

Transport, Handling, Warehousing and Distribution of Forest Products

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ON THE GROWTH PATH INVESTMENTS IN SCANDINAVIAN PULP AND PAPER PRODUCTION PROPEL BUSINESS

Also inside:

Is the industry heading
for a downturn?

Why Georgia-Pacific is
becoming data-driven

How new trade patterns
are changing business

Picture: Tom Körber



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Current challenges in logistics

By SUSANNE HAASE, Editor

The recently published study “Transport in Retail Logistics” by the EHI Retail Institute has shown that retail in Germany, Austria and Switzerland faces various challenges when it comes to logistics. The fact that the situation in the paper industry is very similar is confirmed by discussions that the *IFPTA Journal* held with representatives of significant manufacturers in Central Europe.

According to the study, retail logistics are fundamentally confronted with growing customer demands in terms of speed, punctuality and costs. At the same time, a persistent shortage of truck drivers is troublesome. Like most areas of retail, retail logistics is taking advantage of new technologies. Every second dealer already uses mobile devices for navigation in the transport sector. Mobile devices are also used for shipment tracking (Track & Trace) by more than half (54%) of those surveyed. Another 13% plan to use this option. Mobile end devices are only used by 35% of those surveyed for online data acquisition of transport documents.

The paper manufacturers see an important change in the area of costs, which have increased since July 2018 mainly due to toll

increases on federal roads. In January 2019, a further increase in toll fees came into effect, which further strengthened this trend. One more reason why the logistics concepts of many companies today are based on a combination of rail, ship and road transport for the transport of incoming and outgoing goods. This development also fits a well-thought-out risk management strategy.

However, the flow of goods is always subject to fluctuations, and rail and ship traffic compete with trucking. For large quantities over long distances, rail transport, for example, could offer advantages in terms of service, eco-balance and delivery security, said one interviewee, while truck transport offers advantages in short distance traffic. The biggest challenge is that customers usually do not have a direct rail connection. If these are to be supplied by train, temporary storage facilities must be kept in order for the goods to be loaded onto trucks, which then travel the last zero to 100 km to the customer. In many cases, these additional costs make this way of shipping uneconomical for paper manufacturers and their customers. In addition, the risk of damage from multiple

loading processes increases and delivery times increase accordingly. Last, but not least, one is dependent on the reliability of the train and its wagon capacities (as one interviewee put it).

A tissue paper producer contributed another aspect: His customers usually order with only two to three days' notice and this can only be reproduced to a limited extent via the train.

Inland shipping is apparently rarely possible in daily practice, although there are a few excellent examples of where this works well. UPM, for example, uses container pre-transport from Nordland Papier in Dörpen, Emsland, Germany, to Bremerhaven and Rotterdam.

At the same time, customers' interest in the lowest possible carbon footprint of the purchased products, in which transport also plays a role, has increased. One interviewee said: Only sustainably manufactured products have a chance to survive on the market in the long term. The current global demand for consumer goods is increasing and at the same time the public interest in responsibly manufactured products is increasing. Companies that act accordingly are therefore perceived more strongly than their competitors.

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Dealing with the Corona Virus is a major challenge

By ALAN BOG, IFPTA President

As most of you know I have been working in China for quite a few years, which is always interesting but always brings some surprises.

We went through 2019 facing a crisis in the pulp and paper industry, and as a terminal operator in China we were faced with unprecedented levels of inventory. By the end of the year we saw things beginning to look more normal, although we were conscious that we would hit some peaks in Q1 due to the early Chinese New Year holiday.

As I write this, our major challenge is dealing with the Corona Virus. The rapid development out of the epi-centre of the virus has caused a number of issues. As you know the Chinese New Year Period, or Spring Festival as it is called in China, is the period when we witness the largest migration of people world-wide as people go back to their home-towns all over China to visit their families. This mass migration presented a huge risk of propagation of the virus, which was shown to be transmitted from human to human just before the holiday. Severely affected cities were shut down totally and people were encouraged to stay at home for the holidays.

The central government extended the normal one week holiday by a week in an effort to slow down the spread of the disease, and introduced home quarantine periods for people returning from both affected domestic areas and overseas.

My company's first concern was of course the health of our employees and their families. Our HR department kept in close contact with everyone and ensured they were in good health. An online health information system was put in place.

As I write this, offices are open again. We are encouraging those for whom it is not essential to come to the office to work from home. Luck-

ily modern technology enables us to do this.

There are restrictions still on inter-provincial travel. With quarantines in place some work forces are only getting back in place slowly.

We wait to see what the impact on the pulp and paper industry will be. Hubei province, where Wuhan is located, is home to many paper mills and tissue mills and has a population of 58.5 million.

We are waiting to see when they will be able to start up again.

Logistics has been hit due to a shortage of drivers and restrictions on inter-province trucking. Barging operations have also seen limitations especially for barges which have recently been in affected areas.

All in all, the Chinese government has done a remarkable job in trying to control the outbreak, and should be congratulated.

IFPTA has seen a major change in our organizational structure since the beginning of the year. For their own internal reasons Tappi had to give up the association management which they had been doing for us for 2 years. We thank Tappi for their efforts during this period. We were sad and disappointed to see them go, but understand their reasons. We have awarded the association management to O'Brien Publications and we look forward to dealing with them in the future. We will give you more details about how we see the way forward in the next issue.



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RENEWAL REMINDER

Uncertainty clouds the global economy and thus the industry, but it could be a soft landing with brighter days coming in 2021

HEADING FOR A DOWNTURN?

By GRAEME RODDEN, Contributing Editor

Cloudy skies, literally and figuratively, greeted delegates at Fastmarkets RISI's annual North American forest products conference held in Boston last October.

Fastmarkets RISI director macroeconomics Lasse Sinikallas said global economic growth will grow moderately, but as was asked in the CEO Panel, noted that political and economic uncertainty means risks are heightened.

For 2019, he saw US economic growth at 2.2 percent, slowing to 1.3 percent in 2020 before bouncing back to 1.8 percent in 2021.

In China, growth this year should reach 6.2 percent before falling to 5.8 percent in 2020, but jumping back to the 6 percent range in 2021.

In Europe, momentum is low. All indicators point down. The area will grow but very slightly. European industrial production "hit the brakes" in 2018.

Consumption growth in the US is being driven by the service sector. Therefore, Sinikallas believed the US will avoid a recession.

US housing starts and sales have stalled. But, this could be tied to the Fed rate and if it is cut again, housing may move up. Investment growth in the US has slowed significantly.

In China, the trade war has dampened the economy. Investment growth is slowing as is growth in industrial production. It is not a good sign for a country trying to transition from an export-led to a consumer-led economy.

What are the present day risks? Sinikallas listed a few:

- Trade policy issues and a trade war (uncertainty slows growth);
- Race of GDP growth is decelerating in China;
- Overall political uncertainty;
- Geopolitical tensions;
- Central banks' ability to continue stimulus.

When asked what was driving the expectation for global improvements in 2021 given the relatively gloomy forecast, Sinikallas said he ex-

pects the trade war to be settled leading to a better climate for business and more investment.

