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# TWM

TISSUE WORLD MAGAZINE



## Italy's New Direction

As consumer buying habits change ...  
private label, AfH, technology and  
sustainability offer keys for growth

**Plus** the Barometer Issue special feature  
**And** the Environment Technical Theme



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Luigi Lazzareschi CEO of Sofidel Group

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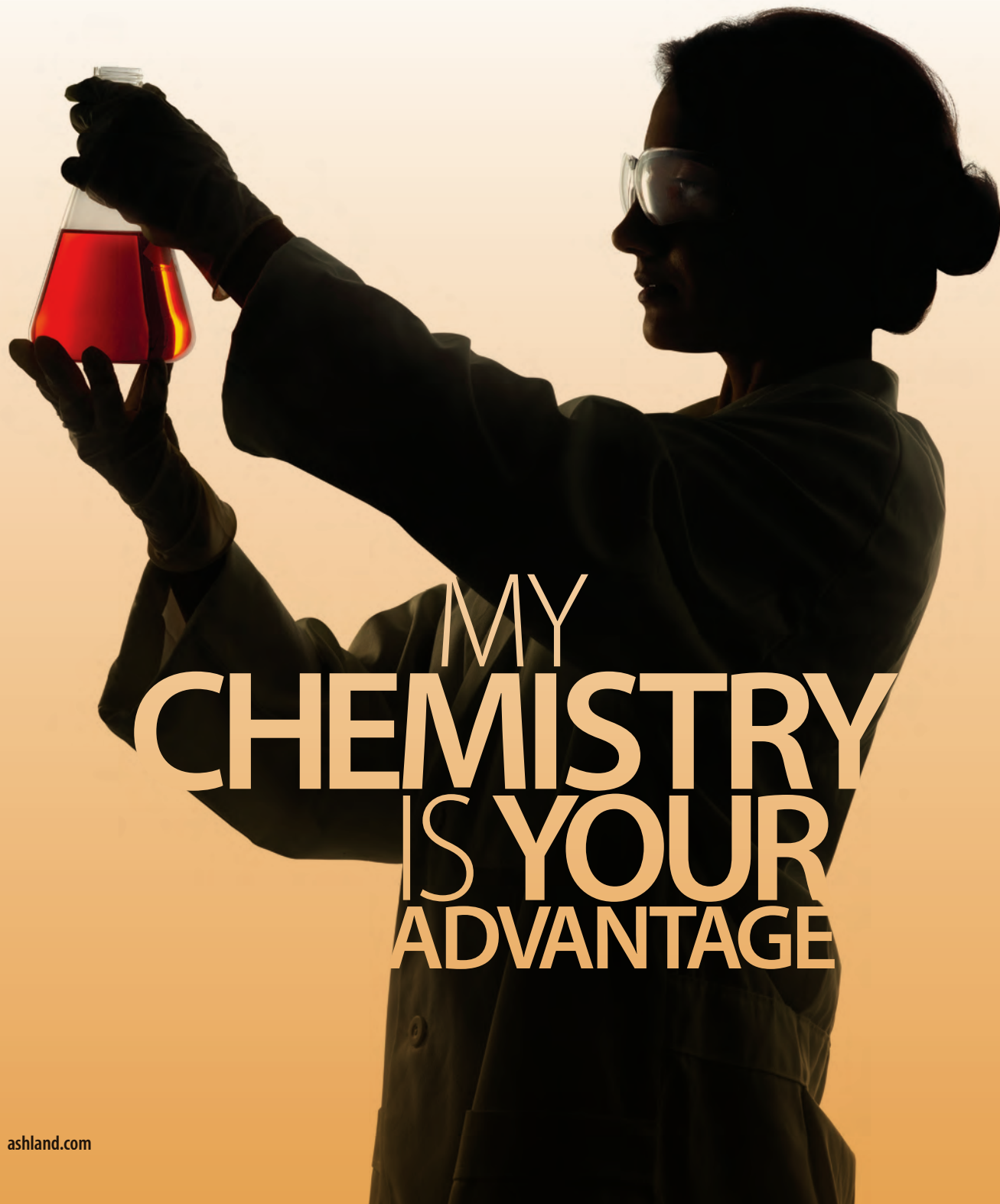
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# Italy: tailoring resources to adapt to tough market conditions

**"F**it for the future" is the phrase WEPA Lucca's managing director Bernhard Gross uses when TWM meets him at the company's Lucca-based site. The company's restructuring process meant it has now tailored its resources to manage a flat market - and any future upturn - successfully. This is no mean feat amongst the economic woes of the country and the wider European economy. Italy's economic conditions in particular have meant it has been the slowest growing economy in the Eurozone over the past decade.

The country is dealing with fierce competition, private label gains and fast changing consumer trends which are keeping manufacturers on their toes. At nearly 1.8 million MTPY, Italy is Europe's largest producer of T&T and represents around 22% of the EU's capacity. Growth in both toilet paper and tissue has been hit: toilet paper, the largest category in retail tissue at €665 million, registered a volume decline of 1.4% in 2013. Retail tissue saw a decline of 0.7% in value terms in 2013, taking the category to €1.56 billion.

That tissue can find pockets of opportunity in such an environment acts as a bellwether for the industry. WEPA Lucca's strategy has been to make itself lean. Sofidel, which we also visited for this issue's Country Report, has a different tactic. Over the past few years it has expanded heavily into Europe and America while keeping a tight hold on its Italian base. Chief executive Luigi Lazzareschi told TWM the company "still has a lot to say in Europe". You can read our full interview with him in this issue.

As WEPA's Gross says: "I don't want to join in the negative comments about Italy and its economy. I believe in Italy, we don't

share the cynicism. We represent a German family investing here and that's commitment for the future."

## Welcome to the new look TWM !

We can never stand still. As our industry constantly innovates to move forward, so too Tissue World Magazine.

This issue's Country Report on Italy and its new direction fits well into TWM and its own new redesign. As ever, we are committed to bringing you the most up-to-date and relevant news, analysis and features about the global tissue business and its latest technologies.

As an independent publication, we want to keep you abreast of the industry's most important, relevant and game-changing events, and in doing so we ourselves need to set the pace.

We all at TWM hope you enjoy the magazine's redesign and content.



Helen Morris



Editor,  
Tissue World Magazine

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# Attract and keep the next generation of talent

**At Tissue World Americas 2014, American Paper Converting's Brian Work discussed why tissue is a dynamic sector that can attract smart young people with creative minds. Here, he talks to TWM about the need to embrace change.**

It is no surprise that the towel and tissue industry is in need of young talented workers. The current workforce is a mix of three generations: Baby Boomers, Generation X and Millennials. In 2014, Millennials made up 34% of the total workforce in the United States amongst all industries. However, in 2020 this number is projected to be 46%, an increase of 12%. This can be correlated to Baby Boomers reaching age of retirement and Millennials coming of age to join the workforce.

With the influx of Millennials to the workforce, it is important to understand some differences between generations. In 2011 both current managers consisting of the three generations were asked what job factors they valued as important and the results were quite different. Meaningful Work and a Sense of Accomplishment were more often valued as important amongst Millennials, where as managers more often valued High Pay and Responsibility. High Pay is still valued as important to Millennials however; whereas for managers other job factors are equally as important. This needs to be considered as Millennials enter the workforce.

Differences between the generations can also be found in workplace expectations. Older generations are looking for job security while Millennials are seeking ways to

Millennials - a US originated term referring to children born in the years 1982 to 2004 whose work prospects were linked to the millennial year of 2000.

become more employable and build their résumé. Millennials prefer an unstructured environment where the job allows for flexibility in how work is completed and also in how information flows. Older generations are accustomed to defined job roles and procedures on how work is completed along with a structured flow of information.

As such, five items need to be considered to attract, maintain and retain the next generation of talented workers.

These are:

- i. Augmenting your online presence
- ii. Work environment
- iii. Communication
- iv. Engagement
- v. And retaining your investment

The first step is to attract the young talent to your company or the need your company has to fill a position. To accomplish this you need to increase your online presence through the use of multiple channels. When asked what sources Millennials use to find work online, 75% visit company websites, 65% used job boards and 25% used social networking sites. In addition,



the greater your online presence, the more likely the intended audience is to see your brand names and corporate image and thus the more likely they are to remember your company. When millennials seek information videos or podcasts are preferred where the information is direct and to the point. Also consider using videos to promote the work culture and ways the environment or community have been positively affected by your organisation. However, the information and media provided online needs to be technology friendly. With the increasing popularity of using smart phones and tablets to access the internet, if your information is not compatible, Millennials will move to the next opportunity.

Flexibility in the workplace is sought after by the younger generation by allowing the ability to determine how work is to be completed and which tasks are to be completed first. So long as the work is completed by the due date and to the quality expected, there is no need to regiment their daily routine.

Millennials are committed to their employer but likewise to their personal life. When asked on a scale 1-10 with 10 being the most important attribute to work environment, balanced life ranked third overall. Additionally, technology could be used as a means to attract the brightest and most talented of the generation, as they are attracted to the latest equipment and updated technology. Use of technology

Older Generations	Millennials
Command and control Management Style	Active, involved leadership
Individually focused work	Collaborative, teamwork
Managed flow of Information	Unstructured flow of information
Job security	Employability
Work = Income	Work = income and personal enrichment
Structure	No Structure, flexibility is highly valued
Inward Looking	Outward looking
Influence through organization, position	Influence through networks, communities

*Workplace expectation results when asked to older generations and Millennials in all industry in the USA*





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With the theme **The Tissue Industry at the Crossroads of a New Era** the conference will be kicking off with important insight from top-level speakers from different angles:

- › **Professor Soli Ozel** will outline political and strategic developments of the regions that surround Turkey in historical perspective with his presentation: **"After the Dreams and Catastrophes are over: Turkey and its Neighbourhood in the Next Decade"**;
- › An in-depth presentation covering the macro-economic trends by **A. Boltho, Emeritus Fellow, Magdalen College, University of Oxford**, with a presentation entitled: **"Economic Recovery in the US and Europe: Risks and Uncertainties in the Middle East and Russia and the Implications in the Regional Tissue Industry."**

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can be used to increase the speed in which business is conducted, facilitating a fast pace environment which is preferred amongst this generation.

Millennials have grown up with smart phones and the ability to contact anyone at anytime. Due to this they have come to expect immediate feedback and prompt responses to questions and comments. A slow or lack of response is interpreted as being ignored or not of high priority. Along with rapid response, Millennials prefer communication that is short and to the point. This is why email and text messages are favoured over face-to-face and phone conversation.

However, it should not be assumed that Millennials have poor communication, face-to-face or over the phone skills. Rather, spending 30 minutes in a meeting is hard to justify when a five minute email would accomplish the same objective. This can also be related to trade shows, but they will have their place in the market with the use of technology such as video conference and webinars. In addition to the expectation of a quick response, Millennials have lived their whole lives with the internet where information is immediate and endless. Often they

become impatient or irritated when the information needed is only available from a superior or co-worker, where they have to wait until the person is available.

Millennials want to be engaged in the task being performed. This generation wants to work in an environment where they are continually challenged, requiring them to test the skills and abilities taught in school and training.

***"To attract young talent you need to increase online presence through multiple channels but it needs to be technology friendly and compatible or millennials will move to the next opportunity."***

Along with a challenging job they want it to be one which is meaningful and provides a definite benefit to the company. A millennial employee would not be satisfied crunching numbers or working on a task where the benefit is unknown. In addition to meaningful and challenging work Millennials value Empowerment and the ability to make

decisions necessary to get the job done. Companies that empower their workforce are also showing trust in the skills and ability of the employees. Opportunity for career advancement is another item Millennials highly consider when looking for a potential employer. When millennials were asked, the amount of time required at an entry level position before advancing to another, half of the respondents think that one-two years is all that is necessary, where 19% indicated three-five years.

Millennials are continually looking for ways to build their skill set and knowledge whether it be at the current organisation or for future opportunities. Further education by in-house training, additional schooling or certifications courses are great ways to keep young employees engaged and enthusiastic while providing a benefit to the organisation.

So now that we have found the young talent and assimilated them into the organisation, we now need to understand how to retain them and protect the company's investment as turnover results in loss of skill and money. In order for employees to be loyal to the company, the company must first and foremost be loyal to the employees. There can't be one without the other. Employers must look after your employees by upholding your duties and obligations by providing a safe and enjoyable place to work. Employees will continue to show up for work and be loyal to the company. As the economy improves so will the job market.

***"The workplace is changing ... companies that are not actively looking for new young talent may find themselves in a shortage of skilled labour or will be forced to pull them away from other companies at a premium."***

Millennials having the least seniority and commitment to the company, they are more likely to be the first to look for the next bigger better opportunity. Some 43% of respondents indicated that they plan to be in their current position for another one-five years

### Looking for Work Online

Visit Company Websites to learn more about prospective Employers	75%
Use job boards (Monster, CareerBuilder, Jobster)	65%
Use social networking sites (LinkedIn, FaceBook)	25%

### Time at Entry-Level Position

Less than one year	16%
One to two years	24%
Three to five years	16%
Six years or more	22%
Not Sure	19%

### Factors to leave one job for another

Higher Pay	4,63
Better Perks and benefits	4,44
More opportunities for advancement	4,22
More interesting work	4,14
Shorter commute	3,99

Responses from Millennials across all industry in the USA



before moving to the next opportunity. The goal of working for a company that will be a lifelong career is no longer the case. Changing jobs every six years is neither uncommon nor viewed as unfortunate.

Maintaining moral is critical. If employees lose interest in their job or direction of the company it is certain they will look for another opportunity. In addition to the items discussed previously to engage employees, frequent recognition for excellent work and company functions are also great ways to keep moral high. Another aspect is to set clear expectations. The desired outcome of a task should be very well defined as well as the reproductions of inadequate work. This minimises the probability of an undesired outcome because there are no surprises of the consequences.

In summary the workplace is changing and this is something that the industry needs to be aware of and actively working toward accommodating. Companies that are not actively looking for new young talent to fill positions may find themselves in a shortage of skilled labour or will be forced to pull them way from other companies at a premium.

In the next six years the number of Millennials in the work force are projected to increase by 12%. Our industry could see more growth with many current employees reaching age of retirement. Companies need to be open to new and flexible ways of doing business that accommodate the next generation. Allow them to express their ideas of how things could be accomplished.

Technology is continually advancing and changing. Embrace the change and allow the generation to experiment and find uses to simplify current tasks. Overall the key to success is collaborating amongst all generations using their strengths. Encourage the current experts to share their knowledge with the newcomers so nothing is lost in transition. Because like the saying goes ... life is like a roll of toilet paper the closer you get to the end to quicker it goes.

## Work Environment: responses from Millennials across all industry in the USA

Manager that they  
respect and learn from

8,74%

Working with  
enjoyable people

8,69%

Work/Personal  
life balance

8,63%

Having a short commute

7,55%

Working for a socially  
responsible company

7,42%





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## MEXICO

### Mexico's KCM to start up new 60,000tpy tissue PM in June

Kimberly-Clark de Mexico (KCM) has scheduled the start up of its new 60,000tpy tissue paper machine (PM) installed at its Bajío mill for June.

As stated in KCM's financial report, the project continues as planned, both in terms of time and cost.

According to chief executive Pablo Gonzalez, the machine will increase the company's nominal production capacity by 10% with minimal pressure on KCM's gross margins during the ramp up period.

He said: "When we started these types of machines in the past, we haven't really seen cost pressure. We have had a good history of starting these machines without incurring more costs."

"Part of what we sell from the production is going to be exported and that will definitely have smaller margins than our converted products. So if there's any pressure, it's going to come from there." Within its six mills in Mexico, KCM currently has a production capacity

around 675,000tpy of tissue paper.

"At present, our export sales are limited by our capacity, but they won't be in the near future with the new PM," the company's chief finance officer Javier Cortez said.

News from RISI ([www.risiinfo.com](http://www.risiinfo.com))

## ANGOLA

### Angola's SICIE invests and expands product range

SICIE has invested in a PCMC-supplied Amica Matrix line at its site in Viana, Angola.

The new line will convert toilet rolls and kitchen towels and further widen the company's portfolio of products to include: serviettes, hand towels, facial tissue, industrial rolls, toilet paper and kitchen towels, sanitary napkins and baby diapers.

SICIE is part of the SICIE Group, a family-owned company founded in 1999 in Viana and employs 1,320 staff.

The new PCMC line is part of SICIE's expansion plan, which includes the



SICIE's administrator Khalid Jaffer (left), with PCMC and SICIE technicians

acquisition of new machinery for tissue rolled and folded products as well as for sanitary items.

The line has a production speed of 450mpm, features two unwinders model BS1601, embossing unit NT 4501, Amica Matrix rewinder, tail sealer TS 25, accumulator model A100, Prolog LT log saw and TDS core maker complete with unwinding units.

Khalid Jaffer, administrator at SICIE, said it is not a very easy process to install and operate sophisticated machines in the Sub-Saharan Africa.

He said: "Things are more complicated here but the experience has been wonderful and we hope to continue in



the near future as partners with PCMC." This is the second line PCMC has installed in central Africa this year.

## MALAYSIA

### Malaysia's Fudak starts up Amica line

Fudak has successfully started up its new Amica line at its Malaysian facilities in Johor Bahru.

The line will produce high-quality consumer rolled products at a speed of 550mpm.

They will then be distributed to the local markets in Malaysia and Singapore, and some will also be exported.



*Fudak's new facilities in Johor Bahru, Malaysia*

Fudak was founded in 1988 and employs more than 180 people. It has recently expanded its business and moved to new greenfield facilities.



*Toilet rolls converted on the PCMC Amica line*

The new Amica line features three unwinding units, quick-change embossing unit NT 5501, the Amica rewinder, a four-lane Prolog LT log saw

and a TDS core maker complete with unwinding units.

It is part of a machinery line-up that includes 14 lines in total, five of which are fully automatic.

Fudak's president Ann Khoo said the line will allow the company to "considerably increase its daily productivity and reduce its product lead time, meeting customers' demand even more efficiently".

## BRAZIL

### Brazilian Carta Fabril prepares to start up new tissue PM in April

Brazilian tissue producer Carta Fabril is close to initiating production on a new tissue paper machine (PM) at its Anápolis mill, in Goiás state, mid western Brazil.

According to the company's logistics vice-president, José Carlos Coutinho Júnior, Carta Fabril invested Real 50 million (\$21.8) million in the project that will double the unit's capacity to about 60,000tpy of tissue paper.

