



Recent statements that the labelling on Woolworth's 'Select' Brand of toilet tissue, manufactured in Indonesia, did not represent the facts has local toilet tissue manufacturers concerned. The sector is happy to compete but want even and transparent standards.

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VISY IMPROVES STRUCTURE

Richard Pratt, Chairman Pratt Group, has restructured the reporting and responsibility lines at the top of his Australian businesses in the wake of his company's admissions that it breached the Trade Practices Act when it had market discussions with Amcor.

Visy agreed to pay a fine and settle rather than draw out a long and what could potentially have been a pricey court case in defence of the accusations made by the ACCC.

Harry Debney, previously CEO of Visy Australasian Manufacturing Group (AMG), was implicated by the ACCC as being integral in the accusations being made. As a consequence Debney felt his position was untenable and chose to resign.



Pratt appointed John Murphy (pictured) as the new CEO of Visy AMG. Murphy will drive change through the Visy organisation, ensuring greater accountability for compliance. Murphy was previously the Managing Director of Fosters Australia, and in that role was successful in bringing considerable changes to bear in the running of the brewer.

Within a couple of days of being in the job Murphy has already stated divisional managers will have to 'sign off' every quarter that those under their responsibility have met all compliance requirements including balance sheets, exposures and OH&S.

While it is not known if any customer required Debney to make the decision he took, it is obviously a challenge for Murphy to

re-establish the reputation of Visy in the way the company would like to be seen and trusted by their client base. Indeed, Murphy, while at Fosters, was once a major client of Visy during the period under review by the ACCC.

Murphy is a fresh face with new ideas, and has already been in discussion with some of Visy's major clients. It will take time, regardless of how experienced they are, for a new CEO to rebuild the bridges burnt with clients, but it is clear this is exactly what Pratt and Murphy intend to do.

Rather than Murphy reporting directly to the Pratt family board, an extra layer of supervision has been imposed, with a Board overseeing the Australian operations including the recycling, pulp and paper, board and packaging businesses.

The new board will focus on corporate governance under the Chair of Ted Kunkel, a former Chief Executive Officer of Fosters. Alan Fells, previously head of the ACCC, and currently Chairman of Visy's Trade Practices Compliance Committee, may also be on the board, as well as other corporate experts and customer representatives.

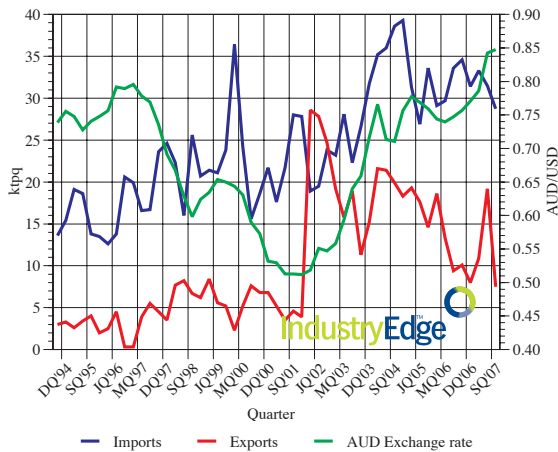
Murphy has said the changes are about accountability, efficiency and control, and he will have the responsibility to ensure it happens.

CUT REAM TRADE SLOWER

While the AUD/USD exchange rate climbed through USD0.85 in SQ'07, both imports and exports of cut reams slowed.

Imports, at 28.7 kt for the first quarter of 2007-08, were the lowest since JQ'05 (26.9 kt), and well below the peak of 39.3 kt in DQ'04. In SQ'07, exports were 7.5 kt, just below the 8.0 kt shipped out in DQ'06.

**Quarterly Cut Ream Imports & Exports vs AUD:
SQ'94 – SQ'07 (ktpq & AUD/USD)**



Source: ABS & Uni of BC

Cut ream apparent consumption does not have the same correlation to advertising expenditure as coated wood free grades. Therefore, consumption is expected to remain more consistent with economic changes occurring over time. The spike in exports in JQ'07 would definitely not be a change in the trend, but rather a change in stock levels by Australian Paper.

Exports have remained close to 10 kt for five of the last six quarters. In comparison, imports have been between 30 kt and 35 kt for five of those quarters, and have risen for three of them, while the AUD/USD exchange rate has strengthened for all of them.

Since MQ'02, when the AUD started to strengthen against the USD and exports peaked at 28.6 kt, exports have declined at an average rate of 5.9% pq while imports have trended up at 1.9% pq. In comparison the exchange rate for the AUD been improving at an average rate of 2.2% pq.

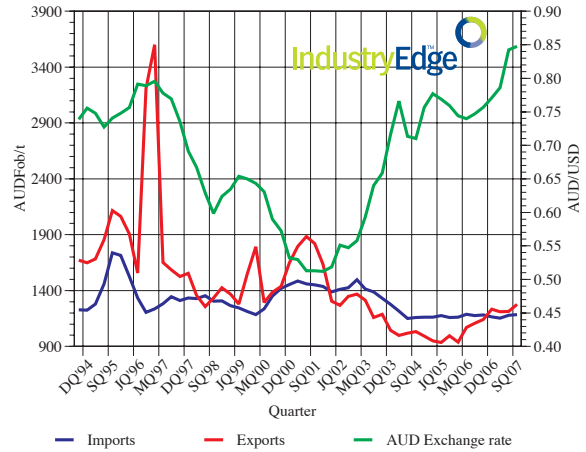
On these figures it would indicate import volumes change at a slower rate than the movement in the exchange rate, while export levels change faster.

However, the following chart shows changes in the AUDFob prices over the same period plotted against the movement in the AUDFob/t.

When the AUD/USD rate started to rise back in MQ'02, export prices for cut reams fell below import prices and stayed there for 19 quarters. However, for the last four quarters, from DQ'06, the value of the AUD has increased by 10% and export prices have climbed above average import prices.

Even though the AUD has been rising strongly over recent quarters, the average AUDFob/t price of imports has remained steady below AUDFob1 180/t.

