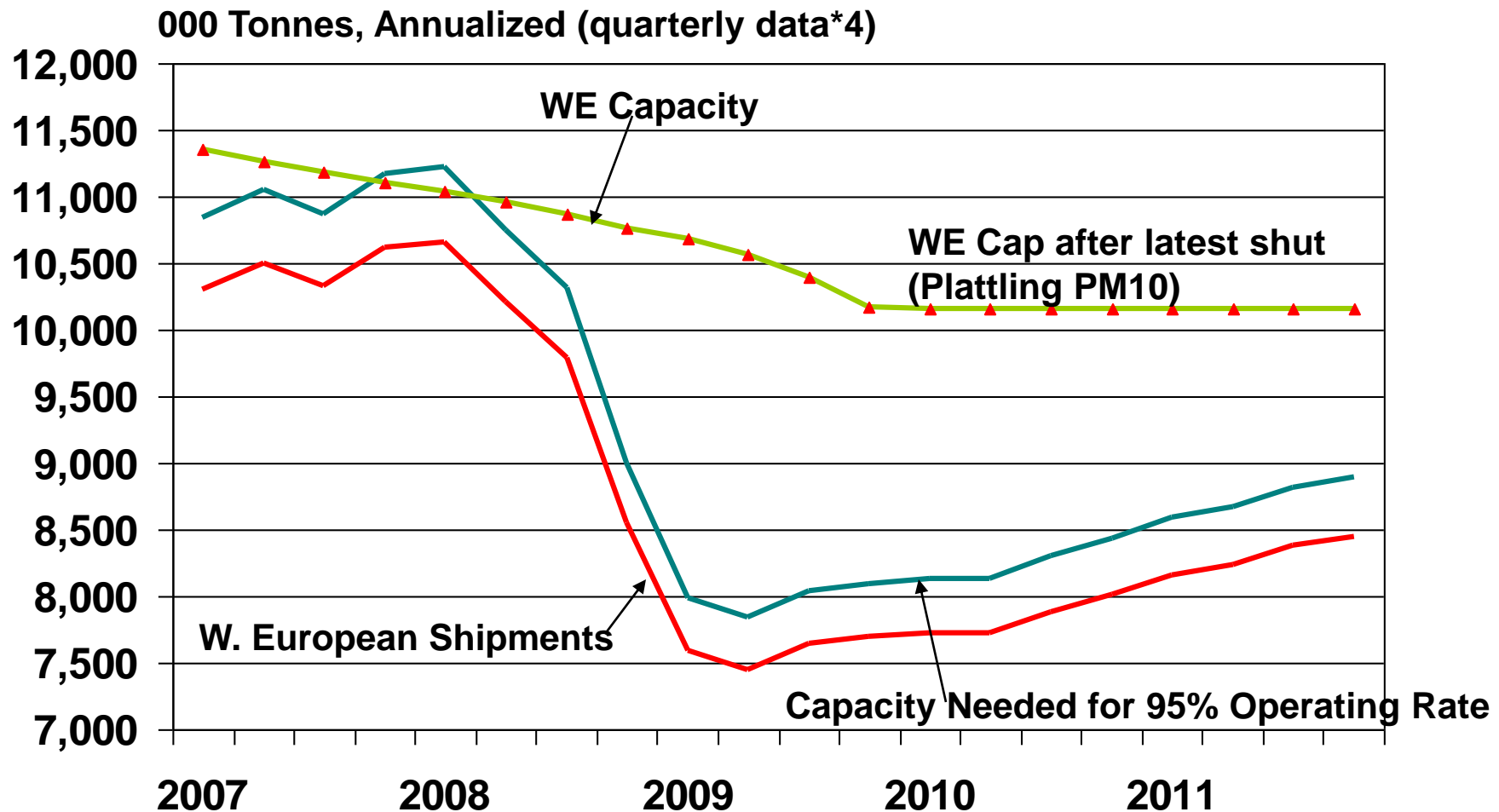
We take out all Capacity listed as indef. Idle as well as cap shifted to SC, UGW, and specialty by Verso and Newpage