Initially expected to begin operations in December 2013, the PM supplied by Hergen will focus on double-layer toilet paper and towels, aiming to serve the increasing Brazilian consumer market in regions such as the mid-west and the north east.

Coutinho Júnior said: "While Brazil's economic growth is limited, its tissue consumption is rising at a 6% rate, following other emerging markets. In our case, 2013's sales were about 20% higher than the year before."

Besides the Anápolis mill, Carta Fabril also runs a 29,000tpy tissue paper unit in São Gonçalo city, Rio de Janeiro state, south east Brazil.

News from RISI ([www.risiinfo.com](http://www.risiinfo.com))

### Santher improves financial results in 2013

Brazilian major tissue paper producer Santher recorded a Real 17.7 million (\$7.8 million) loss in 2013, according to the company's latest financial results report. The figure is, however, an improvement over the Real 36.1 million loss registered by the company in 2012. Throughout 2013 Santher's EBITDA rose by 37.5% to Real 130.5 million over the number posted in the previous year,

while revenues increased by 11.4% to Real 1.16 billion. "This performance was mainly due to the sales volume expansion and the increase on average prices, influenced not only by the price table readjustment but also by the sale of products with higher value," the company stated in the financial report. Santher currently has a production capacity of around 185,000tpy of tissue paper and 35,000tpy of specialty paper spread throughout four units in Brazil: Bragança Paulista and Penha paper mills, both in São Paulo state, Governador Valadares unit, in Minas Gerais state, and Guaíba mill, in Rio Grande do Sul state.

News from RISI ([www.risiinfo.com](http://www.risiinfo.com))

## GLOBAL

### Gomá-Camps severs ties with AMS Gomá-Camps, expands into Africa

The Spanish tissue specialist Gomá-Camps is no longer part of AMS Gomá-Camps in Portugal.

The firm said it signed an agreement ceasing its involvement with the Portuguese tissue producer and converter at the beginning of the month.

Gomá-Camps did not reveal the reasons for the decision to leave the ownership structure of AMS Gomá-Camps.

AMS Gomá-Camps was founded as AMS – Papermill & Converting in July 2007.

The following year saw the firm sign an agreement with the city council for the installation of a tissue production and converting site in Vila Velha de Ródão and close the machine and converting lines' purchase contracts.

In December 2008, AMS – Papermill & Converting entered into a strategic partnership with Gomá-Camps and changed its name to AMS Gomá-Camps.

In January 2009, AMS Gomá-Camps kicked off the construction work on the new facility.

In August of the same year, the Euro 50 million (\$69 million) investment was brought on stream.

According to RISI's Mill Asset Database, AMS Gomá-Camps has a capacity of 33,000tpy of tissue and Gomá-Camps' share in the firm amounted to 35%.

Gomá-Camps remains active in Portugal through its subsidiary Gomá-Camps Portugal, which was established in 1995 and specialises in industrial products and napkins.

Gomá-Camps Portugal is located in Constância, operates 14 converting lines and employs 60 people.

**Growth in Angola:** Elsewhere, Gomá-Camps is continuing its strategy to grow beyond the Iberian and French markets. The firm has chosen North Africa for this purpose, as it expects tissue demand in the region to grow significantly.

Already back in 2009, Gomá-Camps Angola was established as a commercial subsidiary of Gomá-Camps Portugal. The company has its head office in Luanda. At the end of last year, it consisted of a team of six people and generated a turnover of around Euro 1.6 million.

Since earlier this year, Gomá-Camps Angola has also been active in the tissue converting sector in the country.

The company started its first two napkin machines in late January and currently produces 1-, 2- and 3-ply 33 x 33 and 44 x 44 napkins and packaging formats.

## K-C announces 1Q 2014 results

Kimberly-Clark has reported "solid first quarter" results but said first quarter sales for its consumer tissue segment decreased 2%.

For the first quarter of 2014, the group's net sales of \$5.3 billion decreased 1% compared to the same period a year ago. Organic sales rose 4% including a 12% increase in K-C International.

The company said its performance benefited from organic sales growth, cost savings and lower selling, general and administrative expenses.

It added that comparisons were negatively impacted by unfavourable foreign currency exchange rates, input cost inflation and a high level of other income in the year-ago period.

Chairman and chief executive Thomas J. Falk said: "We delivered a solid first quarter with good organic sales growth and cost savings. We also launched a number of product innovations and made further progress with targeted growth initiatives."

He added that although the company continues to face "headwinds from currency exchange rates and cost inflation", it is maintaining its full-year guidance for adjusted earnings per share.

K-C's consumer tissue segment reported first quarter sales of \$1.7 billion, a decreased of 2%.

The company said lower sales in conjunction with European strategic

changes and pulp and tissue restructuring actions reduced sales by 2% and currency rates were unfavourable by 2%.

Net selling prices rose 2% and product mix was up slightly while first quarter operating profit of \$257 million decreased 1%.

The company said the comparison was negatively impacted by input cost inflation and other manufacturing cost increases, mostly offset by benefits from organic sales growth and cost savings.

Sales in North America were down 1% while sales volumes fell 4% as comparisons were impacted by a soft cold and flu season that affected Kleenex facial tissue sales, along with strong year-ago shipments for



K-C chairman and chief executive Thomas J. Falk: "We continue to face headwinds from currency exchange rates and cost inflation."

Cottonelle bathroom tissue.

Sales in K-C International increased 2% despite an eight point negative impact from changes in currency rates.

Sales volumes rose 6% while net selling prices improved 2% and product mix was favourable by 1%. Organic growth was driven by increases in Latin America, primarily in Brazil and Venezuela.

Sales in Europe decreased 9% including a 12 point negative impact from lower sales in conjunction with European strategic changes and pulp and tissue restructuring actions.

## Kemira closes acquisition of BASF's global AKD emulsion business

Kemira has closed the acquisition of BASF's global AKD emulsion business.

AKD is an alkyl ketene dimer-based sizing agent which impacts paper and board hydrophobicity or water resistance.

The acquisition strengthens Kemira's position in offering sizing products for the paper industry especially on the continental European market.

The parties have agreed not to disclose financial details of the agreement.

## CHINA

### APP radically slowing down massive tissue expansion plan at Chinese and Indonesian mills

Asia Pulp & Paper (APP) has put the brakes on its aggressive tissue paper expansion plans after revisiting them in the wake of the economic slowdown in China.

An APP senior executive said: "We have decided to put the installation of all the machines that were previously planned to be carried out after 2015 in our original plan on ice for one year."

Other planned PMs have been cancelled altogether due to poor demand or a lack of in-house pulp production, he added.

In the original blueprint laid out last year, the company intended to build a total of 52 new tissue machines at its mills in China and Indonesia, with a whopping combined capacity of 2.784 million tpy.

Some 12 out of the 52 PMs were smaller units to be supplied by APP's subsidiary



Jinshun Paper Machinery, each having a capacity of 27,000tpy.

The remaining 40 machines were large 5.6m wide units, which APP signed up for with A Celli.

APP has made down payments to the Italian supplier for a portion of those 60,000tpy machines.

The rest were to be delivered under what both sides called a handshake contract, which means the orders were not confirmed yet.

The plan has now been revised down significantly to 25 PMs with a total capacity of 1.236 million tpy.

Eight Jinshun machines initially planned for APP China's Hainan mill will be kept on track and erected, with the first unit slated to come on stream in July, said the APP contact.

The remained four A Celli machines planned for the facility will be scrapped. "We made an error believing there was a surplus of in-house pulp manufactured at the Hainan complex. It was a miscalculation. Its pulp and paper production will hit a balance after the eight tissue machines are commissioned," he explained.

The number of PMs planned for APP

China's Suzhou facility has been slashed by half to six, all of them the larger units.

Two out of four large machines for the firm's Xiaogan plant and all the rest of the units planned for other mills in China have been put on the backburner. In Indonesia, where all the planned machines would be supplied by A Celli, APP has scaled back the expansion of its Perawang facility from 14 units to 8. It will go ahead with the erection of a large PM at the Jambi site.

There is an A Celli PM in the original scheme for the Perawang plant coming online at the moment.

The machine, which features an 18-foot Steel Yankee dryer, is the first tissue production line of its kind commissioned in Asia.

"The PM has been operating smoothly since its trial runs early this year. It is running at speeds of 1,800-1,900m/min, while it has a design speed of 2,000m/min," the contact said.

The successful startup of the machine was supposed to be a major event worth celebrating.

"We are not in the mood to celebrate it. But we are happy that the machine has

performed well, with impressive energy efficiency," he added.

News from RISI ([www.risiinfo.com](http://www.risiinfo.com))

## Hebei Xuesong Paper boosts capacity

China's Hebei Xuesong Paper has successfully started up its first EcoEc tissue machine, the Intelli-Tissue® 1200 EcoEc.

The company produces 80,000tpy of tissue and its brands include Xuesong, Jiabei and Haorenjia.

Based in Baoding, the PMP Group-supplied machine has reached maximum production capacity - 60tpd and the max working speed of 1,200mpm just five days after start-up. It has a width of 2,850mm at the reel and PMP also provided a stock approach system, mechanical drives, electrical drives, a lubrication system, a steam and condensate system and DCS.

PMP said: "The key feature of the EcoEc line is ultra-low energy consumption levels. Currently, the machine at Hebei

*Hebei Xuesong Paper boosts capacity*



Xuesong operates at 2.5 T/T steam consumption.

"Optimisation to reduce the energy consumption to the target level of 2.0 T/T is continued and so Hebei Xuesong can produce soft tissue at attractively low production costs."

## C&S starts up 60,000tpy tissue PM in China

China's C&S Paper has started up a 60,000tpy tissue PM at a greenfield mill in Luoding city, Guangdong province.

The first sheet of paper rolled off the line earlier this month. The Andritz unit has a trim width of 5.56m and a design speed of 1,900m/min.

Its startup has boosted the firm's total tissue capacity to around 390,000tpy.

An identical unit is expected to be fired up in three months at the same site.

The PMs were scheduled to come online by the end of 2013, but civil engineering at the site was delayed and pushed back the project.

## China's Nanning Sugar cancels tissue project

(News from RISI) Nanning Sugar Industry has decided to cancel a 20,000tpy tissue project planned at its former Pumiao mill in Nanning city, Guangxi autonomous region.

The 130,000tpy bagasse pulp mill has instead been sold to a state-owned firm called Nanning Tongyi Assets Management at a price of RMB 691.5 million (\$112 million).

Nanning Sugar will use the amount to pay back bank loans.

The firm originally planned to establish a joint venture called Yuewei Paper with two partners to manage new tissue capacity, and use the output from the Pumiao site to make tissue.

But soon after publicising the tissue plan, the firm announced it would seek to auction off the Pumiao mill, throwing the tissue project into doubt. Last December Nanning Tongyi acquired the fibre facility.

The major shareholders of both purchaser and seller in the transaction are owned by Nanning authorities.

Mills closed: Nanning Sugar used to be a major regional pulp and paper maker in Guangxi, but it has closed a lot of machinery over the past several years to tackle the weak market situation in China.

Prior to the sale of Pumiao mill, it shut down a 35,000tpy printing and writing paper plant in Nanning in 2012.

In 2013, it announced it would shut down a 50,000tpy cupstock mill and a 50,000tpy uncoated fine paper site in the same city.

Also, Nanning Sugar rented out a 40,000tpy tissue plant last year to a local firm called Nanning Meina because of poor performance.

The lease is running from last March to 28 February, 2018, at a price of RMB 6 million each year.

Currently, Nanning Sugar only runs a 15,000tpy paper mill in Nanning.

2013 results positive: The firm reported sales revenue of almost RMB 4.4 billion for 2013, up 32.83% over 2012.

Its net profits soared by 115.91% year-on-year to RMB 49.3 million in 2013.

The firm explained that increasing sales of sugar contributed greatly to the positive results.

The sale of Pumiao mill and the closure of other mills also helped boost its performance.

News from RISI ([www.risiinfo.com](http://www.risiinfo.com))

## China's Shandong Dongshun testing new 16,000tpy tissue PM, more to come

China's Shandong Dongshun Group is testing a new 16,000tpy tissue PM at its mill in Taian city, Shandong province.

The Kawanoe Zoki unit has a trim width of 2.76m and a design speed of 1,000m/min.

The firm will also soon install an identical PM at the same site.

In addition, another pair of tissue PMs will be delivered to the Taian mill in July and September respectively.

Their startups are scheduled for the end of this year.

Each with a trim width of 2.85m and a design speed of 1,300m/min, they will be co-supplied by Valmet and the Kawanoe Zoki.

The two suppliers agreed that Kawanoe Zoki is responsible for the marketing, manufacturing, and installation of the machines.

The units are to be produced at the Japanese supplier's plant in China, and some key components including headboxes, yankee cylinders and suction pressure rolls are from Valmet. The suppliers will supply two more

PMs, identical to the first pair, to Shandong Dongshun.

The second pair is scheduled to come online in the second half of 2015.

In addition to its expansion in Shandong, the tissue maker will test a 16,000tpy Kawanoe Zoki PM at the end of May at its site in Zhaodong city, in China's northwestern province of Heilongjiang. The unit is 2.76m wide and has a design speed of 1,000m/min.

The Zhaodong site currently runs a 12,000tpy tissue machine.

Diversifying into hand towels: Shandong Dongshun has long been focusing on the production of toilet paper and facial tissue, and it is now diversifying into the paper hand towel sector.

According to Kawanoe Zoki, it will supply two PMs making the grade to the firm's Taian facility.

Each will have a trim width of 2.85m and a design speed of 450m/min. Output of the PMs will have a basis weight range of 32-50g/m<sup>2</sup>.

The first PM is planned to be delivered around November 2014, followed by the second in November 2015.

The tissue sector in China is currently confronting an oversupply issue due to a quick increase of capacity over recent years.

Instead of focusing on toilet and facial tissue products, more producers are tapping into varied end use markets, with hand towels as one such new direction.

News from RISI ([www.risiinfo.com](http://www.risiinfo.com))

## ITALY

### Fire hits Cartiera Lucchese's Porcari mill in Italy

Italy's Cartiera Lucchese Porcari tissue and packaging paper mill was hit by a fire on May 11, destroying some 3,000 tonnes of recovered paper (RCP) in the plant's warehouse, according to the Lucca municipality's fire department.

Local media reported that production was stopped for a couple of hours during the blaze as a precautionary measure, but that the paper machines were not affected.

The management could not be reached for comment.

News from RISI ([www.risiinfo.com](http://www.risiinfo.com))



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*Oji Group's new TT SYD has a diameter of 12ft and a face length of 5,750mm*

## JAPAN

### Japan's Oji Group invests in a Steel Yankee Dryer

Japan's Oji Group has boosted its capacity after it invested in a Steel Yankee Dryer to be installed at its production site in Kasugai.

The TT SYD will be supplied by Toscotec and has a diameter of 12ft and a face length of 5,750mm. It will replace the existing deteriorated Yankee Dryer.

The installation of the TT SYD-12FT is scheduled for the end of 2014.

Toscotec said the dryer's new design provides an optimisation of the internal grooves and the reduction of the nominal thickness of the cylinder involves a more efficient heat exchange; this increased drying capacity then enables an increased performance of the machine in terms of production and speed.

Established in 1873, the Oji Group has been a leader in the pulp and paper industry in Japan for over a hundred years.

### Marutomi Paper boosts production capabilities

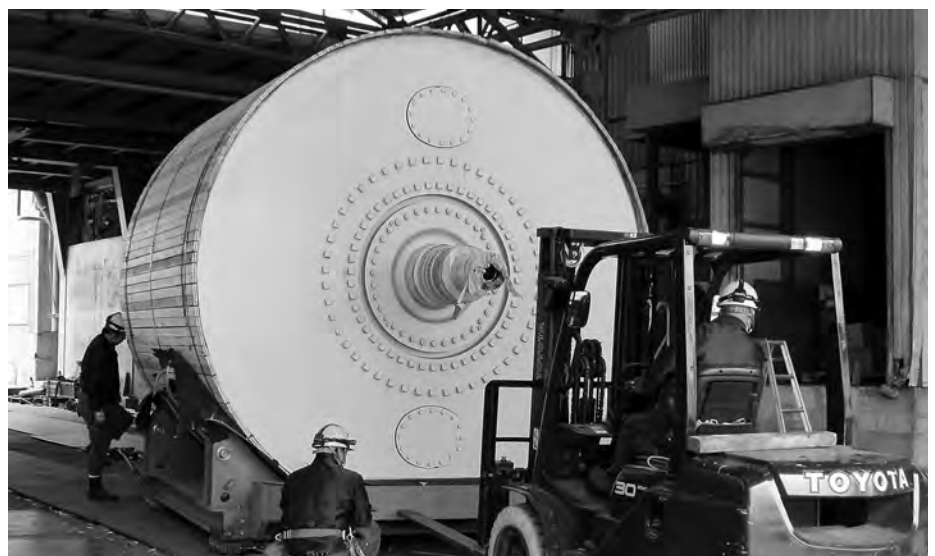
Japan's Marutomi Paper has successfully started up a new Steel Yankee dryer.

Due to surging fuel and electricity costs Japanese tissue makers are constantly looking for opportunities to reduce

production cost.

The company said its new Steel Yankee dryer, jointly supplied by Valmet and Kawano Zoki, has exceeded all expectations. Marutomi Paper mill manager said: "Today we can see a significant reduction in energy cost but also a great improvement in product quality."

*Japan's Marutomi Paper boosts production with Steel Yankee dryer investment*





"I could never imagine that a 40 year old machine could perform this well. This rebuild has realized a significant cost reduction and strengthened Marutomi's competitiveness in the recycled toilet tissue market."

Marutomi Paper was established in 1955 and currently operates eight mills in Shizuoka, producing top quality toilet paper from recycled pulp.

Its PM3 at the Imaizumi mill has produced tissue paper for more than 40 years.

Due to aging equipment the efficiency was decreasing and the energy cost for steam and gas escalated.

An energy efficiency evaluation, performed by Kawanoe Zoki, resulted in a recommendation to install a Steel Yankee Dryer and replace the gas hood with a canopy hood for exhaust air.

Kawanoe Zoki was contracted for the total engineering while the Steel Yankee Dryer was supplied by previous Metso, currently operating as Valmet.

A thermo compressor was installed on the condensate system and the Yankee Crown was optimised.

Energy efficiency, which was the main target of the project, has successfully been achieved.

