



David Kirk, Chief Executive Officer PMP, has successfully created optimism for investors and analysts in the future for the company. He discusses how he sees the development of the printing industry with IndustryEdge, and the strategic direction for PMP. See Page 3

### Why Australian Paper has to Spend AUD32M

When PaperlinX announced its results for 2003/04, it stated that there would be an investment of approximately AUD32M to upgrade PM1 at Maryvale. In one sense this announcement surprised the market since Australian Paper spent more than AUD10M just over a year ago to upgrade the semi extensible Clupak unit on the same machine. However, while the additional investment is necessary to meet new market performance specifications for extensible sack kraft, the timing is not opportune, coming on the back of a period of low prices.



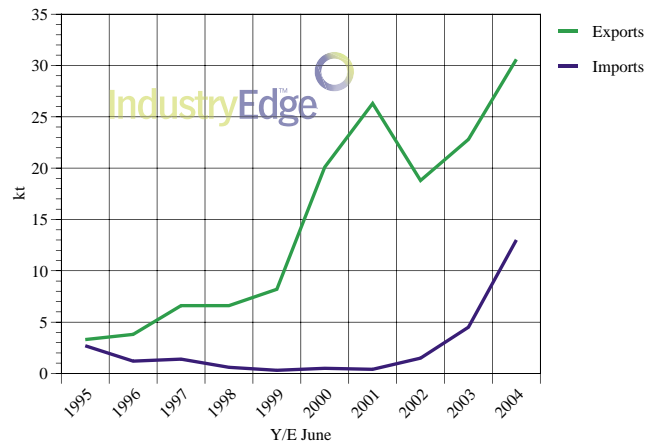
Cement Filling Station

Australian Paper became aware of the problems with the new semi-extensible product around September 2003, which was followed quickly by some attempts

to change the papermaking process to get the specifications correct. By January 2004, it was clear equipment would need to be replaced. Tom Park, Chief Executive Officer, PaperlinX, wanted to remain the major supplier of extensible kraft to the market, producing a product in the top quartile for quality. The project team was to consider what equipment was definitely needed and what could be justified, with technicians making two overseas trips in the period leading up to the Board submission in August 2004.

PM1 at Maryvale is an old machine, being originally commissioned in 1940, but technically it is not much different to most other paper machines manufacturing sack kraft around the globe. IndustryEdge understands that it is not uncommon for sack kraft machines to be 30+ years old, with many being built between 1930 and 1950. PM1 is of a modest size, with a capacity of only 60 ktpa, but this is more than sufficient to supply the Australasian market, and to seek export opportunities for additional sales. The Australian market for sack kraft is approximately 30 ktpa. Imports of sack kraft in 2003/04 were approximate 12 kt.

### Imports & Exports of Sack Kraft: 1995 - 2004 (kt)



Source: ABS

Specifications for sack kraft have changed due to a tightening of OH&S standards, especially for restrictions on what people are permitted to lift. Five years ago it was acceptable for people to lift and carry sacks weighing 40 kgs. This was reduced to

25 kgs, where it currently remains for many industries, but for some sectors, such as bakery franchises, the weight of the flour sacks has been reduced to 15 kgs, or even 12 kgs in some instances.

Market segmentation is principally between food (eg: flour), dairy (eg: milk powder) and industrial (eg: sand or cement). The milk powder sack market has been reduced by almost 30% due to the impact of the drought. During periods of normal dairy production, large quantities of milk powder are exported, with the majority being in sacks.

The intrusion of plastic into the sack kraft market has been successful for nursery products, especially potting mixes, and for some industrial products. For domestic use, plastic bags replaced paper bags/sacks for supermarket shopping, increasingly from the 1960s, hence the vintage of most sack kraft machines. However, the disadvantage of plastic is that it does not let air escape easily during filling (porosity) for industrial purposes, so further application of plastic in the sack market is limited.

As stated, the specifications for sack kraft are changing, and already international manufacturers are able to meet these, while also reducing the number of plies and sheet grammage. Australian Paper either had to pull out of the sack kraft market, which would likely have caused major problems for many of their converters, or reinvest and re-engineer its product to world standard.

Apart from the quality of the sack kraft improving, increased efficiencies will have to be derived from the ageing machine, thereby reducing unit costs.

From the technical perspective, the upgrade will include a new headbox, which will include a dilution profiling system, new fan pumps and approach flow screens. There will be new fourdrinier elements and a high consistency refiner to allow the machine direction and cross direction ratios to be balanced in order to achieve higher tensile energy absorption. Additional vacuum capacity will be introduced to remove a greater proportion of water before the sheet enters the driers, and there will be an upgrade of the winder. One of the problems PM1 has had has been edge crinkle, consequently work will also be undertaken to improve the tension in the sheet.

From the estimated AUD32M for the project, approximately AUD6M will be spent on high and low consistency refining.

PM1 uses semi-chemical pulp and softwood kraft pulp, both of which are produced integrated on site. IndustryEdge understands the fibre for this pulp mix is sourced from plantations, which should assist in reducing unit costs as at least 25% of production is exported into a low cost Asian market.

Apparent consumption of sack kraft in South East Asia is 270 ktpa, with Indonesia accounting for 47%, Vietnam 21%, Malaysia 16% and the Philippines 15%. On a sectorial basis, 60% is used for building materials and 16% for chemicals including fertilizers. Growth in the South East Asian market is approximately 4% pa.

To fully understand the changed specifications, Australian Paper worked with Amcor St Regis Bates, their largest customer, which has a good knowledge of both domestic and international requirements. It is not going to be practical for Australian Paper to produce multiple grades of sack kraft, so the two companies worked to segment the market to design relevant attributes for each stage and then meld them into a single product.

The project is scheduled for completion by October 2005. The challenge for Australian Paper will be to regain its previous share of the Australian market (approximately 75%) by meeting or surpassing market specifications. At the same time it will need to meet the internal rate of return for the investment, while also reducing unit costs sufficiently to compete against imports and make headway in the South East Asia market.

### **Amcor Consolidation of Existing Assets**

When announcing results for 2003/04, Russell Jones, Managing Director, Amcor, stated "After nearly six years of reshaping and building the organization, the next two years will be focused on optimising returns from the existing asset base". IndustryEdge understands these comments were directed more at consolidating the previous rapid expansion in both the PET and Flexibles businesses internationally, however, it is also understood that there is no immediate consideration for any investment of the Australasian fibre-based businesses.