NA Coated Freesheet Shipments vs Capacity

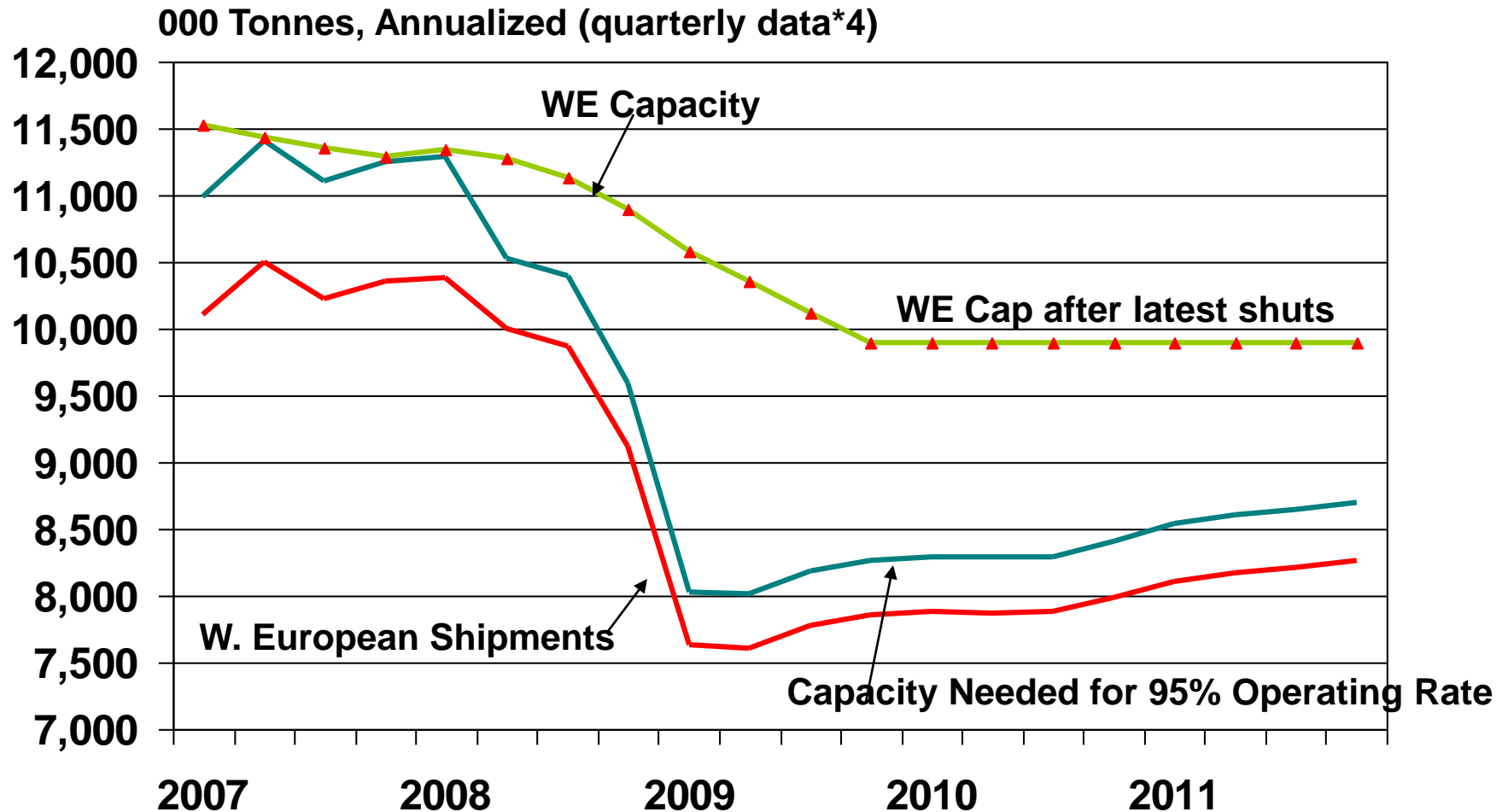


Includes coated bristols

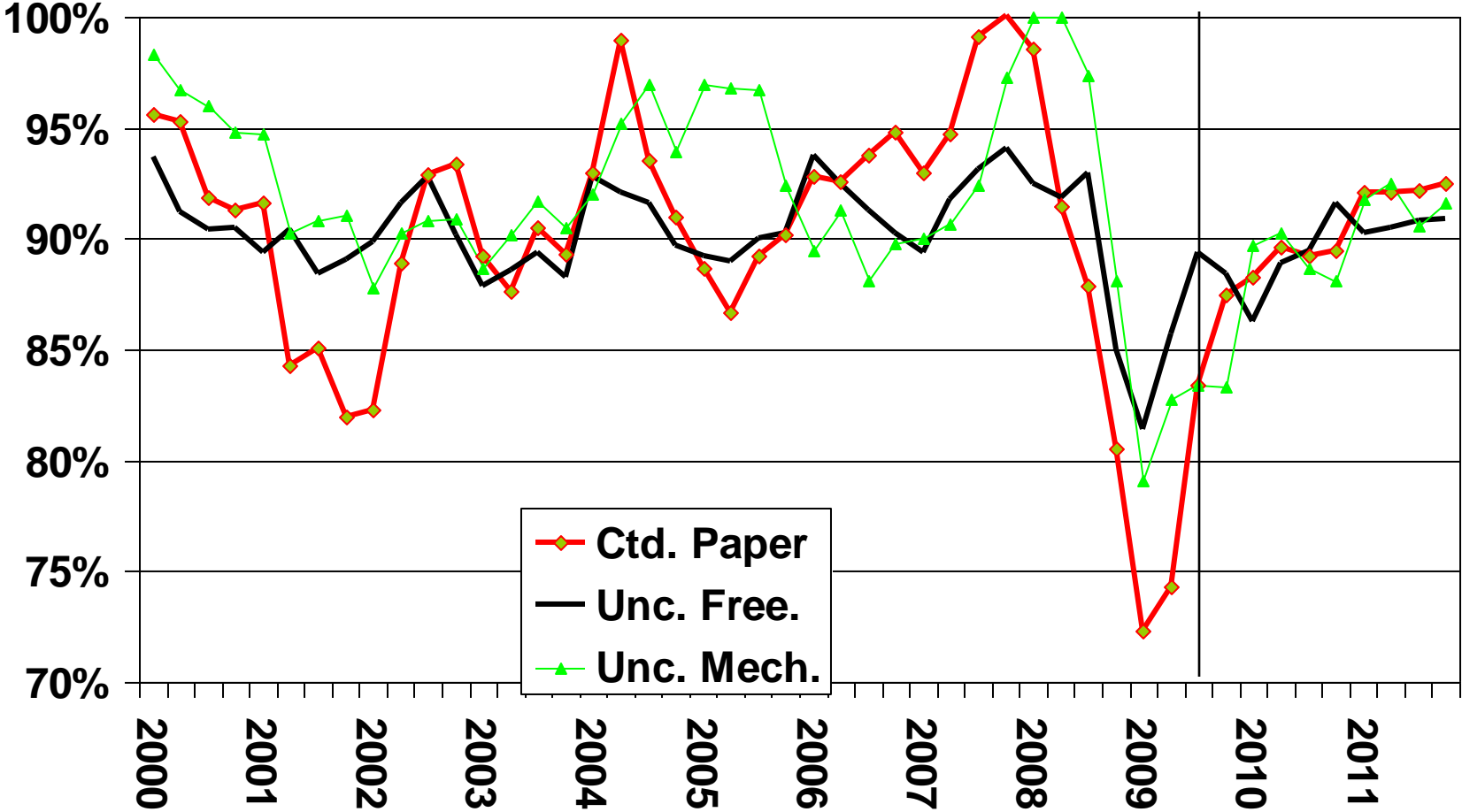
West European Coated Mechanical Shipments vs Capacity



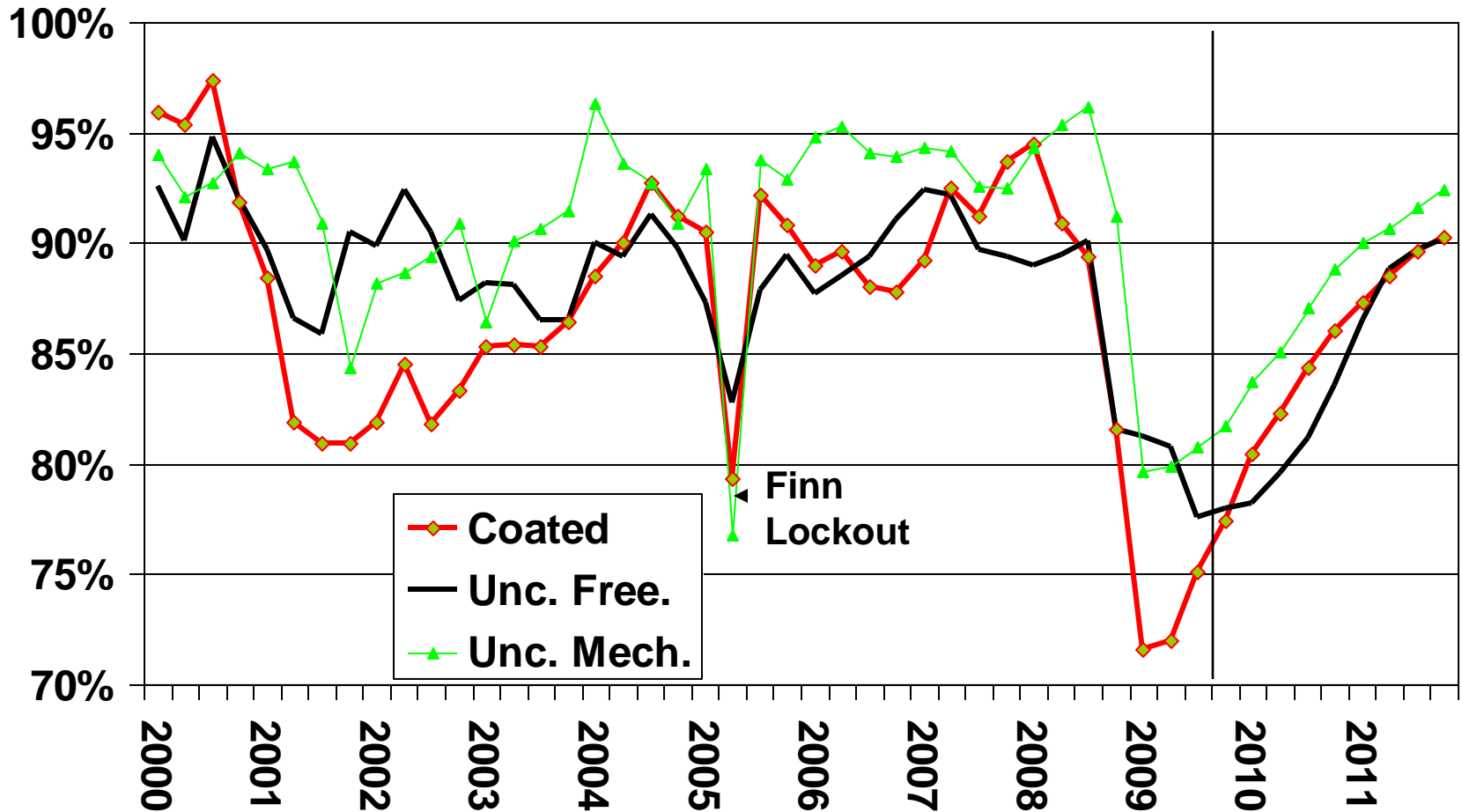
West European Coated Freesheet Shipments vs Capacity



