



Expectations are that there will be more investment funds expended in 2007 in the Australian pulp and paper processing sector than for some time. However, the same cannot be said for New Zealand, where most mills are going through a period of consolidation after new ownership or a move of production across the Tasman. *IndustryEdge* reviews the potential for investment at mills in Australia and New Zealand.

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SEASONS GREETINGS

On behalf of *IndustryEdge* (Jason Corbett, Brian Stafford, Norma Eastment, Jan Larke and myself) I would like to wish our subscribers a happy festive season and a safe and prosperous 2007.

Robert Eastment

SWANBANK

Swanbank Paper has announced it is considering a number of options for the future of its project to build a world scale paper machine that include a possible relocation to Tasmania.

This statement is not surprising given that the Swanbank proposal is not for an integrated mill and that pulp prices, as a major input cost for the paper mill, are currently high.

The proposed capacity of the Swanbank papermachine is 390 ktpa, while the output from the Gunns pulpmill is 850 ktpa, more than sufficient to supply Swanbank.

At this stage *IndustryEdge* can confirm Swanbank has announced it is considering Tasmania as a possible alternative location and has been in preliminary discussions with the Tasmanian Government. Also, that as part of these discussions the Tasmanian government is considering what may or may not be involved with Swanbank relocating to Tasmania and has undertaken some due diligence of the Swanbank project. It is very early days yet and neither the Tasmanian government nor Swanbank have issued commitments, or even proposals.

No announcement has been made by Gunns. They are focussed on progressing their own Integrated Impact Statement through the Resource Planning and Development Commission with their intention being to build a pulpmill without distractions.

Gunns would benefit if there was a papermachine alongside their pulpmill, and it may be interested in the concept at a later date, rather than dealing with a specific company at this early stage.

From the perspective of the Australian Paper mills at Burnie and Wesley Vale, it is safe to say there is a need for investment in these mills to prolong their productive lives. Between them they produce selected coated printing and writing grades with a ready market in Australia. With or without a proposal for Swanbank to move to Tasmania, improvements to these mills should be pursued by Australian Paper and encouraged by the Tasmanian government.

In 2005-06, the domestic apparent consumption of UCWF and CWF was 450 kt and 404 kt respectively. Imports of UCWF were 231 kt, and for CWF 331 kt. These figures show in theory there is the potential for a new papermill producing 390 ktpa, predominately CWF. However, import prices remain competitive, so any potential move to Tasmania will not be a cure all for Swanbank, but rather an opportunity to improve the business case for the project.

There is a water shortage in south-east Queensland, which has potential adverse consequences for power generation and industries consuming large quantities of water. What impact this has had on the decision for Swanbank to consider relocating south is unknown, but water consumption by any proposed project is an increasingly important issue.

AP AND NORSKE CHIP DILEMMA

Back in 1998 Forestry Tasmania (FT) sold off a 50% stake in its softwood assets through a joint venture (50:50) with GMO Resources (GMO) from the USA. The original concept was that FT should continue to manage the softwood estate and marketing of the products. However, GMO wanted an independent forest manager and marketer.

Through joint agreement, Rayonier, also an American company, was appointed as the forest manager to secure the best returns from the asset. At the time it was seen that the Tasmanian Government, through FT, would benefit with an independent forest manager.

When the JV was established there were two major softwood sawmilling companies, French Pine and Auspine. Since then Auspine has acquired French Pine.

The contracts for the delivery of sawlogs to Auspine expires on 31st December, and Auspine is seeking a price less than export parity as it has to ship its sawntimber across the Bass Strait to the mainland markets.

Forest Enterprises has now come in unexpectedly and made a commercial offer for most of the logs being offered to Auspine.

The Greens have now entered the fray on the side of the sawmillers, for the wood to be sold at a lower price, which is contrary to their policy to maximise value from forests and plantations.

If Auspine has access to the logs, then it will continue to produce sawntimber and the softwood chips are available to local pulp producers, Australian Paper at Wesley Vale and Norske Skog at Boyer.

If Forest Enterprises wins over supply of the logs then it will take the logs to its processing centre at Bell Bay. This will probably require a larger sawing and drying facility, and it would be likely to send the softwood chips across the fence into Smart Fibre, its own woodchip export facility.

If this happened then there could be a loss of some supply of this important fibre supply to Norske Skog and Australian Paper.

There has been no confirmation, though, from Forest Enterprises, that it would indeed export the chips rather than sell a sufficient quantity to the local pulpmills.

There may even be another scenario in that Rayonier may export the logs if it can achieve better returns from export pricing, in which case the local pulpmills would definitely not have access to softwood chips from local sawmills.

It is still early days yet in the chest thumping threats of what may or may not happen, with politicians, forest owners, forest managers, sawmillers and pulp manufacturers seeking to address their own agendas and paddling in different directions. The current arrangements are now to be continued into 2007 for a few months while Auspine considers for securing the supply of sawlogs for a few more years.

While on a much smaller scale, the scenario that is unfolding in Tasmania is a reflection of what is happening in the USA. Across the Pacific there has been a serious down turn in housing starts, therefore inefficient and high cost sawmills are closing, either permanently or temporarily. As a consequence there has been a sharp decline in the volume of available woodchips from sawmills to local pulpmills. Hence, while the price of sawnwood is in a trough, the price of woodchips is remaining strong.

PAPERLINX – EUROPE AND NORTH AMERICA

PaperlinX hosted a visit by analysts to the company's businesses in Europe and North America during the last week of November.