In 2003/04, 54.5% (AUD1 382M) of Amcor Australasia's sales revenue was derived from the fibre containers and cartons businesses, a reduction in proportional terms from 2003/04, when 55.7% (AUD1 369M) came from these businesses. From the figures provided by Amcor, the sales income of Amcor Australasia grew by 3.4% between the two years, which is almost exactly the same as the change in GDP, while income from the fibre and carton businesses increased by only 1.8%.

During 2003/04, the drought impacting some regions of the eastern seaboard in Australia meant there was a fall in demand for fibre packaging from many primary producers. In particular the fruit, vegetable and dairy sectors suffered a reduction in production.

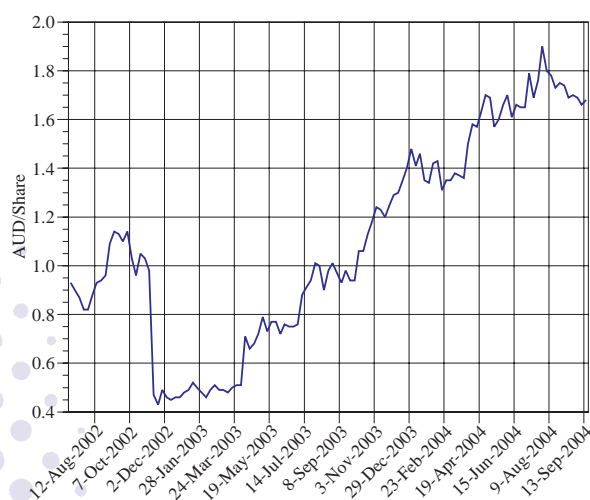
## Kirk's Initiatives Puts PMP on Comeback Trail

*David Kirk, Chief Executive Officer, PMP, formally stepped into his current role in March 2003. Not having a background in the printing industry has enabled him to start afresh without being encumbered with many of the problems the sector has experienced in the past. In a competitive and fragmented industry, he has developed and implemented a number of initiatives that have resulted in change at all levels of PMP, and a quadrupling of the share price in eighteen months.*

In the last six months of 2002 PMP struggled with some major operational weaknesses, especially with costing and linking sales with production. In November 2002, the previous CEO announced an AUD30M downgrade in earnings, and in December 2002 Bain International was asked to undertake an analysis of the company's performance.

The impact of the announcement of the profit downgrade on shareholder value is evident in the following chart, with the share price falling almost 60% to AUD0.40. After a month at PMP, Kirk announced the Bain International report had identified a number of 'performance improvement opportunities that should result in earnings benefits of AUD30M for 2003/04'.

**PMP Share Price Movements 1 Jul '02 - 13 Sep '04**



Source: ASX

EBIT rose AUD20.9M (39%) for 2003/04 against the previous year, this being achieved against a fall in sales revenue of 3.5% due to closure or the sale of some businesses and a reduction of

borrowing costs of 9.5%. Net profit after significant items was up 12.7% to AUD17.5M.

To maintain the improvement in value in the printing business throughout the market cycle, Kirk has a strategy to focus on the core businesses, not compete where there are few barriers for new entrants, standardise dispersed services and build the business in areas of higher population growth.

### Printing Industry Generally

For the industry generally, Kirk believes demand for printing and related services is solid leading up to the end of 2004. So long as economic conditions remain positive, then he sees the improvement in the industry being sustainable. However, he also told IndustryEdge he is aware market conditions are cyclical, and therefore demand industry-wide will vary with time.

While there are opportunities for both sheet-fed and reel-fed printing, Kirk sees PMP's immediate future as focused on heatset reel-fed printing. With changes in printing technology, and with other forms of media competing for publishing or advertising expenditure, he believes companies need to focus on what they do best, while being aware of changing market demands.

He is positive about the printing industry, and wants to position PMP to benefit from innovative changes in the way the provision of services between printers and customers are evolving. He sees sheet-fed printing as more fragmented today and having lower barriers to entry than web. He believes Web printing is more sustainable in its current format.

### Changes to PMP Limited

During the past year there has been a substantial improvement in the financial performance of PMP and Kirk has remained focused on upgrading the operations of core businesses. Primarily, this has entailed improvements in sales and marketing and linking these with production, the closure of under-performing sites such as Hawthorn and Geelong, and a review of the performance of sheet-fed and heatset facilities.

These initiatives are part of improving the return on capital, and continued streamlining of the printing business, which may include capital investment in new presses and retiring inefficient or inappropriate ones. Kirk says this process is not a one-off

project, but rather will be a process of continuing change. Along with the equipment, significant staffing changes have also been made over the last year.

Kirk said there is a strategy to continue to consolidate and improve the performance of PMP, and to strengthen its position in selected market segments. He sees limitations for companies which solely remain as printers, without seeking to address other areas of the value chain. For PMP, he wants the company to evolve more into a provider of a range of media services for customers in the printed communications market space.

PMP will increasingly be able to work with customers by providing increased integration through better use of information technology. Market requirements will be for greater targeting, format flexibility, quality, consistency and speed-to-market. In the future, he believes this will require printers to have the right equipment in the right places. Kirk says the publication of magazines and catalogues will remain a strong basis for direct or select advertising. While some pundits believe the internet will be a major source for the provision of advertising, Kirk says this is more likely to be for classifieds targeted at a diverse audience, such as job seekers. However, for product specific classifieds, such as for cars and other personal items, the growth in the use of the internet will be limited by the continued use of interest and life style-specific magazines and catalogues.

### **PMP Printing Business**

In 2003/04, PMP increased the volume of heatset web printing by 9%, while also driving efficiency gains and cost reductions. Lower paper prices (paper is bought and price changes passed through to customers) resulted in revenue remaining flat.

Four new web presses have been purchased. They should be shipped to Australia at the end of 2004 and commissioned by September 2005. Kirk said there is a need for continuing improvements in the quality of services, and along with internal efficiency gains, the new presses are part of this program. No existing capacity will be removed until the new presses are fully operational. The overall capacity increase has been described as 'modest' which suggests some capacity will be removed by PMP to make way for the new presses..