RECORD PULP INVENTORIES HANG OVER MARKET

There is a "massive" amount of inventory in market pulp globally (close to 60 days of bleached hardwood kraft), and reaching a market balance won't occur until the inventory is reduced, Fastmarkets RISI's VP of Fiber Dave Fortin said.

What will it take to correct the situation? Fortin said inventory correction is the key to the next price swing. But, he added, "We need an increase in demand as well."

Suzano has announced 1.2 million metric tons of downtime for 2019.

The premium for northern bleached softwood kraft (NBSK) versus hardwood has widened so demand may move back to hardwood pulp.

Fortin also said that he expected "increased market curtailments if prices continue to drop." End use markets remain relatively weak, about one percent growth. There are limited capacity expansion projects announced through 2021, which could help, although Fortin says he believes pulp markets could remain weaker longer.

BOXBOARD FACES OVERSUPPLY

Abdulla Zaid, Fastmarkets RISI's economist, said boxboard demand is slowing with only 1.1 percent growth expected in 2020. The market is getting oversupplied. Since 2010, boxboard has only experienced an average annual growth of 0.5 percent.

Demand in this sector is generally tied in to macroeconomic drivers and trends, Zaid added. Non-durables production sets the tone for boxboard demand and there was weak performance in dry foods, soaps and detergents.

However, with the battle against single-use plastics underway, there may be an opportunity

for boxboard to gain market in the liquid packaging sphere.

With folding cartonboard having the lion's share of the market, there is downward pressure on demand because of the appreciation of the greenback. Zaid expected 0.1 percent average annual growth in this market between 2019 and 2021.

Liquid packaging and food service are the bright spots in the sector with average growth of 2.2 percent over the past five years and 1.5 percent growth expected through 2021.

Between 2017 and 2022, about 280,000 tons will have been taken out of the market, but oversupply remains an issue. Zaid said to expect more imports into North America from Europe.

E-COMMERCE AND CONTAINERBOARD

To no one's surprise Derek Mahlburg, Fastmarkets RISI senior economist, graphic paper, said US domestic box shipments' recent strength corresponds with the rise of E-commerce and, it will continue to be the driver for containerboard demand growth.

From 2015 through 2018, there was \$59 billion in growth each year in E-commerce/mail order trade.

E-commerce retail uses seven times more corrugated per dollar than traditional retail. The E-commerce supply chain offers more opportunity for damage because of handling so goods can be overpackaged.

How long can this strong run continue? Mahlburg said that real growth in E-commerce and mail order is actually slowing and has been since 2015. What this says, he added, is that the peak growing period is over but growth still exists. For example, the 2018 growth of 7.7 percent is the lowest since 2013.

Ken Waghorne, vice president, global packaging paper, Fastmarkets RISI, then discussed the overall market for containerboard. He noted that the global downturn in manufacturing is

undermining containerboard demand around the world. Annual consumption growth will be down everywhere except non-China Asia.

The overall containerboard market is 173 million tons, most of which is consumed in Asia (83 million metric tons), with China being the largest single market.

The North American market is 31.4 million tons, the bulk of which is in the US. However, Waghorne said that the US manufacturing sector is on “shaky footing”, with the PMI falling to its lowest level since 2009.

US industrial production will go “sideways” through 2020 before accelerating in 2021. However the recovery should be more modest than in 2015-16.

Supply will grow substantially for the next

five years in the US. There is confirmed growth of two million tons, Waghorne said, citing the Cascades and Green Bay Packaging projects as two examples. However, projects under discussion could add another five million tons.

Still, US containerboard supply and demand should be in good balance in 2020 and 2021.

Latin America is a key sector for North American exports.

In Europe, demand growth is slowing and oversupply is developing. Capacity expansions in emerging Europe will push more Western European exports outside the region.

Demand in China will drop by another two million tons in 2019. A further drop is expected in 2020 before a recovery in 2021. Waghorne said China’s RCP policy has had an effect. Net

imports of containerboard will climb. The market is attractive to other Asian suppliers. Smaller exporters have reaped most of the benefits from the shift in China’s RCP legislation.

In conclusion, Waghorne said global economic uncertainty remains the biggest threat to the sector. The industry must watch for changes in the consumer product sector, adding that the E-commerce sector is beginning to mature. Timing and/or changes to the announced capital investments have to be monitored.

LONG-TERM RCP MARKET WEAKNESS

Uncertainty is the underlying theme in recovered paper as well, according to Hannah Zhao, senior economist, global recovered paper, Fastmarkets RISI.



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Chinese imports have fallen off the board and there is slowing demand from other Asian countries as well. By the end of October, China had issued imports permits for 10.7 million tons, compared with 17.5 million tons in 2018. Will China ban all RCP imports? Most believe it will after 2020. But, it may allow small amounts of very clean OCC and OMP.

No matter how it tries to make up the loss of RCP, China has a big fiber gap, so paper and board production will fall.

Imported recycled pulp has emerged as a viable option. About five million metric tons of recycled pulp capacity expansions have been announced in the US and non-China Asia. But, Zhao cautioned, many of these projects are assumed, not firm.

Chinese domestic collection has increased greatly and the collection process has become

very regulated and much more sophisticated. There has been a shift from small vendors to well-managed recycling companies. Shanghai was the first and the system is being rolled out across the country.

There is a fear that other Asian countries – Indonesia, Vietnam and India – will follow China's lead in regulating if not banning RCP imports.

In the US, RCP exports actually rose in 2018 because of non-China Asia imports. But, 2019 shows a big drop in US exports, down 6 percent in the first eight months. All grades, except deinked high grades, posted declines.

US domestic consumption of RCP fell in 2018 and not much hope is held for 2019. Zhao said the recycling business in the US has suffered for two years now and the downturn has changed the face of the collection system.

A DYNAMIC TISSUE MARKET

Esko Uutela, Fastmarket RISI's well-known tissue principal, gave an update on the global situation. He called the market "dynamic" with 38.8 million metric tons being consumed in 2018.

In 2018, the US imported more than one million metric tons of tissue. The average annual growth rate of imported tissue into the US between 2009 and 2018 was 5.4 percent. However, Uutela pointed out that the US:China trade war will have an effect as the 25 percent tariff on Chinese tissue will make the product uncompetitive in the US. He estimated a 15 percent drop in imports from China (equivalent to 330,000 metric tons).

Please note that this report refers to a conference which took place before the corona virus outbreak.



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PORT OF KIEL WITH PAPER PRODUCTS ON GROWTH PATH

All Pictures: Port of Kiel

SCA and Iggesund Paperboard have driven the expansion of port facilities

By SUSANNE HAASE, Editor

For three years now, 850,000 tonnes/yr of high-quality paper products have been handled, stored and further delivered to central and western European markets, but also to China in the SCA and Iggesund Paperboard terminals at Kiel's Ostuferhafen. The business with forest-based products is going well and is being expanded.

In the first few months after the opening in November 2016, teaching fees had to be paid, explains Dr. Dirk Claus, managing director of Seehafen Kiel GmbH & Co. KG, but: "We have had a stable success curve since January 2017!"

The initial difficulties were mainly due to an unreliable internet connection in a newly built, ultra-modern hall, shed No. 5. The specially developed software for digital warehousing did not run as planned. Obviously, the ships that were moored right in front of the building ini-

tially impaired the WiFi connection. The problem has long since been resolved and the program now maps the entire inventory as desired.

