

PULP DIRECT

UPM PULP • CUSTOMER NEWSLETTER

The future of sustainable packaging

1/2018

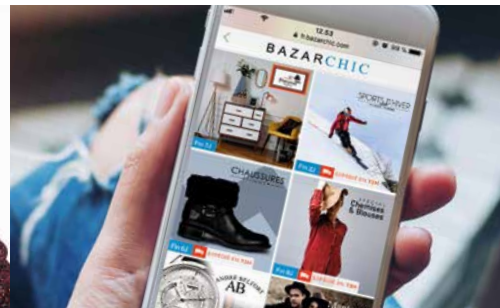
 #pulpdirect



Offering
a full
package



Packing a
punch for
sustainability



Online
commerce
goes mobile



Hedging takes
away some
price uncertainty

Offering a FULL PACKAGE

Packaging has couple of basic – yet extremely important – tasks it must succeed in. First, it protects the product inside during transport, storage and sometimes even usage. On the other hand, the visual appearance of packaging should portray what the brand stands for. The pulps used in making any packaging affect all these factors.

Every packaging paperboard has its own unique set of requirements. How much stress does the packaging need to withstand? Does your packaging have a certain look and feel? How price-sensitive is your packaging? Is your paperboard folded to make a package? Is your packaging in direct contact with food, liquid or pharmaceuticals?

These are some of the questions UPM Pulp's Technical Customer Service Managers **Niklas Keskinen** and **Roberto Mirande** ask regularly in their quest for the best refining and furnish solutions.

"In packaging paperboards you can use a variety of different fibres more diversely than you might in other end use areas. There are numerous options you might consider depending on what you want to achieve with your packaging board," Roberto says.

"And that is exactly the reason why having a wide pulp portfolio enables us to better find the optimum fibre mix for our customers. We offer a full package," Niklas continues.

THE RIGHT PULP FOR THE RIGHT LAYER

Producing packaging papers is a balancing act of finding the best combination of chemical and mechanical pulps for the different layers of board.

Mechanical pulp, such as BCTMP, is usually used in the middle layer of paperboard to give it bulk. The choice of pulps for the top and bottom layers greatly depends on what will eventually be inside the package.

"Chemically bleached hardwood gives good opacity, formation and surface properties if the board will be coated

or printed. In addition, our birch pulp UPM Betula provides good bending stiffness as well as cracking and folding resistance," Roberto says.

Softwood pulps are most often used to improve runnability in the board machine and subsequent converting operations, but sometimes the content of the package sets the bar higher.

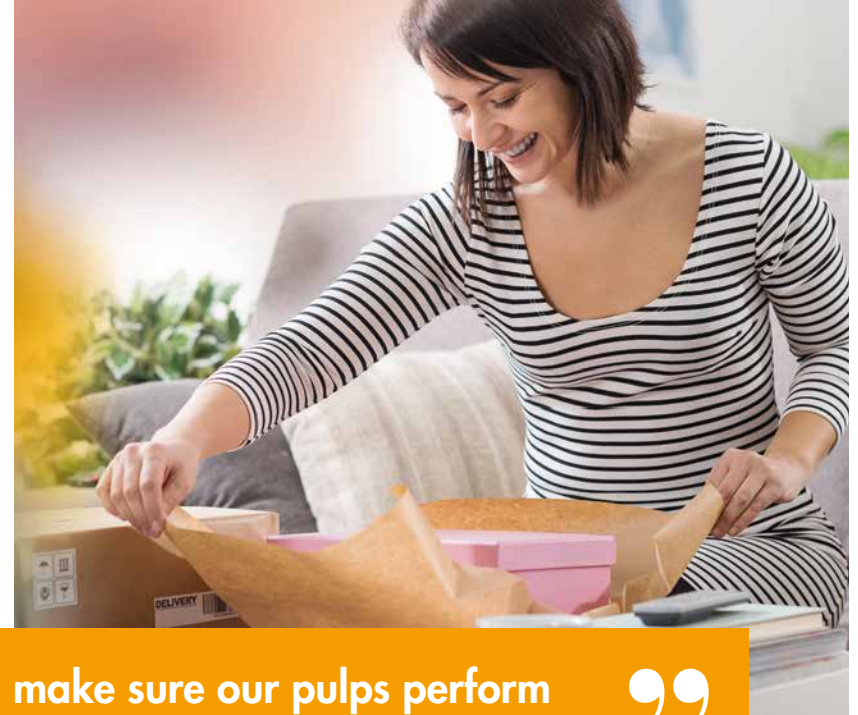
"If you are producing, for example, liquid packaging board or paper cups you must reach higher strength properties and therefore more softwood is used. In this case the greater softwood content provides