Two examples given by Kirk for business improvements are reducing the time to market and achieving consistent colour across the nation, regardless of location. Both of these are operational issues and as such are part of on-going service delivery improvements. However, where demand is greatest there is a strategy to locate printing operations close to the

end market. Therefore, at least three of the new presses will be installed in Sydney and one in south-eastern Queensland.

The focus is on building the web printing operations. Kirk says this is a core business and it is what PMP does well. The company is in a good position with a high market share, its advantages are sustainable and its market base is well established.

PMP has exited stand-alone coldset printing, and is reviewing its sheet-fed operations. There is also no emphasis on investing heavily to build market share in digital printing. Kirk told IndustryEdge the barriers for new entrants to digital printing are low, and while digital printing is an important part of the overall PMP offer, there are no plans for significant new investment.

### **48 page A4 Lithoman Press, Clayton, Victoria**



*Source: PMP*

### **Catalogue Production and Letterbox Distribution**

PMP has been successful in maintaining a large proportion of the catalogue production and letterbox distribution market. Kirk said PMP will continue to seek opportunities to grow this core business. Growth will be through both developing the market and providing additional or extending current services.

IndustryEdge referred again to competition from the internet and the impact it may have on the use of catalogues. However, Kirk said the catalogue market was strong and it continues to expand because they have been proven to increase store traffic. Catalogues are a local and direct form of advertising. On a national basis there is some credibility for the use of the internet for marketing. However, for the suburbs and regions the use of relevant printed matter delivered to the household, or business, is more effective at increasing sales.

One of the initiatives taken by Kirk in 2003/04, has been the combination of PMP Distribution and Pacific Micromarketing into a single business, PMP Direct.

## Print Management

PMP Print Management Solutions lost a major customer during 2003/04, however, Kirk is positive about this business and sees market growth in the future.

Very large customers using the printing industry have, historically, worked directly with one, or at least only a few, printers and have generally worked in a close supplier/provider relationship. However, Kirk said the growth market for print management is in sheet-fed with corporates that need to outsource a significant amount of printing, since the volume is too great to bring in-house. There is less evidence of long-term relationships being maintained between specific printers and clients in this sector.

Even though PMP is a large printer, Kirk says the print management services provided by PMP are transparent. Independence is assured as the PMP service is administered by a panel process, providing a transparency back to the client. PMP does outsource a range of the work it receives through its print management business, since virtually all of the work generated is for sheet-fed printing. The size and nature of web printing is more conducive to the establishment of longer term contract printing.

## 48 page Lithoman Press - Moorebank, NSW



Source: PMP

## Magazine Distribution

The PMP magazine distribution business in Australia (Gordon and Gotch) experienced some difficulties in 2003/04, however, Kirk explained to IndustryEdge that the issue was with poor implementation of a specific process change for the management of magazine returns. Kirk said the procedure has been fixed,

and that the Gordon and Gotch business will generate a positive return in 2004/05.

The purchase of Gordon and Gotch in New Zealand in the first week of September 2004, was a strategic move to expand the business across the Tasman. In the short-term Kirk said there are not likely to be cost reduction synergies between Gordon and Gotch operations in Australia and New Zealand, but service improvements will arise once the synergies of best practice and improved customer service have been achieved.

IndustryEdge made the point that magazine readership has recently improved. However, while Kirk agreed, he said that this is cyclical since it competes against other forms of media and discretionary expenditure. A major focus for PMP will be on supporting the major titles and growing their distribution.

## Conclusion

Since taking over management of PMP a little more than eighteen months ago, Kirk has implemented a number of change strategies across the company. While most of these have been focussed on improving efficiencies and cutting costs, there has also been investment to grow the business.

In the printing sector the focus will be on web printing, while the sheet-fed businesses will continue to be reviewed. PMP has recently committed to an investment in four new web presses, which is a demonstration that while Kirk is chasing efficiencies, he is also looking to position PMP to provide the level of quality and service to best meet future demand.

Kirk is committed to continued growth in the printing and distribution of catalogues. While there are other forms of media competing for some of the advertising expenditure, catalogues are effective at increasing in-store traffic. He is confident there will be sustainable demand for this form of advertising, while there may be changes in the form it takes in the future.

The print management business is expected to grow over the long-term, incorporating a working relationship with a number of other printers. However, there will almost certainly be changes in the structure of this business as the demand for print moves through cycles.

After eighteen months Kirk is able to demonstrate the increased returns on the initiatives he has undertaken. The change process is not complete, with PMP continuing to invest in some sectors, and exiting from others, while the emphasis will be the provision of solutions for printing and related services in markets where PMP has a sustainable advantage. ❖

The successful AUD55M upgrade to the Petrie plant was completed in 2003/04, thereby positioning Amcor Cartonboard well for the provision of quality cartonboard to meet future market expectations. Amcor Cartonboard established a productive partnership with Voith, which was fundamental to the success of the upgrade. However, for the rest of the fibre packaging business at Amcor, no strategic investment is contemplated to position Amcor for changes or growth in future market requirements.

During 2003-04, Amcor has been reviewing whether or not to rebuild the paper machines at the Botany Mill in NSW. IndustryEdge understands that Amcor is continuing to review its options. While no decision has been made at this time, there appears to be no chance of any major project by Amcor in fibre packaging in NSW in the near future.

## PaperlinX Results

The financial results for PaperlinX over 2003/04 were below market expectations. However, many of the negative factors impacting PaperlinX during the last year are expected to diminish as the market moves out of an extended trough in the cycle.

From the positive perspective, the acquisition of the Buhrmann Paper Merchandising Division (BPMD) was completed on 1<sup>st</sup> November 2003, making PaperlinX one of the world's largest fine paper distributors. The integration of BPMD has been completed at a time when paper demand and prices have been depressed, even though signs that the market is recovering are now more apparent. The full benefits from the synergies generated by the integration of Buhrmann are expected to be more evident during 2004/05. However, if the synergies are not maximised during an upswing in the market, then opportunities for PaperlinX to do so during the down side of the cycle would be considerably reduced.

To illustrate the extent of the difficulty PaperlinX has experienced with merchandising during 2003/04, the volume of paper sold increased by 107% against 2002/03, due almost entirely to the acquisition of BPMD, however, revenue from paper sales last financial year only rose 87%.