The presentations provided by PaperlinX were realistic in that they were not over-selling the value of the business or talking up paper prices. The two major points were that the expectation for paper prices, especially in Europe, is that it is still too early to be certain prices will rise in the short-term, and that PaperlinX, having already achieved significant savings, will continue with the strategy of consolidation and cost reductions.



Close to 66% of merchanting revenue is generated in Europe, however, prices on continental Europe for both coated and uncoated woodfree grades remain relatively flat. In the UK, prices in GBP for both grades have improved during the second half of calendar 2006.

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Pulp & Paper Investments - 2007

Introduction

The pulp and paper sectors in Australia and New Zealand are mature, and with only a limited market of not much larger than a few cities in Europe, America or Asia, investment in economic world scale machines is hard to justify. As a consequence imports continue to be a growing source of supply for most grades.

Nevertheless, 2007 is shaping to be a year with greater investment in the local pulp and paper sectors than for any year over the last decade. The Maryvale pulping facility upgrade will enter the major stage of construction, it is likely Visy and Gunns will confirm major new developments at Tumut and Bell Bay respectively and potentially Amcor will find a business case for investment in a new machine at Botany.

IndustryEdge reviews the status of projects at most mills. While the prognosis for Australia is looking better than it has for many years, the situation in New Zealand is one of consolidation whereby mills either have new owners who are busy taking costs out of the business or are moving production to Australia.

Amcor Botany

In the Amcor results for 2005-06 Ken MacKenzie, Managing Director and Chief Executive Officer, Amcor, announced, among other initiatives, there would be another feasibility study undertaken regarding the future of the Botany paperboard mill.

The project is fundamentally looking at the feasibility of replacing the current PM7 (130 ktpa) and PM8 (120 ktpa) with a single and larger paper machine making corrugating materials other than kraftliner.



IndustryEdge understands the project has reached the pre-engineering stage where the equipment provider (in this instance Voith) will submit a report and drawings on the civil engineering requirements. This would be expected to cover such issues as the size of the building required, civil engineering issues for the wet-end, down to details as to how many pumps and of what type would be

required. The cost of such a study would normally be in the region of AUD3M.

Pre-engineering studies are essential to understand site preparation and machine development costs and hence cost all the stages that will be involved.

The feasibility study into the prognosis for the Botany mill will be critical since this is the best opportunity Amcor has to remain competitive, since Visy continues to grow through investing in new technology to improve products and reduce costs.

A previous feasibility study in 2000 into upgrading the Botany facility failed to make a business case that would convince the Amcor Board to support the investment. As stated previously by *IndustryEdge*, there is a need for owners of projects of this type to work backwards from what the market wants and how much it will pay for improved corrugated containers, rather than working forward from the engineers designing a machine and then seeing if the market will pay for it.

Thinking with a new mindset to push the bounds of what can be achieved is the trait shown by the successful international fibre packaging manufacturers.

The Amcor Spearwood paperboard facility has been shut, with the fibre now understood to be railed over to the east coast.

Amcor Petrie

The Amcor Petrie cartonboard mill is finalising a project that has improved the safety and health of those working in the finishing area at the Queensland mill.

Automation in the palletising and converting operations was undertaken to reduce costs and improve safety. *IndustryEdge* estimates the cost of the project would have been in the region of AUD5M.

Australian Paper Maryvale

The AUD200M project at Maryvale is focused on upgrading the pulping and bleaching operations and should reach

the construction phase in first half of 2007. The project is understood to be still on budget, however, parts of the original work have been outsourced to third parties such as the construction and running of the wood yard, as well as chemical preparation.

There has been a short shut at the mill to remove bottlenecks in preparation for the major shut and upgrade during 2007.

From the view of *IndustryEdge* there are two issues for consideration. The first one is trying to identify what other capital projects are being delayed or scrapped that could be revenue positive or generate operational benefits. Currently all the focus is squarely on the pulp and bleaching upgrade.

The other issue is the matter of the three 'agreements' provided to the PaperlinX board before the project funding was approved.

The first one was that there would be no industrial action by unions during construction, and this appears to be on track.

The second that the Maryvale workforce would accept reform of workplace practices to improve productivity, and while it is understood this was agreed by the workforce before the funds were finally approved, it is uncertain what has been achieved.

Australian Paper Maryvale Mill, Victoria



Source: PaperlinX

The final agreement was with the Victorian government regarding the supply of fibre until such time as plantations have been developed and grown sufficiently to provide the additional fibre required.

After the upgrade pulp production will expand by 40 ktpa of both hardwood and softwood bleached kraft.

Australian Paper Wesley Vale and Burnie

Australian Paper is still considering investment in the Wesley Vale and Burnie mills to prolong their lives, rather than expanding capacity or grades.

There is no doubt Australian Paper, if given a strong business case for investing in a new coated paper machine, would consider it very closely. However, even when having a monopoly in domestic production, Australian Paper does not see the market to be sufficiently large to warrant an investment in a new machine, and imports remain too competitive.

Australian Paper had the opportunity to connect to the gas grid as it was being rolled out in Northern Tasmania. Past management squandered the opportunity and now that there is a need for gas, especially if a new boiler is built, the cost of connection will be higher.

Swanbank

The Swanbank papermill project at Ipswich was born from an idea of finding a major manufacturing facility to provide base load for the CS Energy power station in southeast Queensland.



Swanbank is considering a move to move Tasmania to be co-located next to the Gunns proposed pulpmill and would definitely make a stronger business case for attracting investment in Swanbank. It would also provide Gunns with an 'across-the-fence' market for a proportion of its pulp.