**Quarterly Cut Ream Imports & Exports vs AUD:
SQ'94 – SQ'07 (AUDFob/t & AUD/USD)**



Source: ABS & Uni of BC

When the two charts are used together it can be shown that over the last two years the total value of imported cut reams has increased on a quarterly basis, with volumes trending up and prices remaining flat, while for exports the value has been trending down slowly apart from the spike in JQ'07.

At a time when the AUD is closing the gap with parity against the USD, it should be seen as positive for Australian Paper that import prices are not falling further and export prices are managing to strengthen.

Since 2001-02, demand for cut reams has been rising reasonably steadily at an average rate of 1.9% pa.

DOLLAR EASING PAIN FOR PULP IMPORTERS

There does not appear to be much of a chance in the short-term that pulp prices will ease, however, for Australian importers the recent rise in the AUD has certainly taken some heat out of international price increases.

AUD Movements against the USA: Jan '01 - Oct'07



Source: Uni of BC

Local Toilet Tissue Manufacturers Get Wound Up Over Perceived Unequal Standards

Background

Woolworths has recently received considerable criticism from the trade unions since the retailer took a decision to stock tissue products imported from Indonesia. While the union has drawn attention to the indirect threat to local manufacturing, the media attention primarily centred around the poor environmental performance of the supplier.



Woolworths, as one of the two largest supermarket retailers in Australia, is also a major grocery chain in New Zealand, and seeks to provide savings, as well as quality, to its customers. Most major supermarket chains have a policy to increase the proportion of retailer brands sold against total turnover, and to look internationally for a range of suppliers. Aldi, with a growing presence in Australia, is European based and has run a very successful international buying policy for many years, and to its credit is promoting Australian produced goods.

Therefore, the stocking of tissue products from Indonesia by Woolworths is not a change of policy or buying strategy for the retailer, but every now and again, as in this case, this corporate philosophy is going to be questioned by consumers, local manufacturers and industry associations – particularly when evidence is produced that the supplier is not behaving in an environmentally or socially responsible manner.

The question of whether or not Woolworths should be singled out for attention for stocking Indonesian tissue products must also raise the point of what is the difference between stocking products from Indonesia or New Zealand? Imports will always create competition for local manufacturers, and why should it really matter which country imports come from.

IndustryEdge approached all major tissue manufacturers, the trade union movement and some retailers.

Is there really a problem?

Most respondents agreed that there are benefits in retailers stocking local products in both the short and long terms, however, imports will always occur, and when the Australian dollar is so strong, and still strengthening, then imports are a viable option.

Both Australia and New Zealand have relaxed trade policies in comparison to other developing, as well as developed countries. In Australasia there are only nominal tariffs, and most trade restrictions are in relation to quarantine as opposed to job security.

As mentioned, the major supermarkets have an international presence, as well as a global buying policy. At the same time, two of the major tissue manufacturers in Australasia, Kimberly-Clark Australia and New Zealand and SCA, are both international companies with many facilities around the world and both sell across borders all the time.

A few products sold in both Australia and New Zealand by both K-CA and SCA are imported, mostly related to some nappies, femcare and bladder control pads. In recognising this, we must also acknowledge that these two companies employ over 2000 people in Australia alone.

A growing competitor in the market is ABC Tissue Products, located in Sydney and Brisbane. ABC has recently commissioned a new 25 ktpa tissue machine in Sydney to reduce or stop imports of tissue stock, however, this will be replaced by pulp imports for the new machine.

All the major tissue producers are involved in some way with imports, either with tissue stock or value added products, however, admittedly a large amount of this trade is both ways across the Tasman.

Benefits for Local Producers

When buyers for the supermarket chains seek imported products they would be expected to be evaluating their supply options against some short-term objectives. This process is not in the interest of local manufacturers. For example the current cyclical high of the AUD and NZD makes imports cheaper in the short-term, but if the average exchange rate of the respective

currencies are taken over the full cycle, then there are definitely advantages in maintaining supplies from, and relationships with, local manufacturers.

It is not only the value of the product that is competitive when the dollar is high. The delivery of tissue products is a costly business since it is light and bulky. Many shipping containers will be filled when delivering the converted products from overseas, so historically there has been a natural barrier to imports due to the high unit cost of freight. However, again the strength of the AUD and NZD has assisted to reduce the cost of this natural barrier, even at a time of high bunker charges.

However, today's retail market is highly competitive, and cost is a huge consideration when selecting a supplier. If imports can continue to offer a reasonable quality product at a lower price, their ability to supply some of the private label business will continue. The key for local business is to establish an efficient manufacturing footprint that produces the highest possible quality product at a competitive price.

A disadvantage for local manufacturers and converters has been the limited size of the Australasian market. Australia has a population close to 21 million and New Zealand approximately 4 million. A combined total of only 25 million is not much more than a couple of major cities in Europe, Asia or North America. In addition, the average consumption of tissue products in this region is well below the average for developed countries.

The following table lists the average consumption of tissue products per head by region.

Average Consumption Per Capita (kg)

Country/Region	kg/capita
USA	22.0
Western Europe (variable between countries)	16.0
UK	14.0
Australia & New Zealand	12.5

Source: IndustryEdge research

The small market and relatively low average consumption per head means that any addition to manufacturing or converting capacity will result in increased under-utilisation if additional exports cannot be achieved. The challenge for the local manufacturers is that if they don't invest, then they become uncompetitive and imports will take a greater market share.

When the above markets are analysed by the percentage of private label products purchased, it is clear that Australians do not prefer generic or house branded products.

Market Share of Private Labels (%)

Country/Region	%
Western Europe (variable between countries)	45
NZ	34
USA	25
Australia	12

Source: IndustryEdge research

The data shows Australian consumers prefer brands of the major suppliers, and not private labels or generic branding. However, these figures can be influenced by the strategies of the major retailers, especially with regard to shelf positioning and promotional techniques.

Another thorny issue for retailers is that it is branded goods, and the quality they represent, that generally bring consumers in and not private labels and generics. Therefore, while the stores pursue a greater proportion of retailer brands in their turnover of stock, it is necessary to maintain a strong presence of quality branded product.



