It would be very easy for me to stand up here today and preach a sermon of gloom and doom based on the title of this section of the program, "How to Cope With Hard Times."

It's always easy to be a pessimist, but, in my opinion, the mark of a leader is how to meet the challenge regardless of the economic climate. That's what we're being paid for and nobody said it would be easy.

So, I'll leave the negativism to others. But our feeling at Westvaco is that while we regard the current developments in the economy as something to be watched carefully, we have a high degree of confidence in our ability to continue to produce a future which should be attractive and rewarding to our customers, employees, shareholders, and the community.

Now, let me tell you a little about what we are doing at Westvaco.

Westvaco established itself in the United States paper industry in 1888 when it pioneered one of the first commercially successful chemical process for producing wood pulp, a step that opened the way for a renewable source of low-cost fiber to replace rags. Today Westvaco is a leading manufacturer of paper and packaging in the
United States with paper and paperboard mills in Covington, Virginia; Luke, Maryland; Tyrone, Pennsylvania, Wickliffe, Kentucky and Charleston, South Carolina and packaging plants over the eastern half of the United States. But our total business encompasses much more than paper or packaging. We also manufacture specialty chemicals for a range of environmental and industrial applications. We have a stake in consumer markets. We produce timber and manage about 1,250,000 acres of company lands and another 830,000 acres of non-industrial private lands in our Cooperative Forest Management (CFM) landowner assistance program. We produce lumber at our sawmills in Summerville and Cameron, South Carolina. We develop land. We mine coal for our own consumption. Our U. S. Envelope Division is the largest producer of envelopes in this country and a manufacturer of flexible packaging as well. We have a major position in Brazil, where we have been operating successfully since 1953.

Westvaco is a good-sized company employing 15,000 men and women organized on a decentralized basis into 11 divisions, five domestic and three foreign subsidiaries. Sales total about $1.5 billion annually and we rank in the upper half of the Fortune 500.

You can see, Westvaco is a fairly large integrated company concentrated in the pulp and paper side of the forest industry. Our basic business strategy is to place major emphasis on being innovative, on being different and trying to make ourselves unique in our strengths and unique in our value to our customers. We try to steadily de-emphasize our participation in products which are only commodities, and where we find it difficult to be unique. Our strategy places great emphasis on creative research and imaginative technology. We maintain a constant focus on the development of new products which can be unique in their fields.

Regular and vigorous investment in new technology gives us great competitive strength in existing markets and permits us to pursue new opportunities as well. For
example we just completed our third five year growth program. One of the goals was to improve productivity by about 20%. The economics were favorable for Westvaco because we accomplished the increase in a highly imaginative way. We increased the paper-making capacity of our existing paper machines in the U. S. and Brazil in the form of incremental additions which made available for our markets 1,000 new tons of product a day. This production is the equivalent to the output of a major new mill, but at only one-third to one-half the investment per daily ton.

The foundation of Westvaco's marketing strategy is to aim for product quality leadership, concentrating on distinctive products that others find hard to make and selling and servicing these products ourselves, a unique position in an industry that has traditionally marketed many of its products through agents and distributors. To handle our direct sales, we maintain a network of sales offices across the country. We work closely with all of our customers, keeping us in a position to be especially sensitive to changing conditions in our markets. This enables us, in turn, to keep our products and services right on target.

Another foundation of our business is our emphasis on product quality. It is designed to assure, first, a high level of product quality, and second, a consistency of quality so that our products will perform predictably and efficiently in their applications in our customer's plants. Our program is vigorous and intensive, and we believe that it is unique in our field in these characteristics.

We also maintain a separate Technical Sales Service organization staffed with highly qualified specialists. This group is charged with constantly monitoring the actual performance of our products in our customer's plants, and being alert to any changes in our customer's processes that might necessitate a change in the design of our paper.
Our product properties and our responsiveness to the needs of our customers rest on a strong foundation of manufacturing skills and strong research capability.

To illustrate our attention to customer service, during the last few years in the face of the high cost of money which provides everyone with an incentive to keep inventories down, we have developed a unique, rapid service program for our customers called Pressdate Service. The essence of this service is that the customer can be assured that within five days of placing his order his product will be ready for shipment. This capability is unique in our field and its execution depends partly on proprietary equipment which we have developed, as well as our own direct sales contact with our customers. It is of great value to Westvaco and its customers in periods of less than robust business activity that we have seen in the past year.

The deliberate course we have pursued in the bleached board market is a dramatic example of how we are consistently trying very hard to make Westvaco different and better and more uniquely valuable to our customers.

We are building the success of this important product line on a foundation of innovative product development. Approximately twenty years ago, our major bleached board products were the same as those produced by other companies in the industry. This represented a significant challenge and a major opportunity.

A conscious decision was therefore made to mobilize Westvaco resources to obtain the rewards of being better and different. Extensive development work produced a new coated bleached board, a unique product, having a superior coated surface providing better printing qualities, a major graphic requirement in the folding carton market.