PaperlinX reports that BPMD is meeting performance expectations, and that after tax the net contribution is ahead of expectations. However, at the time of the acquisition there was a deferred consideration clause in the contract which stated that there would be an additional EUR26M payment to Buhrmann if the performance of BPMD (EBITA) during 2003 was above an undisclosed benchmark. The payment would have been due

in July 2004. There is no mention of the deferred consideration payment in the PaperlinX financial results, and IndustryEdge understands the payment was not required to be made. Since the original terms of the agreement about the additional payment were not made public, it is not possible to analyse real performance against the contract benchmark.

Despite sluggish global demand, PaperlinX reported increased sales volumes in all major merchandising markets, however, due to excess global supply selling prices have been perilously low for both merchants and manufacturers. While global demand is improving, even though the upturn in Europe is behind other regions, price recovery is not going to occur at the same rate as the rise in demand, since there is also increasing supply, especially in China.

The impact of low global prices in the domestic market has been exacerbated for PaperlinX by the strength of the Australian dollar against the currencies of many paper producing nations. PaperlinX report that reduced Australian selling prices, lower export revenue, the translation of overseas earnings (even though this was partially offset by lower pulp prices) had a negative impact of AUD60M on PBIT. The AUD was on average 20% higher against the USD in 2003/04, than in 2002/03.

The Packaging Papers segment of Australian Paper had a disappointing year, with sales volumes down 6 kt to 330 kt, a loss of 3% of the Australasian market, a drop of AUD21.4M in revenue and AUD32.3M in profit. The major problem was performance in the sack and bag business, caused by manufacturing issues, poor demand and low market prices.

The other part of Packaging Papers, the linerboard business, maintained profitability. IndustryEdge understands that an estimated 80% of the production of linerboard from PM4 at Maryvale is sold domestically, however, exports increased in 2003/04, while export prices fell, which was made worse by the strengthening AUD.

To maximise the benefits of a predicted strengthening market for printing and communication papers during 2004/05, PaperlinX announced in its annual results that it will be investing in a relaunch of the *Reflex* brand, with the intention of securing market share and positioning itself for future growth.

## SCA Structural Change

IndustryEdge understands that SCA has taken the decision to close BPM2 at Box Hill permanently. This machine has been mothballed for a period of time, only starting occasionally for maintenance purposes, or to replace other capacity on a temporary basis.

SCA has carried excess capacity (six machine) in New Zealand and Australia, and to better rationalise supply with demand, will close BPM2 in December 2004, and will also shut down a converting line, CW108 which is excess to requirements, in March 2005.

The closure of these operations is expected to generate some structural changes.

## **Kinleith Closed for Maintenance**

The Carter Holt Harvey (CHH) Kinleith mill, in New Zealand, has shut for approximately two weeks starting from 6th September. The scheduled shut is for ABB and CHH to perform maintenance to the No 1 pulpmill, No 5 recovery boiler, the cogen plant and the No 6 papermachine.

There was a shut for nine days at Kinleith during May, which was also for scheduled maintenance.

As a major part of its strategy to implement efficiencies and make the Kinleith mill world competitive, CHH out-sourced much of the maintenance work for the mill to ABB in mid 2003. Negotiations to complete the outsourcing for the maintenance took a number of months, and after a period of industrial action by some sectors of the workforce, a resolution was eventually obtained.

Efficiency at the mill has risen considerably, with production for the six months ending December 2003 reaching a record level at 286 883 tonnes, then being surpassed for the half year ending June 2004, with a new record of 291 333 tonnes.

CHH has a strategy for its operations at the Tasman mill to replicate the efficiency gains it has achieved at Kinleith, including the outsourcing of its maintenance at Tasman to ABB.

## **Paper Pricing Stronger but Pulp Down**

Paper prices are at last struggling out of an extended trough, where non-integrated producers were being squeezed as pulp prices rose. Not only are paper prices starting to strengthen, but pulp prices are becoming softer. The question is how long will these recent trends last. One of the drivers for pushing up paper prices has been the high cost of pulp.

Paper prices in North America have been rising since March quarter 2004. However, the recovery in demand for printing and communication paper in Europe has been slower than across the Atlantic, but the market there has now started to lift.

After being notified by all European paper producers of price increases, Map Merchant Group, part owned by M-real, has announced prices will rise by between 5- 8% from 4th October 2004. UPM Kymmene announced a 5-8% increase for its coated mechanical grades, in

August to be effective from September. Other producers have also indicated prices for magazine grades are to rise. Early indications in Europe are that the price increases are sticking, even though generally they are 1-2% below the announced increases. Further increases are anticipated before the end of 2004.

The economies of North America and Europe have improved over the last twelve months. This has assisted the increase in demand for printing and communication grades, in North America shipments are up 5.7% year-to-date, and in Europe by 6.4%. In both regions, there has been a major increase in demand for coated woodfrees, which has been tempered by a smaller, but still positive, increase for uncoated woodfrees. However, the issue that may slow the market improvements is the rising cost of energy, especially oil. It is for this reason that the weaker pulp prices may have little impact on slowing the rising prices for paper, since manufacturing and distribution costs combined are rising faster than the fall in pulp prices.

The average cost of freight for a twenty-foot container was roughly USD700 a little over a year ago. Now the cost has increased to approximately USD1 300. Assuming a twenty-foot container holds close to sixteen tonnes of paper, then it is reasonable to claim the average cost should be at least USD40/t dearer for freight alone. The cost of freight is expected to continue to rise, not only because of energy costs, but also as the security arrangements in international ports generate costs which are passed back to shippers.

Paper price increases have already been announced in Australia, generally being in the range of 5-8%. However, these are not expected to have much impact until the fourth quarter 2004, as lower priced stock is run down. Prices from Australian Paper are expected to rise by the same extent, since PaperlinX has already announced one of the causes for it not achieving its target profit was low import prices. The slightly weaker AUD against the USD, will be another impetus for import prices to rise.

Pulp prices, as stated, are still heading south. NBSK has fallen for the 10th consecutive week, down by USD33.98/t or 5.1% from the peak of USD661.68/t. BHPK has fallen for 11 weeks, down USD46.52/t or 8.3% from USD557.94/t.