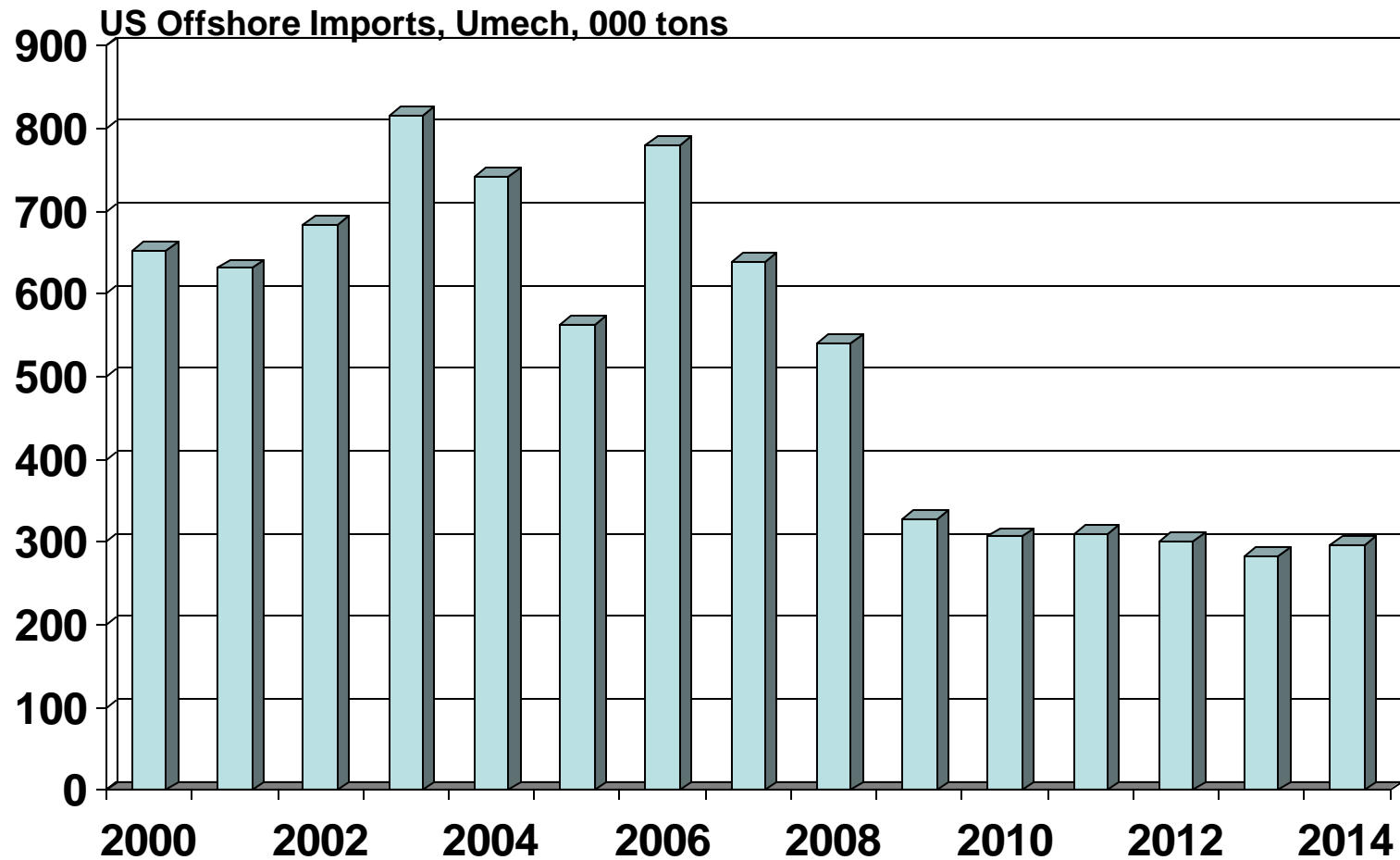
North American Operating Rates -- the Lowest Ever Recorded for Coated Paper



Western European Operating Rates -- UFS Will Be Slow to Recover due to Portucel Expansion

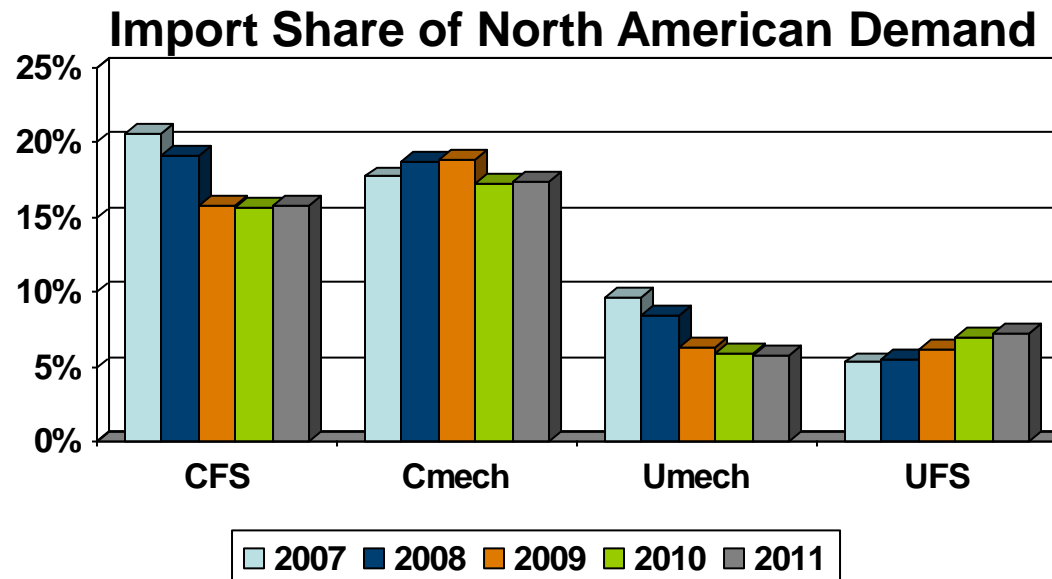


European Imports of Uncoated Mechanical Into the US Market Will Have to Fight Against a Strong Euro