folding, tensile and burst strength," Roberto explains.

Niklas says that working with different packaging paperboard producers has been very rewarding. He welcomes the challenge and opportunity to develop customers' packaging solutions together.

"The topics we are working on are diverse from the technical point of view. We make sure our pulps perform as intended in every part of the value chain."

All UPM's pulp mills have been certified in accordance with the ISO 22000 standard. ■



We make sure our pulps perform as intended in every part of the value chain.



Niklas Keskinen, Manager, Technical Customer Service Europe, UPM Pulp



FIBREFEATURE

Photo: Christian Lärk

PACKING A PUNCH FOR

SUSTAINABILITY

The need for packaging is growing worldwide. And so is the need to have sustainable products, which is why innovative solutions and the right kind of materials factor in making eco-friendly packaging.



We live in a world that thrives on consumption. After all, people consume a lot of products every day ranging from food and drink to goods and other materials. But they do care about the environment which is why they still prefer paper over plastic. This in turn opens up a major market for fibre-based paper packaging, a product that is both reusable and comes from renewable sources.

“Fibre-based paper from the Nordics, from sustainable forestry is a favourable raw material. I see a beauty in the operational cooperation between saw mills and paper mills, using the same trees, producing long-lasting materials and protective packaging in harmony,” says **Jon Haag**, Director Consumer Insights at BillerudKorsnäs, a leading supplier of renewable packaging materials and solutions with 150 years’ experience in the forest and paper industry.

In the Nordic countries, trees grow slowly and develop long fibre that can be recycled five to seven times. That makes it an excellent choice for consumers who are looking for packaging that minimizes food waste and is recyclable as it helps them follow their wish for improvements.

“Rather than sustainable packaging, we like to talk about ‘packaging sustainability’, which means the role packaging can play to create sustainable benefits for products, consumers and society. Most consumers are ready to pay a little extra because they want to be part of a solution and not of a problem,” says Haag.

According to the BillerudKorsnäs Consumer Panel 2017, as many as 72% of consumers

are willing to pay more for brands with packaging that brings sustainable benefits.

URBAN LIFESTYLE AND PRE-PACKED FOOD

Paper packaging has emerged as one of the biggest end-uses of pulp, a wood-based raw material. The market is growing each day, especially in countries with a booming middle class. In Asia, Africa and South America for instance, more and more people are moving to cities and entering the workforce. More working people in a family means a lot more demand for pre-packed retail food.

But this consumer group is also picky about how their food is served. And thanks to rising sensitivity about the impact our lives have on the environment, there is a growing consumer interest in packaging made from renewable raw materials.

“The more populated we get, the higher the urbanisation which in turn means more and more food packaging. To meet this demand, you need high food safety standards and high recyclability. Plastic is very good when it comes to protecting the food, keeping it protected from moisture and other contaminants. But that leaves us with the problem of plastic littering, both on land and in the oceans, which affects the earth and our health,” explains Haag.

This is where fibre-based packaging material creates opportunities for sophisticated food and beverage packaging designs, as well as for medical packaging, meeting hygiene and barrier requirements. A solution that meets both protective and sustainability requirements.