However, there would be a need for Gunns to isolate itself from any proposal by Swanbank to ensure the Gunns IIS remains intact until the final decision is provided by the RPDC.

While Swanbank is understood to be pursuing an extension to its development application with the Ipswich Council, it is logical for the company to seek benefits in moving south.

Norske Skog Boyer

Norske Skog Boyer will be commissioning a new high consistency bleaching tower in mid-December. Andritz is undertaking the work.

IndustryEdge estimates the cost of the upgrade to be just above AUD8M, with the business case being based on

the need to produce high brightness paper. Norske Skog already produces some high brightness grades for the major publishers, Fairfax and News Ltd. However, the strategy is now to take the opportunity to make more high brightness grades and sell them directly to printers for catalogue inserts in the daily newspapers. This is a strong strategy for Norske Skog to take, however, it will require new logistics for selling and delivering the grades produced as a result of the upgrade.

Norske Skog Albury

After the completion of the 50 ktpa increase in capacity, mostly undertaken in 2005-06, no further increases or rebuilds are expected in the near term. However, it is understood that while the upgrade could be considered to have been reasonably successful, there are still some issues with flecks that need to be resolved.

Visy Tumut

The largest potential investment for Visy in 2007 is the expansion to the pulping operations and the construction of a new kraftliner machine at Tumut. The project is still officially in the feasibility stage, however, expectations from a number of sources are that the project is likely to proceed in some form.

Visy Tumut Mill



Source: Visy

The capacity at Visy Tumut is currently around 305 ktpa, and it is understood the size of the second machine being considered would be in excess of 400 ktpa. However, for those concerned about the possible large increase in domestic supply at a time when demand in the market is reasonable flat, there are two proviso's in that it would not be expected to be running at

capacity immediately if it is built and that the grammage of the board would be on the heavier side, averaging 200 gsm.

In the past Richard Pratt has stated he believes China will increasingly be a centre for the manufacture of pulp and paper manufacturing equipment. Taking this comment in conjunction with Visy's reputation of thinking outside of the square, then the possible new machine at Tumut may be a hybrid between traditional technology and what is being achieved by Asia manufacturing in this capital-intensive industry.

Gunns Bell Bay

The planning for the proposed Gunns pulpmill has sought to cover three risk factors. These have been political, environmental and financial.

The political risk has been well managed by Gunns, with both major parties being supportive in the Tasmanian state parliament. The Greens have sufficient seats in the state to make a claim as an alternative opposition party, but it would be hard for them to claim they represent the majority view in Tasmania regarding the pulpmill development. Gunns has also achieved political support from the major parties at the federal level of government.

Image of Gunns Proposed Pulp Mill, Bell Bay Tasmania



Source: Gunns

The environmental risk is being evaluated and processed through the Integrated Impact Statement (IIS) submitted to the Resource Planning and Development Commission (RPDC). Initially, the time frame for the decision by the RPDC was expected to be approximately March 2007, however, the date has slipped to be closer to June 2007. While there are still a number of IIS criteria to be resolved satisfactorily, IndustryEdge understands Gunns is applying the best available resources to resolving them.

The financial risk to Gunns is understood to be close to resolution with the likely provision of export credits from Norway to reduce the risk rating in the region of a couple of percentage points to finance the purchase of a large part of the equipment.

Gunns has made no announcement regarding what may or may not be happening with the financing arrangements, however, the above comments are what *IndustryEdge* understands is the likely strategy and it will add value to the project. The reduced risk rating translates into a savings to Gunns of approximately AUD10/t, which, when applied to a million tonnes, becomes significant.

Given the effort Gunns devoted to the pulpmill project and the significant support it has received from the state and federal governments, as well as the investment sector, there is a high probability the project will proceed.

Protavia – Heywood and Penola

The Protavia (PROjects That Add Value In Australia) projects for the development of BCTMP mills at Heywood in Victoria and Penola in South Australia are still awaiting financing confirmation. Much of the environmental and political work has been completed and signoffs from various statutory agents have been provided.



While the appearance is that these projects are on the verge of construction, *IndustryEdge* would be more comfortable



with their ostensible progress when confirmation is available regarding their funding. Both projects have moved

reasonably quickly through the planning, feasibility and approval stages, which has set the field for an investor, most likely from overseas, to step in and provide the necessary approximately AUD750M for each mill, power stations and other infrastructure.

Protavia has received strong support from a number of companies that could be suppliers to these mills should they proceed.

ABC Tissue

ABC Tissue is well advanced in the construction of the 25 ktpa A Celli tissue machine located at Wetherill Park in Sydney.

There have been a range of compliance issues surrounding the construction of the site and machine, however, since ABC Tissue is purchasing a turn key project many of these issues can be sheeted back to the project managers who are the machine suppliers.

Commissioning of the new tissue machine is expected in the second quarter 2007, however, the initial expectations were that it may have been earlier.



When the machine is in production it will reduce the quantity of tissue stock being imported, rather than converted tissue products. The new ABC Tissue machine is not a converting operation, but will be making tissue stock, primarily from imported virgin pulp, that will then be converted on currently installed converting equipment.

The other two major tissue manufacturers (K-CA and SCA) are not expected to initiate any significant projects during 2007. There is a possibility there may be some development at the smaller manufacturer, Merino, in Queensland, and this would be in relation to a de-inking cell to process waste white paper.