Tim Woods, Secretary Pulp & Paper Branch, CFMEU, has told *IndustryEdge* a recent national survey conducted by Newspoll on behalf of the CFMEU concluded the majority of Australians buy, and intend to continue to buy, branded tissue products.

Branding for local manufacturers need investments in quality improvements, which will be a challenge as they continue to compete against imports. It is a vicious cycle in that retailers need brands to attract customers, but also use cheaper imports for competitive purposes against national brands.

While the majority of consumers may want to be patriotic with a preference to buy locally manufactured products, it must be said that the domestic tissue manufacturing industry could do more to encourage consumers to do so. Most of the running regarding the Indonesian products on the Woolworth's shelves was made by the CFMEU, and then at a later date by some environmental groups, however, the timing of who said what is not clear.

Obviously the local companies were concerned by the imports, especially since the standards for production are not perceived as being equitable, but they have been promoting their own brands and the quality of local manufacturing. The three smaller companies, ABC, Merino and Encore could promote 'Australian made and owned'.

Ensuring Equitable Standards

A core issue the CFMEU had with the Indonesian tissue product at Woolworths was the labelling for the source of the fibre. However, there is some difficulty in judging all environmental and standards labelling on a level playing field. In many countries, the quality of the labelling varies to suite local conditions and customs. Therefore, it could be stated without bias that the governance of labelling standards in countries, including potentially Indonesia, are not as diligent as in our own market.

All the local tissue manufacturers, as well as the CFMEU, agreed that the domestic industry continue to do everything they can to achieve the highest of standards, but that it is the responsibility of the retailer to ensure it understands the labels and that they are correct. Local retailers need to ensure that the environmental credentials of all their suppliers, both domestic and international, are authentic and meet Australian and New Zealand environmental requirements.



Examples of issues that retailers should consider would be whether their suppliers produce environmental and sustainability reports, where is

their sustainability policy and is it publicly available or if suppliers have received third party recognition for environmental and sustainability performance.

IndustryEdge did not find local companies and unions were singling out any company specifically. Rather it was a statement that if retailers wish to source goods from overseas then along with this goes a responsibility to ensure the consumer understands and is comfortable with the environmental labelling and other practices that the manufacturing company claims to be true.

If local companies incur costs to meet standards covering environmental, OH&S and supply chain accreditation, then it is unreasonable to favour the cheaper goods of other companies, mostly imports, if they do not have to expend costs to meet equivalent standards.

Historically the choice of Australian and New Zealand consumers has generally been to buy quality products at a reasonable price. However, increasingly, environmental performance is influencing the purchasing choice of consumers and is expected to become more influential in the future.

Competitive Advantages of Production

Even though the local tissue manufacturers are witnessing an increasing volume of imported products in supermarkets, some of those interviewed by *IndustryEdge* raised concerns about possibly unfair manufacturing cost comparisons and unethical practices in relation to imported goods, which relates back to the need for standards required and promoted by retailers to be equitable.

In the manufacturing of tissue, a significant challenge for non-integrated facilities is the current high cost of pulp in USD. Both Australian and New Zealand manufacturers have an advantage with the strength of the respective currencies, taking some of the pain out of import prices. However, this mostly relates to virgin fibre, even though clean white recovered paper is in high demand and has attracted increased prices.

Energy is another major cost for producers, especially in New Zealand. Producers overseas often enjoy some form of subsidy, even though energy costs are reportedly increasing, especially in China.

Labour costs are also higher in Australia and New Zealand, but this can be offset to some extent through higher skills and increased efficiencies.

Australasian manufacturers can reach the most efficient economic as well as environmental footprint, so they can compete against imports, especially with the advantages in freight.

When retailers buy from overseas there are risks, the major one being the potential for supply volumes to be inconsistent.



One overseas supplier (who has asked not to be identified) found an opportunity in the Australian market, only to cut off supplies when their own domestic market provided a better opportunity. Long-term contracts from overseas suppliers, no matter what the product, create uncertainty that products will always be delivered in sufficient volume and on time.

Another risk discussed is that it is hard for importers to reject shipments for a number of reasons, especially if they have been paid for through letters of credit. If there are issues with locally produced goods, then the retailer can send the goods back.

Conclusion

While there was considerable media attention given to the issues raised by the CFMEU regarding Woolworths stocking

Indonesian tissue products, no trade or retailing regulations were breached. The supermarket chains have a clear policy to increase the proportional turnover of private label and generic goods.

The local manufacturers of tissue products understand there are no barriers to the retailers asserting their rights to buy products from overseas suppliers. However, at the heart of the issue for many is the belief that retail buyers should work on a level playing field when assessing suppliers. If high standards are specified and required to be met, then these must be the same for both international as well as domestic producers.



There is also a strong belief that local producers manufacture the products most consumers prefer. If the local industry invests to improve quality and reduce costs of production so as to be competitive and reach the standards consumers expect, then buyers from supermarket chains ought to ensure standards in supply contracts place all suppliers on an equal footing.

Articles continued from page 2...

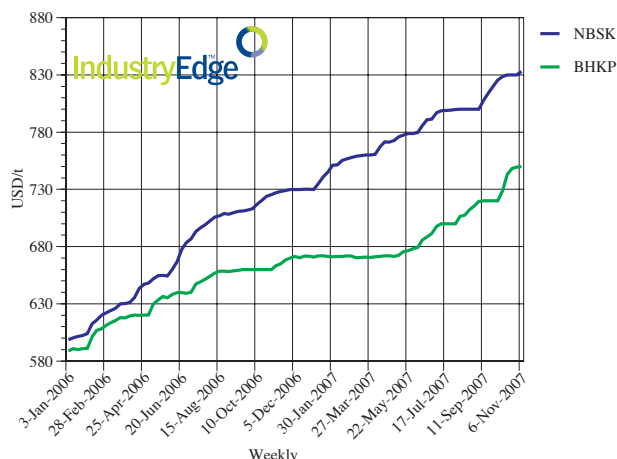
Even though the data shows that softwood pulp production is running at close to 94%, 5% higher than hardwood, it is hardwood pulp prices that have been rising the fastest.