Most consumers are ready to pay a little extra because they want to be part of a solution and not of a problem. ”

Jon Haag, Director Consumer Insights, BillerudKorsnäs

DISRUPTIVE TRENDS

That’s not all. Consumers’ demand for sustainability is also emerging as a disruptive trend in e-commerce which in turn has significant implications for the packaging industry.

“There is a rapid shift towards e-commerce. Products should be shipped in boxes and bags with a design that is specific for retail or e-commerce. The brand

experience is very important and includes everything from intelligent connectivity, identification and the experience of packaging itself. Secondly, the consumer wants packaging solutions that are genuinely sustainable, with smaller carbon footprints throughout the total lifecycle of the products,” explains Haag.

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Sometimes products and packaging are considered sustainable just because they are recyclable and have a label on them that says so. But there is more to it than just that.

“Wood fibres from high quality carton can be used up five to seven times again for packaging, tissue or as paper. Whereas a PET bottle has much lower recycling rates globally and is not used as a package again, instead it becomes a fleece, a single-use pot,” says Haag.

According to Haag, the strongest trend within increasing e-commerce is connectivity.

ABOUT BILLERUDKORSNÄS

BillerudKorsnäs provides packaging materials and solutions that challenge conventional packaging models in order to build a sustainable future. The company is a world-leading provider of primary fibre-based packaging materials and has customers in over 100 countries. BillerudKorsnäs has 8 production units in Sweden, Finland and the UK and about 4,300 employees in over 13 countries. In Finland, the Billerud production unit is located next to the UPM Pietarsaari pulp mill.

www.billerudkorsnas.com.

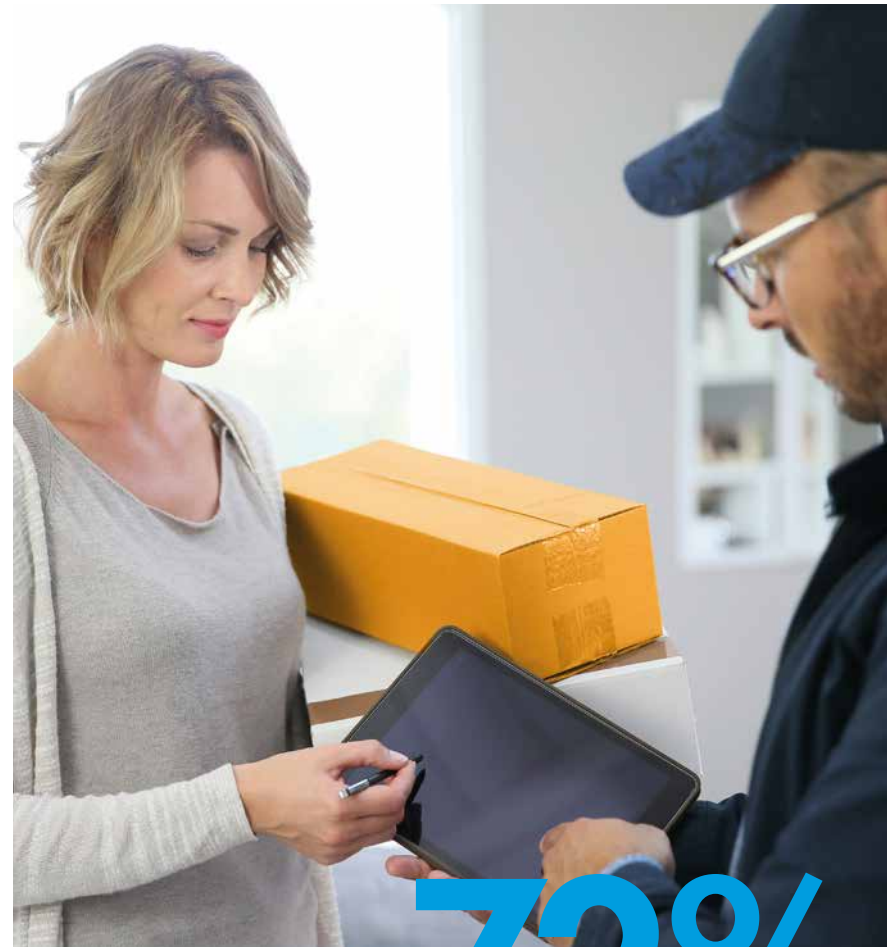
“RFID, unique identity codes and interactive packaging are already here and combined with the internet there is a major benefit. With the generated data, we will soon be able to tell how many frozen packages there are in China. And we could even tell how many of them have been below or above a certain temperature,” explains Haag.