North American Offshore Imports

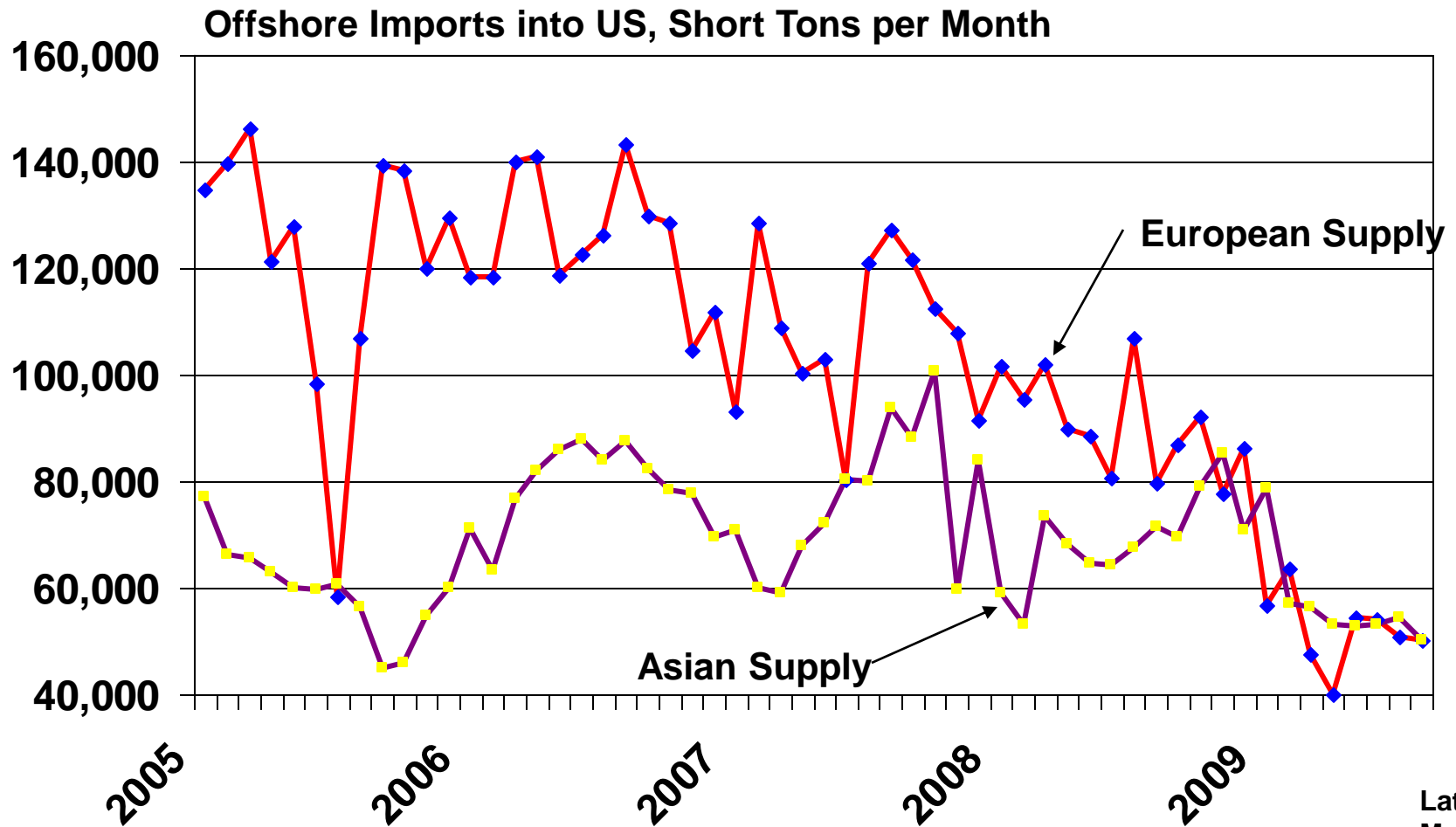
- ▶ North American Producers Now Have Ample Capacity
 - Most high cost capacity has been shut
 - Rather than continue to shut more efficient capacity, producers would rather displace imports



Displacing Offshore Imports Is Difficult

- ▶ Barriers to Displacing Imports
 - Huge CFS capacity expansion in China
 - New UFS PM in Portugal
 - Excess available UFS capacity in Brazil
 - US price is high compared to other regions and offshore imports, particularly UFS copy paper
- ▶ Domestic Tonnage Could Benefit from
 - Environmental certification
 - Weak dollar
 - Service, stocking, payment terms, delivery times
 - Transport costs

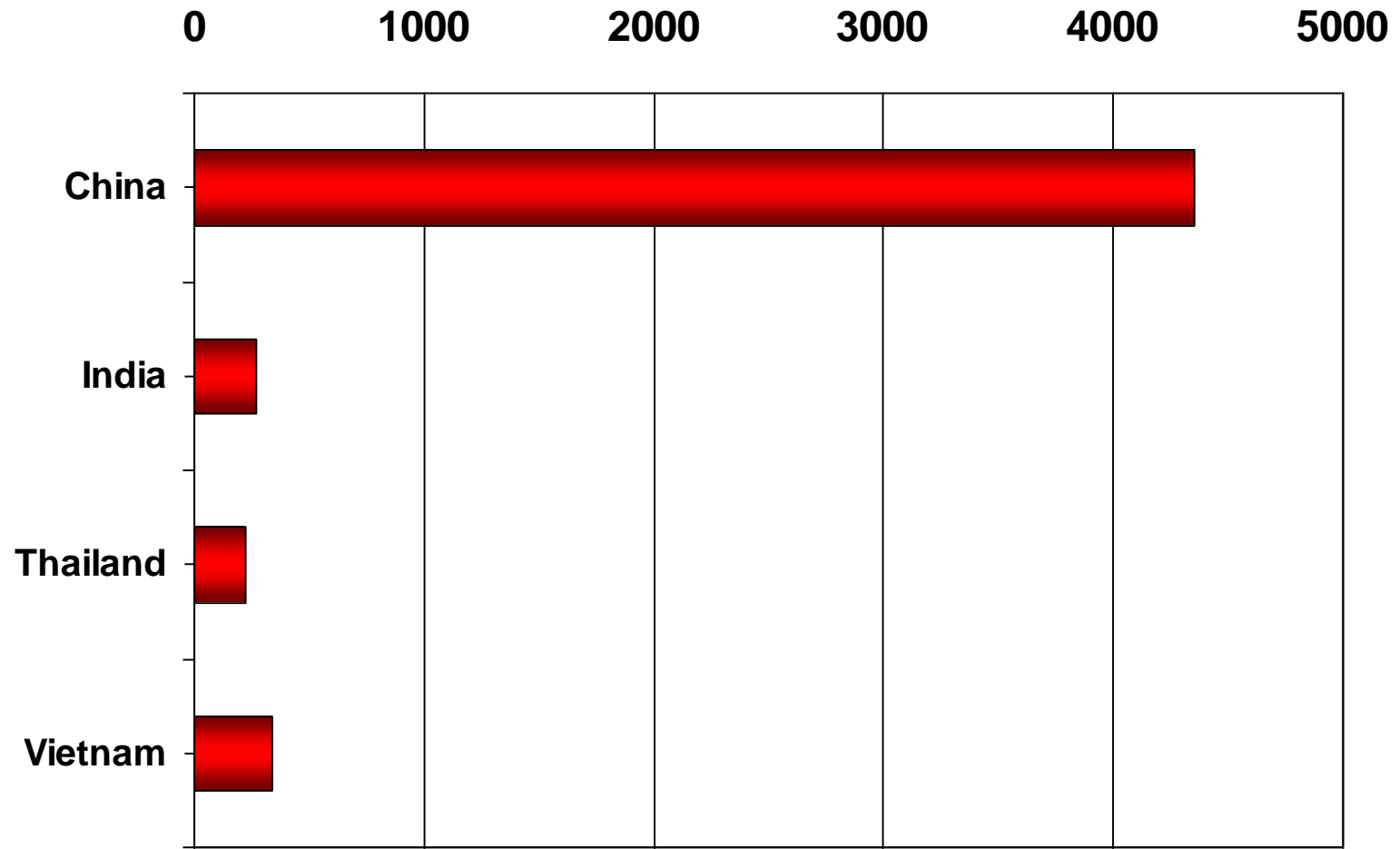
US Offshore Imports of Coated Paper -- Asian Imports Now Exceed European



