

# FOUR SIDES

Modesty—Morals—Artistry—Confidentiality

## THE WORLD BECOMES BETTER AND BETTER!

**Last ten years GDP growth rate in the world has been 3,7%. Poverty is less now than in 1970, both in absolute and relative terms. The environment movement is stronger than ever.**

**W**orld transportation operations have increased 9,9% per year during the last ten years. Transportation costs are constantly going down, due to more efficient vehicles, better fuel efficiency etc. Education and innovation is increasing and getting better. This gives us a constant GDP growth and in the track of that a better living for all people. Temporary local wars can shadow the picture but are still of marginal influence.

1970 48% of the world population lived under the poverty line which then was defined as less than one dollar a day. That meant 1 440 million people. Today 15% of the population lives under the poverty line which is defined as less than two dollars a day which means 1 050 million people. So in relative term as well as in absolute terms the world has become a much better place. The population 1970 was 3 billion people; in 2012 it was 7 billion people.

” Never confuse movement with action.

*Ernest Hemmingway*

What we say to executives traveling too much.

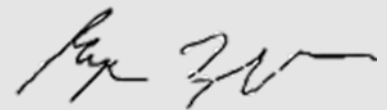
” Early bird gets the worm...but the second mouse gets the cheese!

*Augusto Carneiro,  
L&P Brazil*

Other problems are of course created but still on a “better level”. Individuals with obesity are today estimated to 1,5 billion.

We have never had a better environment than we have today. However we still have a lot to deal with like pollution in China and elsewhere in growing countries; Bad water or lack of water in many areas of the world. But all these can be dealt with and is so. Still the environment movements around the world have never been stronger. I think a reason for this is that we have time and wealth so we can spend time dealing with it. Like a senior politician said to me: “It seems to be the new religion.”

Countries and the world have still problems to solve. But do not let that overshadow the fact that the world has become a much better place than it ever was!



Magnus Lagerkvist  
Founder & CEO  
Lagerkvist & Partners

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### LAGERKVIST & PARTNERS

**Address:**  
Skeppsbron 28  
Box 1261  
S-111 92  
STOCKHOLM

**Tel/e-mail/web:**  
Tel: +46(0)-8-505 838 00  
E-mail: [info@lagerkvist.se](mailto:info@lagerkvist.se)  
Web: [www.lagerkvist.se](http://www.lagerkvist.se)

# THE FOREST INDUSTRY

## - a sad story but with prospects!

**The forest industry has been successful and spoilt. The new situation has taken most with surprise although it has been going on for more than a decade.**

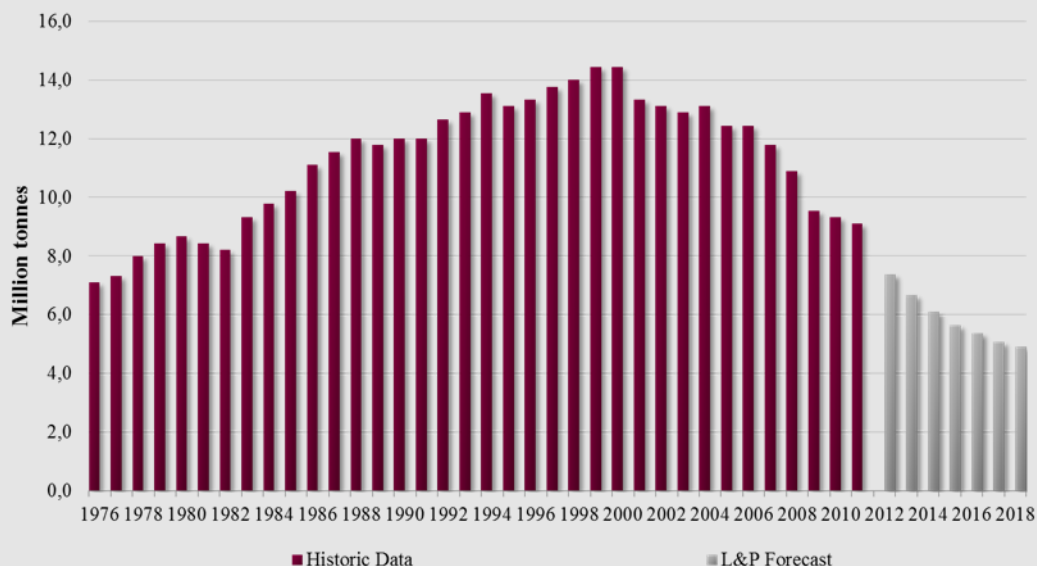
**A**lready in the late 1990ties you could see the deterioration of demand in the forest industry in certain areas. The Swedish company Modö realized that and sold their fine paper division to the Finns in the year 2000 for 6,5 billion SEK – a fantastic deal for the seller!

