MAGNUS WANGEL

A NEWCOMER'S EXPERIENCE IN THE SOUTH

1. Background and reasons for a Finnish forest industry to go abroad.

The major industry still in Finland is the forest industry. Of our country's total exports, this industry represents 55%.

Finland's forest resources are limited and there is very little room for further expansion in spite of more than 50 years intensive forest management. Already now substantial wood quantities in the forms of roundwood and wood chips are imported mainly from the USSR. For instance, Kymmenene, our parent company, imports 25% of its wood raw material from the USSR as hardwood and softwood.

Kymmenene is one of the leading pulp and paper companies in Finland. The main mills consist of a kraft pulpmill with 350,000 tons annual capacity, two papermills with 600,000 tons annual capacity and three sawmills producing 100 million board feet per year. Our company owns two papermills in England and one papermill in West Germany. We are also 50% owners of a pulp and paper mill in British Columbia, Canada.
Kymmene's paper production is focused on printing paper qualities from newsprint to the highest coated, wood-free qualities amounting to over 1 million tons per annum.

As it stands now, the pulp production is in balance with the paper production; and in order to be able to expand, our company needs to go abroad to find the necessary raw material.

2. **Location of a forest industry project in the Southern United States as compared with other areas.**

During the late sixties and early seventies, Kymmene studied the possibilities of establishing a forest industry in Africa, South America and the Southern United States. Wood availability was the main objective in these studies, but criteria such as availability of manpower, energy resources, existing infrastructure, transportation system and political stability also played important roles.

The studies made by experts from our parent company indicated that if we were to form a base for future expansion we should do so in the Southern part of the United States.

Availability of raw material, existing infrastructure, energy resources and a political stability in combination with the free enterprise system were the main reasons for continuing our studies in more detail in the Southern United States.
3. Location of Leaf River Forest Products' project in Mississippi as compared with other states in the South.

Several possible mill sites were studied in 1969 and 1970 in east Texas, Louisiana, Alabama, Mississippi and Arkansas. All sites had advantages and disadvantages.

A final detailed comparison was made between a mill site in east Texas, 50 miles north of Houston, and our present mill site in New Augusta, 20 miles southeast of Hattiesburg, Mississippi.

The Texas site was faced with several complications such as heavy competition from other industry for manpower, difficult local water pollution requirements, forest land ownership patterns such as big tracts in a few hands, and finally a slightly negative attitude from local authorities toward new industry.

Positive factors at that time were the good transport system, three railroads and an excellent road system serving the site, availability of natural gas and oil and cheaper electrical power.

The decision to select Mississippi was made in 1971, and an option was taken for a 1500 acre millsite at the Leaf River in New Augusta, Perry County.

Wood availability, availability of manpower, a reasonable distance from the Gulf Coast for export in
the future, water quality and quantity in the Leaf River, good living conditions and existing services in Hattiesburg and a positive attitude from local and state authorities influenced the final decision for location.

The project to build a forest industry was postponed for several reasons during the years 1971-1975. The main reason was that there were other big project investments in our company. The option to buy the millsite was kept valid, and our representatives involved in the project followed closely developments in Mississippi.

In March 1975, our project was activated and the studies made in 1969-1971 were checked and reviewed, and we found that the situation had changed very little.

No major pulp and paper industries had been built. The building of new forest industries was focused on new sawmills using the Chip-N-Saw technique. However, the railroad system had deteriorated considerably in the area we were interested in, and easy availability of natural gas was gone. On the other hand, the ownership pattern for forest land and methods for wood procurement were still the same. The roads had improved, and trucking had grown and become more efficient. The availability of manpower was still a favorable factor, and the interest and attitude from local and state authorities had become even more positive in the meantime. One important improve-
ment, in the meantime, was the introduction of economical state support to private landowners for reforestation.

4. **Experiences with Leaf River Forest Products' sawmill project.**

In June 1975, Kymmene's main board made a decision to build a 60 million board feet per annum sawmill in Mississippi in order to form a base for future expansion in pulp or paper manufacturing.

The sawmill decision was based on the many years of studies described earlier as well as a feasibility study showing reasonable return of investment.

The sawmill project was to give us experience both in construction and operation in a new country and area and was considered to be the first step of a bigger investment. To sum up, we built the sawmill as a start to a bigger investment and in order to get established and learn how to do business in Mississippi USA. We are convinced that integration of a sawmill and a pulpmill is necessary for successful operation in the future.

In September 1975, three Finnish representatives from our parent company moved with their families to Mississippi. Our new company, Leaf River Forest Products, was formed and the positions of executive vice-president and general manager responsible for the project, vice-president responsible for wood procurement and transportation and secretary-treasurer responsible for finance and
administration were filled by the three Finns from Kymmene, Finland. Experience in general management and production, wood procurement and transportation and finance and administration in Finland gave us a base for getting started but not for being successful in Mississippi. Filling key positions with local, experienced people from the Southern United States has been one of the most important targets during the construction and start-up stages of our sawmill.