Latest Month
Aug,09

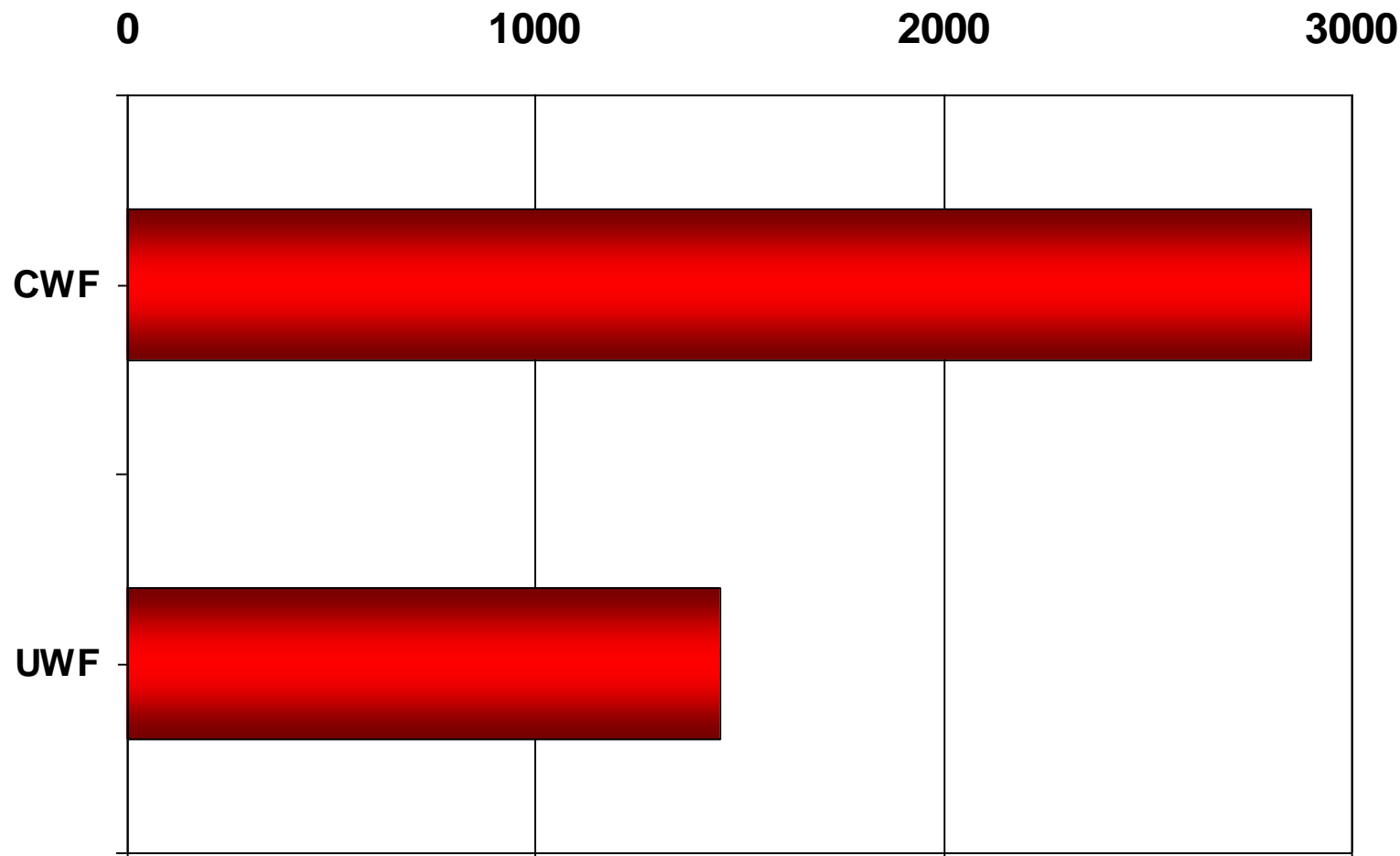
Announced Printing and Writing Paper Capacity Expansion in 2010-2011 — A New Wave in China

(Thousand Tonnes)



Announced Capacity Expansion in China by Grade

(Thousand Tonnes)