During all the years the forest industry has been very spoilt. Some of the prices have been volatile but volumes have always increased, so even the worst investment in capacity has been good after a couple of years.

Now – the last ten years plus – have been different. Uncoated fine paper, newsprint and magazine paper have been or started to be a dying breed. See the graph below. The downward trend is accelerating. Conventional wisdom has been that local papers and more exclusive magazines will survive longer. Today that does not seem to be the case.

The forest industry is becoming a more normal business. Some areas have a potential, other will disappear. Pulp, sawn timber, packaging in most forms, hygiene, tissue etc. will have a bright future. Some, like SCA, have understood this also over the years. The market has rewarded the company by having a market capitalization twice as high as their forest peers.

**U.S. Demand for Uncoated Fine Paper**



### Modesty

” There’s no limit to what you can do if you don’t mind who gets the credit.

### Artistry

” Surround yourself with the best people, delegate authority, don’t interfere as long as the overall policy is being carried out.

### Morals

” When the going gets tough the tough gets going.

# PEAK PAPER

– an old prophecy coming true

**Since the 1960ies, pundits have been busy predicting the shift towards the paperless society spurred by the technological advances in computer science. Until recently, they have been wrong, but now it is time for paper manufacturers to stop living in self-denial.**

In June 1975, BusinessWeek published an article about the office of the future arguing that desktop computers were going to become the working tool of all clerks, including senior management. This development would lead to a sharp decline in paper demand as word processing, communication and storage would become digital. It was predicted that by 1990 most corporate record-handling would be electronic. In retrospect one can conclude that their analysis missed the fact that the development of affordable modern printers in combination with clerks' attachment to hard copies actually boosted demand for paper throughout the 1980ties and 1990ties (figure 1). This outcome spurred the notion among paper manufacturers that the digital revolution posed no threat against their

business model. An illustration of this optimistic perspective is the 1995 newsprint consumption projection for the U.S. market done by the Food & Agriculture Organization of the U.S. (blue line, figure 2).

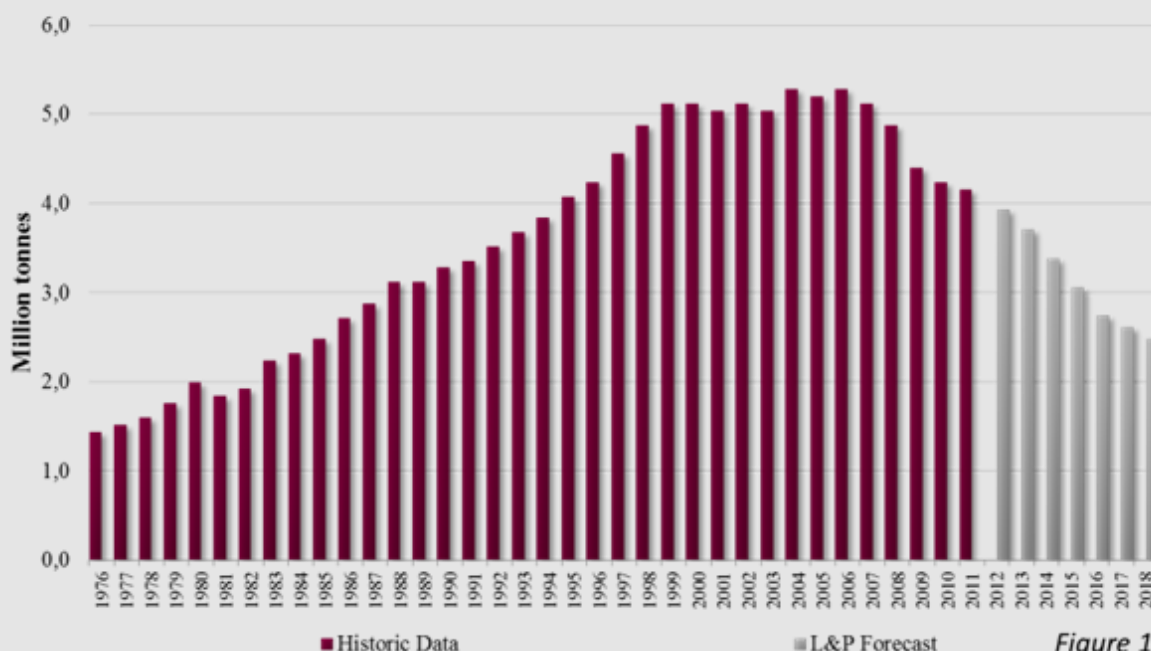
Many developed markets experienced “peak paper” during the first years of this century marking the end of decades of stable growth and the beginning of economic struggle and industry consolidation. Since then, several experts like the Finnish researchers Hetemäki and Obersteiner (green line, figure 2) have predicted declining demand for newsprint and office paper in developed markets. However, the actual decline in demand has been by far more dramatic than the most pessimistic projections. A best guess for the coming years is that demand will continue to decrease at a fast rate, especially due to the widespread decline in printed media.