Gas cost, which was a big cost factor, is reduced to zero.

Consequently, the steam consumption has increased but the energy saving effect greatly exceeds the increase in steam.

## AMERICAS

### Orchids Paper enters strategic alliance with Mexico's Fabrica

Orchids Paper has boosted its presence in the west coast of America after it announced a strategic alliance with Fabrica de Papel San Francisco (Fabrica).

Based in Mexicali, Mexico, Fabrica is a privately-owned business that produces high-quality tissue paper products.

It was established as a tissue converter in 1958 and has grown to 150,000 metric tonnes of capacity, and it is now one of the largest tissue manufacturers by capacity in Mexico.

In 2013, the company started up the world's first NTT paper machine.

Orchids said the alliance supports its vision "to become a national supplier of high-quality consumer tissue products in the value, premium and ultra-premium tier markets".

As part of the alliance, Orchids will acquire

Fabrica's current US business, including certain manufacturing assets and access to 18,000 metric tonnes of capacity each year to support the value, premium and ultra-premium requirements of the US market, with an option to purchase an additional 7,000 metric tonnes in each of the first two years.

Products will be produced at Fabrica's facility in Mexicali, Mexico and shipped directly to Orchids' US customers.

Jeffrey Schoen, president and chief executive of Orchids, said: "We believe our alliance with Fabrica will allow us to cost effectively provide high-quality products and superior customer service to a portion of the market that was previously difficult to access due to cost challenges."

"We look forward to pursuing additional opportunities with Fabrica."

Orchids Paper Products Company is an integrated manufacturer of tissue paper products serving the at home private label consumer market.

From its operations in northeast Oklahoma, it produces a full line of tissue products, including paper towels, bathroom tissue and paper napkins, to serve the value through premium quality market segments.

### Clearwater Paper reports tissue volume sales down 3.6%

Clearwater Paper has reported total tissue sales volumes of 127,758 tonnes in the first quarter of 2014, down 3.6% compared to the first quarter of 2013.

Converted product cases shipped were 13.4 million, down slightly year on year.

Average tissue net selling prices increased 4.2% to \$2,239 per tonne in the first quarter of 2014 compared to the first quarter of 2013.

The company said this was due to an improved mix from increased TAD sales.

Net sales in the consumer products segment were \$286.5 million compared to \$284.9m. This increase was also primarily driven by increased TAD sales and slightly higher non-retail sales.

President and chief executive officer Linda Massman said: "With the consumer products division, we saw a highly-competitive tissue market and cold-weather related costs negatively impact the business."

"Moving forward, we are focused on continuing to build strong customer relationships and take important steps to bring efficiencies to every part of our operation."

The group reported net sales of \$484.9m for the first quarter of 2014, up 5% compared to net sales of \$460.8m for

the first quarter of 2013.

Adjusted EBITDA for the quarter was \$54.7m, up 43% compared to the same time a year ago.

The company said this was mainly due to increased paperboard volumes and pricing and \$7 million of contribution from the company's TAD expansion.

## INDONESIA

### Sun Paper Source boosts capacity with start-up

Indonesia's Sun Paper Source has successfully put into operation its new VTM 1. Based at the company's plant in Sukoanyar, the machine reached an operating speed of 1,600m/min three days after start-up.

Supplied by Voith it is the first machine in Asia to feature a NipcoFlex T shoe press combined with a Steel Yankee cylinder and a steam heated high-performance hood.

Delivery included the approach flow system, the vacuum system, the VTM 1 tissue machine with a wire width of 2,860mm, together with auxiliary equipment, MCS, DCS and QCS.

Voith said the VTM 1 with shoe press, Steel Yankee and high-performance hood has a very energy-efficient design.

The company said: "It allows high operating speeds and problem-free operation. In comparison with conventional press rolls, the dry content after the press with NipcoFlex T technology is up to 5% higher. That means that up to 20% of the thermal energy can be saved."

PT Sun Paper Source is one of the leading paper manufacturers in Indonesia.

### Sun Paper Source set to start up another tissue paper machine later this year in Indonesia

Indonesia's Sun Paper Source has decided to bring a 25,000tpy tissue paper machine online at its mill in Mojokerto city, East Java, in October.

The second-hand machine, PM2, came from Metsä Tissue's former Konstancin-Jeziorna plant near Warsaw, Poland, which was closed and sold to wastewater treatment specialist Saur Konstancja in 2012.

The unit was initially planned to come on stream in Indonesia this month.

But the schedule has been pushed back



as Sun Paper Source is focusing on the optimization of PM 1, a 25,000tpy tissue machine that was commissioned in December last year.

"PM 1 has just started production of machine-glazed (MG) paper and we want to ensure the unit's performance is optimised," said a company spokesman.

"The original project schedule for PM 2 was too near to the completion of PM 1. So we rescheduled it," he said. The firm's MG paper is mainly for converting into finished products used in delicate goods packaging. Voith Paper provided PM 1 and its auxiliary equipment.

The operating speed of 1,600m/min was reached three days after startup, according to the German supplier.

Sun Paper Source is a subsidiary of Sopanusa Tissue & Packaging Saranasukses, which operates six machines making tissue and MG paper with a total capacity of 54,000tpy at the same Mojokerto site.

Around 80% of its output, mainly parent rolls, is for export to other Asian countries, Australasia and the Middle East.

The company is now seeking to expand its market reach and product portfolio in the Indonesian market.

"We are not strong in marketing our finished products at home and we are making an effort to develop that," said the spokesman.

He indicated that demand for toilet and facial paper is growing in the domestic market after years of national economic stability, and the company sees the opportunity and potential to grow its business at home.

News from RISI ([www.risiinfo.com](http://www.risiinfo.com))

## ROMANIA

### Romania's Petrocart boosts capacity

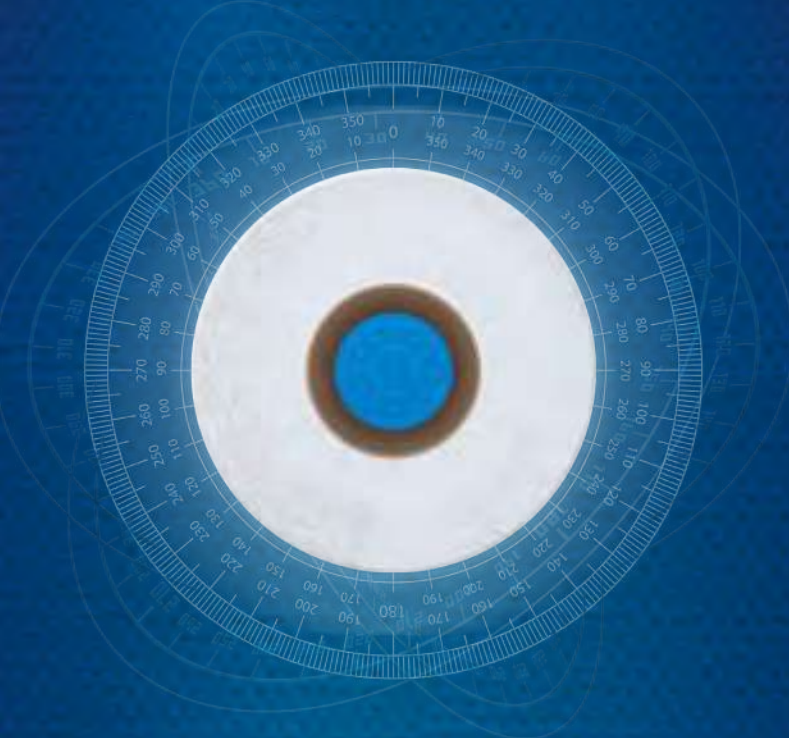
Romanian tissue producer Petrocart has boosted its capacity after it started up a new Toscotec-supplied tissue line at its Piatra Neamt plant.

It is based on a turn-key concept and will produce an average of 75tpy.

The new line includes the stock preparation plant for virgin and recycled fibres, a MODULO-PLUS tissue machine with single-layer headbox, double press configuration and TT SYD-12FT, and the tissue machine auxiliary plants which include a Milltech hood and steam and condensate system.

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# Italy – the European Union's T&T production leader

Bill Burns, senior consultant, Fisher International

Italy has been experiencing persistent economic problems with sluggish growth, high unemployment and regional disparities in prosperity. The Italian economy is driven in large part by the manufacture of high-quality consumer goods produced by small and medium-sized enterprises, many of them family-owned. This model is somewhat true of Towel and Tissue (T&T) production as well, with many small mills owned by local companies.

With a population of about 60 million, Italy is the fourth largest economy in the EU (behind Germany, France, and the UK), but exceptionally high debt and structural roadblocks to growth make it vulnerable to economic hazards. Public debt has been increasing since 2007 reaching over 130% of GDP in 2013. But concerns seem to be relaxing as the European economic crisis subsides, which may allow Italy to get back on a positive growth trend.

Italy is Europe's largest producer of T&T making nearly 1.8 million MTPY. That means Italy represents about 22% of the EU's capacity. Italy's T&T growth rate was outpacing the EU up until the global recession hit in 2009. At that point, growth halted both in the EU and for Italy. Subsequently, continued economic issues appear to have held growth flat to slightly negative while the EU is managing to maintain very modest growth (Figure 1).

Italy's T&T mills are geographically dispersed throughout the country with the largest concentration in the Tuscany region (Map 1). As the largest producer of T&T in the EU (Figure 2), Italy has the greatest number of operating machines outnumbering the next largest country by more than 20 machines (Figure 3). T&T machines in the EU vary from narrow two-metre machines to six metres. Machines in Italy are no exception in terms of the trim range for the region, with the average being 3.2 metres (Figure 4). Mill



by Bill Burns

Senior consultant,  
Fisher International

production in Italy is, on average, on the low side compared to other producing countries in the EU at nearly 40,000 MTPY while the technical age of Italian machines is about average (Figure 5).

Italy's cost position in the EU is disadvantaged against most of the larger producing countries and much of the EU in general. Much of this disadvantage is driven by a high reliance on purchased market pulp (Figure 6). Fibre mix in Italian mills is 90% market kraft pulp with the remaining being recycled (Figure 7). While recycled fibre is present in most countries, Italy's reliance on virgin fibre is more prevalent than in most other parts of the region. Integrated

Figure 1

European Union Annual T&T Production Trend  
Italy's Growth Compared to EU in Total  
(MTPY by Quarter)

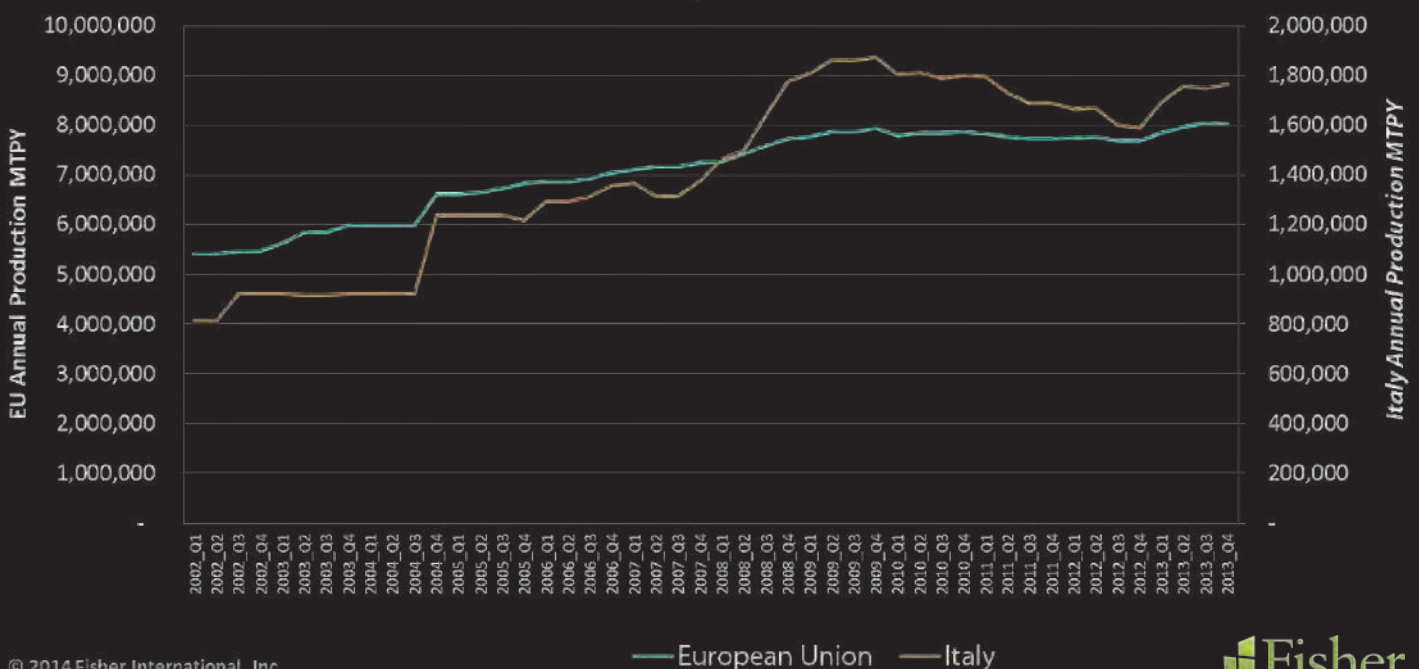
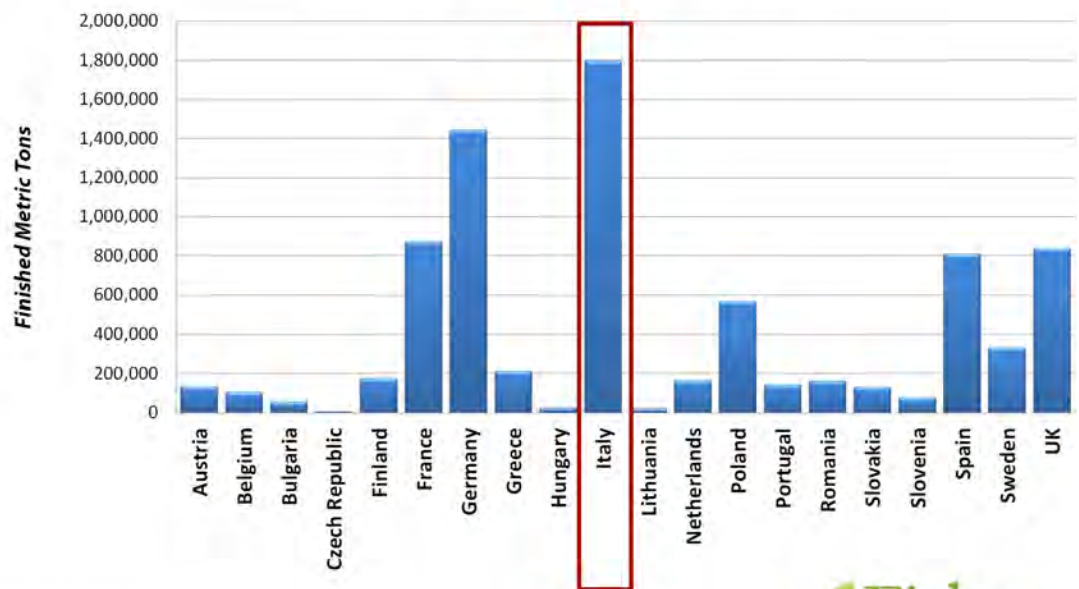


Figure 2

## European Union T&amp;T Production



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Source: FisherSolve™



Figure 2 Distribution of T&amp;T production in the European Union.

Figure 3

## Quantity of European Union T&amp;T Machines

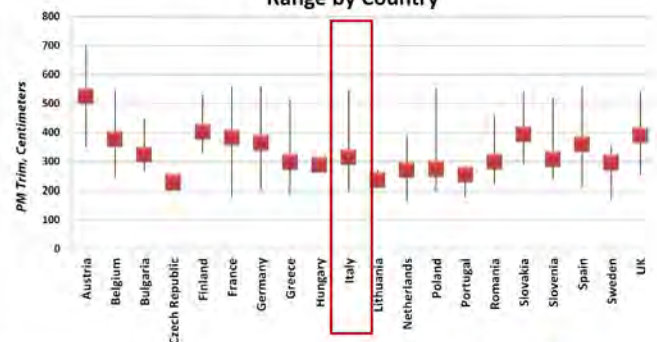


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Figure 4

## European Union T&amp;T Machine Trim Range by Country

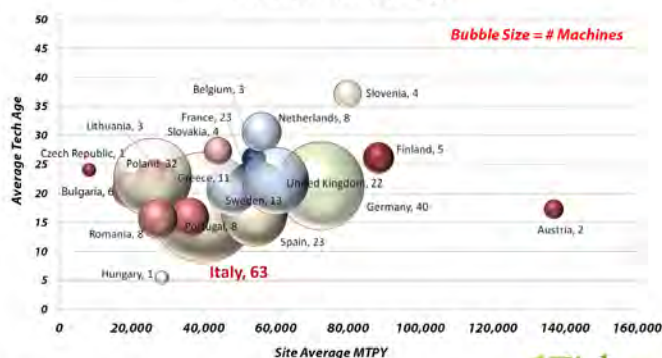


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Figure 5

## European Union T&amp;T Machines by Country MTPY versus Tech Age

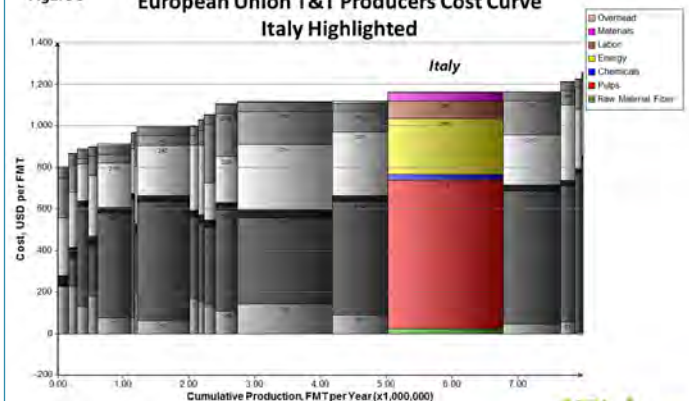


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Figure 6

## European Union T&amp;T Producers Cost Curve Italy Highlighted



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recycled fibre does provide some smaller producing countries an advantage over the purchased virgin fibre consumed by larger producing countries like Italy.