"That meant that we were able to optimize processes. First in the warehouse, then in the backlog and finally when it was delivered to the truck, where shorter waiting times were achieved," says Claus.

BUSINESS BUILT FROM SCRATCH

In the meantime, according to Claus, "very good damage management" was also added, including photo documentation that goes online to the customer and offers the opportunity to react directly. He attributes the good development in handling paper products to the committed workforce and their strong identification with the products. "Our team built this business from scratch and really sees it as its baby!"

Of the 60 new employees who were hired in Kiel for the opening of the new terminal, quite a few traveled to the Swedish port of Sundsvall for training by SCA and Iggesund. "This exchange helped to create a high level of understanding of quality", emphasizes Claus, who sees the "very partnership-based cooperation" with the paper and cardboard manufacturers as another success factor.

The new SCA terminal was built within a year on an area of over 16 hectares in the northern area of the east bank port. A total of 25 million euros were invested.

The forest product center comprises the 10,000-m² warehouses No. 1 and No. 2, each with new roofs and floors, and the newly built No. 5 shed, which, with an area of 18,000 m², is one of the largest warehouses in all of Kiel. Also new was the 7,000-m² cassette hall, shed No. 8,

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which was built directly next to the ship's berth and offers optimal weather protection when the ship is unloaded. The service is supplemented by the smaller shed No. 4 and a coach house, so that a total of over 50,000 m² of hall space is available in the forest products terminal.

PAPER TRANSPORT HAS A LONG TRADITION

As paper had already been transshipped in large quantities in Kiel's Ostuferhafen and Nordhafen in the 1980s and 1990s, the inauguration of the terminal meant a return of the paper to the Fjord. After the startup phase, which lasted several months, the SCA freighters - Obbola, Ort-viken and Östrand - have been heading to the Ostuferhafen from Sundsvall alternately every Monday and Saturday since October 2016 and deliver up to 160 cassettes loaded with paper.

The product range extends from cellulose to printing paper to kraftliner and cardboard for high-quality packaging intended for German and European markets. In addition, overseas containers are packed that are shipped via Hamburg to the Far East, for example, Shanghai and Hong Kong.

On the return voyage to the Swedish east coast, the SCA ships can transport various types of cargo, such as vehicles, general cargo, steel or even recycling materials. An important asset in this context is recovered paper, for which a special storage area has been set up in the Ostuferhafen.

The desired operating performance was already achieved half a year after the opening in March 2017: "We are now in a phase where we are really only discussing very small steps in terms of improvement," says Claus. The damage rate is at a top level, the turnaround times too: "We owe that to the short distances here in the port."

Today, paper products worth one billion euros are moved annually at the Fjord. The number of employees working for the port in this area has grown to 100, making up a quarter of the total workforce. 80 employees are responsible for paper, the rest for the handling of wood.

In the meantime, further investments have already been made in Kiel with the expansion



Shorter waiting times for trucks were achieved



Two ships from Sweden head to Kiel every week



Up to 160 cassettes with paper are unloaded per arrival

of the area for forest-based products: New fore-storage areas have been created at the Ostuferrhafen, so that the trucks can approach the port earlier, and the dispatch office is now in the immediate vicinity. 8 million euros went into the expansion of these three hectares. In addition, a new cassette shed was built for 2.5 million euros, which doubled the square meters available for storing cassettes.

"We made these investments because the paper products business is doing well," says Claus. For the Port of Kiel, which is also a popular port of call for cruise ships, the mix of paper and passenger works well: "Both need a high level of cleanliness and are well compatible with each other!"

If the handling of forest products in Kiel continues to develop positively, further opportunities open up: Directly next to the new paper terminal is a decommissioned coal-fired power plant, the dismantling of which has just started. The port has already been awarded the contract for this additional 14 hectares and Claus sees here the possibility of further growth. "The area does not have to be completely covered with facilities for forest products," he says. "But our customers also invest in their production facilities. For example, we see the development of SCA with a view to pulp production - and we would also like to benefit from it."

At the same time, trade in wood is also on an upward trend. In the service of the timber trader Jacob Jürgensen, a ship with 20,000 m³ of Siberian larch from St. Petersburg lands in Kiel every fortnight.

From Claus' point of view, the sustainable orientation of the port and its customers also speaks for a business relationship that will continue to prosper in the future. "As a company, SCA and Iggesund are very sustainable. That fits very well with the profile of our port and the Blue Port concept."

ENVIRONMENTAL PROTECTION IS KEY

As part of the Blue Port concept, Kiel plans to become one of the most environmentally friendly ports in Europe. The concept includes the shore power supply, in which 15 million euros are currently being invested. Alterna-

Kiel plans to become one of the most environmentally friendly ports



Picture: Peter Lühr

tive energy sources will replace the power-generating auxiliary motors, in particular for regular transport ships and cruise ships. The increased use of rail for the transportation of goods is also in the plan, as is the establishment of a charging infrastructure for the use of

e-mobility or the reduction of pollutants in the port area.

With regard to the manufacturers of forest-based products, Claus states: "Together we head in the same direction. The improvement of connections to the hinterland or a combined,

intermodal cargo traffic also plays a role here. These customers are a perfect match for us in terms of volume, long-term thinking, but also that we demand a great deal of ourselves and the processes we put in place. Many factors interact positively here!"

About the port

Seehafen Kiel GmbH & Co. KG operates the Kiel commercial port on behalf of the Schleswig-Holstein state capital Kiel, whose 100% subsidiary is the company. There are ferry lines from Kiel to Norway, Sweden, the Baltic States and Russia, which make up around 80% of the port's activities. Kiel is one of the leading German start and destination ports for cruises. The port achieved a good result in 2019. Carried by a strong cruise season, passenger numbers rose by 8.4% to just under 2.4 million travelers. In the freight area, the terminal facilities managed by the port saw an increase of 1.9% to 6.8 million tonnes. Added to this is the bulk handling of independent plants, so that the 7 million tonne mark from the previous year was maintained.



From left: Magnus Svensson, President Sourcing & Logistics, SCA, Dr. Ulf Kämpfer, Mayor of Kiel, Dr. Dirk Claus, Managing Director Port of Kiel, Christina Törnquist, Logistics Director, Iggesund and Jörn Grage, Terminal Manager, SCA

The Forest Products Terminal went into operation three years ago



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USING A DATA DRIVEN APPROACH IN DECISION MAKING

By SUSANNE HAASE, Editor

IFPTA Journal spoke with Milind Balaji, head of supply chain for Georgia-Pacific Cellulose in Atlanta, US, about the challenges the company is facing regarding transport and solutions increased digitalization might offer.

IFPTA Journal: Please give available facts and figures regarding transport of products manufactured by Georgia-Pacific.

Milind Balaji: Georgia-Pacific and our group companies ship over 245,000 TEU a year making us the largest exporter in the US today. Our products span a range of forest products and chemicals for commodity and retail customers globally.

Which modes of transport do you use?

Breakbulk vessels, container vessels, domestic trucks and rail box cars in the US.

Which are the most important ports for export of your products?

In the US we ship primarily out of New Orleans, Mobile, Jacksonville and Savannah.

Which is your preferred shipping mode: container or breakbulk?