CHH Kinleith

Rank Group Investments achieved the 90% ownership of CHH on 17th March 2006 that enabled it to acquire the remaining 10% shares through a compulsory acquisition.

Kinleith Mill



Source: CHH

There have been no major investments at Kinleith since it was acquired by the Rank Investment Group, however, exports

of bleached coniferous pulp have continued strongly. For the period July '05 to June '06, exports to China reached 112 kt, with Australia being the second major destination with 89 kt.

CHH Wakatane

In a similar project to the Amcor cartonboard mill at Petrie, the CHH cartonboard mill in New Zealand has completed an upgrade of its converting area, especially for the sheeting operations.

 *IndustryEdge* understands no further major investments are scheduled in the near-term for the Wakatane mill, but the focus is remaining on quality and performance of the board, with CHH continuing to chase market share in this sector in New Zealand and Australia.

Other New Zealand Mills

No significant investments in the short-term are expected at the SCA, Norske Skog and CHH mills at Kawerau.

Conclusion

For 2007, the prospect for Gunns and Visy to move ahead with significant investments in world scale projects will be a major lift to the Australian pulp and paper industry.

In addition, Australian Paper at Maryvale is expected to move into the construction phase of the pulp and bleaching facility upgrade.

If the feasibility study for the Amcor investment at Botany proves convincing, then it is hoped Amcor will be able to build a world-class machine which will position it in the Australasian market for the foreseeable future. However, it has been through the process of considering a new machine a number of times previously, and to date it has not been successful in securing the funding.

For New Zealand, the industry is entering a period of consolidation with only maintenance and parts replacements attracting funding. There are no new machines or significant upgrades on the horizon, however, if CHH decide to expand further into Australia this situation may change. ❖

PaperlinX - Europe and North America...Continued from Page 2...

PaperlinX sees management of supply as the major driver for paper price improvements, rather than demand growth. Therefore, capacity needs to be shut and, while the indications from major European manufacturers regarding closing capacity have been encouraging. Merchenting is an international business and the strong Euro is likely to restrain exports and thereby keep pressure on local supply.

The following table showing European paper mill capacity closures was published by MarketPulp Monthly.

European Paper Mill Closures: 2006 – 2007

	Company/Mill	Grades	Effective Date	kt
Stora Enso	Corbehem, France	LWC	July 2006	250
	Varkaus, Finland	CWF	End 2006	95
	Berghuizer, Netherlands	UCWF	2007	235
UPM	Voikkaa, Finland	LWC	July 2006	410
	Kymi, Finland	CWF	July 2006	150
M-real	Sittingbourne, UK	CWF	Q4'07 - Q1 '08	210
	Gorhsmuhle, Germany	CWF	Q4'07 - Q1 '08	100
	Wifsta, Sweden	UCWF	Q4'07 - Q1 '08	175
Mylykoski	Dachau, Germany	LWC	mid-2007	230

Source: Terrachoice Market Services Inc

Capacity utilisation in both Western Europe and North America for both CWF and UCWF was close to 90% for most of 2006. Therefore, even with the announced closures for Europe, there will be sufficient capacity left to maintain current production levels.

North America generates about 16% of revenue for the merchenting business.

For 2005, in this region closures of printing and writing paper machines reached 1.9 Mt. For the first three quarters of 2006, average prices for UCWF rose more than USD100t and for CWF by almost USD50/t. PaperlinX merchants in North America shipped a total of more than 500 kt in 2006, and have achieved strong profit growth over the last two years. However, the continuing strong AUD against the USD remains a threat for PaperlinX improving profits.

A review of Project Mecure (Profit Improvement Strategy) was given by Mr Anne Schouten, Regional President, PaperlinX Benelux, who said that maintaining business operations and profitability will not come from increasing the volumes sold or growth in margins. He sees the future strategy being to reduce costs, improve efficiencies and leverage on scale.

The goal is to further reduce costs by 10% and working capital by between 5% to 10%.

While Schouten's presentation was largely focused on the Netherlands and Belgium, the strategy being applied is similar to the corporate strategy across all businesses.

WEAKER PULP PRICES DELAYED

Predictions that pulp prices would start to fall by the end of 2006 look like they will miss the mark by being a few months too early. Also, at the start of 2006 the differential was only USD10/t.

The PIX price for both grades has strengthened consistently over the year, and the gap in December has increased to USD60/t.

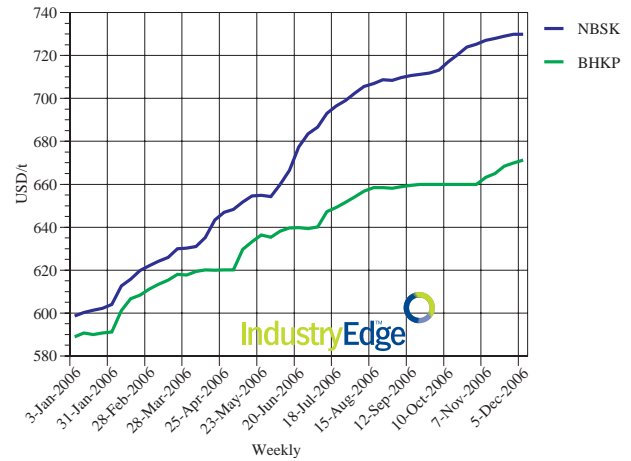
Demand for hardwood pulp has steadied in Asia and Europe, with buyers resisting recent price increases and buying by contract rather than spot. Brazilian mills are back to full production after seasonal maintenance, with producers' stocks starting to build.