The closure of pulp mills for maintenance during the northern hemisphere holiday period has reduced supply, while demand has risen due to improving economic conditions in Europe and the USA, establishing a better balance between supply and demand. However, the change is not expected to bring much price relief to pulp suppliers until fourth quarter as Asian buyers are stepping back

from the market until the price falls further. The quantity of pulp held by merchants and paper mills in China is the big unknown. They claim to have sufficient stock to hold off buying until the prices fall further, however, some analysts doubt this.

**Weekly NBSK & BHKP PIX Prices: 6 Feb '01 - 14 Sep '04**



Source: FOEX

Until China re-enters the market to the full extent possible under the tighter credit controls, pulp prices are expected to continue to weaken.

## Amcor Divisional Restructuring

From the 1<sup>st</sup> October 2004, Amcor Australasia will restructure from six divisions to four, with an increased sharing of overhead functions across the company's diverse packaging operations.

The four divisions, and Group General Managers responsible, will be:

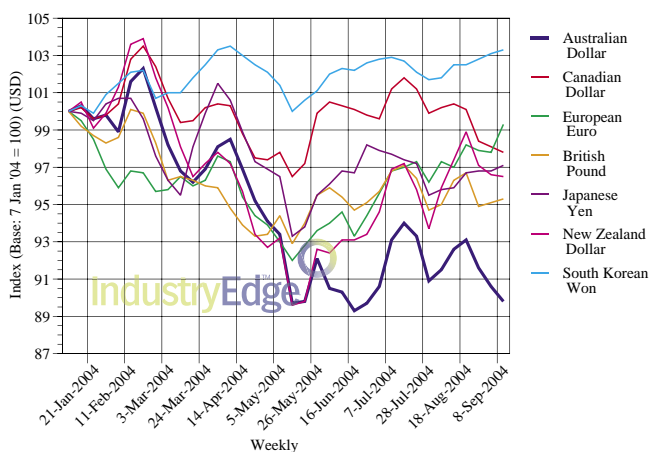
### Fibre Packaging – GGM Darryl Roberts.

Australia and New Zealand corrugated box businesses (AFP), Folding Cartons which are the converting operations and Specialty Board plants, will be combined to create a single entity to be focused on, and service, the fibre packaging market.

### Rigid Packaging – GGM David Armstrong.

This division will bring together the Beverage Cans, Food Cans, Aerosols, PET, Closures and Glass businesses. Glass will continue as a separate Division initially, prior to its merger into the Rigid Packaging Division. Amcor is currently building a second glass furnace at Gawler, South Australia that is scheduled for commissioning in early 2005.

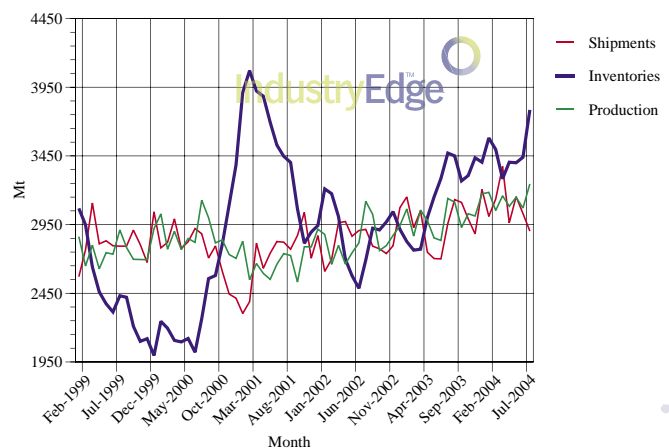
**Main Trading Countries: 7 Jan '04 - 8 Sep '04**



Source: Uni of BC

Since mid August the AUD is weaker against the USD and most other currencies that are not tied to it. The NZD and CAD are also down slightly, while the Euro continues to recover most of its lost value against the USD since January 2004. The price for European imports will rise as they lose the exchange rate advantage enjoyed in early 2004.

**World-19 Producers: Jan '99 - Jul '04**



Source: Pulpwatch

Industry associations have stopped reporting pulp stocks of global producers, replacing it in future with inventory levels measured by the number of days supply available. The chart shows that production and shipment levels have moved reasonably in tandem since January 1999, however, stock levels have been more volatile.

## Flexible Packaging – GGM Graeme Moncrieff.

Sacks (St Regis Bates), Functional Coatings and Flexibles, will be combined to provide products and services to the flexible packaging market.

## Paper and Board – GGM Malcolm Shield.

This division includes the three recycled paper mills (Spearwood, Botany and Fairfield), with the Amcor Cartonboard Mill at Petrie in Queensland and Amcor Recycling.

These four divisions will report to Peter Sutton, Managing Director, Amcor Australasia.

In addition, immediate reports will also include GGM Commercial Operations - Colin Clayton, GGM Human Resources and Risk - Melanie Huson, GGM Marketing and Technology - Ted Laidlaw, GM Public Affairs and Environment - David Brookes, and GM Commercial - Gary Carmody.

Some current positions will become redundant as overhead activities are streamlined and resources are more efficiently shared across the business. The review covered a range of support functions including Purchasing and Logistics, Sales and Marketing, Finance and Administration, IT and Human Resources.

IndustryEdge understands the restructuring is part of a continuous improvement program within Amcor that aims to improve its competitiveness in the Australian and New Zealand packaging markets.

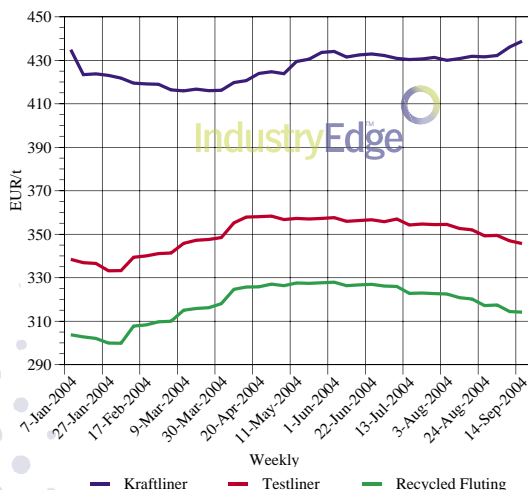
## Free Trade Agreements

The impact of a Free Trade Agreement (FTA) with the USA on the pulp and paper industry in Australia is not likely to be significant, as data below shows. However, a potential FTA with China is likely to have greater ramifications.