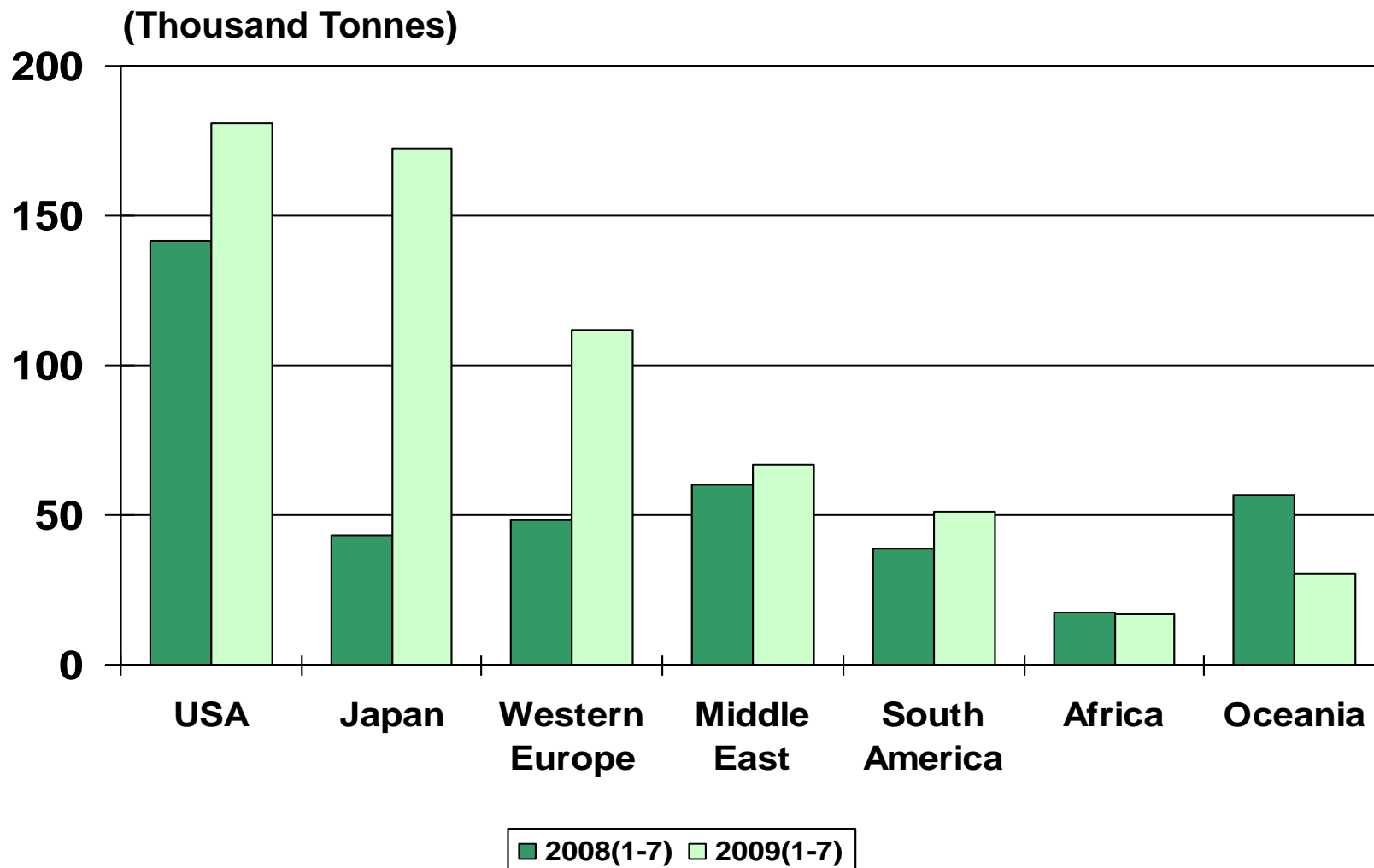


A New Capacity Wave in China in 2010-2011

(Thousand Tonnes)

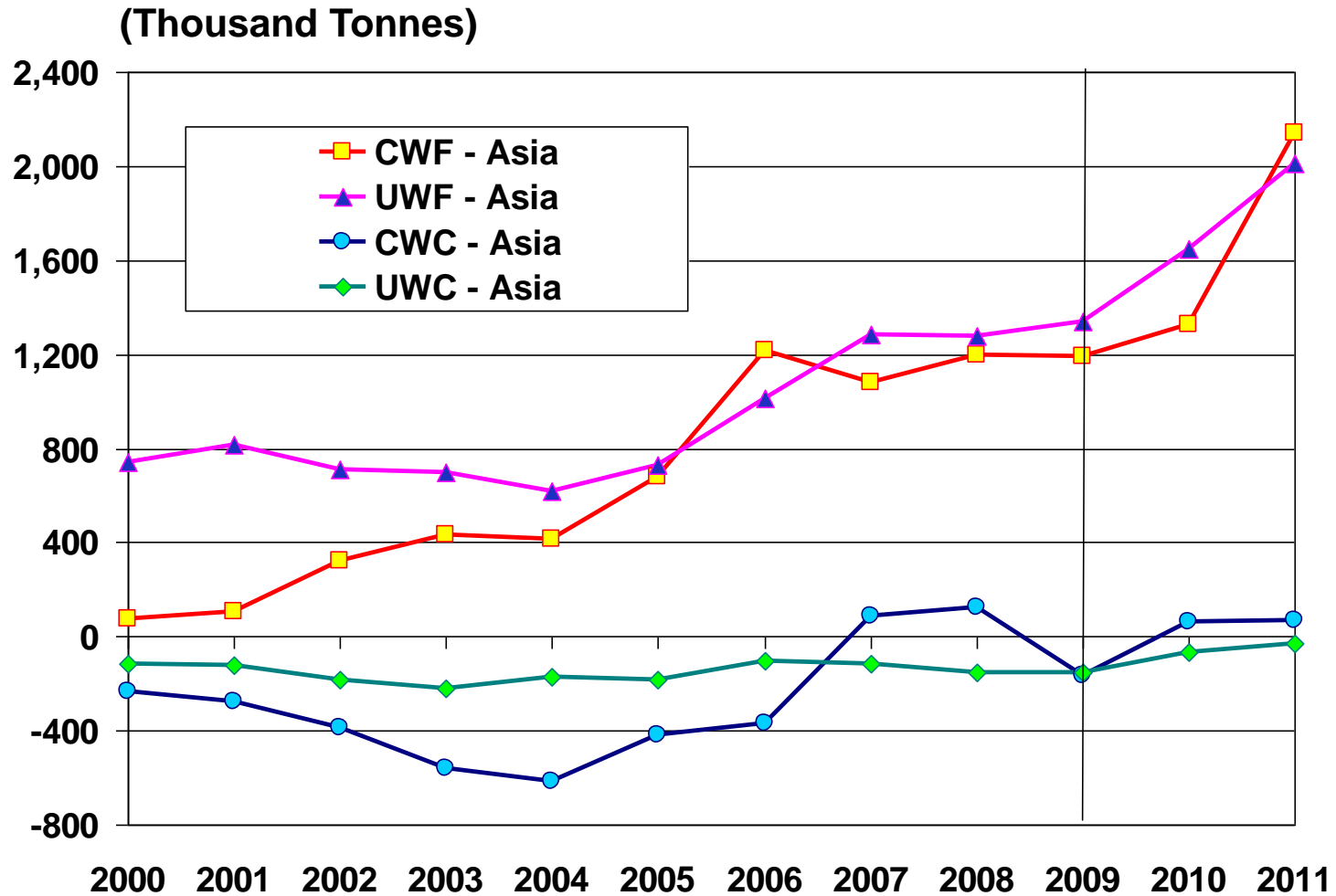
Mill	Location	Capacity	Startup Date	Grade
APP	Hainan	900	2Q:2010	CWF
OJI	Nantong	400	2010	CWF
Sun Paper	Shandong	350	2010	UWF
April	Guangzhou	450	2010	UWF
Yueyang	Hunan	200	2010	UWF
Chenming	Guangdong	450	2011	UWF
Chenming	Shandong	800	2011	CWF
Huatai	Shandong	800	2011	CWF
Total		4350		PW