Resistance to any further price increases, particularly in Asia, is gaining momentum as paper prices have not risen and there is no margin left for paper makers. Some integrated mills in

China have started to reduce paper production finding it more profitable to sell pulp on the market.

The following chart shows the movements in NBSK and BHKP PIX prices over 2006.

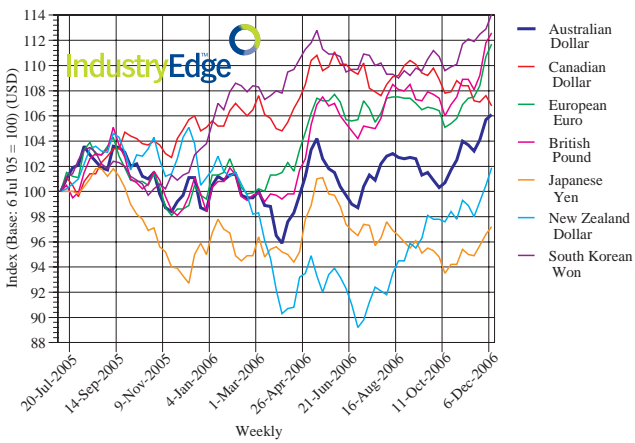
Weekly NBSK & BHKP PIX Prices: 3 Jan '06 – 5 Dec '06 (USD/t)



Source: FOEX

For NBSK there are likely to be more price increases. There is a better balance between supply and demand with the closure of a number of mills in North America and Europe. In addition, the sharp decline in sawn softwood demand due to the US

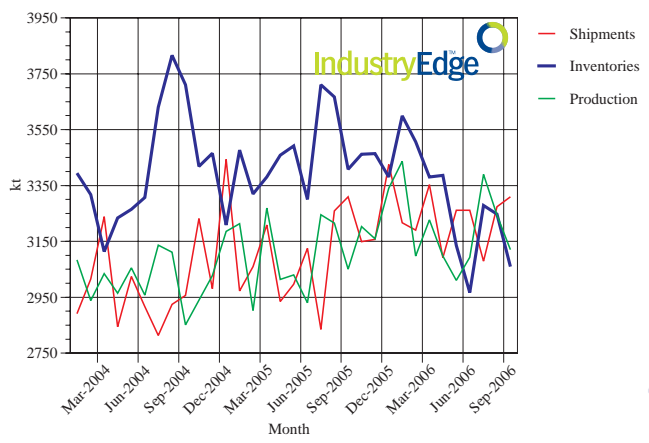
Main Trading Currencies: 6 Jul '05 - 6 Dec '06



Source: Uni of BC

The Australian dollar has remained strong against the susceptible USD. The AUD is up 5% against six months ago and up 6% where it was twelve months ago. From the charted currencies, over the last three months only the Canadian dollar has failed to gain against the USD, falling almost 3%

World-19 Producers: Jan '04 - Sep '06 (kt)



Source: Pulpwatch & IndustryEdge estimates

World-19 data for September shows a falling stockpile of inventories, with shipments moving up to 3.309 Mt for the month, and production dropping to 3.121 Mt. Inventories dropped below the 3.150 Mt mark, indicating prices are likely to remain strong for longer than originally forecast.

housing slowdown, has meant a number of sawmills in North America have closed resulting in a shortage of softwood chips and higher chip prices.

As a consequence NBSK prices are expected to strengthen a little bit further, and then start the decline in second quarter 2007.

The issue of concern going into 2007 is the change to the value added tax in China. There is still no clear indication that mills in China will continue to import pulp at or just below world market prices if they are going to be taxed 13% on the export of coated and uncoated woodfree papers.

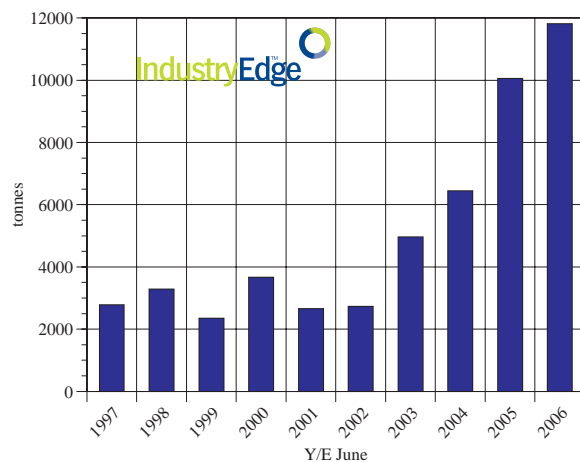
If the paper is to be sold into the local market, rather than exported, then there will almost certainly be over supply domestically, and there will be weaker prices that will force marginal mills to possibly close.

What impact this will have on the global markets for pulp and papers is uncertain, but the initial expectations are that pulp prices will weaken with slowing demand, while paper prices are expected to remain flat since there is sufficient under-utilisation in non-Chinese paper mills in most regions of the world to fill any gaps from expected slowing paper exports from China.