“**The truth is not for all men, but only for those who seek it.**”

*Ayn Rand*

Some paper manufacturers might blame the tough market on the financial crisis and nurture the hope that volumes will grow again when the world economy stabilizes. Furthermore, some >>

**U.S. Demand for Uncoated Free Sheet - Business Papers**



**Figure 1**

>>companies expect that paper consumption in emerging markets will grow and follow the same trajectory as in past decades in the industrialized world. However, during the last twenty years, paper has become less competitive as new affordable and functional gadgets have reached the market and the cost and quality of data communication has improved. Given the natural drawbacks of paper; logistics costs and lack of interactivity, the most probable scenario is that

consumers in emerging markets will leapfrog office paper and printed media like they have leapfrogged landline telephony.

Therefore, the real question is not when demand will stop falling, but when will the industry take the bold strategic decision to adapt their business model to the new reality.

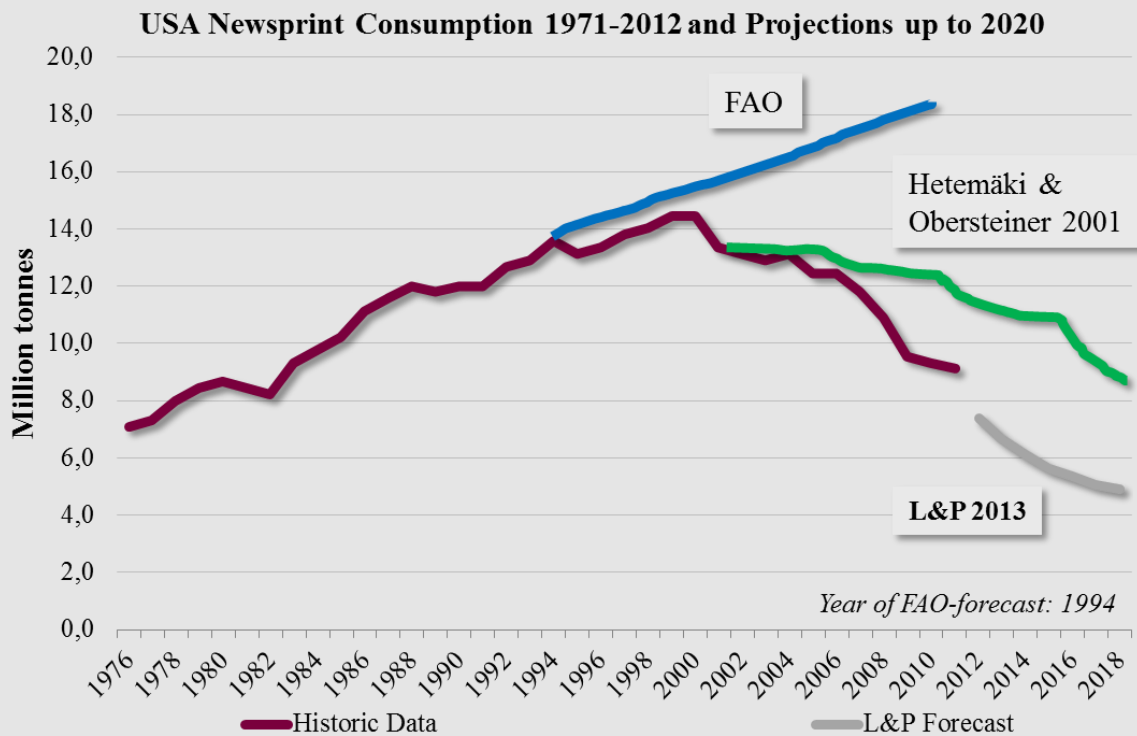


Figure 2

## SINKING ENERGY PRICES – short, mid and even long term

**The emergence of shale gas, ever more energy-efficient transport solutions, and a better energy infrastructure means energy prices will be heading south.**

Since the world's energy price peak around mid-2008, energy prices have been stagnant but with a trend heading downwards. Shale gas is one of the drivers; Global shale gas reserves are estimated to be ~6,600 trillion cubic feet, roughly the same amount as the world's proven gas reserves. Shale gas can and is displacing other energy sources across the board. Compressed or

liquefied gas can power buses, trucks and delivery vans. Two out of every five new garbage trucks in America run on natural gas.