The US Market Is Still the Largest Recipient of Chinese Coated Paper, But Chinese Exports to Japan Have Surged in the First Seven Months of This Year



Source: China Customs Data

Forecast for Asian PW Paper Net Exports



Round 2 – US Trade Sanctions Against Asian Coated Paper

▶ Differences This Time

- 4 Petitioners (SAPPI, Appleton Ctd, NewPage, Steel Workers)
- Excludes Korea
- Instead of using Chapter 48 Trade Codes, applies to coated sheets, 80 bright and above, or sheeter rolls
- By defining the market narrowly as above, the market share of the plaintiffs (basically APP and Sun Paper) is close to 30%, so it is hard to argue “no impact” or “no harm”
- Two mills have shut since the last case (Kimberly, Muskegon) making the case for “harm” more tenable
- Obama vs. Bush

Round 2 – US Trade Sanctions Against Asian Coated Paper

▶ Key Dates

- Nov 9th, ITC determination unanimous against China/Indonesia
- Final Commerce Dept ruling on Countervail, Dec, 2009
- Final Commerce Dept ruling on Anti Dumping, March, 2010

▶ Impacts of a Determination in Favor of the Petitioners

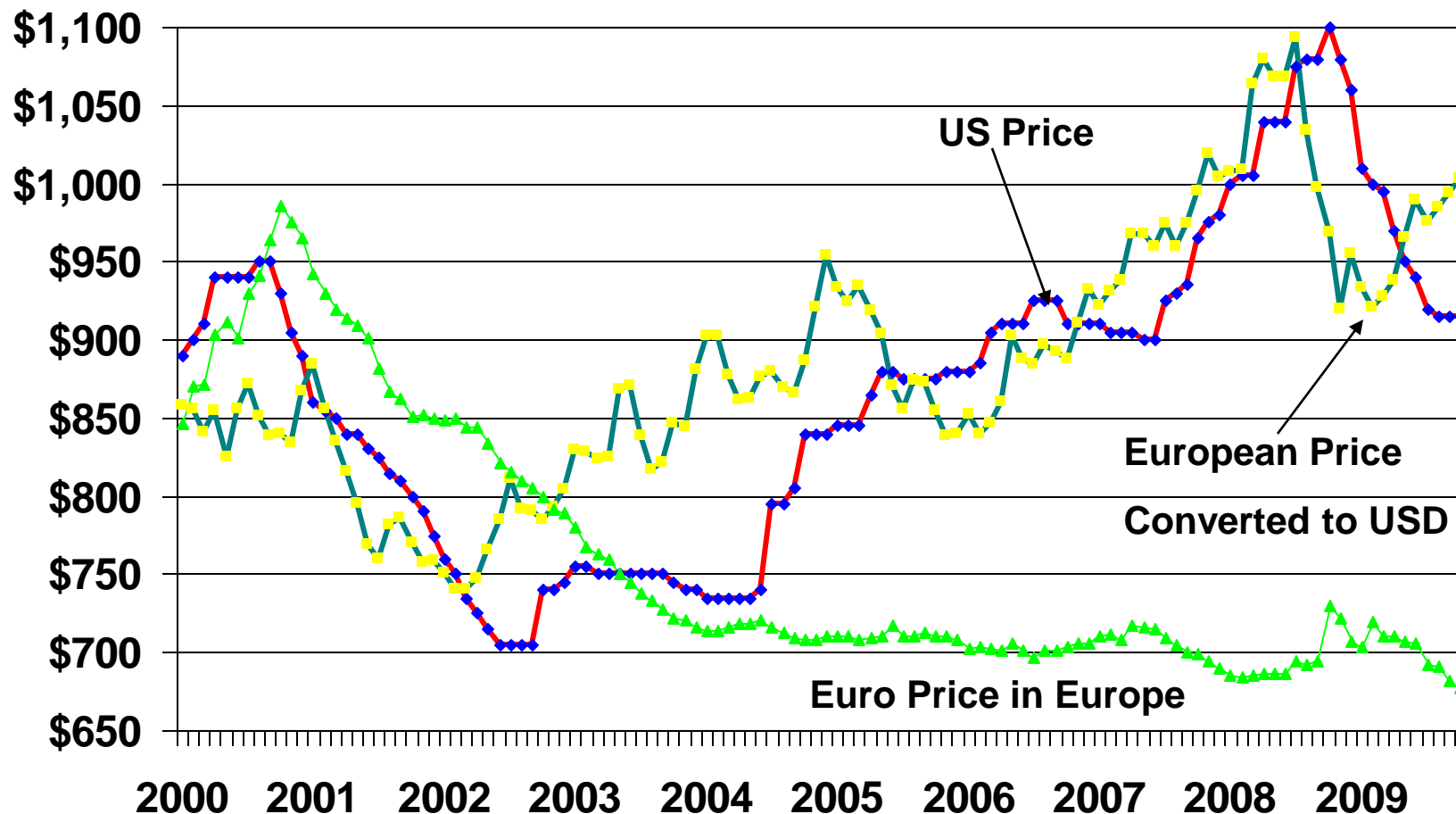
- More Korean and European tons to displace Chinese
- Chinese renewed push into rolls
- Immediate preference for domestic tons as end-users try to avoid the issue altogether
- Chinese to focus on growth elsewhere (Europe?)
- US prices for sheets increase (already going up anyway!)

What Tonnages are Involved?

US Imports from China and Indonesia (short tons)