Both. It depends on cost competitiveness, flexibility and multiple services to every part of the globe ensuring reliable customer delivery and meeting expectations.

How do you make sure to attain a high level of damage prevention?

We have a comprehensive process that starts off right from the production line. Product is inspected prior to loading using both manual and automated processes. We adhere to stringent loading patterns that protect and secure the product to ensure the safety of our



Milind Balaji, head of supply chain for Georgia-Pacific Cellulose

Pictures: Georgia-Pacific Cellulose

personnel, our customer's employees and other 3rd party vendor's safety as well. An added benefit is that these load patterns are electronically transmitted to every loader, inside the company and at our outside vendors and serve as a guide for loading best-practices that result in a superior level of product protection in our supply-chain. In short, we believe we have the most comprehensive product protection program in the industry.

Which are the most important regions for distribution of your products?

We ship to over 88 countries and cover every part of the globe. Each region for us is vitally important to our growth and sustained performance.



The company adheres to stringent loading patterns

How has the approach to logistics at Georgia-Pacific changed over the years?

We are using a much more data driven approach to all our decision making. From simple spreadsheets in the earlier years we have now transitioned to a more forward-thinking, predictive model of going to market, anticipating as much as possible of what headwinds to be wary of, what tailwinds to capture and to have a measured response to every possible scenario we might encounter. We cannot plan or predict every supply-chain disruption or shock, but we can be better prepared to weather them as they affect us and mitigate any potential disruption to our customers.

We are also much more focused on long-term relationships and building trust with our partners. We believe that good things happen when there is a level of trust where both parties feel like they are mutually benefitting from the relationship. Our vision is to create virtuous cycles of mutual benefit between our customers, service providers and ourselves.

Did you recently invest in technology for transport of your products?

We are investing in better

freight forwarding tools, predictive analytics models and also a lot of technology in our mill logistics operations to reduce errors, increase safety, improve consistency and also give us a level of insight into the supply-chain that was not possible before.

Are you planning to make further investments?

Absolutely. With technology infiltrating supply-chain networks at light speed, we believe that further investments in technology to support our internal processes will be key to

maintaining competitive advantage at the corporate and manufacturing levels.

How important is digitalization in the supply chain? For you and your customers?

It is the wave of the future and is not a question of if but when and how fast it will occur. As ocean carriers catch up with the rest of the supply-chain world and implement new technologies like Blockchain, we will benefit by greater accuracy and speed on our documentation and solve a huge pain point for our customers as well. We are also a more intelligent supply-chain that is constantly "talking" to its stakeholders. You can see this in technologies being used in forest products like RFID. We look forward to rapid adoption of digital technologies and establishment of common standards especially when it comes to documentation via proliferation of traceability technology to every part of the supply-chain.

From your point of view: Which are currently the main challenges in the logistics business?

As mentioned above, the on-going digitalization of the shipping world could not come faster. We are affected by inefficiencies in carrier documentation, space visibility and service consistency and believe that digitalization of all parts of the supply-chain from port operations, carrier space and documentation will benefit us and make for a more efficient industry. Finally, infrastructure is lagging behind in many parts of the globe including the US which exacerbates problems like vessel delays, congestion and speed to market.

How will logistics change over the next five years – at Georgia-Pacific and in general?

There is a lot of transformation happening inside the company to meet the challenges of new markets and changing customer needs so we need to prepare and evolve constantly to stay competitive in the markets we serve and improve our customer's experience with us. We aim to thrill our customers every day! A quality, reliable supply-chain is an essential part of doing just that.

Thank you for the interview!



The new Forest Products Terminal is located to the right, behind the Finnlines ship

Pictures: Lübeck Port Company

The port is Germany's largest RoRo base on the Baltic Sea

LÜBECK HAS BUILT A NEW FOREST PRODUCTS TERMINAL

By SUSANNE HAASE, Editor

In autumn 2019, the Lübeck Port Company (LHG) gained initial operational experience with the new forest product terminal (FPTSK) at the Scandinaviengkai. Quantities were continuously ramped up to test the operational processes. At the official opening at the end of January, the team and processes were "well coordinated".

The Hanseatic City of Lübeck, Lübeck Port Authority division, completed the facility in mid-November and handed it over to LHG. The FPTSK consists of a 25,000-m² logistics hall and a 5,000-m² ferry hall. There is a paved area around it with a good 70,000 m².

The state-of-the-art, multi-functional logistics hall, which shines in a rich shade of green, is equipped with an automatic warehouse control and planning system, is 300 m long and can accommodate up to 35,000 tonnes of forest products. Six gates on each long side ensure that the LHG can store and reload there quickly. Wide roof overhangs also guarantee optimal weather protection.

LONG TRADITION

With this investment, the port builds on a long tradition. "Historically, we were the strongest port for handling and storing forest products. We

have maintained close relationships with manufacturers in Finland and Sweden for decades, and this industry was of outstanding importance for Lübeck," explains Ortwin Harms, director marketing/sales of the Lübeck Port Company in an interview with the *IFPTA Journal*.

The port of Lübeck has always played a

central role on the transport corridors between southern, western and central Europe and the Baltic Sea economic area. The LHG terminals offer up to 80 departures per week to 20 partner ports on the Baltic Sea, thus guaranteeing the highest delivery capacity. The special strength of the location is the roll-on/roll-off traffic



(RoRo): fast moving cargo that rolls from and on board by truck or shipping company.

Pallet goods in various formats and weighing up to 300 kg, pulp bales and paper rolls with unit weights of 700 kg up to 8 tonnes in a width of up to 4.3 m and with diameters of up to 1.8 m are not only on the Scandinavian quay but also on the Nordland quay and in Schlutup routinely handled every day. Special handling equipment such as forklifts with automatic clamp pressure regulation are used for handling, some of which have even been developed in cooperation with the vehicle manufacturers. The employees are also prepared to handle the highly sensitive goods.

LARGEST RORO PORT OPERATOR ON THE BALTIC SEA

The Lübecker Hafen-Gesellschaft mbH (LHG) operates the public ports in the Hanseatic city and is Germany's largest ro-ro port operator on the Baltic Sea. It employs a total of more than 700 people at four terminals and has around 156 ha of handling and storage space, including a good 27 ha of covered storage. Founded in 1934, the company is now owned by the Hanseatic City of Lübeck (62.5%) and the RREEF Pan-European Infrastructure Two Lux (37.5%). The core business includes port handling, stevedoring and warehousing. However, the company offers a significantly broader range of services together with subsidiaries and holdings.

The companies also include European Cargo Logistics GmbH (ECL), which has established itself not only as one of the leading service providers for the distribution of forest products in Europe, but also in the area of third-part logistics and supply chain management. ECL is also active as an operator in the hinterland rail traffic, which is largely transported via the intermodal terminal at Skandinavienkai. This terminal links the modes of transport by ship, rail and road, so that highly efficient and environmentally friendly transport of goods throughout Europe is possible.

In addition to the Skandinavienkai, the Nordlandkai is a terminal that is predominantly used for the handling and storage of forest products, mainly from Finnish production.