Before considering specific bilateral agreements, IndustryEdge will provide a brief overview of the three possible trade processes that are likely to both reduce tariffs and open the domestic market to greater competition from imports.

Firstly, the World Trade Organisation (WTO), with 147 member nations, is working to reduce farm subsidies, tariffs and other trade-distorting measures. The negotiations were started in Doha, and now maintain that name. The collective bargaining broke down and the Doha trade negotiations came to a virtual halt. However, due to the increasing popularity of the two processes list below, from 1<sup>st</sup> August 2004 the Doha trade talks have been revitalised with negotiations to be completed by the agreed date of the end of 2005.

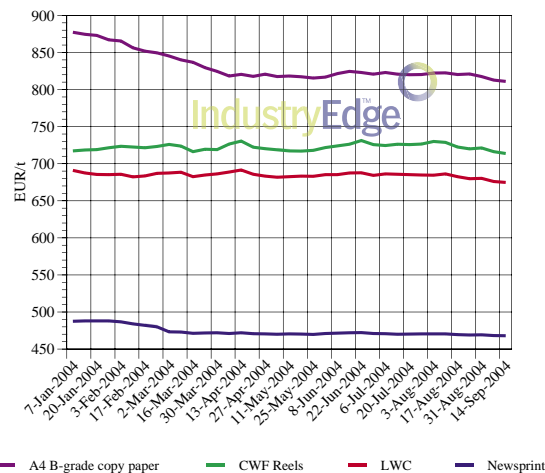
PIX Packaging Indexes: 7 Jan '04 - 14 Sep '04



Source: FOEX

European benchmark prices for Kraftliner continue to strengthen, driven in part by stronger economic activity. However, prices for testliner and recycled fluting are weaker, but this trend is expected to reverse, with price increases from 1<sup>st</sup> October already being announced for these grades by some major producers.

PIX Paper Indexes: 7 Jan '04 - 14 Sep '04



Source: FOEX

The announced paper price increases in the northern hemisphere have not flowed through yet to the European communication paper benchmark indexes. Prices for A4 B-grade copy paper and LWC have remained almost flat during the second week of September, which is anticipated to be a start in the reversal of the trend.

The second process working to reduce tariffs and open up trade is the increasing number of bilateral agreements. On 5<sup>th</sup> July 2004, Australia and Thailand signed a free trade agreement that will be effective from 1<sup>st</sup> January 2005. From the start the 5% duty on imports from Thailand will be abolished, while imports into Thailand from Australia will be reduced over a four-year period. The removal of duty on paper imports to Thailand is a sensitive issue there.

A bilateral agreement with the USA has been concluded, also becoming effective from 1<sup>st</sup> January 2005. This agreement provides for the immediate abolition of tariffs on paper in both countries.

Imported packaging items attracting duties from the USA are coated kraft back and cigarette display outers. The following table shows that imports from the USA since 2000, for these products, have been dropping. Also shown is the weighted average AUDFob/t price before the tariff and freight is included.

Discussions have started with China for a FTA, however, China insists it must first be recognised as an open market economy, but it was designated an economy-in-transition for 15 years when it joined the WTO in 2002. While Europe is unlikely to accept China as an open economy in the near future, the USA and Australia are showing some indication they may accept the change of status so

as to establish possible bilateral FTAs. New Zealand has already accepted China as an open economy.

#### Imports of Dutiable Items from the USA

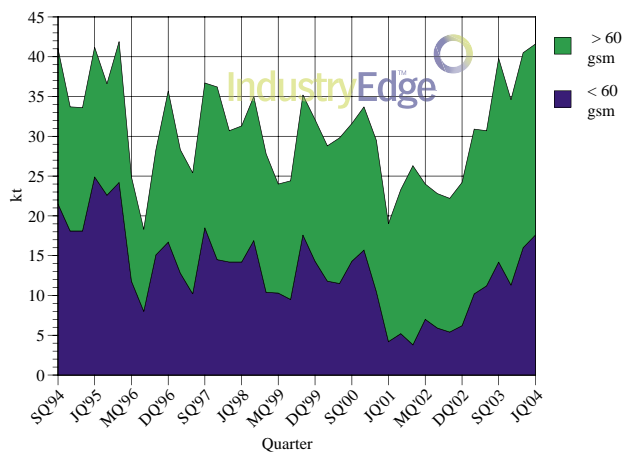
|      | Coated Kraft Back (kt) | Coated Kraft Back (AUDFob/t) | Cigarette Display Outers (kt) | Cigarette Display Outers (AUDFob/t) |
|------|------------------------|------------------------------|-------------------------------|-------------------------------------|
| 1995 | 23.5                   | 829                          | 1.5                           | 1 039                               |
| 1996 | 23.4                   | 907                          | 4.6                           | 916                                 |
| 1997 | 18.4                   | 912                          | 4.0                           | 1 083                               |
| 1998 | 24.0                   | 989                          | 5.3                           | 843                                 |
| 1999 | 15.5                   | 994                          | 3.9                           | 956                                 |
| 2000 | 17.9                   | 982                          | 7.6                           | 978                                 |
| 2001 | 12.7                   | 1 098                        | 7.8                           | 891                                 |
| 2002 | 12.6                   | 1 028                        | 3.1                           | 1 021                               |
| 2003 | 10.0                   | 987                          | 0.4                           | 1 176                               |
| 2004 | 10.7                   | 941                          | 0.9                           | 1 070                               |

Source ABS

On 26<sup>th</sup> July an agreement was signed for a study into a potential FTA between Australia and Malaysia, due to be completed before the end of 2005. IndustryEdge understands an FTA may also be arranged in the near future with the United Arab Emirates, being a federation of seven Gulf states

The third process to reduce tariffs and open the domestic market for greater access by imports, is for Australia, and New Zealand, to join a trading block. In Europe the European Union has been a