IT'S ALL IN THE PACKAGE

This information can be a big boon for helping the cause of using sustainable packaging. But Haag believes that brand owners have not fully understood why they use special packaging designs to present their product. Consumers are prone to comment on packaging and can quickly abandon a brand using a wrong package solution.

“Toblerone is a good example of special design and choice of packaging that has led to a powerful brand. To know why and how you package something is the beauty of it. Brands need to keep the power of packaging itself in mind. It should feel natural, as the function of easy reclosing make it possible to keep food stored longer at home, so you do not have to throw food away,” says Haag.

As a result, brands have started to make their packaging more intuitive while incorporating a higher focus on human science into their creative process. The trend of portion packaging is one such solution that on one hand uses more material, but on the other hand means that the consumer throws away less food.



72%

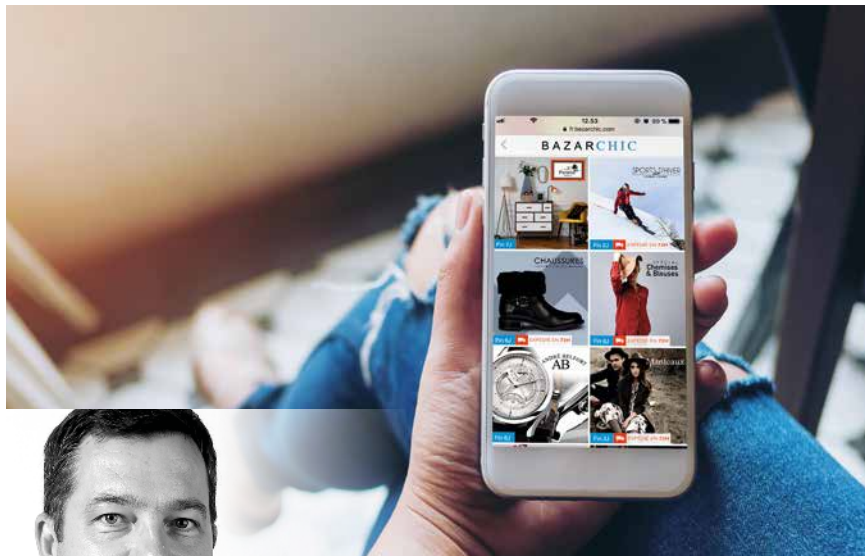
of consumers are willing to pay more for brands with packaging that brings sustainable benefits.

Being an environmentally conscious and helpful brand is going to be very important in the future.

“Consumers will reward a helpful brand with increased preference and favourable opinions, that they will then share with thousands or millions of other consumers,” concludes Haag. ■

ONLINE COMMERCE GOES MOBILE

The volume of mobile commerce is increasing steadily in the retail business. French forerunner BazarChic estimates that m-commerce will surpass fixed online sales in e-commerce this year.



The biggest change in e-commerce is that all important players in the market are cooperating with retailers nowadays.

Christophe Poutiers, Supply Chain Director, BazarChic



“Starting from 2018, we are going to sell more of our products through mobile phones and tablets than desktop computers. Before, our customers used to browse products on mobile devices and buy through fixed internet, but the trend is changing fast. Now sales are increasingly moving to mobile apps,” predicts **Christophe Poutiers**, Supply Chain Director from BazarChic.

Millennials in particular are creating new e-commerce standards. According to the Havas Paris-PRW-OpinionWay survey, 49% of the French population aged 18-35 use their smartphone to do everything on the internet, and 45% of them would like to be able to buy directly on social media.

