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Capex will not save you

By Paperitalo Staff

Sorry, but if your mill has the philosophy; "If only they would give us money for significant capital expenditures, this mill can survive" you are dead. Mills that receive major capital are mills that have proven they can manage and make at least a little money with what assets they already have. If you are not already making money, don't expect a large capital allocation to either arrive or to bail you out.

Why is this? It takes more than new assets to make an old mill attractively profitable. It takes good management, good systems (not computer systems, but good old command and control of people), a promising market, attractive raw materials, promising energy prospects and logistical advantages. If your mill does not already have these things, no amount of capital will make any difference.

The best managers I have ever seen in this business fixed what they had first, then judiciously asked for appropriate, targeted capital to fix clearly identified opportunities. They leveraged this capital into very significant returns, for its judicious use on top of their already well depreciated assets really brought big dividends to the bottom line.

The worst mills I have ever seen were given capital on the promise that just a little more would fix their problems. These mills are now shut. One, for instance, had every possible kind of pulping system known to humankind. And when recycling became popular, they added that, too. However, they had an electrical distribution system that had goblins and ghosts that would take the entire facility down randomly and without apparent cause. They never fixed the electrical problem and they have long since been closed and razed.

Another had a new coating kitchen to die for, but did not have scales to weigh incoming and outbound trucks. Others have had onerous labor contracts and were replaced by new mills at distances beyond the reach of the existing labor contracts.

What I am saying is this. If you have one or two identifiable deficits in your assets or can identify one or two opportunities, you have a chance of creating a long term viable mill. Said another way, if you are not able to make a small profit with the assets you have already, modern standards dictate that capital pass you by.

The wholesale expenditure of capital in the pulp and paper industry, with the belief that capital alone can solve a mill's flaws, last happened (at least in the western hemisphere and Europe) in the late 1980's and early 1990's. Most of the people around in those times are in the latter parts of their careers now. They may be telling the younger generation this philosophy will come back, but they are wrong.

We have gotten smarter since then. We have recognized that wholesale mill rebuilds from one end to the other often do not pay. Assess your situation and heed these modern ideas, both as a mill and in your personal career planning.

For safety this week, there comes to us a report of a fatality at a mill in eastern Texas. Public reports indicate it may have been caused by a spark in a cloud of flammable vapor (don't take this as an official determination of cause). The point is, our mills continue, as a matter of course, to have conditions that are dangerous. It behooves us all to always practice safety, even when conditions may seem routine.

Be safe and we will talk next week. ##