

NewPage

Status and Future of Pulp and Paper Industry
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 November 4, 2009

Current State of the Paper Industry **NewPage**



Past State of the Paper Industry **NewPage**

- Demand and Shipments of all types of coated paper reached a peak around 2000.
- Declined between 2000 and 2002
- Markets stabilized from 2002 through 2006
 - Capacity was reduced and cost were reduced
- Most segments were profitable 2007 to the first half of 2008
 - Related to weak U.S. dollar and cost containment

Past State of the Paper Industry **NewPage**

- Dramatic downturn in economy as a whole stated at the end of 2008
- Large impact on paper industry
 - Lower packaging demand
 - Dramatic reduction in advertising (magazines, auto industry)
 - Magazine Ad pages down 19% through Feb. 2009
- Reductions in shipments hit all grades (2007 vs. 2008)
 - Uncoated Mechanical -6.8%
 - Uncoated Free Sheet -17.3%
 - Coated Free Sheet -19.5%
 - Coated Mechanical -34.2%
- First Qtr. 2009 all coated paper shipments down 35% over 2008
- Capacity reductions started in November 2008
 - International Paper, Domtar, NewPage, Boise
- Chesapeake Corp files for Chapter 11 protection on Dec. 29, 2008
- Smurfit-Stone Container Corp. files for Chapter 11 protection Jan. 29, 2009

Current State of the Paper Industry **NewPage**

- Second Qtr. 2009 Coated paper shipments down 26% from 2008
- Decline in paper consumption may be less
 - Paper inventory at printers being consumed.
 - This de-stocking completed mid 2009
- Mid 2008 to mid 2009 approximately 2 million ton capacity reduction in coated papers.
- NewPage expected to reduce capacity by approximately 600,000 tons in 2009 (no permanent shut downs)
- Expecting some improvement in end of 2009
 - Estimated actual coated paper consumption down 15% to 20%
 - Recovery very grade specific
 - C1S doing better
 - Coated Groundwood still struggling

Current State of the Paper Industry **NewPage**

October 22, 2009

IP to shut three mills, removing 2.1M tons of North American capacity

International Paper today announced plans to close its paper mill and associated operations in Franklin, Va., and its containerboard mills in Pineville, La., and Albany, Ore.

These permanent shutdowns will reduce the company's North American paper and board capacity by 2.1 million tons.

Outlook for Paper Industry NewPage

Recovery

?



Outlook for Paper Industry NewPage


- Hope is that once economy begins to recover, coated paper demand will recover.
- Predictions for recovery vary
 - Some say may never rebound completely because of changes in advertising habits and technology.
 - The Fredonia Group Inc. the paper industry has significant room for growth in the future.
- Substantial recovery may be in late 2010 early 2011
 - The last downturn in magazine pages required three years to recover.
- If additional capacity reduction is needed the decisions will be difficult.
 - High cost, low production mill already closed
 - May be necessary depending on demand recovery and global paper capacity.

Industry Issues NewPage

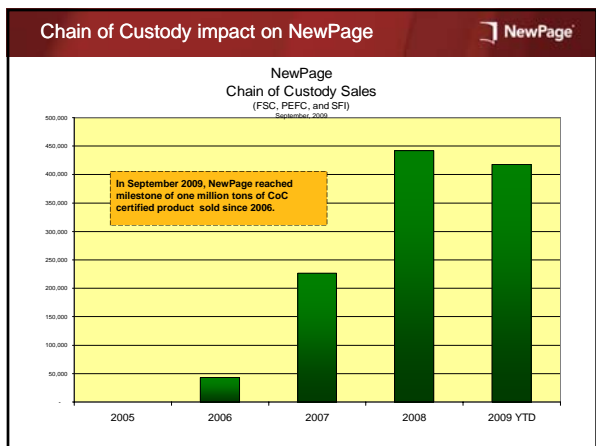
- Foreign Competition
 - Excess capacity from Asia (China, India, Indonesia)
 - Moving directly to the U.S.
 - Moving to Europe and forcing European capacity to the U.S.
 - Many foreign mills are newer, faster, wider.
 - Lower labor cost, high freight and wood cost.
 - No new integrated virgin fiber mill in U.S. in over 17 years.
- NewPage files antidumping and countervailing duty petitions covering imports from China and Indonesia
 - Joined by Appleton Coated LLC, Sappi Fine Paper America, United Steelworker of America.
 - International Trade Commission expected to rule in November 2009
 - Department of Commerce expected to act in Dec. 2009 and March 2010

Industry Issues NewPage

- Demand for Chain of Custody Certified paper
 - Demand is not for all grades of paper
 - Demand created by Forest Ethics Catalog Campaign
 - Lands' End/Sears, LL Bean, Williams-Sonoma/Pottery Barn, Limited/Victoria's Secret, J Crew, and JC Penney named as leading targets for the next phase of campaign



- Primarily demand on coated printing paper (magazines, catalogs, mailings)
- Started as demand on specific orders
- Now companies providing CoC on full product lines as a competitive tool
- **Requires an increase in Certified Land**



Conclusions NewPage

- Paper industry impacted hard by economic downturn
- Industry impacted by reduced consumption
- Industry impacted by foreign competition
- Recovery will be slow and uncertain
- U.S. paper industry is still a viable industry and it will survive.