Poutiers adds that outlet sales work very well and they are the real engine of e-commerce. “We are concentrating on luxury products in clothing, furniture, wines and travel. We offer some 800 brands and we sell our products at a discount of 40-70%. France is the main market, covering around 95% of our sales, but we also operate in Belgium, Luxembourg and Switzerland,” he adds.

BazarChic is the third biggest e-commerce company in France. It has some 6.4 million members who receive an offer by e-mail every day. The annual turnover is approximately EUR 85 million.

The Galeries Lafayette Group bought BazarChic in 2016 to add a digital sales platform to complement its fashion business.

“The biggest change in e-commerce is that all important players in the market are cooperating with retailers nowadays. One option is that customers will buy a

product through our web page and then have it delivered to their homes or collect it from the retailer. For example, we are planning to launch the service with Galeries Lafayette later this year,” he says.

HOW TO WOW CUSTOMERS

Poutiers emphasizes that in order to succeed in e-commerce, you need to “wow” customers.

“High-quality luxury products have to be delivered fast and reliably in a solid, attractive and beautifully designed package. According to our customers, the package has to be aesthetical and empty space inside the box has to be kept to a minimum. To top off the experience, we want to add an extra surprise for our customers – a small present like a bottle of perfume or a coffee capsule that is included inside the box. The gift will be different every time.”

BazarChic receives roughly 1 million orders and ships over 3 million postal packages in a year. Poutiers estimates that currently some 70-75% of deliveries are packaged in a cardboard box. The rest is delivered in a plastic bag, depending on the product and mode of delivery.

The company is working continuously to develop and optimize its packaging and logistic services.

“We use cardboard boxes that are made of 50-70% recycled fibres to maintain the quality of the box. Boxes made of 100% recycled fibres are too soft. For example, in the wine market it is critical that the bottles do not break during delivery. We have been working a lot with our providers to find an optimal structure for the carton to enhance our customer experience,” says Poutiers. ■

HEDGING TAKES AWAY SOME PRICE UNCERTAINTY

Nicolas Ginman
Head of Pulp & Paper,
Commodities and Global Markets
Macquarie Group



The fundamental idea behind commodity hedging is simple: replace a fluctuating, unknown price with a fixed, known price. It's about protecting an investment against uncertainty and price volatility.

So, should you hedge? And when to do it? The decision to hedge depends on a number of factors that should be based on a company's current financial situation and price forecast assessment. Hedging can be used to reach budget targets, manage timing, help secure long term profitability and avoid losses.

Hedging is rather similar to getting a mortgage to buy a house. Buyers must take into consideration their income and financial situation in addition to interest rates and appetite for risk.

Specialty paper and tissue producers are typically active hedgers. The pressure for hedging comes from international retailers who often require a fixed price running 6-month or 12-month consumer campaigns. A paper producer can then choose to protect the margin between pulp and fixed tissue prices with a hedge.

The biggest risk of hedging is of course losing the opportunity cost of buying pulp cheaper if prices drop.

Fortunately pulp is one of the least volatile commodities in the market. Pulp is priced monthly and its price trends are very long. However, there are several interesting dynamics that can affect pulp price development. These include global mega trends such as digitalisation and the rise of sustainable raw materials replacing fossil fuels. China surpassing Europe as a pulp user and risks related to global pulp supply may also affect future prices. ■

WHAT'S UP?

UPM takes top spots in ROBECOSAM'S SUSTAINABILITY YEARBOOK

UPM has received Gold Class and Industry Mover distinctions in RobecoSAM's Sustainability Yearbook 2018. Only 10 companies in the world made both lists.

The Yearbook awards companies for their excellent sustainability performance determined by investment specialist RobecoSAM's annual Corporate Sustainability Assessment (CSA).