On the positive side for buyers of hardwood BKP, the strike at the Donghae mill in Korea is over after three and half months, with both line 1 (170 ktpa) and line 2 (240 ktpa) operating on a short-term basis before coming down again in November for maintenance.

In Indonesia, the increased capacity of the MTH mills is still not being utilised because of limitations on wood availability, even though APRIL has been allowed to raise the harvesting rate of acacia plantations to address current fibre shortages.

In Korea and China a USD20/t price increase for BEKP has been accepted, however, Chinese traders are moving back into the market again, starting to sell both hardwood and softwood BKP at up to USD20/t below import prices. This is expected to place on hold further price increases into this market until the end of 2007.

Weekly NBSK & BHKP PIX Prices: 3 Jan '06 – 6 Nov 07 (USD/t)



Source: FOEX

Internationally, softwood pulp prices have been more stable with the end of industrial action in the forests on the West Coasts and increasing supplies. However, despite a USD30/t increase for Canadian exports into the US, the challenge has been to push price increases sufficiently to address the rising strength of the CAD, which is now above parity with the USD.

Price increases for NBSK have been announced in Europe and North America for November, however, they may not hold as producers start to reduce inventory levels going into the end of the year period.

In China, demand for softwood BKP has weakened slightly with the closure of more small paper mills that were highly polluting and were mixing NBSK with vegetable fibre.

While NBSK supply difficulties appear to be easing temporarily, it remains uncertain if a number of sawmills in North America will be able to survive, even though the forestry strike in British Columbia is now over, given rock bottom levels of demand and pricing for housing timbers. The serious downturn in the US housing market is directly related to the supply of softwood chips for North American pulp producers.


GUNNS WOOD SUPPLY AGREED

A wood supply agreement has been finalised between Gunns and Forestry Tasmania for the provision of wood to the proposed pulpmill at Bell Bay.

The details of the contract have been made public. The major points of interest are that Forestry Tasmania will be a minor supplier to the proposed mill, with close to 60% of the resource being supplied from Gunns' own resource, and that the move from native forest regrowth supply to plantations will occur reasonably quickly.

The average cost of wood at mill gate from Forestry Tasmania's forests and plantations will continue to change slightly since the pricing model includes variations for different cartage distances and rates, some use of segregation yards, changes in harvesting techniques to suit terrain and allowances for road ownership and maintenance.

It is reasonable to state, in comparison to international standards, that Gunns delivered wood will be on the lower side of a global average, however, under the circumstances there is no doubt, as a minor supplier, Forestry Tasmania has achieved a commendable agreement.

 Gunns has continued to work through the provisions introduced by the Commonwealth in its conditional approval for the project proceeding. When funding arrangements are finalised, there still remains final Board approval of the project and acceptance of the funding terms.

If satisfactory progress is made regarding meeting the conditional requirements set by the Commonwealth, and the Board agrees the funding arrangements are acceptable, then construction of the proposed pulpmill is expected to proceed in the beginning of 2008.

DAIEI INTERESTED IN PYPYRUS POTENTIAL

Papyrus Australia Ltd is an ASX listed company based in Adelaide, South Australia, which has developed a cost effective and environmentally sustainable process for converting the trunks of banana trees into veneer, paper and board-like products with a broad range of applications.

The company is completing production trials on the first commercial manufacturing line, based in Adelaide. Raw materials are transported regularly from Queensland. Once trials are complete, two additional manufacturing lines will be installed close to raw material sources in Australia and overseas. Production is scheduled to commence in 2008.

Papyrus plans to supply the technology as a turn-key manufacturing process to partner companies who have significant manufacturing expertise and/or access to distribution channels in the timber and paper industries world wide.

Technically, fibre products produced from the banana tree trunk are classified as veneer or plywood, however, given that the banana plant is not a classic 'tree' with a wooden trunk, the resultant veneer behaves more like a sheet of paper. Papyrus has produced sheets of banana ply paper down to 20gsm.

There are two broad groups of products manufactured.

- The outer layer is a coarse structural material with wet strength and barrier properties, and produces backing veneers, structural plywood laminates and cartonboard.
- The inner core layer has similar properties with a finer, more consistent appearance. Products from this group include decorative face veneers, functional laminates for cartons (moisture & grease), printing paper and food packaging products.

Papyrus has worked closely with DaiEi Australasia for 8 years. DaiEi is primarily interested in the mixture of physical properties, appearance, low cost and environmental benefits available from the Papyrus products. DaiEi has access to markets around Asia, including Japan, and has interests in specific applications including printing papers, food packaging, specialty packaging papers and labels.



Mr Kimihito Kawaguchi, MD DaiEi Australasia Receiving First Trial of Sheets from Grant Pigot, Chief Operating Officer, Papyrus Australia.

Grant Pigot, Chief Operating Officer of Papyrus, stated "Papyrus is working with an array of other customers to commercialise a range of products from veneers to food packaging. DaiEi is an important member of our customer group and have supported us from the beginning."

KRAFTLINER IMPORTS HIT NEW PEAK

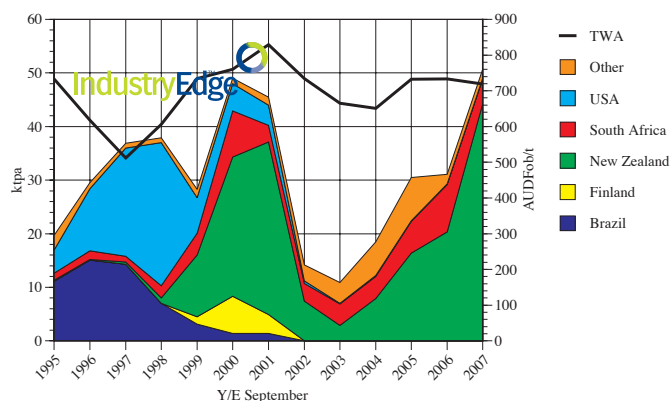
For years ending September quarter, imports of kraftliner reached a new peak of 50.7 kt in 2006-07. Previous imports reached a record level of 49.0 kt in 1999-00, just before the commissioning of the Visy Tumut pulp and paper mill.