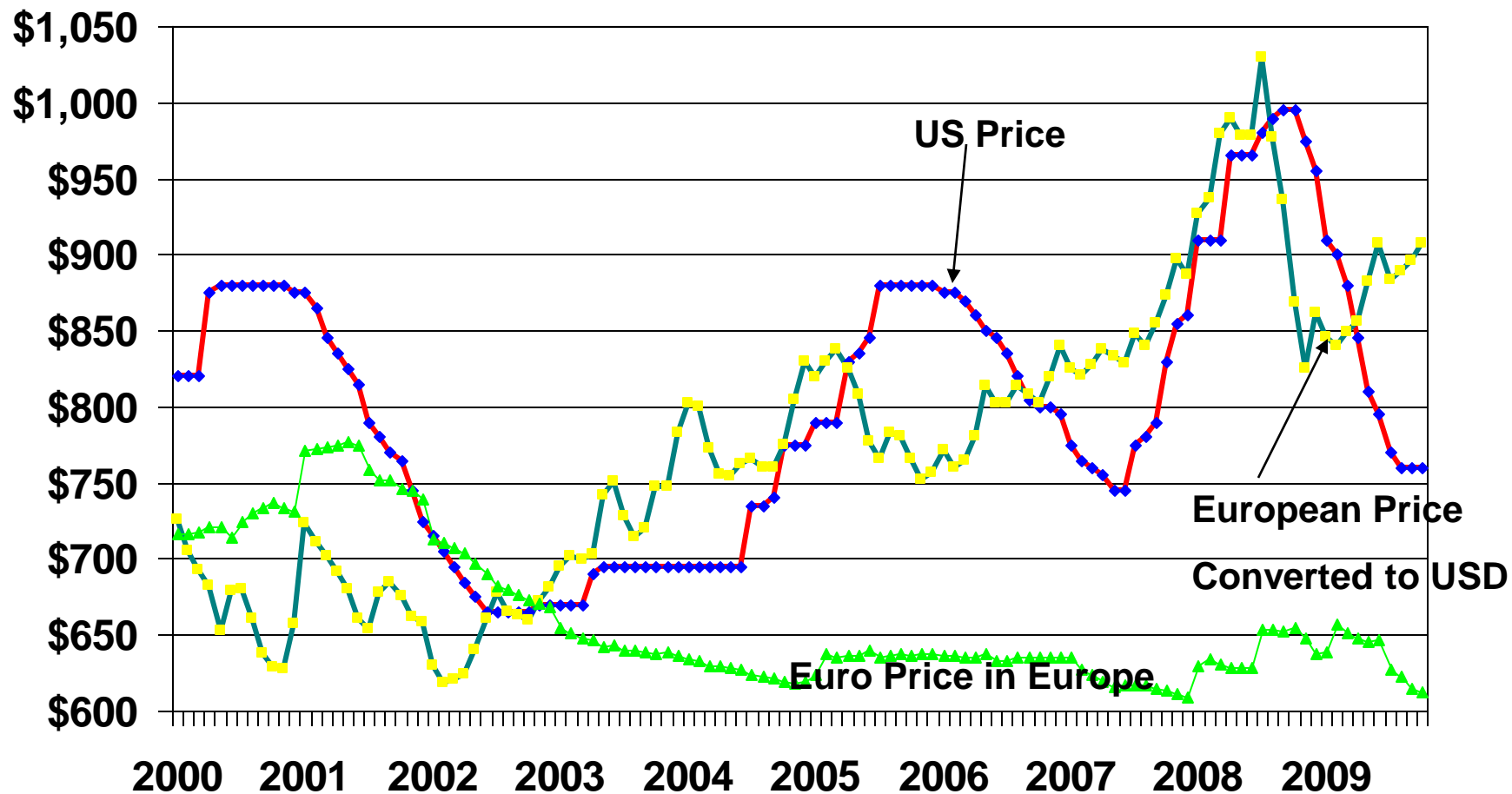
	2008	YTD 7 months 2009	YTD Growth 2009
China	291,000	196,000	+40%
Ctd. Freesheet	35,000	18,000	+34%
Ctd. BCTMP	256,000	178,000	+41%
Indonesia	53,000	24,000	-5%
Ctd. Freesheet	7,000	6,000	+43%
Ctd. BCTMP	46,000	18,000	-14%

Historical Price Trends for Coated Freesheet Paper in US vs Europe for 60 lb. (90 gsm) No. 3 or Equivalent (\$US/short ton, rolls)



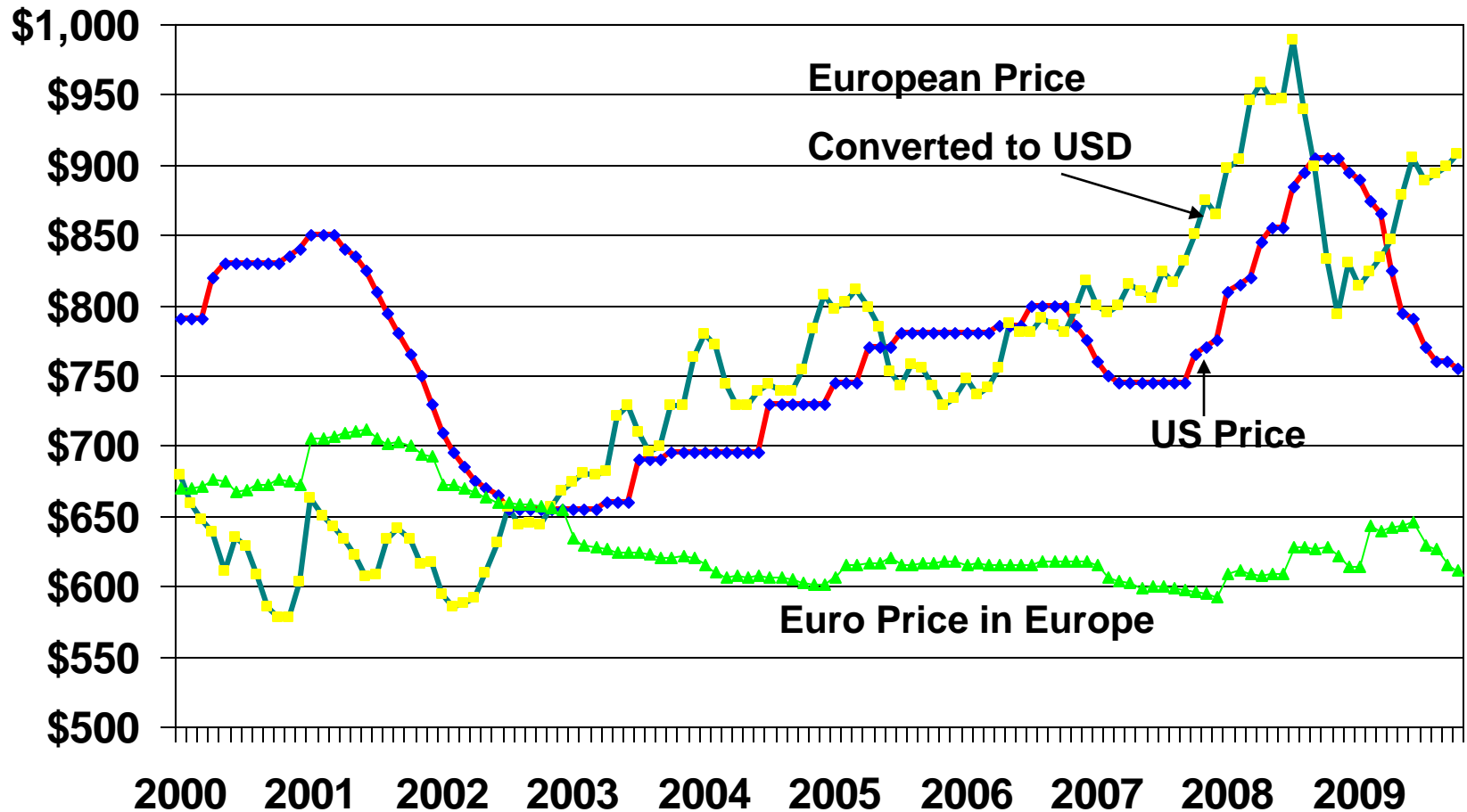
Latest month: Oct, US\$/Euro 1.481

Historical Price Trends for Coated Mechanical Paper in US vs Europe for 40 lb. (60 gsm) No. 5 (\$US/short ton, rolls)



Latest month: Oct, US\$/Euro 1.481

Historical Price Trends for SC Uncoated Mechanical Paper in US vs Europe for 35 lb. (54 gsm in Europe) (\$US/short ton, rolls)



Latest month: Oct, US\$/Euro 1.481