IMPORTS OF CARTONS, BOXES AND CASES

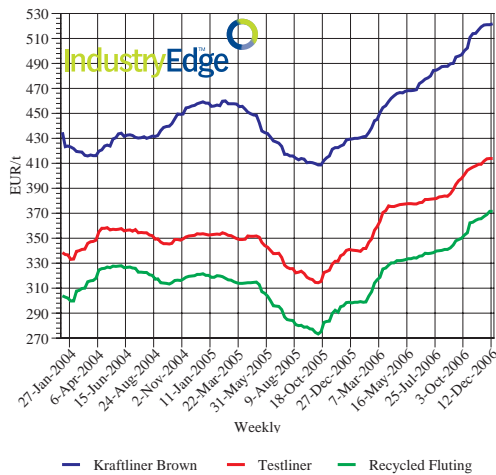
In 2005-06, imported cartons, boxes and cases of corrugated paper and paperboard supplied 1.2% of total demand for corrugated containers, or 12 kt out of 1 025 kt. While this may appear to be small in relative terms, the level of shipments has been growing at an average rate of 17% pa over the last decade and at a faster rate of 44% pa since 2001-02.

Imported Cartons, Boxes and Cases, of Corrugated Paper & Paperboard: 1997 – 2006 (tpa)



Source: ABS & IndustryEdge estimates

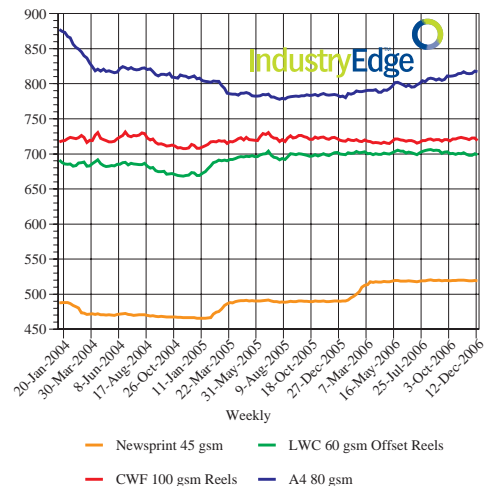
PIX Packaging Indexes: 7 Jan '04 - 12 Dec '06 (EUR/t)



Source: FOEX

The European PIX benchmarks prices for fibre packaging materials continue to climb, even though at a slower rate. PIX benchmark for Kraftliner brown managed a 0.5% rise since mid-November, while Testliner was up 1.1% and Recycled Fluting by 1.6%. This is the period with the highest demand.

PIX Paper Indexes: 7 Jan '04 - 12 Dec '06 (EUR/t)



Source: FOEX

The only grade in European benchmark PIX paper prices managing to shown a positive trend since mid-November is A4 80 gsm. The trend for the other three-charted grades has been negative. For the last six-months, again, it has only been the A4 80 gsm that has shown any sign of a pulse, moving up b 2.8%.

Imports of cartons, boxes and cases currently attract a tariff of 5%, unless sourced from a country with which Australia has a free trade agreement. These are New Zealand, USA, Thailand and Singapore. China is likely to be added to the list in the near future.

Imports of cartons, boxes and cases are currently little threat to the major suppliers of corrugated containers in the domestic market, however, it is the rate of growth in shipments that is the concern.

The major market for these imports are contract packers and fast food services. Contract packers are provided with grocery items, usually commodity or generic products, in bulk and then they will pack the goods sourcing corrugated containers from any supplier, even imports. Contract packing is a growing business being driven by the two major supermarkets increasing the proportion of both private label brands and shelf ready packaging.

Some overseas companies are shipping goods into Australia in bulk and using contract packers to place the goods in consumer sized packages for wholesale and retail sale.

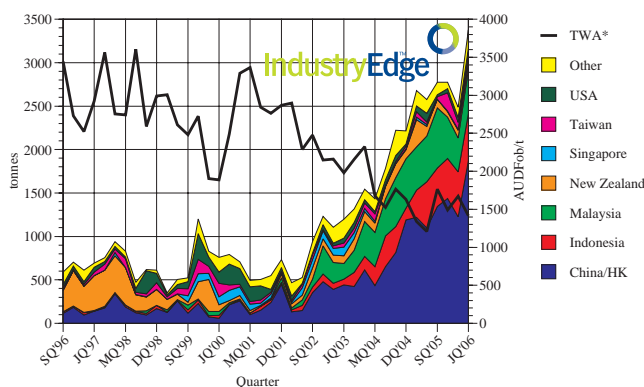
The demand for imported ready-converted corrugated containers from fast food companies, both large and small, is also growing. Corrugated containers for products such as pizzas have low value, but can be stacked flat in shipping

containers and are assembled by the junior staff at pizza outlets when the food is purchased.

A number of Asian food outlets are also importing cartons, boxes and cases, however, research by *IndustryEdge* has found the supply chain is often within an extended family.

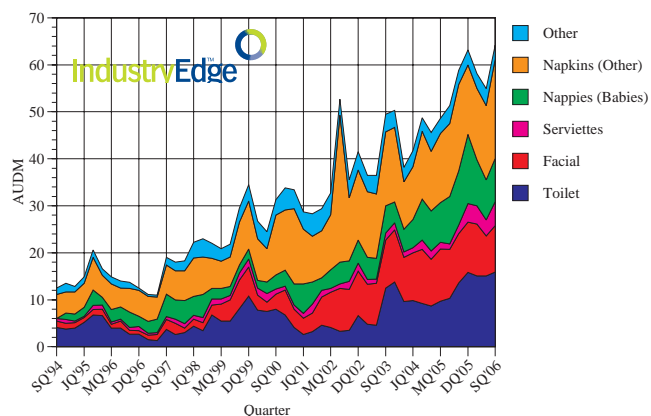
Supply of imported cartons, boxes and cases is expected to continue to increase, especially from China.