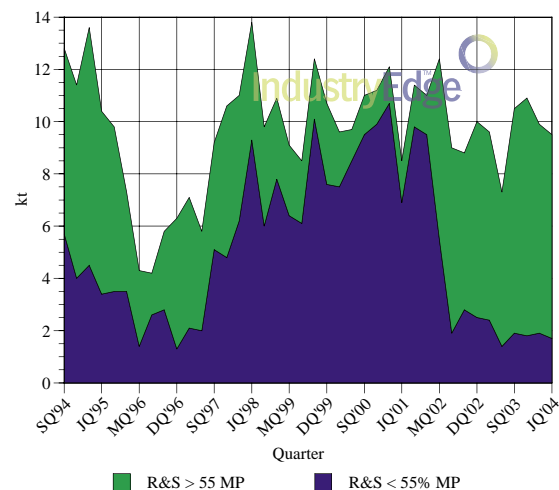
#### LWC Imports by Grade: SQ'94 - JQ'04 (kt)



Source: ABS

Imports of LWC by grade reached a new peak in JQ'04 at 41.6 kt, having risen at an average rate of 6.7% per quarter since a low of 19 kt in JQ'01. From JQ'02, average quarterly imports of LWC < 60 gsm have almost trebled, while average imports of LWC > 60 gsm have risen by 50%. In JQ'04, imports of LWC > 60 gsm accounted for 58% of the total.

#### MWC Imports by Grade: SQ'94 - JQ'04 (kt)



Source: ABS

The data shows there has been a significant substitution away from imported MWC R&S < 55% mechanical pulp (MP), to R&S > 55% MP since MQ'02, even though total imports for MWC have not risen at the same rate as LWC. In 2000/01, MWC R&S > 55% MP accounted for 12% of imports, however, in 2003/04, this had risen to 82% of the total.

very successful device for dropping trade barriers. In South East Asia, ASEAN in the past has excluded Australia and New Zealand in developing trade talks, mainly at the behest of the previous Prime Minister of Malaysia. Australia and New Zealand, with the support of Thailand and Singapore, have now been invited to join the talks in November for an ASEAN block FTA. Future members of this trading block are likely to include China and Japan.

Imports of paper and board from America are a relatively small proportion of total trade in this sector, with any remaining tariffs currently making little difference, since unit costs out of the USA are comparable with local production costs. For instances where the paper and paperboard grades are not manufactured locally, then an FTA with the US will have no impact on local producers.

The pulp and paper industry in the US is by no means world class, with machines more often being taken out of production, rather than large modern machines installed. The American pulp and paper industry is not likely to pose much of a threat to the local industry under an FTA.

However, an FTA with China is likely to have greater impact. China is a low-cost producer with rapidly increasing capacity through the commissioning of world-scale machines. Anti-dumping actions are still possible with a bilateral FTA, however,

the process is more complicated and unlikely to diminish the prospect of China dumping paper here.

## Corporate Express Follows Green Procurement

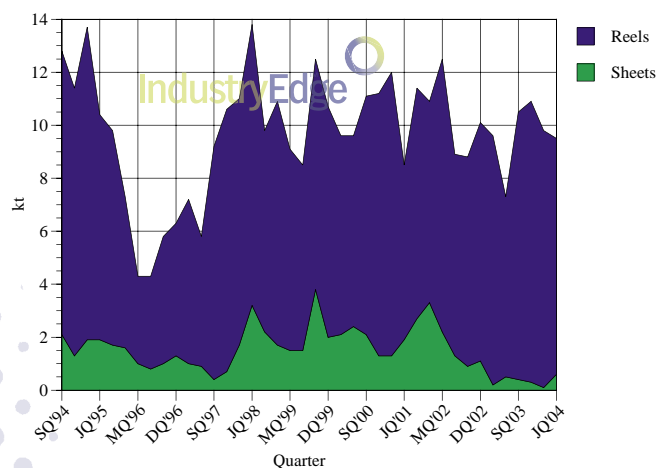
IndustryEdge understands Corporate Express was not satisfied with the environmental standards provided by APP in relation to the sourcing of fibre for the Corporate Express branded coppypaper. While APP was the paper manufacturer, PaperlinX was the merchant.

It is understood the volume of coppypaper involved is just over 30 ktpa, which will be supplied in future by PaperlinX from its own facilities at Australian Paper. The paper will be sold as Corporate Expresses' own brand, rather than under a PaperlinX brand.

It is anticipated the additional volume will be redirected from Australian Paper's exports.

As a separate matter, a publication has been released entitled *The State of Green Procurement in Australia* by the Australian Environmental Labelling Association. The two major conclusions are that green procurement is difficult due to the lack of understanding about environmental impacts and the recycled content of products, and a lack of credible information from manufacturers. The report makes a number of recommendations, including a number focused specifically on government and business purchasers.

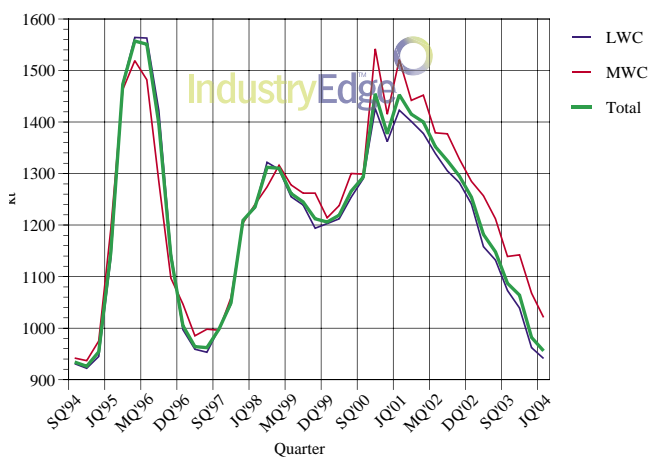
Imports of MWC Reels & Sheets: SQ'94 - JQ'04 (kt)



Source: ABS

In 2003/04, imports of MWC reached 40.8 kt, a rise of 5.1 kt (14%) against the previous year. Imports are predominately reels, which in 2003/04 accounted for almost 97% of the total. On a proportional basis, imports of MWC sheets become insignificant since declining at a quarterly rate of -43% per quarter between DQ'01 and JQ'03.