Now I come to the question or title of my brief today -- What are our experiences as newcomers in the South?

The answer is generally, so far, so good!

We built the sawmill according to the original time schedule and investment budget. The cost for our sawmill amounted to exactly $8.6 million as planned. The start was scheduled for mid-January 1977. Construction started in January 1976, and the first sawlog was processed January 11, 1977.

Our company decided to build the sawmill acting as our own contractor and subcontracting the different phases of the construction. Mid-South Engineering from Hot Springs, Arkansas, has done an outstanding job as our consultants for planning and detailed engineering. The subcontractors selected for the sawmill construction have done good work using local workers from Perry County where
we are located. We have been impressed with the work efficiency and speed. A substantial number of the construction workers are today employed by our company in the sawmill operation.

Negative experiences during the sawmill construction were heavy rainfalls in the late fall and snow and ice during start-up. I guess as people coming from Finland we are used to fighting cold weather, so we introduced some new things never heard about in Mississippi and got our sawmill ready in time.

Another experience I have to mention here is a certain degree of slowness in general. We are used to working with time schedules which we stick to. Here in this part of the world, a promise to do something today can be next week or even one month later.

Delays in deliveries, delays in appointments, etc., are for us immoral. Within our company, as well as in our business contracts, we try to work following the principle that time is money.

With the sawmill now in full two-shift operation and approaching design capacity two months after start-up, we can point out the following experiences from the start-up and operation period:
Wood as sawlogs has been purchased from private landowners and government forest land in sufficient quantity and expected quality, without affecting the market price for wood in our procurement area.

The wood supply is based on independent logging contractors logging on timber tracts where our company has made timber purchases. Independent suppliers or dealers deliver a substantial portion of our sawlogs. No problem has occurred in getting good contractors and dealers to work for Leaf River Forest Products.

The manpower availability was better than anticipated. For 120 hourly paid jobs in our sawmill, 1200 applications were filled, and our operational crew is partly skilled. The unskilled labor has been able to learn fast, and the enthusiasm and efficiency have been one of the most positive experiences so far.

The power supply is based on purchased electrical power for the electrical motors in the sawmill. The power company built a sub-station and power lines at their expense, and we pay for the investment in our KWH monthly bill. For generating steam for lumber
drying, we have built a boiler and are using the bark from the sawlogs.

(5) Our transportation is entirely based on trucking in and out. The missing railroad connection, 3 miles to ICG railroad in New Augusta, represents an investment of $3.5 million including a bridge over the Leaf River and was not economically justified for the sawmill alone.

The county and state have built an access road to our mill. The road is still partly unpaved and was not ready when we started our mill which caused some problems. With the progress made recently, we can expect the road to be ready within a few weeks.

(6) The start-up problems every new mill is faced with have been of both a mechanical and electrical nature. But these have been solved and no design errors have been detected. The learning period for operational and maintenance personnel has been shorter than anticipated. Training on the job has been our only way of initiation due to the fact that we started in the middle of the forest.
Our company, Leaf River Forest Products, has today 150 employees, 120 of whom are hourly paid. 90% of our production is sold on the Southern U.S. market, and 10% is exported to South America. The production, consisting of 60% 2-inch dimension, 30% 1-inch boards and 10% timbers 8 inches by 8 inches or bigger, is sold through existing wholesalers and exporters. The market outlook for lumber is good at present, and 1977 is expected to be a year of balance between production and demand with stable prices.

Everything gained through experiences with our first project in Mississippi and the USA corresponds to our expectations and plans. We have learned a lot during our first year in Mississippi, and we are convinced that there is room for us as newcomers.

5. Outlook for future expansion.

We have made plans for building a bleached pulpmill for 750 tons per day capacity utilizing hardwood and softwood. The sawmill residues represent a substantial part of the softwood raw material. Our sawmill produces as by-products 140,000 tons of green chips, 30,000 tons green sawdust and 40,000 tons of dry shavings per annum. We have filed applications for construction of the pulpmill with the Mississippi Air and Water Pollution Control
Commission as well as EPA. Necessary impact studies are near completion. The time schedule for our pulp mill project has not been decided as yet, therefore, it is too early to tell you more about our future plans.

Coming from Finland all the way to Mississippi, it has been a great experience for us to be involved in this project from its planning stage to its stage of materialization and operation.

We feel ourselves at home in Mississippi even if we cannot fully accept your hot and humid summers. Your spring is a beautiful experience and we especially appreciate this time of the year.

I would like to conclude my introduction of our new project and experiences in saying that we are here to stay in the years to come. The base is formed, and we are ready to participate in the industrialization of Mississippi and thus create jobs where they are needed. At the same time we form a base for our parent company, Kymmene's future expansion, a company which has worked successfully for 100 years and which is continuing to do so.