Quarterly Imports of Cartons, Boxes and Cases, or Corrugated Paper & Paperboard by Country of Origin: SQ'96 – JQ'06 (t & AUDFob/t)



Source: ABS and IndustryEdge

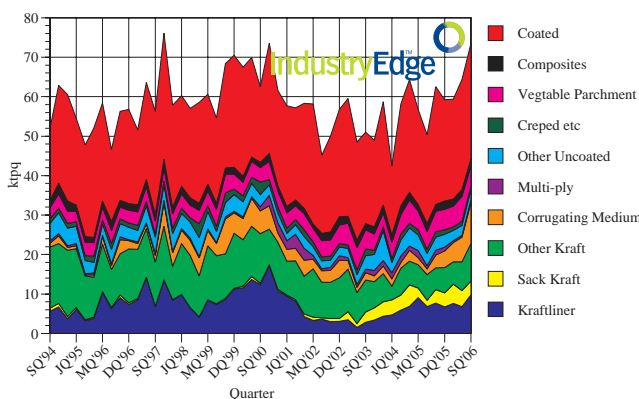
Converted Tissue Imports by Grade: SQ'94 - SQ'06 (AUDM)



Source: ABS

The value of imported converted tissue products reached a new peak of AUD64.2M. Imports of toilet tissue have remained above AUD15M per quarter since DQ'05, while the value of imported Other Napkins (mainly femcare and bladder control pads) leapt to AUD21.1M for SQ'06.

Packaging Imports by Grade: SQ'94 - SQ'06 (ktqp)



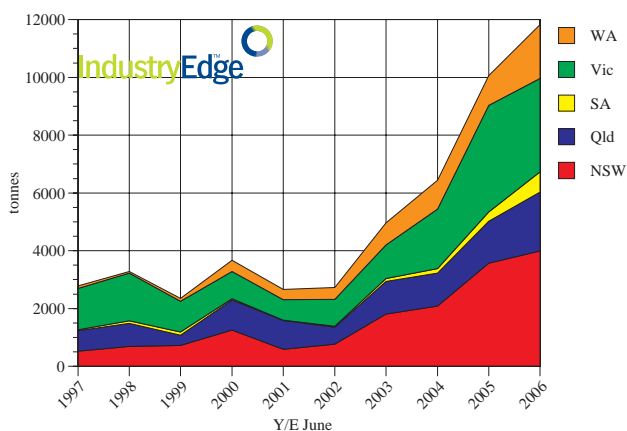
Source: ABS

Imports of packaging materials reached a peak in SQ'06, the highest level since DQ'97. The major grade increases were for kraftliner (up 3 kt) corrugating medium (up 4.2 kt) and coated cartonboard (up 1.3 kt). Shipments of coated cartonboard were close to a record, indicating strong competition from CHH.

Since the MQ'01 the weighted average import price of cartons, boxes and cases has fallen by 50%, supported by a stronger AUD. In JQ'06, the weighted average price of shipments from China was just above AUDFob1 000/t.

Local suppliers can compete to some extent against growth in these imports by continuing to take costs out of production and increasing efficiencies. However, if imported prices are too low then they may choose not to compete if the returns would be at or below marginal costs of production.

Imports of Cartons, Boxes and Cases, of Corrugated Paper & Paperboard by State: 1997 – 2006 (tpa)



Source: ABS and IndustryEdge

When analysed by state, not surprisingly the largest proportion of imports is through the two most populous states. In 2005-06, NSW accounted for 34% and Victoria for 27% of imports by weight.

MONDI UCWF 5% RISE

Mondi Business Papers has announced a 5% increase effective from 1st January 2007 across all Uncoated Woodfree grades in both Australia and New Zealand.

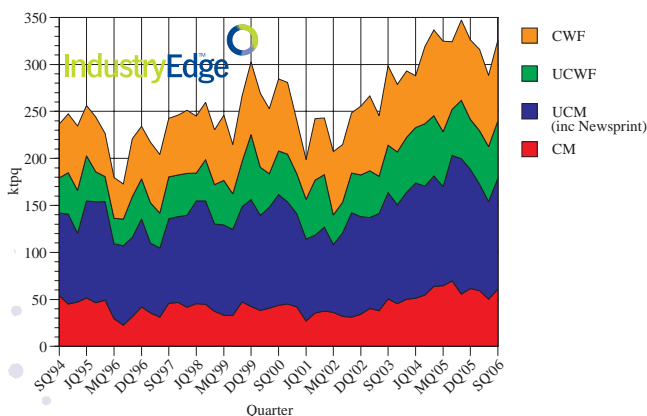
The increase has been driven by rising energy, pulp and transport costs.

INTERNATIONAL WOODCHIP CONFERENCE – 2007

The second International Pulpwood Resources and Trade Conference will be held in Melbourne between 25th February and 1st March 2007. For the first two full days there will be a range of international speakers addressing both the supply and demand sectors of the pulpwood industry, with field trips on the last two days to forests and plantations in Victoria and Tasmania.

For details see www.pulpwoodconference.com.