A crossdocking system allows for goods to be loaded directly into rail wagons



A bright, ultramodern building



Helicopter view of the FPTSK

Multifunctional halls, covered tracks and transshipment areas ensure loading regardless of the weather. Customer-specific transport systems, such as large containers from the paper industry, are also efficiently implemented there. A cross-docking system enables goods from these large containers to be loaded directly into trucks and rail wagons. The Schlutup terminal was also developed and expanded in close cooperation with paper manufacturers and is therefore optimally adjusted to the requirements of this demanding product.

MASSIVE SLUMP

Ortwin Harms explains that the 2008 financial and economic crisis hit port and cargo handling with forest-based products hard. Because: "This crisis coincided with the structural crisis in the paper industry and we came into the situation that around 60% of the four million tonnes that we handled in this area in 2008 were lost. "The majority of the four million tonnes were graphic papers, followed by 25 to 30% packaging paper. Changes in production in the face of shrinking demand, the subsequent shutdowns of paper machines, the loss of companies such as Myllykoski in the course of takeovers or a new layout of strategic regions for internationally active paper manufacturers such as UPM have also led to massive changes in Lübeck.

In addition, customers have put systems that have been good for many years to the test and worked out to the last cent which transport solution was the cheapest, says Harms. Nine years after this painful cut, the port saw the potential in handling forest-based products in Lübeck again. So, in 2017 the city decided to invest a total of around 35 million euros in a new terminal for forest products, which was initially used by Stora Enso and Pankaboard, among others. Not as before, in the city quay, but at the Scandinavienkai.

In the background there were two approaches: First, from the point of view of the shipping companies in Finland; it is good and useful if the forest products are handled in the same place as goods that pass quickly. In addition, the location of the Scandinavian quay at the mouth of the Trave River meant that the journey time was reduced by two hours. From



Hasko Behrens, Project Leader Stora Enso, Terminal Skandinavienkai (left) and Ortwin Harms, Captain, Director, Manager Marketing and Sales, LHG

Picture: SHA

the port's point of view, it seemed sensible to build new, innovatively designed halls where there was previously no possibility of handling goods in stock and to achieve a new level of effectiveness thanks to short distances. There were also port expansion areas here that could be developed quickly. "That was also an important point," said Harms.

NEW LEVEL OF EFFECTIVENESS

For Stora Enso, the anchor customer for FPTSK, a powerful argument was the provision of the necessary capacity and the very good hinterland connection by train. "This type of setting a strategic course is very important for these companies," says Harms. The project is divided into two sections. In addition to the part that has now been realized, another is planned, in the course of which a second hall, an extension of the first with another 15,000 m² is to be built. The earthworks have already begun and it is currently planned to be completed by the end



290,000 tonnes of paper and cardboard are expected for the first year

of 2021. The total expansion will then cover an area of 16 hectares.

At the time of the *IFPTA Journal* visit in January, the first hall was well filled, an average of 40 trucks from the new forest product terminal were being accommodated, and 60 trucks a day should be supplied when in full operation. With an average storage period of 26 to 28 days, a continuous volume of 290,000 tonnes of paper and cardboard goods is expected for the current year.

FOCUS ON GROWTH

Harms is accordingly optimistic about the future: "We see that the products of the forestry industry in Finland, but also in Sweden, will continue to be an important market segment here in Lübeck. We are therefore preparing in the medium and long term to continue to process these products unchanged via Lübeck."

However, he does not want to hide the fact that: "This business environment is extremely demanding. We will also continue to be concerned with the large fluctuations in terms of quantities but also the product range. We have to adapt flexibly to changing market conditions."

In addition to sustainable goods made from renewable raw materials, he sees other advantages above all: "In this industry we have direct contacts who control their logistics processes themselves." And: "This traditionally conservative industry has changed massively. It used to be downright absurd to do something different than usual. Today, there is much more open discussion and action!"



Changing market conditions are the new normal

Alexander Global Logistics has adapted as trade patterns in the forest products industry change

"WE HAVE TO KEEP DEVELOPING TO STAY COMPETITIVE"

By SUSANNE HAASE, Editor

Alexander Global Logistics has developed from a newcomer to an important player in the transport of wood products in just under 15 years. The *IFPTA Journal* met managing director Carsten Hellmers at the company headquarters in Bremen, Germany, to talk about current trends and challenges in this area.

IFPTA Journal: Please give an overview of the current business with the transport of wood-based products in your company.

Carsten Hellmers: In addition to plant and project logistics, wood, paper and pulp logistics are part of our core business. We offer warehouse and supply chain services worldwide. In doing so, we move more than a million tonnes physically transshipped from or into ships or containers. The main markets are Europe, Asia and, as of this year, North America. The range of services includes warehousing, transport by truck, train, inland waterway and the chartering of seagoing vessels, i.e. chartering, as well as expert reports or audits and consulting services. We also move more than 100,000 containers with forest products worldwide.

In your opinion, what distinguishes Alexander Global Logistics from the competition?

Our know-how regarding the correct handling and storage of these sensitive goods is a prerequisite for our customers to work with us. This includes damage control and processing of damage. We also employ sworn surveyors who carry out neutral loading monitoring for customers, insurance companies or carriers.

We have also specialized in the special requirements when handling highly sensitive products such as pulp rolls. This comprises special warehouses, which are audited by our customers, including Procter & Gamble, for

The company offers warehouse and supply chain services world-wide



More than one million tonnes are moved per year



All pictures: Alexander Global Logistics



Products are put into special warehouses audited by customers

example, before these products are entrusted to us.

Specializing in certain product groups is also one of our plus points! We do not claim to completely cover all areas and types of cargo in logistics. If in doubt, large multi-national logistics companies can do this more cheaply and better across the board. However, our company size plays an important role in terms of customer loyalty. Our customers have a maximum of one or two direct contacts and are not first forwarded through several departments. So you can contact the responsible employee without detours in the event of changes or problems. This customer-oriented service is also reflected in the customer structure, where we have a large number of regular customers.

How has the forest-based product business changed over time?

Our company was founded in 2006 and in the first few years we processed large quantities of newsprint for well-known North American manufacturers. Today, the load mix for containerboard and kraftliner paper, as well as fluff pulp for hygiene producers and large quantities of paper pulp is increasing.

What investments have you made recently to enhance business with this industry?

We invest heavily in IT-based solutions in order to handle large quantities of cargo more efficiently. However, we do not ask our customers to adopt rigid systems from Alex-

ander Global Logistics, but instead offer individual solutions with interface functions that adapt to the customers' existing systems. This means that the customer can also choose alternative providers at any time if our product or our costs no longer fit. For us, this means that we have to keep developing in order to remain competitive. As an example, I would like to use our self-developed supply chain management system, the so-called AGL Web. This program is individu-

ally tailored to our customers for digital recording and monitoring of the customer's inventory.

For a long-standing customer, we even installed RFID systems in Bremen as the first transshipment point worldwide. In addition, the above-mentioned AGL Web gives our employees a holistic view of all warehouse movements and, as a result, they can easily and flexibly plan both deliveries and deliveries. In addition, our customers can also access the



Pulp shipments are on the rise

system so that they have an overview of their warehouse movements at all times and can track them.

Is there an exemplary customer case here?