Before the construction of the Tumut mill, when Visy was a major importer, shipments were predominately from the USA and Brazil. Then for year ending September 2001 and 2002, Carter Holt Harvey from New Zealand become the major supplier.

Since the low point for 2003, imports of kraftliner from New Zealand have been increasing at a substantial average rate of 47% pa. For year ending September 2007, shipments from New Zealand accounted for 87% of total imports.

For the financial year 2006-07, the calculated apparent consumption of kraftliner in Australia was 380 ktpa, with 48 kt (13%) being sourced from imports, and with 40 kt (11% of total apparent consumption) being supplied by CHH from NZ.

Imports of Kraftliner by Country: 1995 – 2007 (ktpa & AUDFob/t)



Source: ABS

Based on the calculation that Carter Holt Harvey and other independent box makers have approximately 4% of the Australian

market, the above figures would indicate that Amcor could be buying at much as 25 kt of kraftliner from CHH. The buyer is almost certainly not Visy, since Visy is exporting kraftliner and would not be buying from others.

There is no doubt imports have risen sharply over the last three years and that the major source has been New Zealand.

The weighted average import price for kraftliner (money price) was AUDFob24/t less in 2006-07 than back in 1994-95.

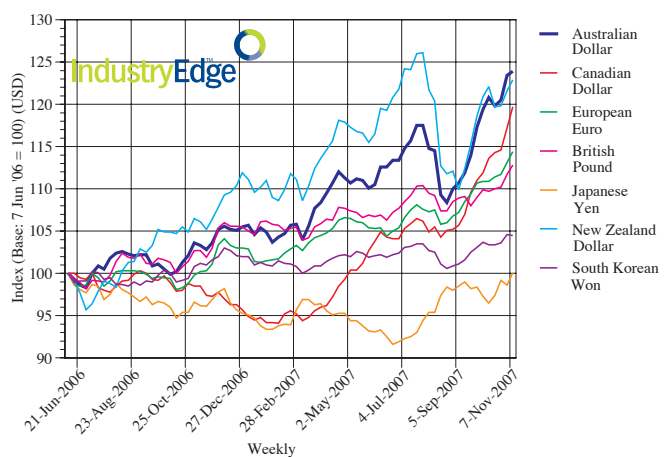
IMPORTS OF READY MADE BOXES STOP RISING

After rising sharply during 2005-06 financial year, imports of cartons, boxes and cases, peaked at 4.9 kt for SQ'06, with shipments falling back to 4.3 kt for JQ'07.

The rise and fall can be traced directly to the variation in the volume of cartons, boxes and cases being imported from China. In the last quarter, SQ'07, shipments from China rose again sharply, up 576 tonnes, or 32%, offsetting a decline from some countries and pushing total imports up by 246 tonnes, or 5.7%.

Shipments from China accounted for 52% of the national total of 4.55 kt for SQ'07. The second largest supplier was Indonesia, with 779 tonnes, or 17% of the total.

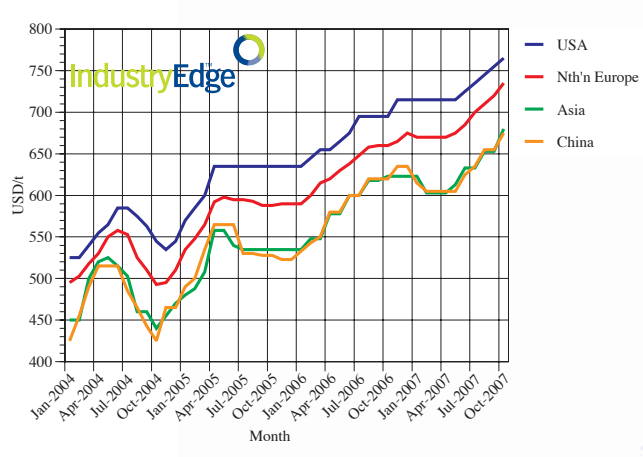
Main Trading Currencies: 7 Jun '06 - 7 Nov '07



Source: Uni of BC

The AUD has continued to strengthen against the USD since early September, apart from a short rest in its ascent in mid-October. Indexing the major trading currencies since June 2006, in seventeen months the AUD has risen the furthest, providing a currency advantage for importers.

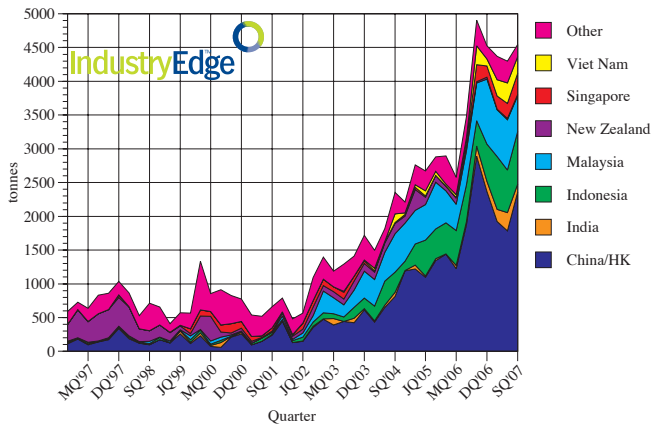
Eucalyptus Pulp Prices by Region: Jan '04 - Oct '07



Source: NLK Market Pulp Monitor

Eucalypt pulp prices into the four major regions have continued to climb through October, with prices into China and Asia rising by 3.1% and 4.1% respectively, against increases of only 2.1% and 1.3% for Northern Europe and USA. In the last six months, prices into China have increased by 11.6%.