Oil prices also look set to decline. Peak oil seems to move further into the future as extraction technology has improved, allowing firms to exploit previously inaccessible resources. It seems likelier that a peak in oil demand is nearer. Cars are getting 3-4% more efficient a year, with trucks improving at around 1-2%. Citibank Research estimates that demand for oil will level out after 2017, driven by fuel efficiency gains and gas substitution effects. Oil still makes up a third of the world's energy consumption but its market share has been shrinking for well over a decade.

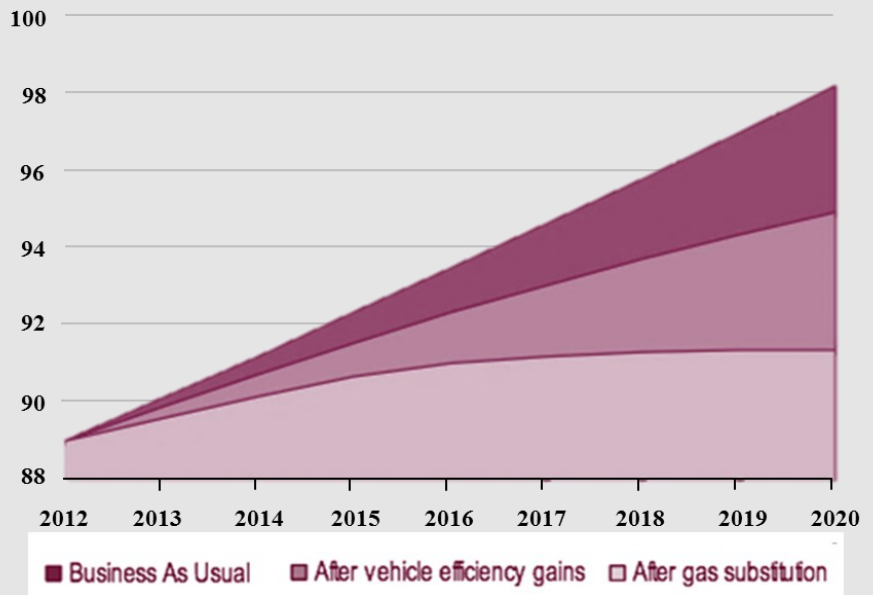
As energy demand in the developed world falls, >>

>>so will prices. Last year energy consumption in OECD countries fell by 1.2%, led by a decline of 2.8% in the US (the world's largest decline in volumetric terms). The number is increasing in non-OECD countries, but here the connection between growth and energy consumption is not what it used to be. China will introduce stringent fuel standards for cars of 5l per 100 km for 2015. The developing country will not go through the same energy consumption cycle increase as the developed countries did.

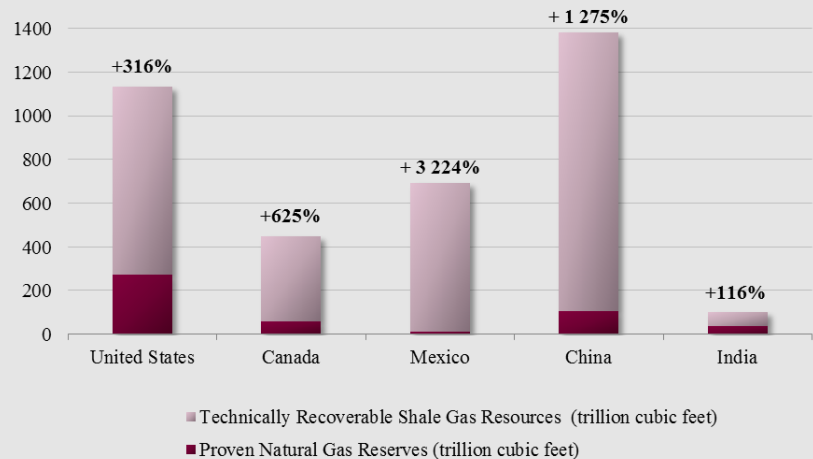
The EU will invest over 200 billion EUR up until 2020 to improve efficiency in the European energy market, especially in gas and electricity corridors between north and south and east and west. These will lead to more direct competition between energy sources with a likely downward pressure on prices as a consequence.

Since the time of Malthus and before there have been doomsayers predicting an end to available resources and growth, and the energy market is no exception. As so many times before in history, human innovation and advancing technologies are paving the way for more

Global Oil Demand Projections, billion barrels/day



Proven Natural Gas Reserves + Technically Recoverable Shale Gas (trillion cubic feet)



affordable energy for consumers and businesses yet again and for some time to come.

” If the doors of perception were cleansed, everything would appear to man as it is - infinite .

*William Blake*

” In politics, stupidity is not a handicap .

*Napoleon Bonaparte*

” You can always count on Americans to do the right thing—after they’ve tried everything else.

*Winston Churchill*

” Politics is the art of looking for trouble, finding it everywhere, diagnosing it incorrectly and applying the wrong remedies .

*Groucho Marx*