AGL arranges warehousing and just-in-time delivery in Europe for the Graphic Packaging Paper Group based in Atlanta, US. The goods arrive exclusively in 40-ft containers from the company's American plants destined for Germany, Belgium, Spain and Italy. We transport the containers from the seaports to special paper warehouses, optimally located geographically to the company's production facilities in the individual countries. There, the containers are unloaded and the goods are stored.

A detailed damage control takes place here. Damaged rolls are documented and photographed. In this way, the European production facilities can claim any damage to the mail-order factory. The storage is transferred electronically to the AGL Web. The calls and deliveries take place according to detailed specifications. There are a variety of different dimensions and grammages. Deliveries are also fully electronic. Due to special reasons, AGL delivers with its own chassis and tractors in the shuttle system. Rolls of paper are delivered and finished goods are loaded again after unloading. In this way, empty runs are completely avoided. The annual quantity of container board amounts to well over 100,000 tonnes - a good example in which AGL offers in-house logistics!

What trends do you see in the market for forest products in general and in the transport of forest products in particular?

In general, we see a further increase in capacity in the pulp sector with highly efficient plants in Scandinavia and South America. The concentration towards ever larger market players and fewer providers can also be seen. In the conventional shipping area, many producers go from a 'main hub' discharge port system back to several discharge ports. This also has to do with increasing tonnage and demand for pulp.

From a logistical point of view, it can be said that in many areas the container has grown significantly compared with conventional trans-



**Carsten Hellmers, Managing Director,
Alexander Global Logistics**

port. This trend will increase because you can react more flexibly to customer requests in the individual regions. Transport by rail - keyword silk road - is also gaining in importance.

How do you prepare for these developments?

AGL will increasingly open foreign offices and representative offices in the most important production site and customer countries in order to be able to offer our know-how better worldwide, or to be closer to the customer. Our value added services - survey, claims processing, damage prevention and customer advice

- mean that our customers can take new transport routes with confidence. We ensure the quality. We have designed a so-called 'check list' for terminals for a large pulp producer. Here we check all European ports based on a deletion list for cleanliness, handling equipment and effectiveness. At the end we compile a list with marks. It is important to us to offer our customers services that bring the most value for our customers. We do not feel bound to the traditional marketing of freight.

We are also actively involved in network organizations such as the New Silk Road Network (NSRN) as a founding member. NSRN connects various partners such as terminals, shipping companies, rail transporters and logistics companies. Our aim is to present our customers with highly individual solutions by working with 'hidden or local champions' in core markets.

Where do you see potential for wood fiber-based products?

Pulp as a product will play an important role in the next few years and will find more and more areas of application. Personally, I prefer paper towels in public areas to textile towels and paper bags in the food market to plastic bags!

Thank you for the interview!

Note on the NSRN website:
<https://www.newsilkroadnetwork.com/>



Detailed damage control is key

BUILD YOUR NETWORK

HAVE YOU VISITED IFPTA'S WEBSITE LATELY?

As of January 1, 2020, IFPTA is bolstering its efforts to keep members up to date with the latest news and events in virtually every segment of the forest products transportation supply chain. The website is being updated on a daily basis with news about ports and shipping, rail carriers, trucking, breaking technology and regulatory announcements, and other information important to our members. So please take a moment to visit www.ifpta.org and let us know what you think.

MEMBER SERVICES

The IFPTA website also provides members with access to a Members Only section that includes exclusive member-only content, including:

- Current and past issues of the IFPTA Journal
- Online member directory
- Ability to update your member profile and contact information
- Renew your membership dues online
- Register for events

IFPTA CONNECT

Network with other IFPTA members around the world through the online member directory to make valuable personal connections. All IFPTA members have access to our online member directory. Simply log into your account from the IFPTA home page (www.ifpta.org) to access the directory.

IFPTA IS SOCIAL

IFPTA has a new LinkedIn page and we're in the process of rebuilding our Twitter page. Follow us on LinkedIn at: www.linkedin.com/company/international-forest-products-transport-association, and also on Twitter at: twitter.com/ifpta.



GET INVOLVED

We encourage our members to work with us in building all aspects of the Association as we move forward. If you have news about your company, would like to post a topic of discussion on our LinkedIn page, or have IFPTA follow your company on Twitter, please let us know.

CONTACT

To submit online news or for questions about IFPTA and our online outlets, please contact John O'Brien at: jobrien@ifpta.org.

UPCOMING INDUSTRY EVENTS

Breakbulk Asia

April 18th-19th, 2020
Shanghai, China

International Woodfiber Resource and Trade Conference

April 29th-30th, 2020
Lisbon, Portugal

Forest Investment Conference

May 19th-20th, 2020
New York City, New York

Breakbulk Europe

May 26th-27th, 2020
Bremen, Germany

RISI Fastmarkets Asia Conference

May 27th-29th, 2020
Shanghai, China

IFPTA on the Road

June 15th, 2020
Vancouver, Canada

Breakbulk Americas

September 29th-October 1st, 2020
Houston, Texas

NEW IFPTA MEMBERS

Please join the IFPTA Officers & Directors and welcome the newest members of the Association. Please reach out to info@ifpta.org for new member contact information.

Levi Gracy

Market Manager
BNSF Railway
2650 Lou Menk Dr
Fort Worth, Texas 76131
United States

Tilo Hoff

Prokurist
Anker Schifffahrts-Gesellschaft mbH
Am Fluegeldeich 30
Emden 26723
Germany

UPM IS EMBARKING ON URUGUAY PULP MILL INVESTMENT

UPM is embarking on the most ambitious investment in its history by building a new pulp mill in Uruguay. Located in Paso de los Toros, the new pulp mill will significantly increase the volume of UPM's pulp trade and improve the group's earning power.

The capacity of the new Paso de los Toros pulp mill will be more than 2.1 million tonnes/yr of eucalyptus pulp. This means that UPM's pulp production capacity will increase by more than 50%. The production facility is scheduled to start up in the second half of 2022.

Key factors for this investment were that UPM has systematically increased the number of its forest plantations in Uruguay, and that the group already has another operational pulp mill in the country: Fray Bentos, which started up in 2007.

Bernd Eikens, executive vice president at UPM Biorefining, said that the synergy benefits of the two mills are substantial as the new mill can utilize UPM's existing organisation in Uruguay, from human resources management to financial administration. "We can also share our production and maintenance expertise. Minimizing transport distances from the forest plantations to the pulp mills can in turn critically improve the cost efficiency of both mills. In addition, we are able to use the same vessels and port logistics in the outbound transport of pulp."



UPM's first pulp mill in Uruguay is located in Fray Bentos

Pictures: UPM

CORONAVIRUS OUTBREAK HITS CHINA PAPER INDUSTRY, MUTING SUPPLY AND DEMAND

According to Fastmarkets RISI, the coronavirus outbreak in China has brought the country's paper and board industry to a semi-standstill with both production and logistics slowing down.

Most provincial governments had extended the Lunar New Year

(LNY) holiday to February 9 to limit the flow of people. In the central province of Hubei, non-essential enterprises were ordered not to re-open before February 14. All pulp and paper mills in the province had stopped operation.