Italy's T&T machine production rates are heavily weighted (nearly 70%) to machines ranging among the smallest, producing less than 40,000 MTPY. Only 10% of the machines are among the more capable machines producing above 50,000 MTPY range (Figure 8). Machine

trims are narrow with more than three quarters of the machines being less than 3.5 metres (Figure 9). Only 15% of the machines are wider, in the 5.0 - 5.5 metre class.

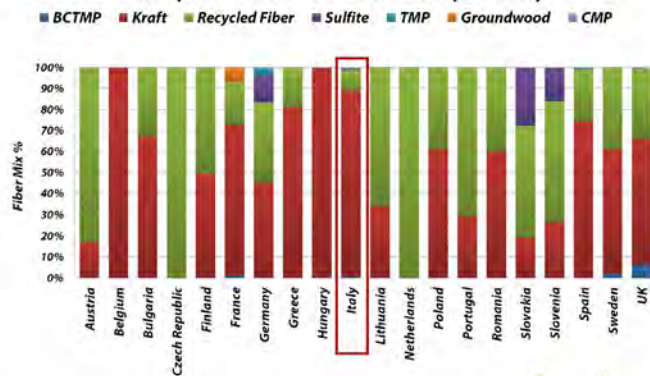
Machine speeds are split at 60% and 40% for machines below and above the 1,500 mpm mark respectively (Figure 10). Only 10% are running above 2,000 mpm. Capacity-wise on the international scale, Italian machines bias above the

worldwide average technical age and production rate. However, there are very few machines in the new high capacity category (Figure 11). While Italy's T&T business has some international players, ownership is predominantly local with 87% of the mills being headquartered within Italy (Figure 12).

In today's world, a country profile would not be complete without looking at environmental impacts. Fisher

Figure 7

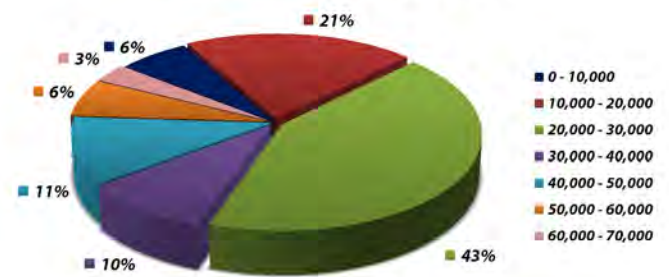
## European Union T&amp;T Fiber Mix by Country



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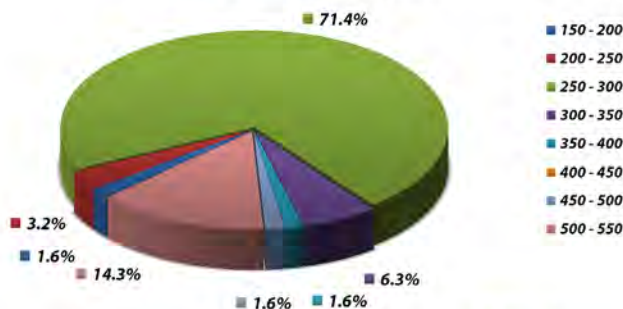
Figure 8

Italy's T&T Machines  
Distribution of Machines by MT/Yr

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Source: FisherSolve™

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INTERNATIONAL

Figure 9

Italy's T&T Machines  
Distribution of Machines by Trim (cm)

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Figure 10

Italy's T&T Machines  
Distribution of Machines by Speed (mpm)

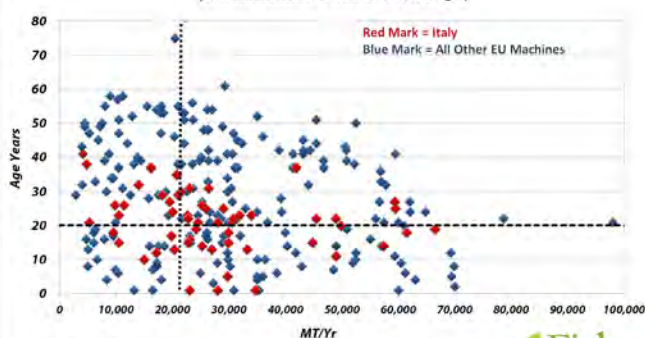
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Figure 11

European Union T&T Machines  
Age versus Capacity Quartile

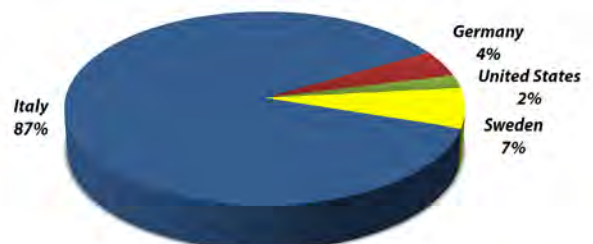
(Quartiles Based On Worldwide T&T Averages)



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Figure 12

Italy's T&T Mills  
Country of Ownership

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Source: FisherSolve™

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International has recently added a carbon database and benchmarking tool to its FisherSolve™ modelling of the Pulp and Paper Industry. Carbon modelling results for the EU indicates a weighted average of 1.181 MT CO<sub>2</sub>-eq/FMT for cradle-to-gate emissions. Comparatively, the worldwide weighted average for T&T is 1.613 MT CO<sub>2</sub>-eq/FMT. Not only is Italy's T&T carbon footprint below the worldwide average, it is also well below the EU average as can be seen on the European Union Carbon Emission Cumulative Production Curve (Figure 13).

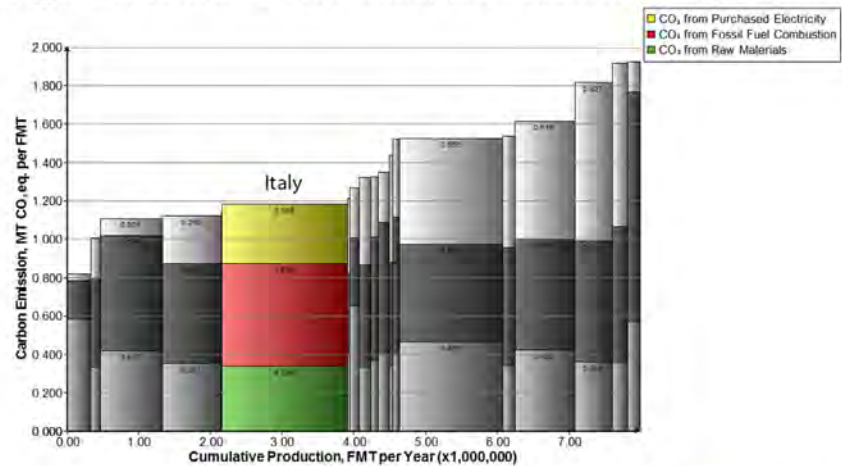
The source for market data and analysis in this article is FisherSolve™. Data tables behind Figures 1 - 13 can be obtained from Fisher International. E-mail requests to [info@fisheri.com](mailto:info@fisheri.com).

#### About Fisher International, Inc.

*Fisher International has supported the pulp and paper industry for over 25 years with business intelligence and management consulting. Fisher International's powerful proprietary databases, analysis tools, and expert consultants are indispensable resources to the industry's producers,*

Figure 13

#### European Union Total Carbon Emission and Cumulative Production



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Source: FisherSolve™



*suppliers, investors, and buyers worldwide. FisherSolve™ is the pulp and paper industry's premier database and analysis tool. Complete and accurate, FisherSolve is unique in describing the assets and operations of every mill in the world (making 50 TPD or more), modelling the mass-energy balance of each, analysing their production*

*costs, predicting their economic viability, and providing a wealth of information necessary for strategic planning and implementation. FisherSolve is a product of Fisher International, Inc. For more information visit: [www.fisheri.com](http://www.fisheri.com) or email [info@fisheri.com](mailto:info@fisheri.com) USA: +1-203-854-5390*

## Italy's Operating Towel and Tissue Mills



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Source: FisherSolve™





# Economic woes lead to a polarised Italian tissue market

Italy's economy stands out in Europe for all the wrong reasons. An on-going recession, high public debt and corruption mean that over the past decade the country has been the slowest growing economy in the Eurozone. All in all, this is not a market in which it is easy for a commodity product such as tissue to thrive.

It is perhaps unsurprising then that retail tissue saw a decline of 0.7% in value terms in 2013, taking the category to €1.56 billion. With an economy in the doldrums and unemployment high and likely to remain so, it is to be expected that consumers will trade down in tissue – and, for the most part, trade down they have done.

## Private label gains at the expense of brands

While a great number of consumers were seeking out value for money, manufacturers were forced to raise prices during 2013 because of higher raw material costs and VAT rising to 22% – all adding to the pressure cooker atmosphere in the category. While brand manufacturers kept price increases as low as possible, the small rise in average unit price coupled with the country's wider economic circumstances created an ideal scenario for private label to thrive.

Private label is steadily gaining ground across all retail tissue products in Italy as the on-going economic crisis has forced more and more consumers to seek out value for money. Private label now accounts for 37% of total value sales in retail tissue, up from 30% in just five years at the expense of many brands, both multinational and local alike. While the economic circumstances in the country have been the catalyst for private label gains, manufacturers have been quick to capitalise on what has been a prolonged period of opportunity, closing the performance gap on brands and developing their offering by quickly launching copycat products at a cheaper price point.

## Brands find pockets of opportunity

Brand manufacturers have of course continued to fight for share. Smaller packaging sizes have been evident so as to offer consumers a more affordable unit price. In a similar vein, kitchen towels with more tear perforations, thus making the product last longer, have also arrived on shelves. While innovations with budgeting in mind are sensible given the climate, brand manufacturers have, however, also managed to create small corners of the market in which premium products have thrived.

Toilet paper, the largest category in retail tissue in Italy at €665 million, registered a volume decline of 1.4% in 2013 but an increase of 0.3% in value terms – no mean feat given the economic circumstances. Brand manufacturers managed to drive up unit prices with the launch of premium, luxurious and added-value toilet paper. Kimberly-Clark launched

Scottex Karité, a new version of Scottex with Karité butter for extra softness, and Scottex Originale, an FSC-certified product made from 100% cellulose pulp and without chemical whitening products. Georgia-Pacific, meanwhile, launched its Tenderly Aqua Tube toilet paper which features a tube that can be flushed, recycled or composted.



*Euromonitor International's  
global head of tissue and  
hygiene research*

Tissue, meanwhile, was the fastest growing category in Italy in 2013 in value terms, growing by 1.6%. Branded players in boxed facial tissues drove this growth, albeit from a low base. Tissues were successfully positioned as something to enhance home décor, with new patterned boxes regularly appearing on shelves and driving repeat purchases. SCA was particularly active in the category, launching a complete line of boxed facial tissues in 2013. Local player Industrie Cartarie Tronchetti, meanwhile, launched three new products under the Foxy brand.

The growth in both toilet paper and tissue, although not much to write home about at first glance, illustrates that even in extremely challenging economic circumstances consumers can be persuaded to pay more for retail tissue products if the offering is right. While brands have not made huge strides in gaining share as a result of these innovations, they have managed to retain share in the face of intense competition and for this they must be applauded. With no real economic recovery on the horizon and private label continuing to pile on the pressure, any significant growth in the category in the near future is unlikely, but even with little reward to be had, it is vital that product upgrades such as these continue if branded products are to retain sales in the face of this growing pressure.

***'While a great number of consumers were seeking out value for money, manufacturers were forced to raise prices during 2013 because of higher raw material costs and VAT.'***

***'The growth in toilet paper and tissue.. illustrates that even in extremely challenging economic circumstances consumers can be persuaded to pay more for retail tissue products if the offering is right.'***

### ***Pockets of opportunity create a polarised market***

**N**o doubt to the great relief of brand manufacturers, these pockets of premium opportunity will remain. However, this will create polarisation that is likely to define Italy's retail tissue market for the years to come, growing particularly evident in toilet paper.

On the one hand, higher income consumers will be attracted to luxury or recycled toilet paper and will be willing to pay more for the benefits it offers, while on the other a great number of sales at the economy end of the price spectrum will be driven purely by the intention of saving money. With the right product offering competitors at both ends of the price spectrum will be in a position to survive if not thrive. However, the fate of those in the middle will be increasingly precarious - Italy's comparatively large number of domestic retail tissue producers in particular may find the pressure mounts in the months ahead.

Much of the innovation seen at the premium end of retail tissue in 2013 revolved around enhancing product sustainability – Scottex Originale and Tenderly Aqua Tube have already been mentioned, while Coop quickly followed with its own label eco Vivi Verde range.

While green products remain a small niche in Italian tissue, the proportion of toilet paper sold in Italy that is recycled increased over the review period and the trend is gaining momentum. Certainly, now more than ever, manufacturers are keen to be seen to be doing more than simply making a profit and 2014 could well be the year when green comes to the fore and manufacturers really start to shout about any social responsibility initiatives and eco-friendly products.

While it cannot be disputed that environmentally-friendly products are a hard sell during economic downturns, the environmental fallibility associated with tissue products is only going to gain momentum. In the long run, it is manufacturers with a sound sustainability strategy in place which may well hold the upper hand.

## **Euromonitor Italy in numbers:**

**Decline in retail  
tissue value terms  
in 2013**

**0.7%**

**Private label total  
value sales in retail  
tissue**

**37%**

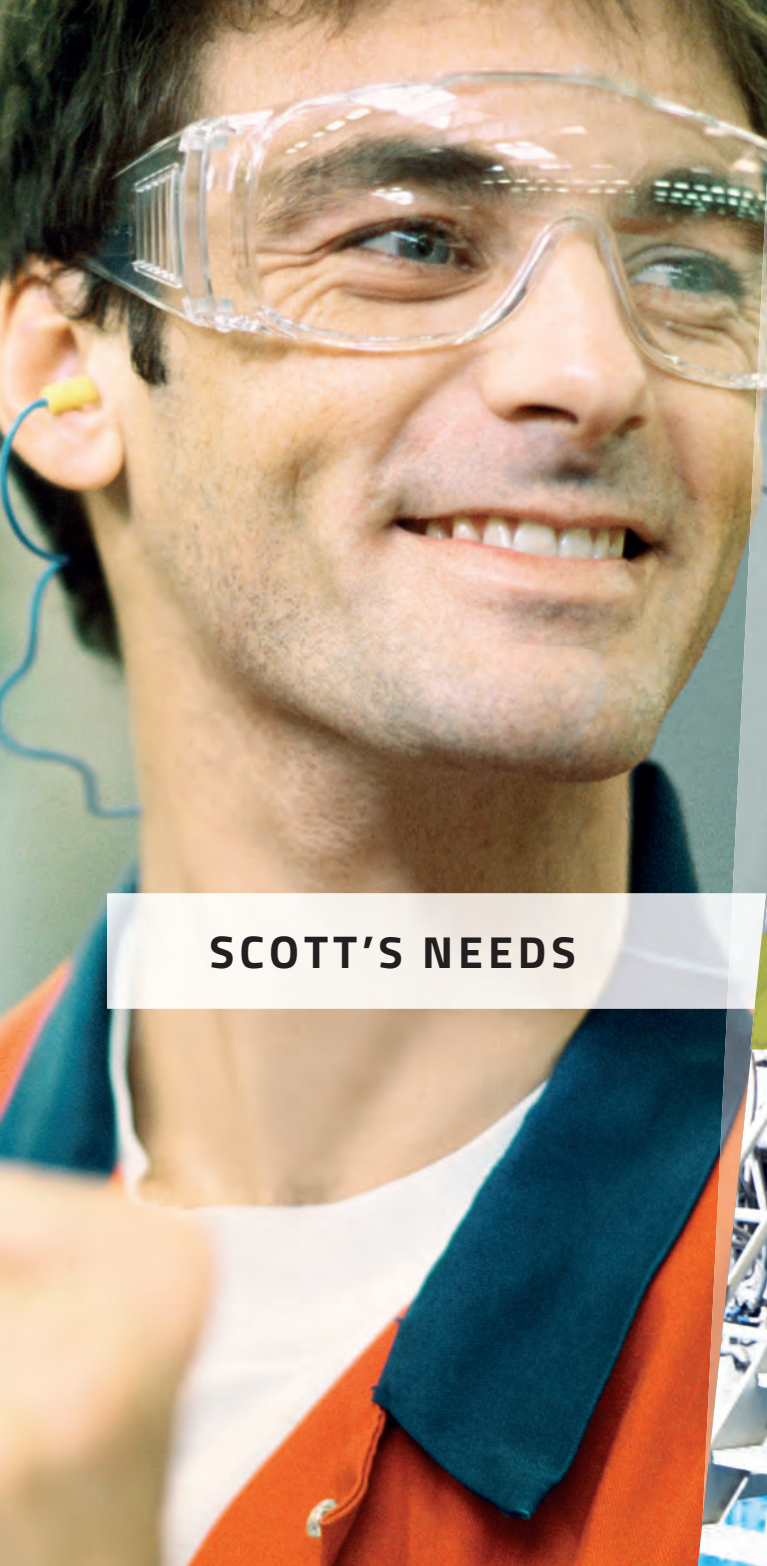
**Private label total  
value sales in retail  
tissue**

**€665m**

**Growth in tissue in  
2013, the fastest  
growing category  
in value terms**

**1.6%**





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## The European heavyweight flexes its muscles

**Sofidel chief Luigi Lazzareschi reflects on how changing times in Europe offer the Italian pioneer even more opportunities for balanced expansion across the globe.**

"We still have a lot to say in Europe," Sofidel chief executive Luigi Lazzareschi

**L**uigi Lazzareschi greets TWM at his office at the Delicarta tissue mill in Lucca, Italy. The view is impressive, and takes in a substantial section of the plant ... its vast stretch of photovoltaic solar panels, as well as the region's beautiful rolling hills. And of course, this being Lucca, the view also includes the mills of two of Sofidel's fiercest competitors - a reminder, in case one were needed, of the constant battle facing the tissue giant.

Family-owned Sofidel Group needs little introduction: it is a heavyweight in Europe, and as the first Italian tissue maker to make the bold move into the American market its presence is increasingly being felt all over the world.

Throughout the interview, chief executive Lazzareschi is thoughtful and sincere, his concentration only occasionally and briefly interrupted by his mobile phone's very funky and fun ring tones. We start by discussing Europe, and crucially, Sofidel's role in it. With all the M&A activity over the past few years, the European market has been in a state of flux: Georgia-Pacific's exit from the market at the end of 2011 meant competitors have been picking up mills in new markets as well as expanding into new countries entirely.