In the assessment nearly 2,500 listed companies within 60 industries have been ranked according to their sustainability

performance, and now the top 1% have been awarded with the Gold Class medal. In addition, the company that achieved the largest proportional improvement in its sustainability compared to the previous year was named RobecoSAM Industry Mover.

"Our Aiming Higher culture and purpose to create value by seizing the limitless potential of the bioeconomy always push us to work even harder," Vice President, UPM Environment and Responsibility, **Sami Lundgren** says.

Based on their CSA, RobecoSAM together with S&P Dow Jones Indices publishes the globally recognised Dow Jones Sustainability

Indices every year – last September UPM was listed as the forest and paper industry leader for 2017–2018.

CSA is based on a rigorous analysis of economic, environmental and social performance of the world's leading companies. The evaluation covers climate change strategies, supply chain standards, labour practices, corporate governance and risk management. In order to succeed in this assessment a company has to be able to prove sustainability is integrated into their strategy, genuinely implemented in daily operations and transparently communicated to all stakeholders. ■



ROBECOSAM
Sustainability Award
Gold Class 2018

ROBECOSAM
Sustainability Award
Industry Mover 2018

MEET YOU IN SHANGHAI

It's mid-March and all eyes are on China, the largest pulp market in the world. Once again leading suppliers and buyers will gather for the annual Shanghai Pulp Week.

Shanghai Pulp Week has quickly solidified its position as one of the top events in the international pulp calendar.

The week typically comprises of private meetings between pulp sellers and buyers where they discuss market dynamics, commercial agreements and plans for the year. UPM together with its Fibre United partner Canfor traditionally invite customers for a dinner to jointly celebrate the start of a new year.

Shanghai Pulp Week also offers a great chance to gain first-hand information about the developments in the Chinese market. Spread throughout the week, the China Paper & Pulp Industry Chamber of Commerce (CPICC) hosts numerous events, and on Thursday consultancy company Hawkins Wright stages its famous symposium now for the sixth time.

DOING BUSINESS, NETWORKING AND LEARNING

Once demand for imported pulp started its stellar rise in China, the idea of organising yearly gatherings for pulp and paper professionals began brewing.

Tom Wright, Managing Director of Hawkins Wright, looks back at the time when they first got involved with the arrangements for regular pulp events in China.

"At first we collaborated with a Chinese company called CFI Consulting



in 2006–2010. Back then, the event used to change location each year. After CFI retired we decided to continue and establish our own event that would always stay in Shanghai."

In 2013 the current format of Shanghai Pulp Week was born. Since then the event has grown each year.

"I think we have reached the sweet spot in terms of size. We focus on quality as well as a high level of information tailored to fit the needs of the participants," Wright says.

In 2015 CPICC further broadened and enriched the Shanghai Pulp Week offering. Formed by the biggest Chinese paper companies, CPICC aims to support global pulp suppliers and service providers to enter the China market and, in return, Chinese paper producers to understand the international pulp business.

Today Shanghai Pulp Week brings together all the leading international pulp, paper, machinery, raw materials, trading, logistics and financial companies.

"Shanghai is a nice combination of strengthening social ties, arranging business contracts and updating one's knowledge," Wright explains. ■

P.S.

Dear Reader,

Packaging materials made from renewable fibres are among the growing pulp and paper end-use segments driven by megatrends such as population growth, urbanisation, digitalisation and increasing environmental awareness. Even though your company might not be directly operating in the packaging segment, it does most likely – just like any other industrial producer – use packaging materials.

By now it is self-evident that sustainability needs to be integrated into any business if you want it to be successful and to grow. Not so long time ago digitalisation sounded merely like a buzzword, whereas today it impacts all our businesses and will continue to grow in importance in the coming years.

We need to look into the impacts of these megatrends around us and across the entire value chain and try to understand what is going on all the way to consumers in order to remain relevant. On one hand this is easy just by following how younger generations behave as consumers, but on the other hand it is very useful to talk to those who have deeper insights into these developments.

Best regards,
Lajos



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CUSTOMER NEWSLETTER

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