According to preliminary data from the National Bureau of Statistics of China, Hubei saw a total paper and board production of 4.16 million tonnes in 2019, ranking its industry 7th out of 31 provinces in the country. Shandong Chenming Paper Holdings has two mills in Hubei. The one in Huanggang city houses a 500,000 tonne/yr chemical pulp line which can swing between paper grades and dissolving grades. The other, in Wuhan, has 220,000 tonnes/yr of tissue, specialty paper and graphic paper capacity. Both facilities have been stopped for nearly two weeks.

The city of Xiaogan is a major hub for tissue production in China. Top producers, including APP China, Vinda International and C&S Paper, have a total of approximately 680,000 tonnes/yr tissue capacity in the city. All of them are understood to be out of operation.

Hubei is also home to several large recycled containerboard plants. Long Chen Paper's 1.15-million tonne/yr Songzi mill and Shanying International's 550,000-tonne/yr Jingzhou mill shut down January 28 and January 29. Golden Phoenix Paper, Hubei Shengda Paper and Hubei Xiangxing Paper Technology, which boast a total recycled containerboard capacity of 2.26 million tonnes/yr, have been down as well.

Contacts from the affected producers told Fastmarkets RISI that they highly doubt whether the facilities will be able to resume operations as scheduled, as the number of confirmed cases of the coronavirus is still surging in the province and mandated lockdowns are expected to continue.

SAICA COLLABORATES WITH CARRERAS AND IVECO IN PILOT PROJECT TO USE LNG AS FUEL

The use of liquefied natural gas (LNG) as fuel will reduce CO₂ emissions by 22.3% compared with conventional diesel.

Saica, Carreras and Iveco are collaborating in a pilot project to use LNG as fuel for mid- and long-distance freight transportation. LNG is the most ecological fuel for internal-combustion engines that currently exists.

First tests in the project took place at the end of last summer. The project is part of the Lean & Green initiative. Its objective is to decrease CO₂ emission in the supply chain by 20% in a period of five years.

Among other actions, Saica is working with Carreras to use Iveco Stralis NP trucks in all mid- and long-distance transportation, so that CO₂ emissions will be reduced by 22.3%. The new Iveco vehicle, with a 460-CV engine, has the same payload as a traditional truck and a range of up to 1,500 km, but with a lesser carbon footprint.

CUTTING EDGE WOOD PULP TERMINAL BUILT AT MUSSALO HARBOUR, KOTKA, FINLAND

The Port of HaminaKotka, Stevco and UPM have joined forces to build a new world-class pulp terminal. The facility is set to enhance UPM's export operations in southeastern Finland and represents a key step forward in the company's sustainability blueprint.

Thanks to a partnership between the HaminaKotka port, the port operator Stevco and UPM, the new Baltic Sea Pulp Centre opened its quays in autumn. Inaugurated in October 2019, the new D-area of approximately 30-ha has been two years in the making. In that time, the Port of HaminaKotka has invested almost EUR 40 million erecting 220 m of quays, dredging a 15.3-m deep basin and expanding the harbor area. Stevco put forward EUR 8.5 million to build a modern 20,000-m² warehouse a stone's throw from the quay and UPM has signed a long-term contract to export all the pulp from its Kaukas and Kymi mills from the site.

The two mills, which are located 120 km and 65 km from Kotka respectively, previously exported their products from two harbors: those heading to Europe went from Hamina; those to the Far East from Mussalo. However, according to Matti Tamminen, UPM's Head of Pulp Logistics, UPM looked into the possibility of centralizing all of the volumes from these two mills in one port.

DE VLAAMSE WATERWEG AND IGEPA TEST NEW CONCEPT FOR CONTAINER TRANSPORT OVER INLAND WATER

Wholesale distributor Igepa in Aalter, Belgium, receives approximately 4000 lorry loads of paper annually. The company now intends to replace 500 of these lorries with inland water transport. Why contribute to road congestion when you can use shipping instead? Igepa performed some calculations and then called on De Vlaamse Waterweg for support. In December, the first paper barge made its trial run to Aalter.

Every year, Igepa is supplied with over 10,000 tonnes of paper by Portuguese based Navigator Company. The loads arrive at the port of Rotterdam by container ship and then travel the rest of the way by lorry. As Aalter features its own waterfront, it gradually came to consider an alternative solution: piloting the ships to the port of Antwerp and then continuing by barge down the Ghent-Bruges canal to end up mere hectometres from Igepa in Aalter.

"Many practical challenges must be overcome before dreams become reality", noted Igepa CEO Dirk Salens, well aware of the issues. "We therefore made sure to engage professional consultants from the beginning. Not just due to functional considerations, but also to monitor the costs. There isn't much point to setting up a new supply chain that operates at a loss, after all." Igepa met with transport specialists from De Vlaamse Waterweg, which presented it with extensive calculations as to load capacities and available quays.

The company also made use of the expertise of Tieleman, a local crane hire company. Igepa's greatest challenge may have been the logistics, as its former two lorries a day were to be replaced by a single massive 400-t load every 2.5 weeks, the equivalent of 25 lorry loads. Availability of additional labor, the necessary warehouse space, how to achieve a smooth transfer from the barge to the trailers; these were all issues that needed to be addressed.

KIRUNA WAGON ASSIGNED TO INCREASE SÖDRA SKOGSÄGARNA'S PULP TRANSPORT CAPABILITY

Kiruna Wagon has been commissioned to streamline Södra Skogsägarna's pulp transports by increasing wagon loading and unloading productivity.

The order comprises 22 wagons for Södra's pulp transports from the mill in Värö to the port in Varberg. Measuring 20 m, the new wagon is almost twice as long as its predecessor and constitutes a productive solution, where the entire long side can be opened for maximum accessibility and safe loading and unloading with a clamp forklift. "With the new rail wagons, we take another step towards Södra's goal of fossil-free transport by 2030," said Christer Larsson, logistics manager at Södra Cell Värö.

Part of the design challenge was to protect the sensitive pulp from rain, melting ice and snow. At the same time, the entire wagon side must be able to open fully to allow efficient loading and unloading.

"We are experts on ice and snow and have therefore chosen not to go with sliding sections, which, in addition to offering a limited cargo opening, also function poorly in winter conditions. Instead, we have chosen a coherent lightweight solution in which the whole side is opened by a four-bar mechanism," said Mikael Mattsson, mechanical designer at Kiruna Wagon.

The first prototype wagon will be ready in spring 2020.

AN ANALYSIS OF RECENT MARKET MOVES: BY THE RISI ECONOMISTS

CORONAVIRUS

The tragic outbreak of a deadly new virus, the 2019 novel coronavirus (2019-nCoV) initially detected in Wuhan in Central China, has raised concerns of its impact on the global economy. While this Viewpoint focuses on the possible economic impact, it is important to note that it is still too early to analyze the complete potential impact of this particular epidemic as much depends on its development in the near future.

This viral epidemic is similar to the SARS outbreak in 2003, the Swine flu in 2009 and the coronavirus-based MERS or camel flu that broke out in 2012.

From an economic growth perspective, all we know for sure at this stage is that there are risks to growth and that is what the current market reaction reflects: more uncertainty. With global economic uncertainty already elevated, this additional factor has increased investors' nervousness. The risks are mainly related to slower growth due to containment and business problems, as any measures taken to limit the movement of people and their access to consumption or production will cause temporary harm to business.