Sofidel has been a main driver of the change: it finalised its acquisition of the former Georgia-Pacific businesses from SCA on 1 April 2013. This included the purchase of well-known consumer brands in the UK, and brands and locations in the Republic of Ireland, Belgium, The Netherlands and Luxembourg.

"The moves by Georgia-Pacific, SCA in Italy, Procter & Gamble ... this has concentrated the market significantly, especially in branded products and especially in France," Lazzareschi says. "But for the AfH market across Europe, the changes have helped Sofidel. We have acquired important brands in Europe and we now have key brands in Belgium and Holland. We have also increased our market share here in Italy and our productivity abroad." Is Sofidel still as committed to the



European tissue market in spite of its recent move into America? "We still have a lot to say in Europe," he says. "We have a lot we want to grow and there are several plants we want to enlarge in the UK, Poland, Germany and Spain. It's easy for us to boost capacity there and it will be cost effective and double our capacity." As for whether Europe needs further M&A activity, he says that while some companies would still be of interest, generally they are now not of interest to the major players. As yet, he adds that tissue mills across the region aren't feeling any presence of companies from Asia looking to come into the local markets.

### Italy a bellwether for Europe?

Sofidel has made a number of investments in Italy over the years including investing in the Metso Paper-supplied PM3 at Delicarta in 1994. It increased production capacity in 1997 with a new machine at Fine Paper (today Soffass paper mill);

in 2000 it acquired Fibrocellulosa (now Delicarta Val Fegana); in 2002 it took over Cartiera di Monfalcone (today Delicarta Monfalcone), and in 2003 it acquired Imbalpaper (now Delicarta Valdottavo). "Capacity in Italy isn't increasing much," Lazzareschi says. "There is endemic overcapacity and it is a little restrictive in the regional market." He adds that there have been a couple of small openings and some closures, but in Italy higher and lower isn't necessarily representative of the situation.

In 2013, retail tissue in Italy saw a decline of 0.7% in value terms, a stark reflection of the country's and the wider region's economic pressures. Italy's economic struggles continue to stand out amongst Europe - over the past decade it has been the slowest growing economy in the Eurozone - and its trends and the decisions its tissue players are taking act as a bellwether for the wider European tissue business.

The economic downturn is piling on the pressure for the local tissue market. Conditions have been a catalyst for



Sofidel has repositioned itself to adapt to ever changing market trends: staff at the Delicarta site

private label to gain ground and in Italy this sector now has 37% of the total value sales in retail tissue, up from 30% five years ago. This is at the expense of brands as more consumers seek out value for money. Last year however, tissue was the fastest growing category in value terms, up by 1.6%, and so interestingly, proves that even in incredibly tough economic times growth in toilet paper and tissue is still possible, and consumers can be persuaded to pay more for retail tissue products if the offering is right.

"We have seen a shift in the consumer market across Europe generally, but definitely in Italy," Lazzareschi says. "There are many more cheaper products available now. There has been a substantial strengthening in private label during the recession and over the past few years tissue products have become more of a commodity."

He adds that the Italian AfH market has also "definitely been affected more than the consumer market". "The public sector has significantly decreased the amount of products being bought. Firstly it's changed the type of tissue bought, and then also the quality. We have also seen a decrease in the catering sector and tourist sector in Italy."

Across Europe, Sofidel has repositioned itself to adapt to ever changing market trends. The company's growth has been high from the late 1990s as it has been increasingly expanding and acquiring abroad. Private label is "not especially well developed in many countries" as it is, for instance, in Germany, a market dominated by private label (78% of the market place in 2013).

"We are quite strong in some countries but our market share isn't well spread across

all of Europe," he adds. "We are already quite diversified with our products in the AfH sector, but it has to be improved. We will strengthen our presence in the market in which we're not as strong. For example, we have a new factory for AfH in France, an area where we definitely want to expand."

## Sustainability gaining momentum in Italy

While much of the innovation at the premium end of retail tissue revolves around enhancing product sustainability, green products remain a small niche in Italian tissue. It is mostly a virgin paper market but increasingly there are opportunities for recycled tissue.

This is another area where Sofidel is leading the pack and breaking away from

Production of Sofidel's Regina brand of products





## ***Photovoltaic solar panels at Sofidel's Delicarta site***

The Group currently has 70,000m<sup>2</sup> of photovoltaic panels in Italy, with an estimated annual production of 3,975,000 kWh.



the mold. Despite green products being a particularly hard sell during downturns, a large part of its market strategy around the world is sustainability. Lazzareschi's strategy shows he is doing it for the long run – so far, the company has invested €25 million to achieve a 26% reduction in carbon dioxide emissions by 2020. "We are differentiating our group with sustainability, this is an instrument that we are pushing a lot," he says. "We are looking to grow profitably but also in a socially responsible way. The environment and sustainability is a successful factor for us and one of our key growth drivers."

This has included a € 7.6 million investment to install three photovoltaic arrays at Delicarta mill and the Soffass converting plant both located in Porcari, and at the Delicarta converting plant located in Tassignano, with an overall annual production estimated at 3,975,000 kWh.

## US market is primed for new investment

At Tissue World Americas in March, Lazzareschi hinted to TWM that there would be more action from the company in the American market place in the near future. The company has no plans to rest on its laurels: it has reiterated it

wants to be an important player in the US market. Following the acquisition of Cellynne and its three production plants on 31 August 2012, Sofidel America now represents 8.14% of Sofidel's total market presence and has boosted overall production capacity to 1,000,000mt/yr.

With the acquisition, the European tissue giant now has access both to a new continent and the challenging US market. Lazzareschi tells TWM: "At the moment, our US market share is very low with just the three sites. We will focus our growth there as there are big opportunities." The European market is "much more competitive" compared to the USA, he adds, but says there are many investments that should be done by US producers. "Technology-wise, the US is much behind and that means there's an opportunity there for us. This will come from new products and the growth in AfH and consumer markets. AfH represents a large part of our shares there, it's our natural market and we have invested recently with two new machines in Orlando. But at the same time, to be more balanced, we have to invest in consumer private label products in order to be better balanced and to have more opportunities and minimise risk."

"We can't imagine the same growth here in Europe in the next few years," he

concludes. "Our growth here in Europe will be single digit growth. The USA however is the most important tissue market in the world in terms of per capita consumption. It's a market full of opportunities."

### Factfile: Sofidel Group

**Founder:** Giuseppe Lazzareschi and Emi Stefani

**Established:** 1966

**Global presence:** 13 countries (Italy, Spain, Sweden, UK, Belgium, France, Croatia, Germany, Poland, Romania, Greece, Turkey and USA)

**Sites:** 32

**Sectors:** AfH, private label, consumer

**Products:** Toilet paper, kitchen paper, paper napkins, paper handkerchiefs, facial tissues, medical paper, folded paper towels, jumbo-size toilet rolls

**Brands:** Regina, Softis, Le Trèfle, Sopalin, Inverso, Nouvelle Soft, Thirst Pockets, KittenSoft, Yumy, Soft & Easy, Volare, Onda, Papernet, Heavenly, Choice, Heavenly Soft, Confidence

Production at the Delicarta tissue mill in Lucca, Italy





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## WEPA Lucca is now “fit for the future”

**After two years of substantial restructuring, the WEPA Group has never lost its faith and drive in the Italian tissue market. Italian managing director Bernhard Gross tells TWM why now more than ever the company is securing its foothold in Italy.**

**“W**e have had substantial restructuring programmes taking place over the past two years,” WEPA Lucca managing director Bernhard Gross tells TWM when we meet at the Capannori-based site in Lucca. “It was a necessary and natural process to align the installed capacity and human resources to the requirements of the market. We restructured in a healthy balance and that was our main goal. And I’m happy to say that this process is now complete.”

German-born Gross is just six months into the job after having successfully managed a turnaround of another Italian business during the last seven years. He is sincere about the restructuring processes that have taken place within WEPA Lucca – which have included the sale of two of its four Italian tissue mills – as well as the reasons behind the cuts: “We have now tailored our resources to also manage a flat market successfully,” he says. “And we divested PM capacity in order to achieve a healthy balance with our own converting requirements.”

The company’s paper mill in Porcari, Lucca



The German-headquartered WEPA Group has a strong foothold across much of Europe (Poland, France, Germany, the UK and Spain) and finally two plants in Italy – one in Lucca and one in Cassino, which house a total of three PMs. In Cassino, a lot of investment has been made in terms of energy efficiencies, mostly with Toscotec, which Gross says has further increased the site’s competitiveness.

The family business was founded in 1948 near Düsseldorf by Paul Kregel, an entrepreneur who saw an opportunity in the market after the second world war and the business is now number four in Europe.

In 2009, it acquired the Lucca based Kartogroup, which Gross describes as “a very important step” in the development of WEPA. Today, the group has 3,000 staff and a €1 billion turnover and an “excellent footprint of manufacturing sites all around Europe”.

In Italy, it is the supplier for the Italian market under the umbrella of the WEPA Group. What sets it apart from other Italian



Helen Morris

Editor,  
Tissue World Magazine

companies is that it is a dominant player in the private label sector, says Gross. “This area is seeing good growth across Italy and it holds a lot of opportunity for us. WEPA is an expert in private label outside of Italy and this means we can build on that in our local business.”

The company equally continues to focus and innovate on its branded products. It has three brands, Perla, Comprami and Scala and continues to develop its brands

The Italian footprint of the two plants is strategically important for the business





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## Operations Report



by Helen Morris

in the country. "Italy is famous for its brands," he says.

"Despite the economic difficulties in Italy over the last few years our brand products have done well here.

"One in particular, Comprami, is a value offer product that hit the market at exactly the right time. It's highly appreciated by consumers here and it has a lot of potential for developments."

With the economic uncertainty, Gross says consumers are more conscious about their buying habits but adds they are not necessarily trading down, just that they're spending what they can afford. "Tissue is a commodity," Gross adds. "Innovation will help us in branded products to differentiate from the competition. In private label, cost leadership is key and therefore productivity in our factories is crucial."

He is keen to emphasise that 2014 is a new start for WEPA Lucca. But he is cautious to say that growth is expected in the Italian tissue market. "It would go too far to say if we expect growth or not," he says. "So it's important the business is prepared either way, for small growth or for a saturated flat market."

What he is determined about is the potential for Italy and the WEPA Group's presence there. He says the Italian footprint of the two plants is strategically important for the business, which isn't questioning the importance of the two sites.

"I don't want to join in the negative comments about Italy and its economy," he says.

"I believe in Italy. We are prepared for it and happy to be here." He adds the company will do whatever it can to support positive demand and that he is optimistic that Italy will come out of the crisis.

"We don't share the cynicism. We represent a German family investing here and that's commitment for the future. We have done our homework and we feel fit for the future."

## The best loos\* yet!

**Sharmaine Collins works in project management at London's Tate, an institution that houses the UK's national collection of British and international art. She talks to TWM about a recent trip to the USA where she was impressed with hygiene standards, especially at the Coachella music and arts festival in California.**

"As long as a product isn't too harsh on my skin I am happy to forego "luxe" over value and I am almost completely oblivious to brands – sorry, marketing just doesn't work on me."

"Being asked to talk about one's tissue consumption and buying habits is certainly a new one on me, but it did make me realise that I do buy a fair few products, probably spending about £25 a month on toilet paper, kitchen roll, tissues (boxed and pocket-sized), hand wipes and make-up removers. I am definitely led by price over brand and buy most of the above from Poundland (although there are other pound shops to choose from!) or the supermarket. As long as a product isn't too harsh on my skin, I am happy to forego "luxe" over value and I am almost completely oblivious to brands – sorry, but the marketing just doesn't work on me.

"Poundland does a great line in dual packs of facial wipes imbued with all sorts of special properties – anti-aging serums and exfoliating beads, to name but two – which don't particularly interest me but do add lovely fragrance! I am also always loathed to leave the shop without a multipack of pocket tissues – at just £1 for 12 packets, you can't go wrong.

*An innovative way to carry loo roll when at California's Coachella music festival*



"I have to say, I have a bit of OCD (obsessive-compulsive disorder) when it comes to hygiene and can't bear the thought of leaving home without tissues or hand wipes, so those are always to be found in my handbag. I love festivals too, so my supplies become ever more critical in those situations. At Coachella this year, I spotted a girl sporting a roll of loo paper jazzily attached to her belt. I applaud her foresight but actually there was no need as, amazingly, the organisers had laid on some loos with attendants that were kept clean and fully stocked – I've never encountered such excellent amenities at a festival before.

"On the same trip to the US, I noticed that all restaurant, bar, hotel and public toilets were stocked with paper seat protectors. I think these are brilliant and really wish the UK would follow suit, they make every trip to the loo outside your own home infinitely more pleasant!

"I'm afraid I'm not terribly environmentally aware and don't think especially hard about a product's sustainability credentials before making a purchase – though it is always a bonus if I spot a Recycled symbol. I do worry about the amount of waste that goes into landfill though, and if more tissue products can be produced from sustainable sources – and advertised as such in a simple, quick-to-read way – then I do think that would have some influence on my buying habits.

"The one tissue product I rarely buy is napkins – I double up and use kitchen roll instead. On the odd occasion I do buy them, for a dinner party perhaps, I favour IKEA as they stock lots of different colours, and they are perfect for complementing a table theme at very little expense."

*\*Noun for toilet. Mainly British.*





# PIX Pulp indices 13.5.2014

## NBSK pulp Europe

In Asia, the prices of softwood pulp are also now in a clear decline. In Europe, the availability of BSKP remains relatively tight and prices have been holding up relatively well.

Lars Halén

Timo Teräs



senior manager,  
FOEX Indexes



managing director,  
FOEX Indexes

The normal Q2 maintenance downtime is removing quite a few tonnes of pulp in both North America and Europe. On top of that, technical problems, most notably at the Pöls mill in Austria, also restrict the production volumes. Consequently, while the market BSKP demand was down in WE by more than 5% in Q1 – and even more in March – the supply/demand balance is pretty healthy and producer stocks were below normal at the end of March, at least.

The Euro weakened against the US dollar by 0.6%. FOEX's PIX NBSK index moved back up by 80 cents, or by 0.09%, closing at 923.93 USD/tonne. When converting this dollar-value into euro the index headed higher by 4.50 euro, or by 0.68%, and the PIX NBSK index in euro closed at 670.44 EUR/tonne.

## BHKP pulp Europe

In hardwood, shipments to the WE market were up in March year-on-year, while marginally down over the full first quarter. In Eastern Europe, volumes are small but growth good.

The risen producer stocks, coupled with the growing over-supply threat of hardwood pulp now that the badly delayed new capacity finally nears start-up in Uruguay and China has pressed the prices down in China but in Europe the impact has been limited.

The strength of the Euro helps, as does the tightness of the birch pulp volumes which has kept the prices for birch pulp in many cases above BEKP. The Euro weakened by 0.6% against the dollar from the previous week. The PIX BHKP index value in Euro moved back up by 1.85 euro, or by 0.34%, landing at

544.79 EUR/tonne. The PIX BHKP index value in dollars lost 1.84 USD, or 0.24%, and closed at 750.78 USD/tonne.

## Paper industry

The improvement of the macro-economic fundamentals in the industrialised countries, especially in North America and Western Europe, appears to slow down the structural decline of the graphic paper sector. In March, the decline in printing and writing paper consumption was clearly smaller than in the earlier months with North American demand down by only 0.4% year-on-year and WE estimated demand down by 1.5% compared to the 3-6% declines typically seen over 2013 and in January-February 2014.

According to PPPC, the global demand for printing and writing paper was actually up by 1.1% for the month of March and +0.5% over the first quarter. On the other hand, the gains in other grades, in tissue and packaging have been smaller than what could have been expected.

April data is awaited for with keen interest as there is likely to be less impact from the adverse weather conditions which impacted the numbers during the first quarter. The very preliminary news from the market is mixed. It appears that some revival may have been seen in tissue and in cartonboards. On the other hand, the so far encouraging uncoated woodfree sector shipments appear to be down in North America quite considerably – but so is the capacity – and the capacity utilisation rates are reported to have been over 95% in uncoated free sheet.

In China, demand growth is muted and capacity expansion plans are being scaled down, especially in tissue. The government has revealed plans to close down 2.7 million tonnes of old, polluting pulp and paper capacity. This is less than what was the plan of the prior years. On the other hand, the enforcement of the earlier decided but not yet carried out closures may add to the number.

## Product

Pulp NBSK USD

Pulp NBSK EUR

Pulp BHKP EUR

Pulp BHKP USD

Paper LWC

Paper Ctd WF

Paper A4 B-copy

Paper Newsprint

Kraftliner

White-top Kraftliner

Testliner 2

Testliner 3

RB-Fluting

PIX OCC 1.04 dd

PIX ONP/OMG 1.11 dd

By FOEX Indexes Ltd

PIX values, \$ or € / metric tonne

13.5.2014

PIX latest values	Change from previous week	%	Change from beg .of year	%
923,93 \$	0,80 \$	0,09	15,57 \$	1,71
670,44 €	4,50 €	0,68	4,19 €	0,63
544,79 €	1,85 €	0,34	-19,66 €	-3,48
750,78 \$	-1,84 \$	-0,24	-18,79 \$	-2,44
654,46 €	0,34 €	0,05	-6,19 €	-0,94
661,21 €	2,88 €	0,44	-6,23 €	-0,93
831,08 €	8,73 €	1,06	-6,55 €	-0,78
482,41 €	0,29 €	0,06	9,25 €	1,95
551,67 €	0,11 €	0,02	-22,63 €	-3,94
753,34 €	0,74 €	0,10	-7,60 €	-1,00
471,34 €	0,00 €	0,00	-8,42 €	-1,76
441,27 €	-4,65 €	-1,04	-18,43 €	-4,01
436,40 €	-3,80 €	-0,86	-14,50 €	-3,22
106,96 €	-1,56 €	-1,44	-6,22 €	-5,50
126,97 €	0,68 €	0,54	-2,90 €	-2,23

FOEX Indexes Ltd produces audited and trade-mark registered PIX price indices for certain pulp, paper packaging board, recovered paper and wood based bioenergy/biomass grades. The PIX price indices serve the market in a number of ways. They function as independent market reference prices, showing the price trend of the products in question. FOEX sells the right to banks and financial institutions to use the PIX indices for commercial purposes, while RISI Inc. has the exclusive re-selling rights for subscriptions to the PIX data and market information. Please enquire for subscriptions at [foexsubs@risi.com](mailto:foexsubs@risi.com).