Quarterly Imports of Cartons, Boxes and Cases, of Corrugated Paper & Paperboard by Country of Origin: SQ'96 – SQ'07 (t)



Source: ABS

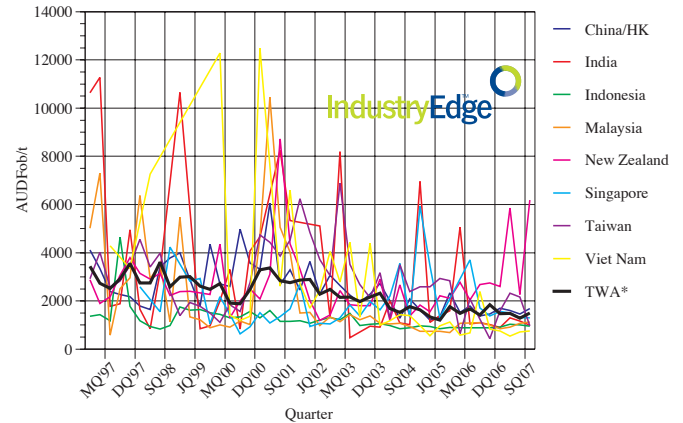
While imports have been increasing steadily for NSW and Victoria, the major increase has been for shipments to Queensland, which have reached almost 1 000 tonnes per quarter since SQ'06, or close to 22% of the national total.

The trade weighted average price of imported cartons, boxes and cases dropped to a record low of AUDFob1288/t in JQ'07, then recovered to AUDFob1 501/t for SQ'07, which is just below the quarterly average over the past two and half years.

Imports from New Zealand (CHH) have been above weighted average for most months, with shipments across the Tasman

being more than three times the weighted average price in MQ'07 and SQ'07.

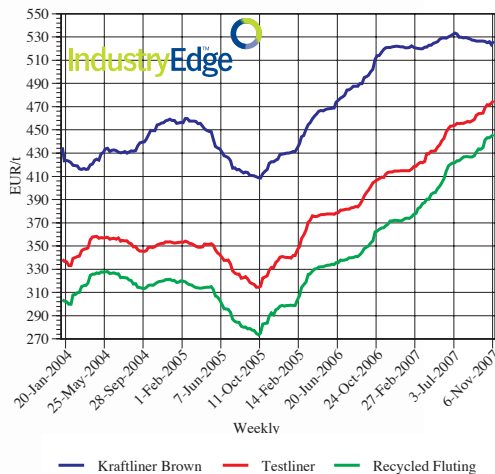
Quarterly Imports of Cartons, Boxes and Cases, of Corrugated Paper & Paperboard by Country of Origin: SQ'96 – SQ'07 (AUDFob/t)



Source: ABS

China has become the predominant supplier of imported cartons, boxes and case, and while corrugating materials and cartonboard capacity in China continues to grow at an exceptional rate the expectation is that exports of cheap material will increase.

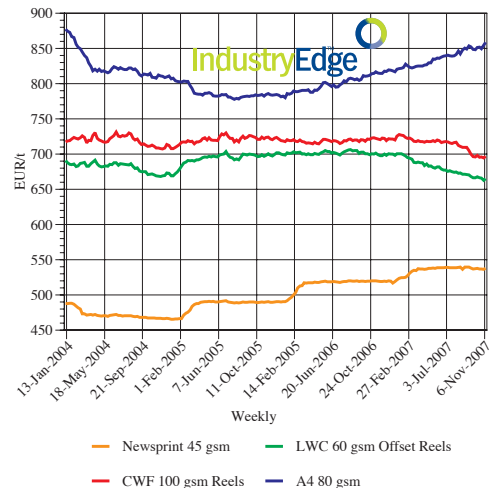
PIX Packaging Indexes: 7 Jan '04 - 6 Nov '07



Source: FOEX

The European PIX benchmarks prices for testliner and recycled fluting have continued to rise. This has been supported by the seasonal strong demand for packaging materials heading into the commercial period in the lead up to Christmas. Benchmark prices for kraftliner are bucking the trend by continuing to slide.

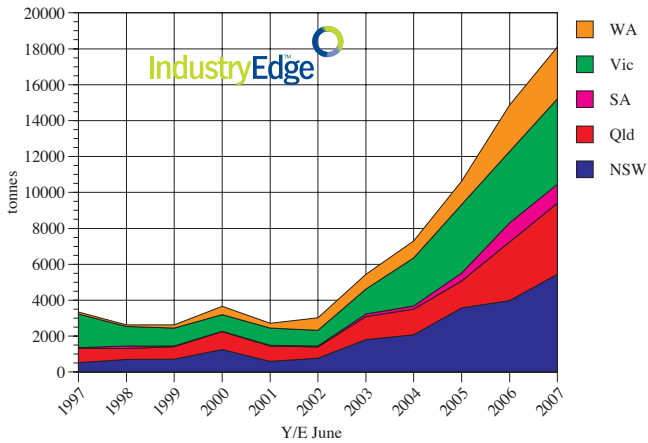
PIX Paper Indexes: 7 Jan '04 - 6 Nov '07



Source: FOEX

European benchmark PIX prices for CWF 100 gsm Reels and LWC 60 gsm Offset Reels appear to be destined to have fallen in every month in 2007, based on the assumption there will be no magic turnaround in December, even though many will be praying for one. A4 80 gsm continues its slow rise.

Quarterly Imports of Cartons, Boxes and Cases, of Corrugated Paper & Paperboard by State: 1997 – 2007 (t)



Source: ABS

Much of the material being exported from China is for basic packaging such as fast food containers (pizza boxes) or wine boxes. The graphics on the containers can be printed in either Australia or China.

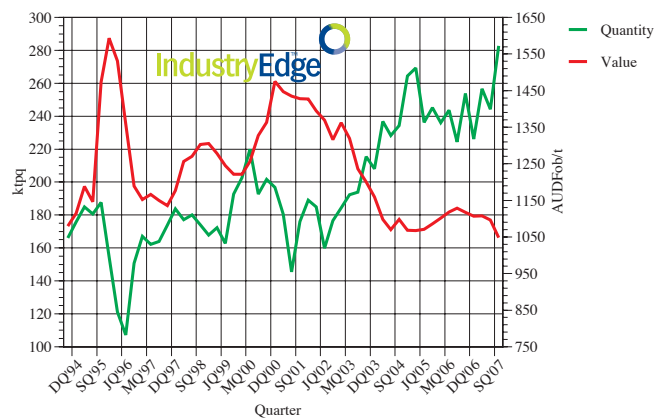
There are a number of small independent wholesalers of imported boxes, which generally focus on a specific sector of the market. The combined market share of these businesses is estimated to be just less 2% of the total market. However, while this proportion may appear to be small, the following chart shows the annualised figures for the imports by state

have been significant since 2001-02, with a national average rise of 38% pa over the last five years.