At about the same time, we acquired a comparable distribution strength - efficient, high-quality folding carton production capability. Our improved bleached
board, coupled with low-cost capability for superior gravure printing, helped immensely to speed the substitution of our bleached board for older type material in the folding carton markets, a major marketing success.

Building on this solid foundation, we have continued a rapid pace of product development in this field, introducing Westvaco Ovenware, a packaging for use in microwave ovens, which is a rapidly growing market; and, new styles and designs of packaging such as Westvaco Printkan to hold a wide range of products, an opportunity to replace less effective materials.

We are also the leading supplier of saturating kraft paper in the U. S. and in the world markets. One of our three paper machines here in Charleston makes this product. This is a specialized premium grade of paper used in the manufacture of high-pressure decorative plastic laminates, the familiar surface materials used for kitchen countertops and other surfaces in the furniture and building industries. Saturating kraft is also the base stock for industrial laminates used as an insulating material in transformers, small electrical motors, household appliances, radios and television sets.

Our world market leadership in this field is based on our technology, and our application of technology to the needs of this field. In addition to our normal sales effort, we conduct seminars in this country and around the world on developments in the decorative laminates field. These meetings are attended by major manufacturers from many different countries. They permit us to share our technology with our customers and prospects.

Within Westvaco, we have always subscribed to the time-tested notion that American ingenuity and determination can work wonders. We applied it when we became concerned about America's growing dependence on foreign sources of energy in the
early 1970's, developing an aggressive energy program to strengthen our competitive position.

We are well along with an intensive fuel switching program at major mills, emphasizing local and regenerable energy sources and those more secure in supply. We have established stringent company-wide energy conservation programs, setting targets and meeting them. We have established a centrally located corporate reserve of oil in storage tanks. We have developed captive coal sources to supply primary fuel requirements at one of our largest mills. We are increasing self-sufficiency in electrical energy and cogeneration capability, and we are in the early stages of developing the potential of our natural gas reserves.

As a measure of progress, since 1972, we have reduced our domestic energy requirement per ton of product by 17.4%. This is about 1½ times as much progress as the published industry average. In fuel switching and cogeneration, we have reduced our dependence on purchased fossil fuel and purchased electricity by 39% since 1972. Oil now represents less than 6% of our fuel mix.

We work hard to maximize our financial strength, since it puts us in a position to pursue promising investment opportunities in any kind of economic climate. We follow conservative practices that give our earnings uniquely high standards of quality.

Westvaco expends untold effort to maintain uniformly high standards of business conduct in every part of the world in which we operate. We have invested an
enormous amount of energy in trying to create a climate within the company designed
to make it clear that the highest standard of business ethics is the only way of life
at Westvaco. We expect our employees to conduct themselves in a manner consistent
with company policy. We have long had a written policy, updated regularly in annual
seminars, covering the major aspects of business conduct, which each exempt salaried
employee reads and signs as a condition of employment.

As a result of the direction of our business philosophy, we have entered this
downturn with the fruits of our effective work on productivity and energy cost
control. We also have outstandingly good products and first-rate customer
relationships. Therefore, even though the impact of the downturn experienced in the
first quarter is temporarily severe, we see no reason to change our priorities and
our objectives, and we feel no need to make major short-term adjustments in order to
cope with the conditions around us.

In fact our general business philosophies have always done quite well for us.
If we take a look at performance over the past 20 years, a large enough time span to
cover a great variety of economic conditions including two periods of price and wage
controls, recessions, booms, or in other words every sort of economic condition, the
following are some of the highpoints. We have increased sales fourfold at a compound
annual rate of 8.4% while earnings have increased nearly tenfold at a compound annual
rate of 12.7%. Our production increased 90% but we run significantly fewer paper
machines and have fewer total employees. Our dollar sales per employee have
increased nearly fivefold. Our earnings per share at Westvaco have increased nearly
tenfold while earnings per share of Standard & Poor's 500 have increased only
fourfold and the Standard & Poor's paper group only three and one third times.

The point I am trying to make is that the general business philosophy we at
Westvaco pursue puts us in a favorable position to be able to cope with hard times.
Now a few words on how Wood Procurement here in South Carolina copes with the hard times. The sawmill industry in the South continues to operate at only about half to two-thirds of capacity. The paper industry until the last few months continued to operate at a normal level. The demand for chips from sawmills because of their reduced production level has been high. Even the present paper mill production slow-down has not created a sawmill chip surplus. Pulpwood stumpage demand has also remained high as companies filled the void caused by reduced sawmill chip production with pulpwood stumpage purchases. Because demand has remained high for chips and pulpwood stumpage, prices have not dropped.

The consumption of sawtimber is lower than normal yet sawtimber stumpage prices have not dropped as much as might be expected. Landowners have held sawtimber off the market waiting for demand to pick up, hoping for higher prices. This has kept supply in balance with demand and prevented any great drop in sawtimber stumpage prices.