Tissue papers are produced either from virgin fibre, recovered fibre and various mixes of both, depending on the end product. High quality hygiene tissue products like medical tissue products, facial tissues, table napkins or other such household and sanitary products are often made exclusively or almost exclusively from virgin fibre pulp, whereas the share of recovered fibre typically increases in tissue products for a variety of end uses outside personal hygiene, such as kitchen towels or towels for garages or other such industrial production facilities etc. Providing PIX pulp price indices gives the paper producer and buyer insight in

the price trends with a weekly frequency. PIX indices are used as market reference prices e.g.

- by banks or exchanges that offer price risk management services for pulp buyers and sellers
- by buyers and sellers of pulp or paper in their normal supply contracts
- companies who want to employ an independent market reference price for internal pricing (e.g. pulp mill – paper/paperboard mill, paperboard mill – box plant) through licensing the commercial use from FOEX.

In addition, FOEX's price indices are widely used in financial analysis, market research and other such needs by all kinds of parties linked directly or indirectly to forest product or wood-based bio-energy industries. This way the companies have better tools to budget their cost or income structure and profitability, and may concentrate on their core businesses with less time spent on price negotiations, which tend to increase in these days as the planning span narrows in the wake of the short, quarterly business cycles and, nowadays, in most cases, monthly raw material pricing decisions.





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## The Barometer Issue – a climate report on tissue growth

In 2013, TWM visited a number of mills from around the world - from Spain to Indonesia, Poland to Germany - for the magazine's Country Reports. Here, we revisit a selection to see what has changed.

### R&D brought successful products to the market

Spain: Gomà Camps  
December 2012/January 2013

**G**omà Camps production manager Jordi Gomà-Camps Travé says that, since TWM visited the site at the start of 2013, the substantial investments in R&D have resulted in significant innovative contributions to the tissue sector. He said: "The new concepts we are constantly launching have become successful products, for example the new hand towel concept Xtrasec, and ConforDeco XL, a much softer new industrial toilet paper."

He added: "The Xtrasec has an elegant design which is due to a double layer bonding system which is softer and more absorbent than the majority of towels on the market. It is supplied fully closed, which guarantees that the product is clean and hygienic when it comes to be used. The ConforDeco toilet tissue range continues to grow thanks to the new system used to join the two plies of decorated ConforDeco tissue. Just because it's attractive doesn't mean it can't be large. That's why our decorated rolls of ConforDeco XL reach up to 240 metres."

The company is also expanding its exports into new markets in addition to its current French and Iberian markets. "We want to extend our company's radius to areas that have growth beyond our traditional markets. In the next few years, we will also be searching for new business opportunities in other continents such as Africa."

In 2009, Gomà Camps Angola was established as a commercial subsidiary of Gomà Camps Portugal for serving the Angolan market. The company has its head office in Luanda and sells tissue products in the African market. In late January 2014, it started up the first two napkin machines and so started converting

*Gomà Camps' ConforDeco toilet tissue range continues to grow thanks to the new system used to join the two plies of decorated ConforDeco tissue*



products in Angola. The factory currently has two machines and manufactures napkins and packaging formats 33 \* 33 and 40 \* 40 in one, two and three plies.

In Spain, the main mill of the group is still investing to enhance the capacity and quality of its ECO line with

upgrades in the DIP stock preparation area. He adds: "In the last quarter of 2013, a new sludge dewatering line was successfully started reaching dryness levels of the mud consistently over 55%. This combined with other investments in the mill may enable the group to produce more recycled paper at the highest quality standard. Every day there is a greener production process, which year after year continues to minimise our carbon footprint."

Helen Morris



Editor,  
Tissue World Magazine

### SCA sets the ground for future growth in Spain

Spain: SCA Valls  
December 2012/January 2013

When TWM visited SCA's Valls plant, the company's acquisition of Georgia-Pacific's (G-P) European tissue business had just been announced. G-P's exit from the European tissue market at the end of 2011 had given SCA a significantly extra share of the Spanish market, making its total market presence almost a third.

At the time of the visit, Valls site manager Toni Mata told TWM that the Spanish AfH sector was being significantly impacted on by the economic downturn and that there was low growth generally within this sector.

At the end of 2013, SCA announced it was to reorganise its Spanish footprint in a move it said was to "secure short and long term competitiveness and set the grounds for future growth". The move meant it was to close its Carmona tissue mill in Spain with the loss of 24 jobs. Converting production was to transfer from Mediona to Allo (Navarre). The company started negotiations with the workers representatives and announced that its focus in Spain would now be on the Allo (Navarre) and Valls (Tarragona) mills. José Ramón Iracheta, SCA Spain country manager, said: "This is not a measure we have undertaken lightly; on the contrary, it follows a thorough analysis and consideration of the best possible way to secure our business continuity and future in Spain."



*SCA started negotiations with worker representatives and announced that its focus in Spain would now be at its sites in Allo, Navarre, and Valls, Tarragona (pictured)*



In June 2014, SCA announced it had started production of baby diapers in Spain, a move it said was proof of the company's commitment to its business in the country. A new baby diaper line will be started up at the Valls site, making the plant the first SCA mill in Europe to combine the production of both Personal Care and Tissue products. The line is scheduled to start production in the third quarter of 2014. Magnus Groth, president, SCA Consumer Goods Europe, said: "With this new baby diaper line SCA aims to strengthen its business in Spain setting grounds for future growth."

SCA is the world's fourth largest player in the baby diaper segment and holds the number two position in Europe. The Valls mill will produce baby diapers for the retailer Mercadona's personal care brand, Deliplus.

## Leaner and fitter in Iberian

Portugal: Fapajal  
February/March 2013

TWM met Helen Gray De Castro, the director and a shareholder of Portugal's Fapajal, at the company's site based near Lisbon in January 2013. At that time, the business's market strategy was to become even leaner and more cost effective - and put previously planned expansion plans on hold. Yet she was still adamant that the small, independent company was thinking big.

Almost a year and a half later, she tells TWM that the company has thrived during the past year and that consolidated sales and profitability have increased substantially year-on-year.

Fapajal has focused on strengthening its performance and viability for the future and invested in separate dedicated pulp preparation lines for hardwood and softwood. It has also expanded its output and sales of converted products (AfH) and invested in new converting lines and upgrading existing ones.

She told TWM: "The negative environment in Iberia since 2008 has resulted in the closure of less efficient mills in Spain and Portugal; returning these mills to profitable operation will not be particularly easy, as at least two are inherently costly to operate. Thus, we expect demand for our paper to continue to be high." Meanwhile, she added that there are a number of

lights at the end of the tunnel. "We expect to see a general uplift in prospects in Europe with low inflation and this should improve demand. In particular, the Portuguese and Spanish governments over the past few years have managed, through strong austerity measures, to regain the respect of international investors and the beginning of economic recovery, and this should improve liquidity and lower interest rates."

The company has also seen Portuguese exporters respond to the austerity measures with unexpected capacity increases which have increased competitiveness and therefore exports. "The continuing decline of the dollar reflects, at least to some extent, its lack of attraction as a reserve currency - this in turn creates competitive opportunities for companies like ours, which export within the European Community but have major dollar-based costs (pulp and energy)," she says.

The company will continue to strengthen its margins through investment in water quality and treatment as well as high tension energy input in preparation to expand its capacity.

**'We expect to see a general uplift in prospects in Europe with low inflation and this should improve demand.'** Helen Gray De Castro, Fapajal'

## APP: slowing down tissue expansion plans

Indonesia: Asia Pulp and Paper  
April/May 2013

When TWM visited Pindo Deli 2 in March 2013, one of APP's largest mills in Indonesia, the company had just announced a brand new sustainability initiative that had grabbed the world's attention. On 5 February 2013, it committed to an "immediate halt" in the clearing of all natural forest across its entire supply chain in Indonesia. Its Forest Conservation Policy included: the suspension of natural forest clearance which applies to all suppliers; protection of all forests including those on peatland; High Carbon Stock (HCS) assessments to be implemented; adoption of international best practice for rights of indigenous peoples and local communities, as well as independent monitoring by NGOs.

In 2013, APP also announced huge tissue expansion plans in China and South East Asia - it intended to build a total of 52 new tissue machines at its mills in China and Indonesia with a combined capacity of 2.784 million tpy.

Just over one year on, and APP has put the brakes on its aggressive tissue paper expansion plans for installations that were expected to take place in its Chinese and Indonesian mills after 2015. In May 2014, the company said the move was in response to the economic slowdown in China.

The plan has now been revised down significantly to 25 PMs with a total capacity of 1.236 million tpy. In Indonesia, where all the planned machines would be supplied by A Celli, APP has scaled back the expansion of its Perawang facility from 14 units to 8. It will go ahead with the erection of a large PM at the Jambi site.



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**'Just over one year on, APP has put the brakes on its aggressive tissue paper expansion plans for installations that were expected to take place in its Chinese and Indonesian mills after 2015.'**

The combination of four tissue machines within the group, with capacity of 100,000tpy, shows just how well it is positioned to take up new opportunities in the future.

**"This is a new market for us but we believe that there's huge potential for recycle grades." Sopanusa**

**Target of doubled tissue capacity a reality**

Indonesia: Sopanusa  
April/May 2013

When TWM visited integrated manufacturer Sopanusa Tissue in Surabaya, East Java, in March 2013, the company talked about its ambitious plans to double its tissue capacity.

Those plans are now very much a reality. Sopanusa is part of the SPS Group and its newly established sister business Sun Paper Source is now up and running. However, the milestone for group was the investment in a new 16 foot Steel Yankee Drier shoe press, supplied by Voith.

Sopanusa mill manager Endah Tjahjani tells TWM the group made the investment to keep up with demand for tissue products. "The local area is seeing significant growth and has the highest GDP growth in Indonesia at 6.55% in 2013," he says. The growth is dominated by trade, hotel and restaurants industries (31.33%), the manufacturing sector (26.60%) and the agriculture sector (14.91%).

He adds: "As a young and energetic company, SPS Group will continue its fast pace to be able to cope with the aggressive development needed to meet the fast global demand for tissue paper. With the accomplishment of PM 11, we believe we can serve more delicate tissue requirement such as facial tissue 11 gsm and MG paper, and our customers can have benefit of using this grade to supply the market."

PM 12 is also planned to be completed in Q4 this year. It will be equipped with a deinking facility to fill demand for recycle tissues. He added: "This is a new market for us but we believe that there's huge potential for recycle grades."

The combination of four tissue machines within the group, with capacity of 100,000tpy, shows just how well it is positioned to take up new opportunities in the future.

**Lamix: a bellwether for the region's tissue market**

Poland: Lamix  
July/August 2013

When TWM met Lamix, the Witnica, Poland-based tissue manufacturer, it was in the middle of a successive investment programme that was considerably strengthening its position in the hygiene market.

The company was a bellwether for the region's tissue industry: young, growth-hungry and well established to take advantage of the opportunities coming from Poland's emerging middle classes. Owner Miroslaw Laszko said the local market was requiring products that had a better appearance with better quality, and Lamix was setting itself up for that. Recent investments had included the modernisation of the plant with a new headbox and press rebuild.

Lamix now produces tissue paper as well as high quality crepe paper to produce hygienic paper for professional use and is increasingly selling a lot of products into western Europe. Laszko said the company's export market is growing "very fast" and it now sells into 20 countries and this revenue makes up over 50% of its turnover.

*"We will continue our fast pace to cope with the aggressive development needed to meet the fast global demand for tissue paper." Sopanusa mill manager Endah Tjahjani*



He added the company is now in the process of modernising its paper machine and has also completed its project for a new line designed for folded towels. The line will boost its production capacity of two and three ply laminated AfH rolls. It is also commencing a project connected with the construction of new paper machine.

**"The discussion of energy supply and price is a crucial topic for our local and environmentally sound tissue operations." Christoph Zeiler, Metsä Tissue's senior vice president, tissue, western Europe**

## Taking advantage of an upturn in the economy

Poland: Hanke Tissue  
July/August 2013

In 2013, the Polish economy had slowed but not entered into a deep recession and the country's tissue makers were poised to take full advantage of new opportunities.

Leading napkin producer Hanke Tissue was in the middle of a substantial investment programme in June, and TWM's visit to the Kostrzyn-based site includes a tour around the newly built empty facilities that would soon house the new PM.

In April 2014, the company started up its new Recard-supplied tissue machine in Poland – a move that will see it double its tissue

capacity and boosts its output from 14,000tpy to 32,000tpy.

## A challenging German market leads to product innovation and improved energy efficiencies

Germany: Metsä Tissue  
Nov/Dec 2013

Providing a point of difference in a competitive marketplace – especially where private label holds 78% of tissue sales (as of 2012) – is vital. Since TWM's visit to Metsä Tissue's Raubach site in Germany at the end of last year, the company has continued to push hard on innovation and stay on its toes.

Christoph Zeiler, the company's senior vice president, tissue, western Europe, tells TWM that the past few months have been a key time for the company to further develop technological improvements for softer tissue qualities, which specifically for the Raubach mill has included developing quality of its handkerchief product range. He says: "The discussion of energy supply and price is a crucial topic for our local and environmentally sound tissue operations. The German Energy Tax legislation (EEG) has just been reviewed and the result will secure the competitiveness of the German paper industry and will even mean that costs will rise."

In the AfH market, product development has been key and the business has launched the Katrin Easy Pick (pictured). The rebuild of Raubach TM1 in November has also resulted in the "expected improvements related to energy efficiency and quality."

*In the AfH market, Metsä Tissue has broadened its product range with the launch of Katrin Easy Pick*





# Carbon benchmarking for tissue manufacturing

Globally, tissue and towel production emits more carbon per tonne of paper than any other paper grade. For a product so close to the end-consumer, the carbon footprint of the category and of individual producers is a potentially serious issue. Fisher International's senior consultant Subhash Deodhar talks to TW about how tissue mills can reduce their footprint.

It is becoming increasingly important for owners and their stakeholders to understand the relative position of each of their assets compared to their peers."

The carbon issue has the potential to alter the competitive position of individual mills."

Worldwide, the paper industry is responsible for approximately 1.4% of humanity's carbon or greenhouse gas (GHG) emissions (half a billion of the world's 36 billion tonnes of carbon emitted annually). While the full impact of carbon issue for the industry may not be clear, mill owners are already accounting for the future potential of relatively expensive carbon taxes and other forms of penalty as they decide which assets to select for investment and which to close.

The possibility that consumer advocacy on the issue will increase in strength affects decisions on which products companies create, how they market them, and where and how companies invest in manufacturing plants and equipment.

It is becoming increasingly important for owners and their stakeholders to understand the relative position of each of their assets compared to their peers. Fisher International has calculated the GHG emissions of every operating mill and

machine in the world for each of the products it produces including Towel and Tissue (T&T). This data was used to profile carbon emissions in T&T manufacturing for this article.

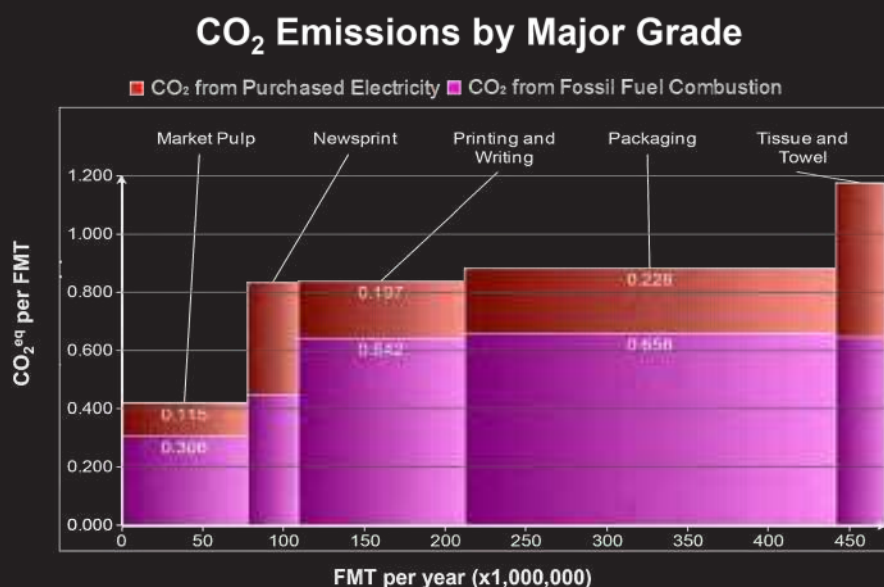
While other industries, such as cement, emit considerably more carbon than pulp and paper, the paper industry's contribution to global emissions is large enough to attract the attention of society and governments. And, to the extent that the general public and governments choose to penalise carbon emissions, pulp and paper's GHG volume is large enough to have a significant financial impact on many of the industry's players.

So far, the impact of the carbon on paper mills has been relatively small and uneven. Some mills may pay small amounts



Senior consultant,  
Fisher International

Figure 1 T&T production emits more carbon per ton of paper than any other grade



Source: FisherSolve™ © 2014 Fisher International, Inc.





# NANOCELLULOSE:

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*CNC film image, courtesy of Wadood Hamad*

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of penalties while others actually benefit from Renewable Energy Credits (RECs) they earn and are allowed to sell when they produce energy from renewable fuels. The carbon issue, however, has the potential to alter the competitive position of individual mills and paper companies. Consumers are increasingly concerned about global warming threats and inclined to prefer products that can claim to be carbon neutral. Governments throughout the world, both local and national, are considering instituting a variety of disincentives for carbon emissions. Moreover, the wide range of penalties under consideration, if instituted, could affect mills in wildly varying degrees.

The Carbon Benchmarking Database calculates the GHG emissions of every operating mill and machine in the world for each of the products it produces. It displays data on fossil fuel combustion (Scope 1), purchased electricity (Scope 2), and purchased raw materials and fuels (Scope 3). Using the rollup functionality, a user can compare the carbon footprints of machines, mills, companies, countries, regions, finished product, etc, and any combination of these variables.

Figure 1 illustrates the CO<sub>2</sub> emission intensity of T&T grades as compared to other major grades. The bar width is in proportion to the worldwide capacity of each grade. It is evident that T&T production emits more carbon per tonne of paper than any other grade. For a product so close to the end-consumer, the carbon footprint of the category and of individual T&T producers is a potentially serious issue.