Certification Introduction NewPage

Forest Certification and Chain of Custody

Types of Certification NewPage

Forest Certification

- Applies to field operations and land management
 - SFI has a Procurement System certification
- Acts as a "seal of approval" for forest products
- Designed to ensure sustainability



Chain-of-Custody Certification


- Applies to manufacturers, processors and distributors
- System to track raw materials from certified forests through the production process
- Allows for labeling or trademarks



Forest Certification NewPage

Major Forest Certification Programs

- Sustainable Forestry Initiative (SFI)
- American Tree Farm System (ATFS)
- Forest Stewardship Council (FSC)
- Canadian Standards Association (CSA)



All contain a set of standards

- Written Documentation
- On the ground Practices

Independent Third Party Verification

- Auditors insure compliance with standards
- Issue certificates

Chain of Custody NewPage


- Chain of Custody is a **tracking system** for the fiber that it utilized in the manufacturing of a forest product
- Chain-of-Custody – is the system and process; designed by manufacturer
- Product claims – on-product and off-product; strictly controlled by the standard developer
- In order for a printed piece to display the certification label, all steps in the value chain must have certification or the chain is broken.

- Independent, "third-party"** certification bodies evaluate both forest management activities (forest certification) and tracking of forest products (chain-of-custody standard).

Chain of Custody – How it works NewPage

Major Chain-of-Custody Programs

- Sustainable Forestry Initiative (SFI)
- Program for the Endorsement of Forest Certification (PEFC)
- Forest Stewardship Council (FSC)




All contain a set of standards

- Written Policies & Procedures
- Documentation
- Trade Mark and Labeling requirements
- Controlled Wood Standards


Independent Third Party Verification

- Auditors insure compliance with standards
- Issue certificates


Chain of Custody – Review NewPage




Certified Fiber




Chain of Custody Certified Mill




Certified Product



Non Certified, but Controlled Fiber & PCW; no wood from Controversial sources






Sustainable but not certified Product

Every month we track how much certified fiber was used at each mill and add that to our "account". Certified sales are subtracted from the account.

Certification Programs NewPage

- SFI – Sustainable Forestry Initiative
- FSC – Forest Stewardship Council
- ATFS – American Tree Farm System
- PEFC – Program for the Endorsement of Forest Certification
- CSA – Canadian Standards Association



Two Additional Certification Concepts NewPage

Group Certification

SFI Fiber Sourcing Certification

Group Certification NewPage

- Specific Guidelines that apply to Land Mgt. or Chain of Custody
- Group must be formed and identified
- Regular standards are used with some modifications
- Some standards may be met by the group entity, others met on an individual basis
- Annual audits still required
 - Sample of group members audited each year
 - Expenses can be shared by all group members
- FSC – Land Certification
 - Family Forest Guidelines for properties under 2,470 ac.
- FSC – Chain of Custody
- Tree Farm Groups

Fiber Sourcing Certification NewPage

- An SFI Program
- Also referred to as "Procurement Certification", "Responsible Fiber Sourcing"
- This is **not** Chain of Custody Certification
- SFI recognizes that only 10% of our forests are certified.
- What is happening with the remaining 90% of our forests?
- SFI trying to set some minimum standards for Companies who rely on the remaining 90%
- Requires companies to be involved in
 - Landowner and public outreach
 - Logger education
 - BMP monitoring
 - Staff education




Sources of Certified Fiber NewPage

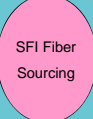
Certified Fiber
(Audited by a Third Party)

Sources of Certified Fiber NewPage

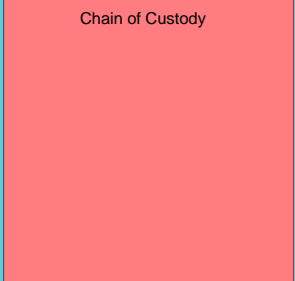
Certified Fiber



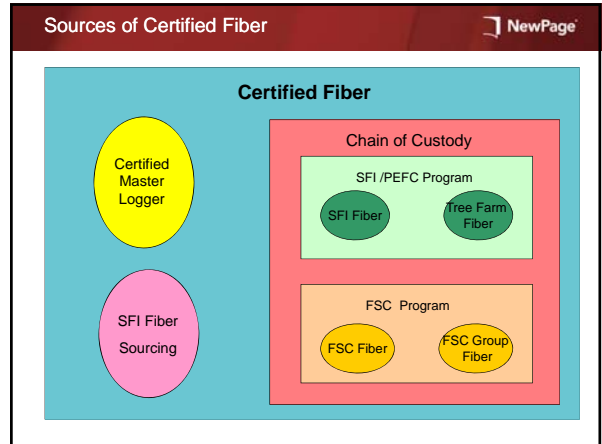
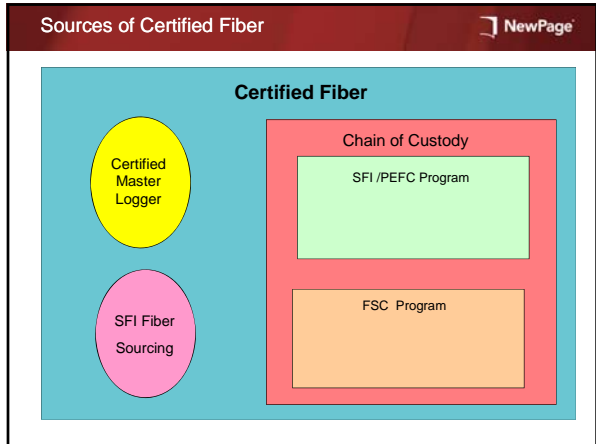
Certified Master Logger



SFI Fiber Sourcing



Chain of Custody



Forest Certification Introduction NewPage

Thank You
Questions / Comments