The travel industry will be the first to feel the impact, which will also affect business travel and limit access to clients, maintenance and even spare parts for manufacturing. Should problems with the epidemic continue, there could be additional impacts on consumer spending, further restrictions on travel and thus limitations for business in general, and a potential decrease in income. It will also hamper industrial production due to logistical challenges, supply chain disruptions, reduced labor availability, etc.

Companies such as Starbucks and some restaurant chains have suspended some or all of their outlets' operations. Such moves are likely to continue on a voluntary basis or be imposed by the Chinese government. Regionally, the countries or areas with the most exposure to a Chinese economic slowdown (in order of magnitude) are South Korea, Hong Kong SAR, Thailand and Malaysia, followed by Japan, Vietnam, Singapore and Philippines. However, this particular potential slowdown could be different in many ways, as it is not due to a global economic slowdown, although it could be a source for one.

When analyzing the situation, one should remember that the Chi-

nese economy has already been on a slowing trend for some time, which can result in relatively strong market reactions to negative news such as the coronavirus outbreak. The GDP growth estimate for full year 2019 released in mid-January 2020 was 6.1%, down from 6.6% in 2018, with the fourth quarter registering 6.0% year-over-year. To have a major impact on the Chinese economy, and/or the regional and global economies, the epidemic would need to spread significantly. At the moment, the Fastmarkets RISI outlook for Chinese GDP growth in 2020 is 5.8% and for world GDP growth is 3.0%. While such an outbreak could potentially trigger a recession, considering the high levels of uncertainty globally, at this stage the coronavirus outbreak has not yet reached that level of influence.

Having said this, however, minor economic impacts in China and the broader Asian region are possible and even likely. The similarity of the current coronavirus outbreak to the SARS event in 2003 allows us to evaluate the possible impact on the current Chinese economy by looking at the figures from that time. While there was clearly an impact from the SARS outbreak, the effect was contained to a limited period and was soon blurred into the general economic trend of the time. Growth in retail sales of consumer goods slowed due to SARS, but when the epidemic was contained, it soon returned. A similar impact was seen for industrial production.

The rate of growth for retail sales for November and December 2019 was 8%, which is close to the level prior to the SARS epidemic. However, the rate of industrial production growth was just 6.2% for November 2019 and 6.9% for December 2019, which is significantly lower than the level seen prior to the SARS epidemic, so any disruptions now could have a different impact on economic activity. The change to GDP was only visible in the quarter-over-quarter growth figures. But one should also not forget that some sectors, such as health technology and nonwovens (face masks, filter fabrics for air filtration, etc.), could see an increase due to the outbreak.

In a continuously evolving situation, estimating the potential economic impact should be based on updated information and an evaluation of risks. Indications of greater risks to business may include factors such as increasing travel restrictions, further curtailment of businesses within the consumer sector and disruptions to supply chains within China or to and from China for exported products, as this could have a bullwhip effect up and down the supply and demand chains. Close attention should also be paid to the geographic containment of the epidemic. While the Chinese economy is likely to endure this new threat with relatively limited damage, some individual businesses and industries could experience more adverse impacts. Finally, it is important to remember that in 2003 China represented approximately 8.8% of the global economy; in 2019, it represented about 19.5% (PPP basis).



RECOVERED PAPER

For some time, there have been questions about what the new Chinese PfR (paper for recycling) import policy could potentially mean for European recycled containerboard (RCCM) exports to China. Optimistic producers are claiming that China needs containerboard one way or another and that it is only a matter of time until they are buying big volumes from Europe, helping to cure Europe's recent oversupply. Some are even claiming that Chinese producers will buy as much as 1 million tonnes of RCCM from Europe in 2020. Pessimists were skeptical about the margins to be gained from such exports, and feel it is unlikely that producers will be involved in the risky business of producing for the Chinese market, which is so unpredictable to count on even in the near term.

It looks like the truth is somewhere in the middle. Although exports to China are slowly rising, this is largely because of the ultra-low European export pricing rather than any sort of great business that is awaiting Europeans in China. And while the short-term increase is evident, there is big question mark about strategy in the longer term.

What is happening in China at the moment? With PfR imports continuing to decline due to decreases in import quotas, increased demand for locally sourced PfR means that the average quality of corrugated boxes in China is deteriorating. Better quality PfR imports are set to decrease from about 10.5 million tonnes last year to about 6.5 million tonnes this year, creating an even larger fiber deficit. This is down drastically from as much as 28.5 million tonnes in 2016. Both RCCM production and demand declined year-on-year in 2019. This year, Chinese authorities are stimulating short-term imports of recycled medium by temporarily decreasing MFN duties from 6% to 5%.

How are European exports to China looking so far? In the first 11 months of 2019, RCCM exports to China increased by a moderate 146,000 tonnes (reported by European countries, including Turkey but excluding Russia and the CIS). However, of the 146,000 tonne increase, close to 50,000 tonnes were exports from Turkey, meaning slightly less than 100,000 tonnes came from the core European markets. Turkish producers were experiencing a tough local demand situation, especially in the beginning of the year, and were quite willing to export as much as they could outside of the country to improve their weak operating rates. Out of the remaining figure, Spain accounted for 54,000 tonnes. Spain saw a major increase in overall exports last year following the ramp-up of International Paper's Madrid mill. Other European exports to China were mostly smaller spot

volumes, with the remaining 40,000 tonnes of exports split between the other European countries.

What are these exports? Some are low-quality flutings that are apparently used for re-pulping in China, as pricing for them is extremely low, below even what is on offer for recycled pulp including delivery and duties. There is also side trim, stock lot and secondary quality material. However, a significant amount is actually satisfactory quality containerboards.

How much room is there for European exports? The real answer to the Chinese dilemma lies in what happens in Southeast Asia. This region already replaced China as the most important PfR export destination for American and European sellers. However, the jump in secondary material imports have already created numerous environmental and logistic challenges, leading to increased import limitations from local governments. Indonesia, Vietnam and Taiwan each enacted restrictions earlier and now there has been communication from Indian officials about restricting the flow of mixed paper imports there as well. These four countries are top exporters of RCCM to China, and this creates some degree of uncertainty about future sourcing of RCCM from there. Also, European containerboard is superior in quality to what is produced in Southeast Asia due to better machinery. But right cost is very important for Chinese buyers.

A number of massive projects have been announced in Southeast Asia, both in recycled pulp and recycled containerboard, mostly by Chinese companies themselves. But it looks like the majority of them will take some time to complete, creating a short-term window of opportunity for European exports in 2020 and maybe even in 2021. Low prices in Europe and Southeast Asian PfR import restrictions are currently creating more accommodative environment for RCCM exports. So we expect exports to increase already after Chinese New Year.

But for how long? Our view is that with more projects ramping up in Southeast Asia, it will be very hard for European exports to compete unless the capacity is bought by Chinese producers directly. This might be in the form of containerboard or, maybe, recycled pulp production in Europe. For example, it has been reported that the Chapelle Darblay mill, which is for sale by UPM, was visited by potential Chinese buyers.

In summary, we expect European RCCM exports to China to grow in 2020, but they are likely to be smaller and more short-lived than some optimistic producers might believe. We believe these exports are possible as long as export prices are low enough and only until major additions in Southeast Asia ramp up.

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