Twelve countries account for 80% of worldwide T&T production. Figure 2 compares the carbon emissions of T&T paper mills in these countries. The bar width is in proportion to each country's T&T capacity. Clearly, there are very large differences in carbon emissions between countries, a potential issue in those areas where exports between countries are possible.

Electricity emission factors vary substantially by country. Figure 3 has the most recent electricity emission factor data from the IEA for the twelve largest producers for T&T grades. Coal burning power

plants (China and Indonesia) have the highest emission factors. Nuclear power plants (France) lead to very little CO<sub>2</sub> emission. Use of biomass as power plant fuel (Brazil) generates CO<sub>2</sub> but it is not counted as greenhouse gas emission since biomass is considered carbon neutral.

Tissue and towel mills can take various measures to reduce their carbon footprint:

- Energy conservation – which also leads to cost savings
- Investment in energy efficient technologies – initial capital costs but can pay off over time
- Use of natural gas instead of coal or oil – which results in about 42% reduction in CO<sub>2</sub> emission per unit of energy
- Use of biomass fuels instead of fossil fuels – no GHG emission associated with biomass fuels. Cost and availability of biomass fuels are certainly important factors. It may also require investment for equipment modifications to facilitate use of biomass fuels

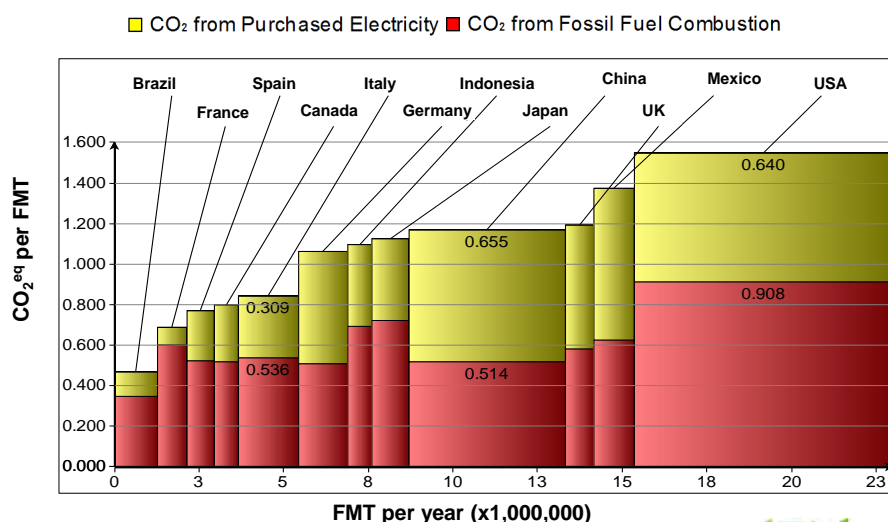
#### About FisherSolve's Carbon Benchmarking

*FisherSolve's Carbon Benchmarking module calculates carbon emissions from "cradle-to-gate" and even "cradle-to-destination" for every mill and machine in the world. It accounts for all the carbon emissions from making each finished product on each machine including carbon associated with the manufacture and transport of raw materials; the production, transport, and combustion of fuels in the mill; the purchase of electricity; and the transport of parent rolls to any of 100 destinations in the world.*

*Since the mass-energy balance engine behind FisherSolve already models all of the necessary fuels and other ingredients, the CO<sub>2</sub> emission figures in the Carbon Benchmarking module can be broken down in many ways and are entirely consistent with the cost and asset data in the rest of FisherSolve. The model allows analysis down to the paper machine-finished product level and can roll up analysis to any level above. This tool creates standardised consistency when considering policy and commercial issues. For more information, please visit [www.fisheri.com](http://www.fisheri.com) or call +1 203 854-5390.*

Figure 2: Very large differences in carbon emissions between countries

## CO<sub>2</sub> Emissions by Major T&T Producer Country



Source: FisherSolve™ © 2014 Fisher International, Inc.



## CO<sub>2</sub> OVERVIEW

### GHG terminology and definition

Greenhouse gases relevant to the paper industry are Carbon Dioxide (CO<sub>2</sub>), Methane (CH<sub>4</sub>) and Nitrous Oxide (N<sub>2</sub>O). GHG emissions are generally reported as mass of Carbon Dioxide Equivalent (CO<sub>2</sub>eq). Instead of reporting separately for methane and nitrous oxide, their equivalent CO<sub>2</sub> emission (in proportion to their impact on climate change) is calculated and added to CO<sub>2</sub> emission to obtain the total CO<sub>2</sub>eq emission. The common reporting unit is a metric tonne of CO<sub>2</sub>eq, but often stated simply as tonnes of carbon dioxide. Emission intensity (tonnes of CO<sub>2</sub> emission per tonne of production) is the term commonly used to compare different manufacturing sites or product lines.

### GHG Emissions Classification

Fisher International's Carbon Benchmarking tool displays data on Scope 1, Scope 2, and Scope 3. It also allows for combinations such as "Gate-to-Gate" (Scope 1 and 2) and "Cradle-to-Gate" (all three Scopes together). Users can analyse the carbon footprint at any level. At the very basic level, greenhouse gas emissions are classified into direct and indirect emissions. The Greenhouse Gas Protocol (GHG Protocol) defines them as follows:

Direct GHG emissions are emissions from sources that are owned or controlled by the reporting entity. Indirect GHG emissions are emissions that are a consequence of the activities of the reporting entity, but occur at sources owned or controlled by another entity. These direct and indirect emissions are further categorized into three broad scopes, based on sources of emissions:

- Scope 1: All direct GHG emissions. Combustion

of fossil fuels is the major source of direct emission. Also included in Scope 1 are onsite waste treatment and landfill facilities for emission of carbon dioxide and methane respectively. CO<sub>2</sub> emissions from combustion of fossil fuels are calculated using emission factors for individual fuels. The Intergovernmental Panel on Climate Change (IPCC) has published emission factors for most common fossil fuels used by industry. Emission factors are generally expressed as kg of CO<sub>2</sub> emission per GJ of calorific value of fuel.

- Scope 2: Indirect GHG emissions from consumption of purchased electricity, heat or steam. Emission factors for purchased electricity are generally expressed as kg of CO<sub>2</sub> emission per MWh of electricity. Emission factors vary by electricity supplier. The most common method is to use an emission factor for each country. The International Energy Agency (IEA) compiles purchased electricity emission factors by country. IEA updates the data yearly.

- Scope 3: Other indirect emissions, such as the extraction and production of purchased materials and fuels, transport-related activities in vehicles not owned or controlled by the reporting entity, electricity-related activities (e.g., T&D losses) not covered in Scope 2, outsourced activities, waste disposal, etc.

### Regulatory Incentives and Penalties

Various forms of incentives and penalties have been proposed to control and reduce GHG emissions. Penalties can be either in the form "carbon cap-and-trade" or "carbon tax." For cap-and-trade, each industrial site is allocated a permissible carbon emission for a base year and target reduction for subsequent years. The site has to buy credits if it emits more than its quota or can sell credits if it emits less than its quota. The trading occurs at carbon exchanges. The European Union's ETS operates in the 28 EU countries and covers around 45% of the EU's greenhouse gas emissions from power generation and manufacturing industries. In North America, the Chicago Climate Exchange is the largest and longest running greenhouse gas emission trading platform. China has recently opened an Environmental Exchange site for carbon trading. Carbon Trade Exchange (CTX) is promoted as a Global Electronic Carbon Credit Exchange Platform.

The carbon tax system is a direct tax collected during the sale of fossil fuels. The tax is based on tonnes of carbon dioxide that will be emitted by the fossil fuel being sold once it is burned. A few countries have had direct carbon tax in place for a few years. Examples and their approximate tax rates are Sweden (\$23/tonne), Finland (\$27/tonne) and Australia (\$23/tonne). Canada does not have a national carbon tax but Quebec (\$2/tonne) and British Columbia (\$30/tonne) have had carbon taxes in place for the past several years. In the USA, various bills have been proposed in US Congress. The most recent bill is the "Climate Protection Act of 2013". The bill proposes carbon tax starting at \$20/tonne and rising over a decade to \$33/tonne.

Figure 3: Based on IEA data, electricity emission factors vary substantially from country to country

### Electricity Emission Factors by Country



Source: IEA and FisherSolve™ © 2014 Fisher International, Inc.





# Are environmental issues a global concern in the tissue Industry?

**In the German markets catering for certain environmental attributes is a ticket to play, while in many emerging markets their importance is still low.**

**E**nvironmental issues continue to gain importance all over the world, but there are still differences with the level of interest in the various marketplaces. In Europe, especially in Germany, these issues are most forthcoming, while in emerging markets cost and profitability issues come before any sustainability or environmental concerns. When the market is mature, there is also a stronger need for differentiation based on environmental attributes compared to strongly growing markets where the demand is based on filling a basic need and penetration of usage.

The Middle East and North Africa, in relative terms, are the fastest growing tissue markets globally. In these markets, environmental and sustainability issues are today still far behind when you compare them with areas such as Europe. These issues are rising, but the markets there are not yet affected by these concerns. Energy in most countries is extremely cheap. Nobody thinks of replacing fossil fuels and only fresh water as a scarce resource has been addressed, mainly as a result of the economic impact and availability rather than as an environmental concern. In Asia the focus is also sharpening, but topics are again different and the awareness is also clearly on a lower level.

## Responsible and leading tissue companies have established high environmental standards in Europe

The leading tissue companies have sustainability issues high on their agendas. As with businesses such as SCA and Sofidel, many companies have established company-wide programmes and are very advanced in their environmental policies. These companies are also well respected and trusted by their clients and other stakeholders in this concern.

**"In tissue, the technology to drive energy efficiencies means a reduction of heat demand in production."**

Environmental stakeholders include tissue companies, environmentalists/non-governmental organisations (NGOs), retailer chains, governments, institutions and other public buyers as well as final consumers that can be corporates or individual buyers. Environmental requests are much more driven by retailers, NGO's and institutional buyers than by the final consumers.

## Third party environmental certifications and labels address often multiple environmental attributes

Third party environmental certifications and labels are various and commonly used as marketing tools and aids for the suppliers to make

the environmental performance claims credible. They are also often standard requirements set by the buyers.

Existing respected environmental certificates in tissue often address multiple environmental attributes. Eco-labels are often national or sub-regional such as Green Seal and

EgoLogo in North America, Blue Angle in Germany, Nordic Swan in Scandinavia, EU Flower in Italy, France, Portugal and Belgium, and also the WWF label can be used in developed markets making credible claims on sustainability requires looking beyond only one issue, for instance the forest certification issue. The main issues emphasised in developed markets include:

- Impacts on climate change; the role of greenhouse gas emissions from operations
- Safeguarding forest resources, origin of fibre, forest certification
- The use of fresh water resources
- Effluent quality and treatment
- Chemical usage and toxicity
- Recycling
- Sludge disposal and landfilling

In order to fight the climate change, CEPI 2050 Forest Fibre Industry (FFI) has published a Roadmap to a low-carbon bio-economy. The tissue industry is also part of the FFI and the 2050 Roadmap concerns tissue as well as other paper producers. In tissue, the technology to drive energy efficiencies means a reduction of heat demand in production i.e. a focus on drying and reduction of paper/package weights and packaging materials. In recovered fibre it means better sorting of materials, reduction of co-mingled collection where possible and also keeping the recovered fibre in Europe. On the energy side it means focus on CHP boilers using biomass. Many tissue producers increase the use of renewable energy sources, focus on improving energy efficiencies and invest in co-generation systems.

Regarding origin of fibre; preferably FSC certification, and if not labeled, at least using 'fibre from controlled sources' is a must



Pirkko Petäjä



principal at  
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in certain regions. Nothing extra is paid for this, but for private label it is a necessity in order to sell to certain retailers that are for their part pressed by the NGOs.

Low effluent levels and less fresh water usage have not only an environmental but also an economic impact.

Chemical toxicity, requirement of TCF bleaching for pulp has been a rising issue lately. It is a requirement primarily in Germany and tissue producers often combine the TCF and FSC certification requirements; the availability of such pulp can be limited.

**'The leading tissue companies have sustainability issues high on their agendas.'**

Recovered fibre is not often used, but can be a requirement of certain clients. Deinking sludge disposal has lately been an increasing environmental concern. In many places landfilling sites are not available and the utilisation of the sludge in different ways is requested. Usage as an energy source is the most common, leading to investments in incineration facilities. The flue gas scrubbing has been much discussed. As the energy

consumption for tissue mills (as half is gas) is rather small, and the amount of rejects from deinking rather high and difficult to burn, these facilities are often outsourced.

### Unbleached non-wood is rising in China

At CIDPEX 2014, the tissue paper conference only had one presentation referred directly to energy savings - no other topic referred to anything 'environmental'. However, the globally-based responsible tissue machine manufacturers' presentations included a high environmental awareness and standards evolved to their machine designs based on requirements elsewhere.

In the Disposable Hygiene Products conference, environment was not focused either. Wet wipes are rising and have a more central role in Asia than for instance in Europe. A couple of the presentations referred to flushability of wet wipes which is more a problem of plugging the sewer networks than an issue of impacting the environment.

Natural fibres, which flushable products usually contain, are a more sustainable raw material than the synthetic fibres.

The most forthcoming environmental issue seemed to be the origin of fibre. In China, a 'natural' choice is used to promote non-wood products instead of the local wood.

*An example of Chinese unbleached non-wood tissue products*



## Technical Theme **T** Environment

by Pirkko Petäjä

Products manufactured especially from 100% wheat straw and 100% bamboo were promoted quite strongly. The emphasis is that non-wood pulp is not bleached to appear more 'natural', and it also reduces the environmental impact in the production.

**'The existing respected environmental certificates in tissue often address multiple environmental attributes.'**

Bamboo in particular is a relatively high quality fibre with good absorbency properties and strength due to the rather long fibres. Kimberly-Clark, which is striving to develop globally the use of bamboo, has made efforts to develop bamboo plantations near the use and it is also addressing the challenges of processing. The environmental issue – especially with the Chinese non-wood pulps – is that the mills are too small to make chemical recovery systems financially feasible. In addition, the technical challenges with Silica, especially with high contents of it in rice straw, make recovery difficult or impossible. With many of the smallest mills, sustainability or environmental friendliness are the last words to connect with production. However, with the increasing size of mills and increasing fulfillment of environmental requirements, processing is becoming more and more environmental.

Stopping the bleaching contributes very much to the effluent quality - if recovery of cooking liquids and water treatment is taken care of, the unbleached non-wood products are truly 'green' and environmental.

The Chinese have aspirations to export these products out of China due to the increasing local overcapacity.

### Summary

Environmental issues are becoming increasingly important for tissue businesses globally. In certain markets, for instance Germany, compliance with environmental regulations and a spotless 'green' reputation are tickets to play while in the emerging markets the significance of these issues is still considerably less.

Local issues are often the most interesting; in the Middle East, the use of relatively cheap energy is less interesting than the use of the scarce fresh water resources.

**'The Chinese have aspirations to export these products out of China due to the increasing local overcapacity.'**

Third party environmental certifications and labels are commonly used as marketing tools and aids for the suppliers to make the environmental performance claims credible. In some regions these are often standard requirements set by the buyers.

The existing respected environmental certificates in tissue often address multiple environmental attributes.



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Important environmental issues in developed markets include; climate change and GHGs, forest certification, use of fresh water resources, effluent quality, chemical usage and toxicity, sludge disposal and landfilling.

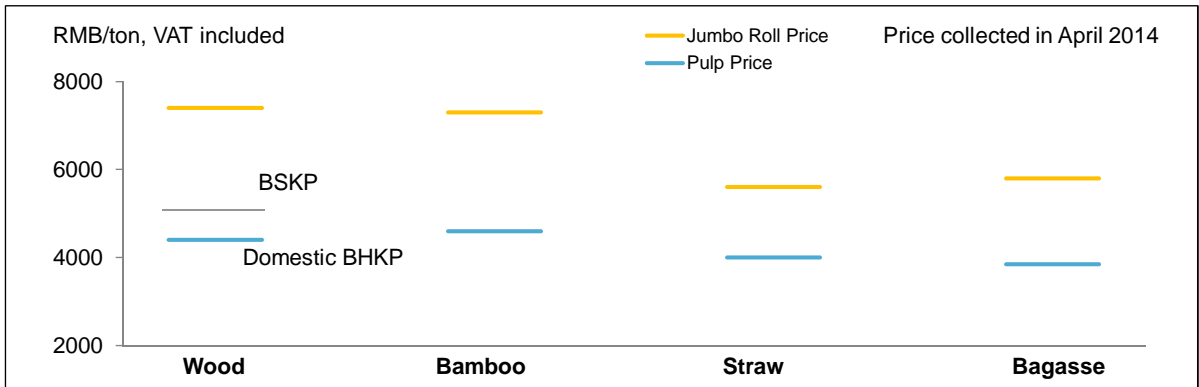
In China, environmental awareness is still in an emerging phase. Most visible seems to be the marketing of local

unbleached non-wood products.

By improving the technology and reaching economically viable size of the plants, the unbleached bamboo and wheat straw products produced in mills with sufficient chemical recovery can be called truly 'natural' and sustainable.

NON-WOOD FIBRE FOR TISSUE IN CHINA

Cost and potential margin



Non-wood pulps tend to have a price lower than wood pulp. The exception is bamboo pulp, which sometimes has price close to or even higher than domestic hardwood pulp

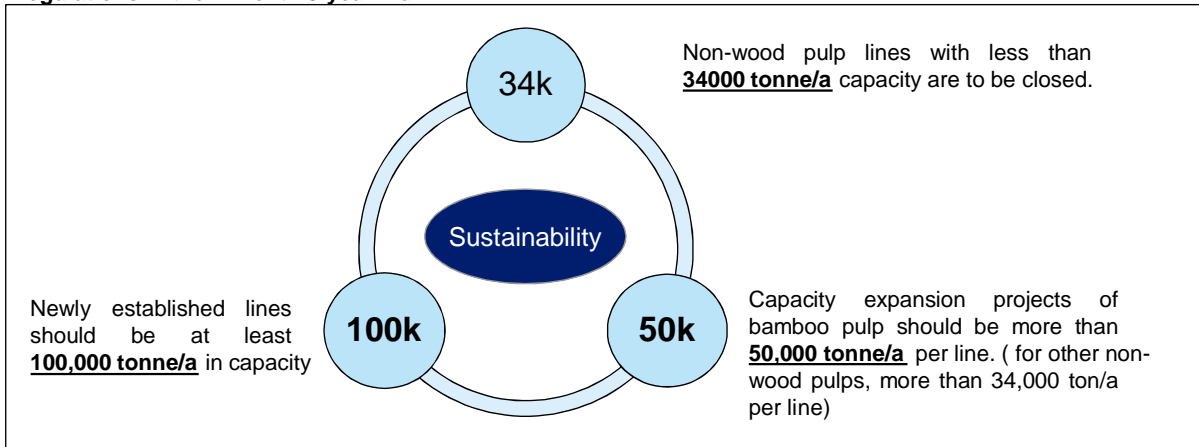


The Jumbo Reel price and the pulp price are very much in line. Bamboo could be used as part of the furnish with no impact on product price.