All Coated Mechanical Imports: SQ'94 - JQ'04 (AUDFob/t)



Source: ABS

The decline in average weighted AUDFob/t prices by grade, and total, between JQ'01 and JQ'04 has not been as sharp as the fall between JQ'95 and JQ'97, but the range has been comparable. Prices in JQ'04 were equal to the historical low from which they have recovered sharply. Indications are that prices have started to turn.

## Pulp & Paper Market Edge September 2004

| Grade                               | Specification                            | Weight  | Form   | Monthly Prices |           | 12 months |
|-------------------------------------|--|---------|--------|----------------|-----------|-----------|
|                                     |  | (gsm)   |        | Current        | Previous  | ago       |
| <b>Printing &amp; Communication</b> |  |         |        |                |           |           |
| Newsprint                           | Norske Skog Announced Price              | 45      | Reels  | \$ 945         | \$ 945    | \$1 010   |
| <b>Uncoated Mechanicals</b>         | S/C Mech Offset (Sweden)                 | 56      | Reels  | \$1 210        | \$1 175   | \$1 125   |
|                                     | Norske Skog Norstar                      | 52      | Reels  | \$1 055        | \$1 055   | \$1 100   |
| <b>Coated Mechanicals</b>           | LWC (Finland)                            | 54      | Reels  | \$1 500        | \$1 500   | \$1 580   |
|                                     | LWC (Finland)                            | 65      | Reels  | \$1 550        | \$1 550   | \$1 580   |
|                                     | MWC (Finland)                            | 80      | Reels  | \$1 500        | \$1 500   | \$1 650   |
|                                     | Local Acclaim Lick-coated Offset         | 54 - 60 | Reels  | \$1 450        | \$1 450   | \$1 380   |
| <b>Coated Woodfree</b>              | 2/S A2 Art (Local, flagged)              | 100     | Reels  | \$1 750        | \$1 750   | \$1 640   |
|                                     | Ditto (Europe/Japan)                     | 100     | Reels  | \$1 750        | \$1 750   | \$1 630   |
|                                     | Ditto (Korea/Indonesian)                 | 100     | Reels  | \$1 700        | \$1 700   | \$1 570   |
|                                     | 2/S A2 Art (Local, flagged)              | 150     | Sheets | \$1 850        | \$1 850   | \$1 730   |
|                                     | Ditto (Europe/Japan)                     | 150     | Sheets | \$1 850        | \$1 850   | \$1 730   |
|                                     | Ditto (Korea/Indonesian)                 | 150     | Sheets | \$1 800        | \$1 800   | \$1 670   |
| <b>Uncoated Woodfree</b>            | Local                                    | 80      | Reels  | \$1 750        | \$1 750   | \$1 680   |
|                                     | Asian/Brazil Offset equivalent           | 80      | Reels  | \$1 750        | \$1 750   | \$1 650   |
|                                     | Local                                    | 80      | Sheets | \$1 850        | \$1 850   | \$1 750   |
|                                     | Asian/Brazil Offset equivalent           | 80      | Sheets | \$1 850        | \$1 850   | \$1 750   |
| <b>Copypaper</b>                    | Reflex (Premium)                         | 80      | A4     | \$2 120        | \$2 120   | \$2 120   |
|                                     | Local                                    | 80      | A4     | \$1 870        | \$1 870   | \$1 870   |
|                                     | Indonesian                               | 80      | A4     | \$1 905        | \$1 905   | \$1 920   |
|                                     | Recycled                                 | 80      | A4     | \$2 010        | \$2 010   | \$2 100   |
| <b>Packaging Grades</b>             |  |         |        |                |           |           |
| <b>Coated Cartonboard</b>           | 1/S Solid Bleach Board (USA)             | 350um+  | Reels  | \$1 610        | \$1 600   | \$1 735   |
|                                     | Local (Artcote White)                    | 400um+  | Reels  | \$1 712        | \$1 712   | \$1 712   |
|                                     | Local (Artcote Grey)                     | 400um+  | Reels  | \$1 369        | \$1 369   | \$1 369   |
|                                     | Local (Eco-cote)                         | 400um+  | Reels  | \$1 311        | \$1 311   | \$1 311   |
|                                     | Pearl Kote® Ctd Kft Back                 | 356um+  | Reels  | \$1 712        | \$1 712   | \$1 712   |
|                                     | Pearl Kote® Ctd Kft Back                 | 457um+  | Reels  | \$1 300        | \$1 369   | \$1 369   |
|                                     | Aqua Kote® Ctd Kft Back                  | 508um+  | Reels  | \$1 450        | \$1 311   | \$1 311   |
|                                     | FormakoteTM Natura GC2                   | 350/244 | Reels  | \$1 394        | \$1 394   | \$1 394   |
|                                     | FormakoteTM Spectra CNK                  | 450/312 | Reels  | \$1 544        | \$1 544   | \$1 544   |
|                                     | FormakoteTM White GCI                    | 400/280 | Reels  | \$1 398        | \$1 398   | \$1 398   |
| <b>Container Materials</b>          | Kraftliner                               | 200     | Reels  | \$ 898         | \$ 898    | \$ 860    |
|                                     | Testliner                                | 150     | Reels  | \$ 775         | \$ 775    | \$ 745    |
| <b>Sack kraft</b>                   | Semi extensible                          | 70/80   | Reels  | \$1 290        | \$1 290   | \$1 400   |
|                                     | Flat Sack Brown                          | 80      | Reels  | \$1 240        | \$1 240   | \$1 350   |
| <b>Fibre Resource</b>               |  |         |        |                |           |           |
| <b>Wastepaper</b>                   | ONP - No 8 De-inking Australia into Asia |         |        | \$ 142         | \$ 147    | \$ 130    |
|                                     | ONP - No 8 De-inking USA into Asia       |         |        | USD \$136      | USD \$140 | USD \$125 |
|                                     | ONP - No 8 De-inking Japan into Asia     |         |        | USD \$121      | USD \$125 | USD \$125 |
|                                     | ONP - No 8 De-inking Europe into Asia    |         |        | USD \$126      | USD \$130 | USD \$120 |
| <b>Pulp</b>                         | NBSK Landed                              |         | Bales  | USD \$650      | USD \$660 | USD \$544 |
|                                     | Bleached Eucalypt Landed                 |         | Bales  | USD \$540      | USD \$530 | USD \$503 |