PAPER PRICE CUTS HURTING

The pain being felt by Australian Paper with regards to competition from imports reached a new level in SQ'07.

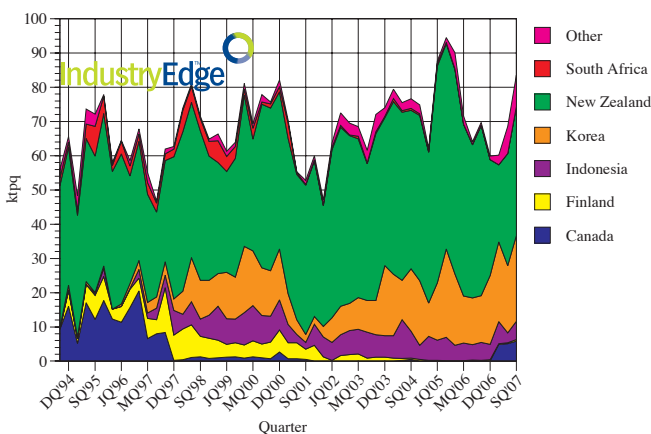
Quantity vs Price of Imports of Printing & Communication Papers: SQ'94 – SQ'07 (ktpa & AUDFob/t)



Source: ABS

For SQ'07, the total quantity of printing and communication grades, excluding newsprint, reached a record level 283 kt, while the weighted average import price at AUDFob1 048/t had fallen to the lowest level for more than thirteen years.

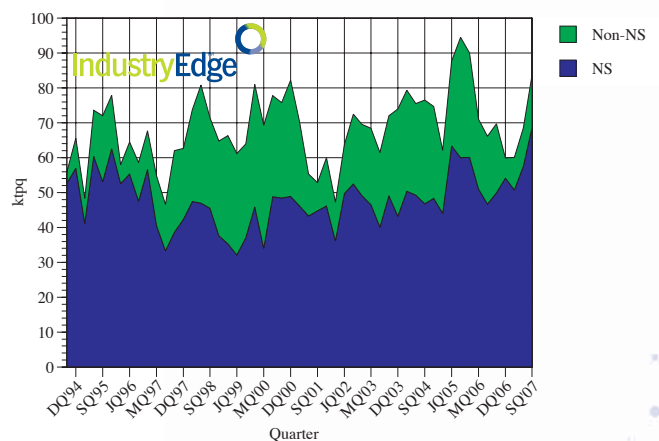
Newsprint Imports by Country of Origin: SQ'94 - SQ'07 (ktpq)



Source: ABS

Newsprint imports have recovered sharply in JQ'07 and SQ'07 after falling to an almost five-year low in DQ'06 and MQ'07. Increased domestic capacity was expected to cause imports to fall, however, imports in SQ'07 were the highest since DQ'05, when additional imports were made to prepare for the shut.

Norske Skog vs Non-Norske Skog Imports: SQ'94 - SQ'07 (ktpq)



Source: ABS

When imports fell to the lowest point in DQ'06, the proportion of shipments sourced from Norske Skog mills reached just over 90%. While imports have increased during the last two quarters, the volume sourced from Norske Skog mills overseas has increased, but the company's share has fallen to 82%.

This predicament can be directly linked to the strength of the AUD against the USD, making imports from many countries cheaper by the month. However, the pain is compounded because the above chart shows money prices without the impact of inflation.

Total imports rose by 38 kt (16%) for the first quarter of 2007-08, while the average price fell AUDFob48/t (4.4%). However, the grades cover more than the range of products produced by Australian Paper.

PaperlinX, as the parent of Australian Paper, is the largest merchant in the region, with an estimated 52% of the market in Australia and 49% New Zealand, so many of the pricing policies for domestic sales will be influenced by the strategies followed by PaperlinX.

Advertising expenditure rose by 3% across calendar 2005 and 2006, and is forecast to increase by a further 6% to 8% for 2007. Much of the increase has been with the electronic media, especially the internet. However, the general election and the Commonwealth government's policy of detailing and advertising many of its policies will have boosted demand for the print media during the current year.

Increased demand for printing and communication papers has also been driven by strong consumer confidence, despite interest rate rises, and the retailer sector continuing to advertise to attract consumer interest.

PULP & PAPER EDGE STRATEGIC REVIEW 2007

Pulp & Paper Edge Strategic Review 2007, IndustryEdge's annual assessment of the pulp and paper industry in Australia and New Zealand, and developments during 2006-07, is now available.

The publication provides strategic analysis of the pulp and paper industry in Australasia, and examines demand drivers across all sectors. Data is presented on production, imports and exports over an eleven-year period, both in tabular form and colour charts.

Particular attention is paid to price trends. Nominal prices are compared to benchmark price indices and money prices converted to real prices.

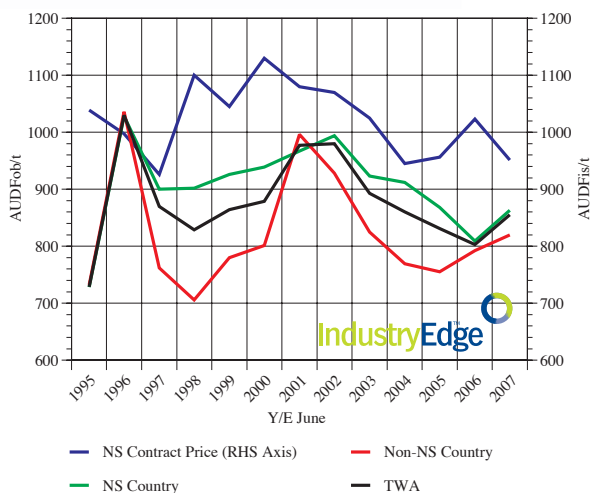
Further details about the *Pulp & Paper Edge Strategic Review 2007* may be found on the IndustryEdge web site at www.industryedge.com.au or by contacting Robert Eastment on 61 [0] 3 6231 5677 or robert@industryedge.com.au.