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# The power of Private Brands

Private Brand sales are increasing globally, with a rise of 24% between 2007 and 2012. In fact, the global Private Brand business is estimated at \$352bn. European consumers strongly believe Private Brands are of equal or greater value than National Brands, and, as a result, increased their spending by 15% in the last year alone. In the US, Private Brands have steadily

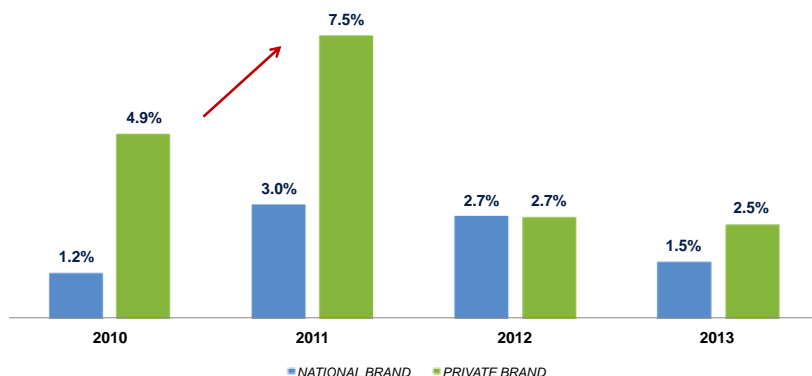
Innovation is at the heart of the matter, as retailers learned to leverage Private Brands as a means to both differentiate from competitors, and most importantly, meaningfully engage with core consumers. Thanks to this retailer investment of both time and resources, Private Brands have evolved into multiple tier offerings with state-of-the-art packaging that are widely available today.



Kit Vale  
global director,  
Daymon Worldwide

## National Brand vs. Private Brand Dollar Growth (2010 – 2013)

Source: Nielsen/PLMA, PLMA International Private Label Yearbook 2013 and prior years



increased their share from 11.5% to 19.5% in the past 24 years. In fact, some specialty grocers have Private Brand penetration of up to 80%.

## Private Brands outpace national brands

Private Brands have outperformed National Brands in dollar growth since 2010 with a significant spike in 2011. As a result, National Brands developed defensive strategies to combat the erosion caused by growing Private Brand popularity.

## Private Brand evolution

Over the years, US Private Brands have evolved from the discounted, poor quality, black and white packaged products of the early eighties to the “as good as” or “better than” National Brand products available today.

This evolution was only possible because of retailer commitment to taking ownership of their Private Brand programmes, starting in the early nineties, and improving their quality and packaging before offering them under their banner name.

Private Brand products must offer something that speaks to the consumers’ particular lifestyles, values and needs. For example, consumers embracing a healthier lifestyle are looking for household paper products to satisfy

needs ranging from anti-viral and anti-bacterial properties to sensitive skin issues. Retailers who offer Private Brand paper products with these value-added benefits are adding a new dimension to the category that drives shopper loyalty. In 2013, Consumer Reports rated Private Brand Bath Tissue Brands in seven out of the top 15 spots. They tested against six measures, including Softness, Strength, Plies, Tearing Ease, Disintegration and Sheets per Roll.

## Switching and sticking

As indicated by the steady growth of Private Brand bath tissue, consumers are moving from National to Private Brands. On average, consumers save

22% on their chosen Private Brand solutions than National Brand products. However, we’ve found that choosing Private Brands has as much to do with preference as saving money.

For instance, 88% of US consumers today find Private Brands to be as good as National Brands. Looking back at the beginning of the 2008 recession, consumers were buying Private Brands to cut costs. By 2013, however, 72% of consumers were buying Private Brands out of preference rather than a necessity.

## 2013 Consumer Reports: Bath Tissue Performance

RANK	PRODUCT	OVERALL SCORE
1	White Cloud, 3-ply Ultra Soft & Thick (Walmart)	88
2	Charmin Ultra Strong	71
3	Quilted Northern Ultra Plush	70
4	Up & Up (Target)	68
5	Great Value Ultra Strong (Walmart)	68
6	Charmin Ultra Soft	65
7	Nice Premium Ultra (Walgreens)	65
8	Cottonelle Ultra Comfort Care	64
9	Scott Naturals	54
10	Scott Extra Soft	53
11	Charmin Basic	52
12	White Cloud, 2-ply Comfort (Walmart)	51
13	Kirkland Signature (Costco)	51
14	Quilted Northern, Ultra Soft & Strong with Clean Stretch	49
15	Ology Soft & strong (Walgreens)	49



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There are some key factors that consumers consider before switching brands. The first is trust. Consumers must have trust in their preferred retailer and equity in the banner. This is the foundation for selecting Private Brands over National Brands.

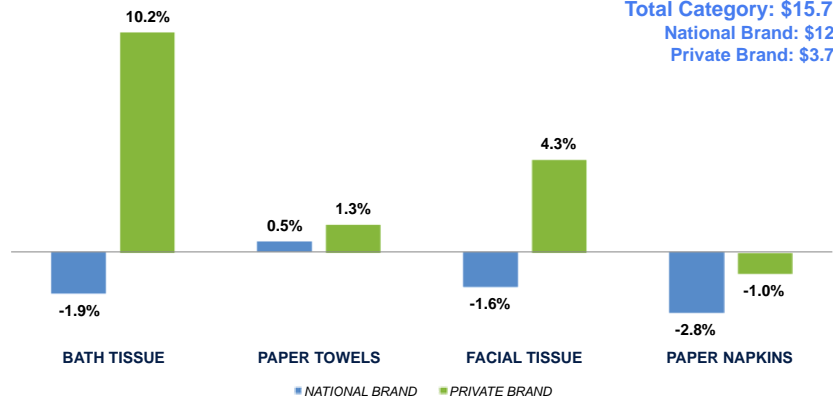
The second consideration is familiarity with the category. Is it a category they buy regularly or a product within a specific category they've purchased for a long time? Do they understand and feel confident the attributes of the product?

The next consideration is the benefit versus the risk of switching. Consumers will calculate the value of the product, price and quality against the previous experience with the National Brand. Similarity to National Brand is also a key factor for convincing the consumer that the Private Brand is equivalent. One particularly persuasive tactic is to include a "Compare to 'National Brand name' right on the Private Brand label.

In addition to these key considerations, there is a hierarchy for Private Brand adoption. Some categories are easier

## Strong Growth for Private Brand Paper Across the Segments

Source: Nielsen Scanning xAOC market; 52 Weeks Ending 1/18/2014



easiest Private Brand subcategories for consumers to adopt. Bath Tissue, however, is one utilitarian product that still tends to have high National Brand loyalty because of the personal nature of its usage. All in all, these key factors are a means to build consumer confidence to not only switch to Private Brands but also stick with them.

## Household Paper Category

Household Paper (bath tissue, paper

National Brand owns three quarters of the category with \$12 Billion and Private Brand contributes \$3.7 Billion. However, Private Brand has grown 5.2% while National Brand has declined by -1.2%. The unit share is 3.5 Billion with Private Brands up slightly +0.6% and National Brand down by -2.7%.

As we drilled down and look at Household Paper subcategories, Bath Tissue has shown the greatest growth with over 10% and facial tissue is up 4.3%. The relatively new capability and proliferation of TAD largely accounts for the growth in Private Brand Bath Tissue. All of the National Brand subcategories are down with the exception of Paper Towels, which have slightly grown by 0.5%.

**'These key factors are a means to build consumer confidence to not only switch to Private Brands but also stick with them.'**

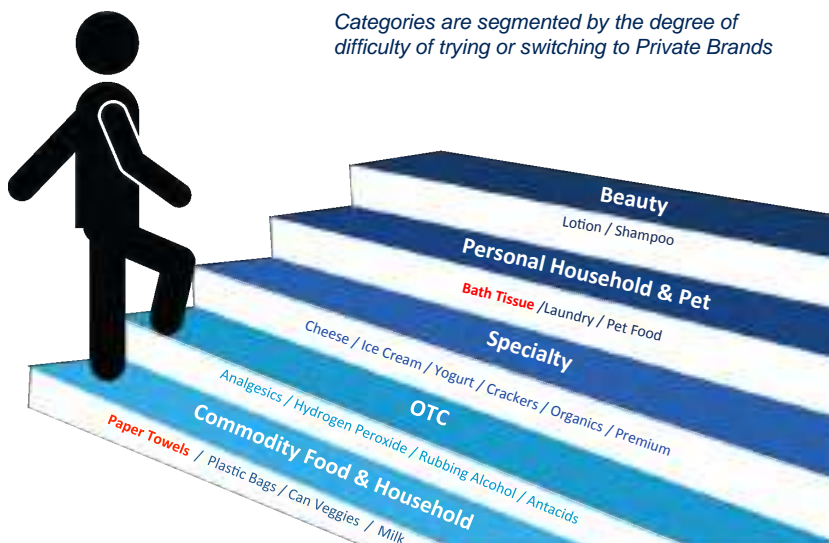
## Household Paper Consumer

Private Brand Household Penetration for Paper varies by subcategory. For example, 98% of American households purchase Bath Tissue, 41% of which purchase Private Brand Bath Tissue.

Paper Towel household penetration is 80% with 46% purchasing Private Brand. About 67% of US households purchase Facial Tissues and 31% purchase Private Brand. Napkin household penetration is 45% with 27% purchasing Private Brand.

Consumers have varying degrees of loyalty for National Brands and Private

## Private Brand Adoption Pathway



for consumers to switch to than others. Basically, the more "near and dear" the particular category, the harder it is for consumers to switch to Private Brands. For example, Personal Care products that touch the body and hair are harder categories for consumers to substitute.

Conversely, due to their utilitarian use, Paper Towels are among the

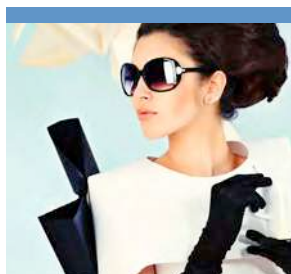
towels, napkins and facial tissue) as a whole is a significant category for Retailers because the basket grows when it is purchased. The average dollars a US household spends per shopping trip is roughly double when paper products are purchased.

The Paper category in the US is \$15.7 Billion and is up 0.3% over last year.



## National Brand vs. Private Brand Purchasing Behavior

Percentage of Households who purchased within past 12 months



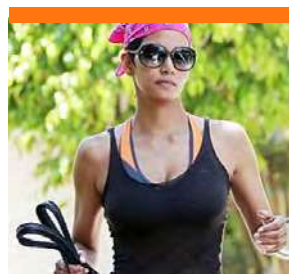
### National Brand Exclusivity

Bath Tissue:	54%
Paper Towel:	43%
Facial Tissue:	55%
Paper Napkin:	39%



### Dual-Brand Shoppers

Bath Tissue:	34%
Paper Towel:	37%
Facial Tissue:	33%
Paper Napkin:	29%



### Private Brand Exclusivity

Bath Tissue:	12%
Paper Towel:	20%
Facial Tissue:	13%
Paper Napkin:	32%

Brands with approximately one-third being dual shoppers of both National and Private Brands. As discussed, due to the personal nature of Bath and Facial Tissues, they both have 55% National Brand exclusive loyalty. In summary, Paper Napkins and Paper Towels have the highest Private Brand exclusivity with 30% and 20% respectively.

## Where are they shopping?

Shoppers are predominantly purchasing household paper in the grocery channel. However, the largest growth (9%) is seen in Mass, Club and Dollar stores. New channels, such as Do-It Yourself stores like Home Depot, Loews and Menards, are emerging to provide for household needs like Private Brand paper products. Direct-to-consumer retailers such as Amazon and Fresh Direct (available regionally in the greater New York and Philadelphia areas) are successfully offering Private Brand paper online.

**'Private Brand growth is fuelled by retailers who understand that creating and managing brands is an enormous responsibility.'**

## Paper Trends in the US

Trends in Household Paper can be bucketed under four macro consumer trends regularly monitored and analysed by Daymon Worldwide colleagues: Health & Wellness, Convenience, Value Equation and Sustainability.

Products with value-added benefits

offer a compelling Health & Wellness dimension to the category. For example, Facial Tissues offering cooling, medicated ingredients or Aloe caters to consumer's need for more sensitive, gentle tissue products. This also applies to bath tissue with Aloe and Vitamin D formulated for delicate skin.

Similarly, Cottonelle has launched a strong campaign to extend the bathroom experience to a two-step cleansing process which includes using wet wipes after bath tissue. This effort has propagated the presence of Private Brand wipes. Additionally, germ-fighting properties have been added to facial and paper towels, such as anti-viral or anti-bacterial paper hand towels in a ready-to-grab dispenser for quick, convenient bathroom use.

**Convenience** is a major consumer trend that reflects the busy lives we all navigate in an increasingly mobile society. Specially designed packaging for napkins and tissues to fit cars, whether it's between the seats, inside cup holders or on hangers for back-of-the-neck rests, these products offer much-needed clean-up options for on-the-road spills. Paper towels have also increased their strength for multi-purpose use for busy mums and families that might use them in lieu of napkins, sponges or dish cloths.

The **Value Equation** has become a big driver in consumer spending with the concept of what Value means being redefined. For example, the Club channel, which attracts consumers with bulk pack options, is growing for Household paper. Consumers view this as a value because they feel the unit price is lower, allows for pantry loading, and lengthens the

purchase cycle for these items.

As a result, many grocery chains are developing "Club Pack" sizes and destinations within their stores to combat this leakage. Select-A-Size towels also represent value to the consumer with customized sizing that produces less waste and elongated the usage time per roll. This segment with Paper towels is up 10% versus last year. Additionally, the proliferation of TAD bath and paper towels across many retailers allows a premium product to be available at a lower price.

**'Sustainability is a growing concern for retailers and consumers alike.'**

**Sustainability** is a growing concern for retailers and consumers alike. This trend extends to the paper industry through recycled pulp, as well as, alternate sources such as Bamboo, Sugar Cane or Cotton. The sourcing of the raw materials for virgin fibre also traces chain of custody and ecological forestry practices. Green-friendly consumers are looking for the certification on the packages of paper products. Manufacturing is adapting to this trend with the advent of ATMOS (Advanced Tissue Making System) which uses less energy and water to make a premium product.

Private Brand growth is fuelled by retailers who understand that creating and managing brands is an enormous responsibility. Placing one's brand on a product is much more than just filling and printing packages. It is a commitment to their consumers. The more innovative and consistent the commitment, the more it contributes towards the product being perceived as the best or equivalent to the best.

The retailers, hand in hand with the best manufacturers, can create best-in-class products that respond to consumer's expectations and needs. Retailers willing to invest in their Private Brand Programmes with resources, shelf space, commitment to innovation and merchandising support will differentiate themselves in the ever competitive marketplace.

# Events Calendar

Event	Date	Location	Website
DPC China 2014	July 30 - August 1, 2014	Guangzhou, China	<a href="http://www.papereexpo.com.cn/zzl/en/">www.papereexpo.com.cn/zzl/en/</a>
China Paper 2014 Shanghai	September 15 - 17, 2014	Shanghai, China	<a href="http://www.chinapaperexpo.cn/index.html">www.chinapaperexpo.cn/index.html</a>
Tissue World Istanbul	September 25 - 26, 2014	Istanbul, Turkey	<a href="http://www.tissueworld.com/Istanbul">www.tissueworld.com/Istanbul</a>
ISSA/INTERCLEAN Istanbul	September 25 - 27, 2014	Istanbul, Turkey	<a href="http://www.issainterclean.com/">www.issainterclean.com/</a>
MIAC	October 15 - 17, 2014	Lucca, Italy	<a href="http://www.miac.info/">www.miac.info/</a>
PAP-FOR Russia 2014	October 28 - 31, 2014	Saint Petersburg, Russia	<a href="http://www.papfor.com/en/Home/">www.papfor.com/en/Home/</a>
ISSA/INTERCLEAN North America	November 4 - 7, 2014	Orlando, USA	<a href="http://www.issainterclean.com/">www.issainterclean.com/</a>
Tissue World Asia	November 11 - 13, 2014	Shanghai, China	<a href="http://www.tissueworld.com/Shanghai">www.tissueworld.com/Shanghai</a>
ISSA/INTERCLEAN Latin America	February 25 - 27, 2015	Mexico City, Mexico	<a href="http://www.issainterclean.com/">www.issainterclean.com/</a>
Tissue World Barcelona	March 16 - 19, 2015	Barcelona, Spain	<a href="http://www.tissueworld.com/Barcelona">www.tissueworld.com/Barcelona</a>
ISSA/INTERCLEAN CEE	April 22 - 24, 2015	Warsaw, Poland	<a href="http://www.issainterclean.com/">www.issainterclean.com/</a>
Asian Paper 2015 Jakarta	April 28 - 30, 2015	Jakarta, Indonesia	<a href="http://www.asianpapershow.com/">www.asianpapershow.com/</a>
Tissue World São Paulo	May 20 - 22, 2015	São Paulo, Brazil	<a href="http://www.tissueworld.com/Saopaulo">www.tissueworld.com/Saopaulo</a>
SINCE/ANEX 2015	May 25 - 27, 2015	Shanghai, China	<a href="http://www.anex2015.com/">www.anex2015.com/</a>
Tissue World New Orleans	March 14 - 17, 2016	New Orleans, USA	<a href="http://www.tissueworld.com/Neworleans">www.tissueworld.com/Neworleans</a>
ISSA/INTERCLEAN Amsterdam	May 10 - 13, 2016	Amsterdam, Netherlands	<a href="http://www.issainterclean.com/">www.issainterclean.com/</a>
Asian Paper 2016 Bangkok	May 25 - 27, 2016	Bangkok, Thailand	<a href="http://www.asianpapershow.com/">www.asianpapershow.com/</a>





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