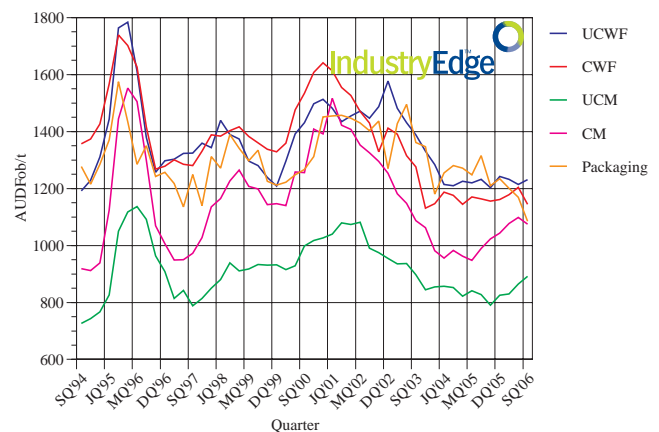
Printing & Communication Imports by Grade: SQ'94 - SQ'06 (ktpq)



Source: ABS

Imports of newsprint have been included in uncoated mechanicals. Shipments for all four grades rose in SQ'06, with CM up 22% to 60.9 kt, CWF up 14% to 85.7 kt and UCWF up by almost 14%. Comparison for a year-on-year basis, total shipments for SQ'05 and SQ'06 were both 326 kt.

Import Prices of Selected Grades: SQ'94 - SQ'06 (AUDFob/t)



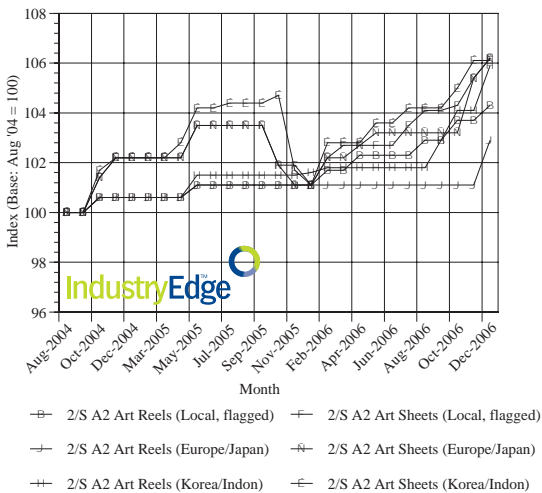
Source: ABS

The weighted average import price for packaging has trended downwards for three years and for SQ'06 was nominally AUDFob192/t below where it was in SQ'94. The stronger newsprint price has driven UCM weighted average import price up by AUDFob101/t over four quarters.

Pulp & Paper Market Edge December 2006

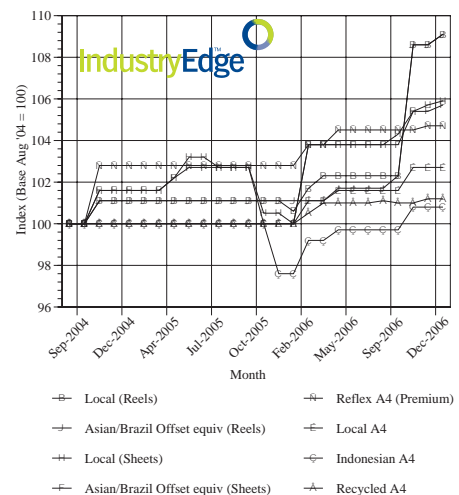
Grade	Specification	Weight	Form	Monthly Prices		12 months
		(gsm)		Current	Previous	ago
Printing & Communication						
Newsprint	Norske Skog Announced Price	45	Reels	\$ 1 023	\$ 1 023	\$956
Uncoated Mechanicals	S/C Mech Offset (Sweden)	56	Reels	\$1 335	\$1 285	\$1 240
	Norske Skog Norstar	52	Reels	\$1 141	\$1 141	\$1 087
Coated Mechanicals	LWC (Finland)	54	Reels	\$1 625	\$1 625	\$1 600
	LWC (Finland)	65	Reels	\$1 650	\$1 650	\$1 650
	MWC (Finland)	80	Reels	\$1 650	\$1 650	\$1 650
	Local Acclaim Lick-coated Offset	54 - 60	Reels	\$1 530	\$1 515	\$1 500
Packaging Grades						
Coated Cartonboard	1/S Solid Bleach Board (USA)	350um+	Reels	\$ 1 500	\$ 1 500	\$ 1 806
	Local (Artcote White)	400um+	Reels	\$1 562	\$1 562	\$1 562
	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	\$1 380	\$1 250	\$1 340
	Pearl Kote® Ctd Kft Back	457um+	Reels	\$1 370	\$1 235	\$1 325
	Aqua Kote® Ctd Kft Back	508um+	Reels	\$1 395	\$1 285	\$1 475
Container Materials	Kraftliner	200	Reels	\$ 918	\$ 917	\$910
	Testliner	150	Reels	\$ 814	\$ 811	\$ 798
Sack kraft	Semi extensible	70/80	Reels	\$1 418	\$1 380	\$1 320
	Flat Sack Brown	80	Reels	\$1 385	\$1 359	\$1 290
Fibre Resource						
Wastepaper	ONP - No 8 De-inking Australia into Asia			\$ 138	\$ 132	\$ 126
	ONP - No 8 De-inking USA into Asia			USD \$167	USD \$163	USD \$138
	ONP - No 8 De-inking Japan into Asia			USD \$163	USD \$153	USD \$138
	ONP - No 8 De-inking Europe into Asia			USD \$144	USD \$140	USD \$123
Pulp	NBSK Landed		Bales	USD \$730	USD \$730	USD \$600
	Bleached Eucalypt Landed		Bales	USD \$670	USD \$670	USD \$590

Indexed CWF Prices: Aug '04 - Dec '06



Source: IndustryEdge research

Indexed UCWF Prices: Aug '04 - Dec '06



Source: IndustryEdge research