CHANGE OF DELIVERY FORMAT

IndustryEdge has experienced a significant rise in the number of subscribers to *Pulp & Paper Edge* requesting electronic delivery rather than a hard copy. As a consequence delivery from February 2008 will be electronic.

IndustryEdge understands some subscribers, especially libraries, will be keen to retain hard copies, so for these people IndustryEdge will work with them to find a solution.

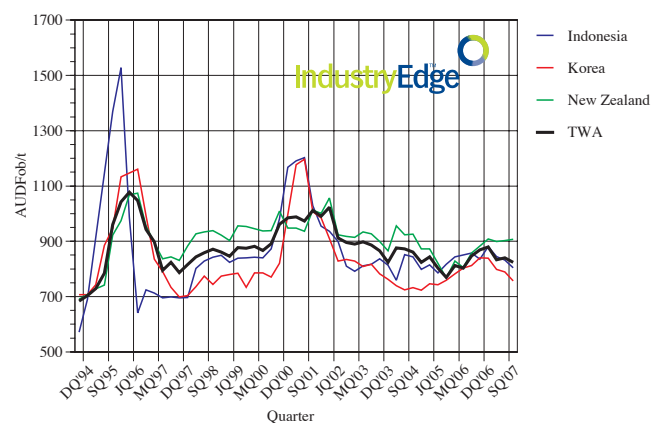
Comparative Newsprint Prices: 1995 - 2006 (AUDFob/t & AUDFis/t)



Source: ABS

On an annual basis, the average import price has been below the domestic newsprint contract price by as much as AUDFob200/t. However, the chart shows the lag effect in the pricing formulae, with average import prices falling in 2006 while the contract price went up, then in 2007 the reverse happened.

Newsprint Imports by Country of Origin: SQ'94 - SQ'07 (AUDFob/t)



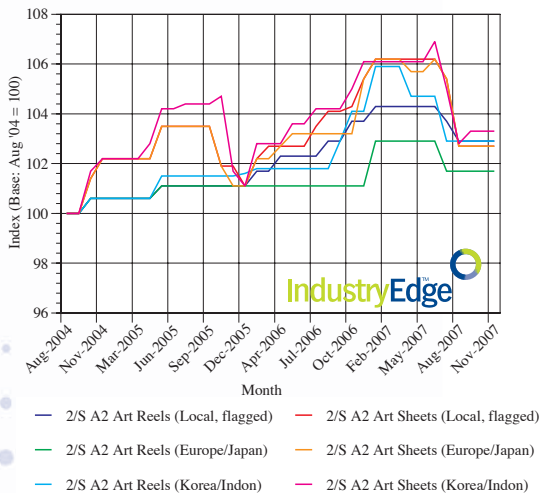
Source: ABS

Historically, the average quarterly import price from New Zealand, which is considered a domestic producer, has remained above average import prices from Korea and Indonesia. Since DQ'06, the average import price of shipments from Korea and Indonesia have fallen by 9.8% and 8.7% respectively.

Pulp & Paper Market Edge November 2007

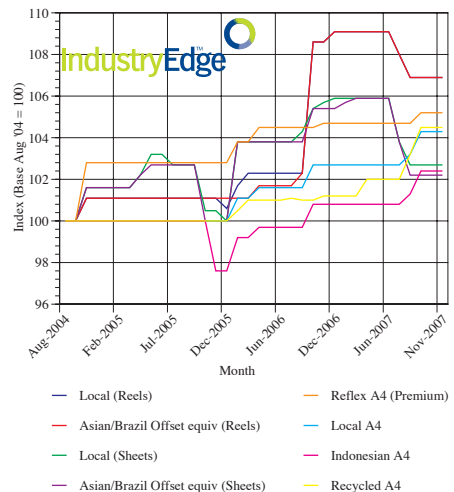
Grade	Specification	Weight	Form	Monthly Prices		12 months ago
		(gsm)		Current	Previous	
Printing & Communication						
Newsprint	Norske Skog Announced Price	45	Reels	\$ 951	\$951	\$1 023
Uncoated Mechanicals	S/C Mech Offset (Sweden)	56	Reels	\$1 200	\$1 200	\$1 335
	Norske Skog Norstar	52	Reels	\$1 141	\$1 141	\$1 141
Coated Mechanicals	LWC (Finland)	54	Reels	\$1 625	\$1 625	\$1 625
	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	\$1 500	\$1 510	\$1 530
Packaging Grades						
Coated Cartonboard	1/S Solid Bleach Board (USA)	350um+	Reels	\$1 500	\$1 500	\$1 500
	Local (Artcote White)	400um+	Reels	\$1 687	\$1 687	\$1 562
	Local (One Greyback)	400um+	Reels	\$1 494	\$1 494	\$1 369
	Pearl Kote® Ctd Kft Back	356um+	Reels	\$1 200	\$1 290	\$1 250
	Pearl Kote® Ctd Kft Back	457um+	Reels	\$1 190	\$1 280	\$1 235
	Aqua Kote® Ctd Kft Back	508um+	Reels	\$1 200	\$1 290	\$1 285
Container Materials	Kraftliner	200	Reels	\$ 923	\$ 923	\$917
	Testliner	150	Reels	\$ 821	\$ 820	\$ 813
Sack kraft	Semi extensible	70/80	Reels	\$1 509	\$1 503	\$1 392
	Flat Sack Brown	80	Reels	\$1 415	\$1 415	\$1 368
Fibre Resource						
Wastepaper	ONP - No 8 De-inking Australia into Asia			\$ 185	\$ 180	\$ 122
	ONP - No 8 De-inking USA into Asia			USD \$213	USD \$208	USD \$163
	ONP - No 8 De-inking Japan into Asia			USD \$223	USD \$198	USD \$153
	ONP - No 8 De-inking Europe into Asia			USD \$210	USD \$208	USD \$140
Pulp	NBSK Landed		Bales	USD \$840	USD \$820	USD \$730
	Bleached Eucalypt Landed		Bales	USD \$720	USD \$720	USD \$670

Indexed CWF List Prices: Aug '04 - Oct '07



Source: IndustryEdge research

Indexed UCWF List Prices: Aug '04 - Oct '07



Source: IndustryEdge research