One of our greatest strengths here at Charleston is that we procure our wood from a diversity of sources. We are able to balance our needs for about 2.8 million tons annually here at Charleston between sawmill chips, chip mill production, and mobile chipper production. When sawmill chip production decreases for example, we can increase our own chip mill production to fill the void. We are rather unique in the industry in that we now only deliver chips to our Charleston mill. All roundwood processing is done at satellite installations. We were one of the first in the industry to recognize the advantages of satellite processing and chip handling.

We also purchase the stumpage needed to support our chip mill and mobile chipper production and contract with independent loggers to harvest the stumpage through what we call a Direct Purchase System. This too is rather unique in the South as most companies continue to operate through wood dealers. We have eliminated the
middleman, the wood dealer and deal direct with landowners and loggers. We find this system much more responsive to our needs.

Our stumpage is procured from a variety of sources including company lands, public lands, non-industrial ownerships and what we call CFM lands. Again, Westvaco was unique and innovative in establishing a landowner assistance program over 25 years ago. We call our program Cooperative Forest Management or CFM. We have 12 full-time CFM foresters in South Carolina and forest technicians working with about 400 landowners owning 310,000 acres. Company-wide we have about 25 CFM foresters helping to manage over 830,000 acres. In return for a management plan, management advice, help with reforestation, etc., we retain the right of first refusal for timber sold by the landowner.

We are committed to a philosophy that privately owned stumpage will continue to be a very important part of our raw material for a long time to come. We recognize that landowner reforestation and management is motivated primarily by foresters on the ground who talk to landowners on a one-on-one basis. We accept that forest management is not a primary concern of most landowners and the steps they do take stem more from reaction to outside contact than to their own initiative.

The success of the program is primarily due to two things - corporate commitment and quality service. The company has developed a compatible policy and rationale for the CFM program in relation to the company's other activities and is committed to carrying out the program on a consistent basis during good as well as poor economic periods. Landowners will not accept excuses that you will help them during good times but not the bad. The company is committed to provide adequate staff to meet its commitments. Company personnel have to service the landowner when the landowner is willing to do things, not when the company gets around to it. Management plans must be written to meet landowner objectives, and fiber may not always be the
dominant objective. Forestry has never been sold in committee meetings or advertisements but only through on-the-ground contact by qualified, experienced professionals who will be accepted by landowners as their advisors.

Westvaco management is also committed to managing company lands intensively to support our mills in the long term. Long-range projections say we are going to need the fiber we grow on our own lands in the future and if the trees are not planted now, they are not going to be available 25 years from now. This means reforestation programs, nursery operations, and fire suppression activities get funded consistently from year to year. At Westvaco we take the tack that if programs are justified originally, they generally are well worth continuing to their conclusion. If a choice has to be made to fund an on-going program or to pump the money into a new venture the choice will be to continue funding the on-going program and delay starting the new program until funds are available. This approach may not be flashy, exciting, or opportunistic but it produces steady consistent progress.

Access to sawtimber markets is steadily increasing in importance. Westvaco has concentrated on the paper end of the forest products business. The only sawmills we operate ourselves are those necessary to be competitive in procuring stumpage. Stumpage tracts no longer only contain pulpwood or can be purchased at only a pulpwood price. Higher value products have to be priced accordingly to be competitive in purchasing stumpage. These products have to be merchandised out of the mix to keep pulpwood prices low. We have also been successful in developing sawtimber markets through fiber exchange agreements whereby we provide sawtimber in exchange for chips.
We have also shifted from shortwood to longwood logging. We find longwood logging capable of handling either sawtimber or pulpwood with relatively low labor input greatly increases our flexibility. Longwood production is not as weather sensitive allowing us to reduce overall wood inventories, an important consideration in current times.

We, of course, also go through some of the usual measures during poor economic conditions. We reduce chip, stumpage, and logging prices where we can. We reduce travel, freeze manpower levels, run vehicles longer, examine association activities, etc. In general we try to create a more conservative climate to slow cost increases. But the point I want to emphasize is that by good planning and development of a flexible procurement system coupled with a long range management philosophy, a lot of the ups and downs in the economy are minimized.

This of course is only a partial description of our activities.

Westvaco is optimistic about the future and as a final example of that may I call your attention to our new Forest Sciences Center in Summerville, South Carolina which is just about completed. This modern 23,000 square foot greenhouse/laboratory, costing about $3.5 million, will provide the most modern facilities of its kind available. Continuing studies will emphasize the microbiology of forest soils, genetics and tree breeding, accelerated tree flowering and a full range of forest regeneration and cultural research activities.

In conclusion, I hope I have suggested to you why we at Westvaco are different and how these differences help us cope with these times. We are optimistic about Westvaco's future and our ability to succeed.

Thank you for this opportunity to speak with you today.