



Export Compliance & Risk Management

CONNECT Conference- March 18, 2009

Agenda

- Kraft Group/ International Forest Products Overview
- Economic Climate
- Export Risk Management

The Kraft Group

FOREST PRODUCTS AND PACKAGING DIVISION

**Forest Products
Sourcing and
Distribution**



**Corrugated
Packaging**



**Linerboard
Manufacturing**



**Waste Paper
Processing**



International Forest Products Overview

- Established in 1972, IFP is North America's largest privately-owned trader of forest products commodities, selling:
 - Raw Fibers: Wood Pulp, Recyclates
 - Rollstock: Containerboard (Brown paper for boxes), Newsprint
 - Softwood Lumber & Panels
 - Other Forest Products Commodities: Biomass

- Headquarters: Foxboro, Massachusetts (USA), with subsidiary offices in:

North America

Vancouver, Canada

Miami, Florida

Portland, Oregon

Albany, NY

Keene, NH

Europe

London, England

Gothenburg, Sweden

Amsterdam, Netherlands

Moscow, Russia

Asia/ Middle East

Hong Kong, China

Shanghai, China

Tel Aviv, Israel

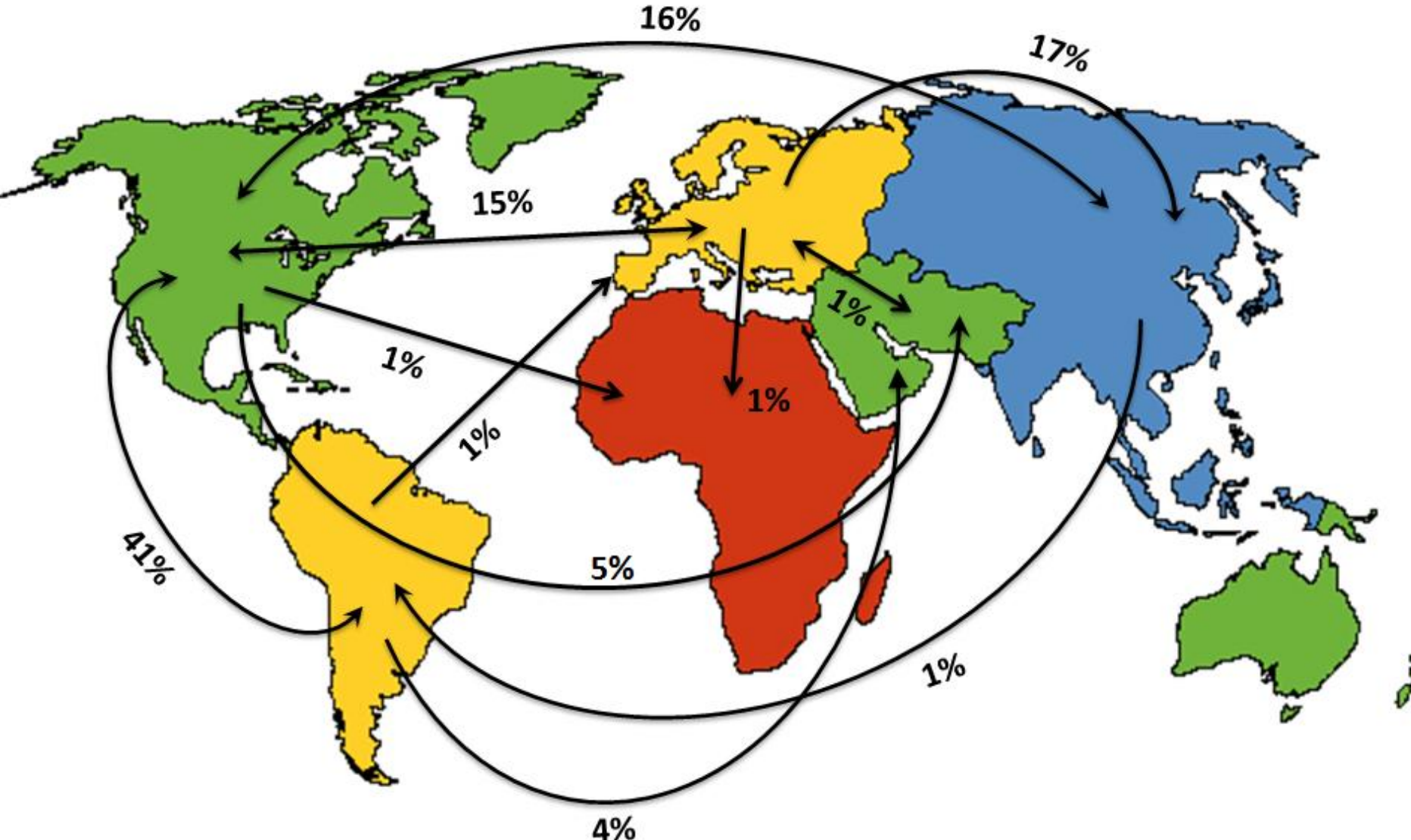
Kuala Lumpur, Malaysia

Auckland, New Zealand

Overview Continued

- Worldwide network of exclusive independent sales agents
- IFP's business model is based upon:
 - Strong market knowledge
 - Well managed financial controls & risk management
 - Keen logistics
- IFP annually conducts business in more than 80 countries around the world with over 300 active port pairings
- IFP is annually ranked as one of the USA's largest exporters by the *Journal of Commerce*

International Forest Products Trade Flows



International Forest Products- Influence in New England

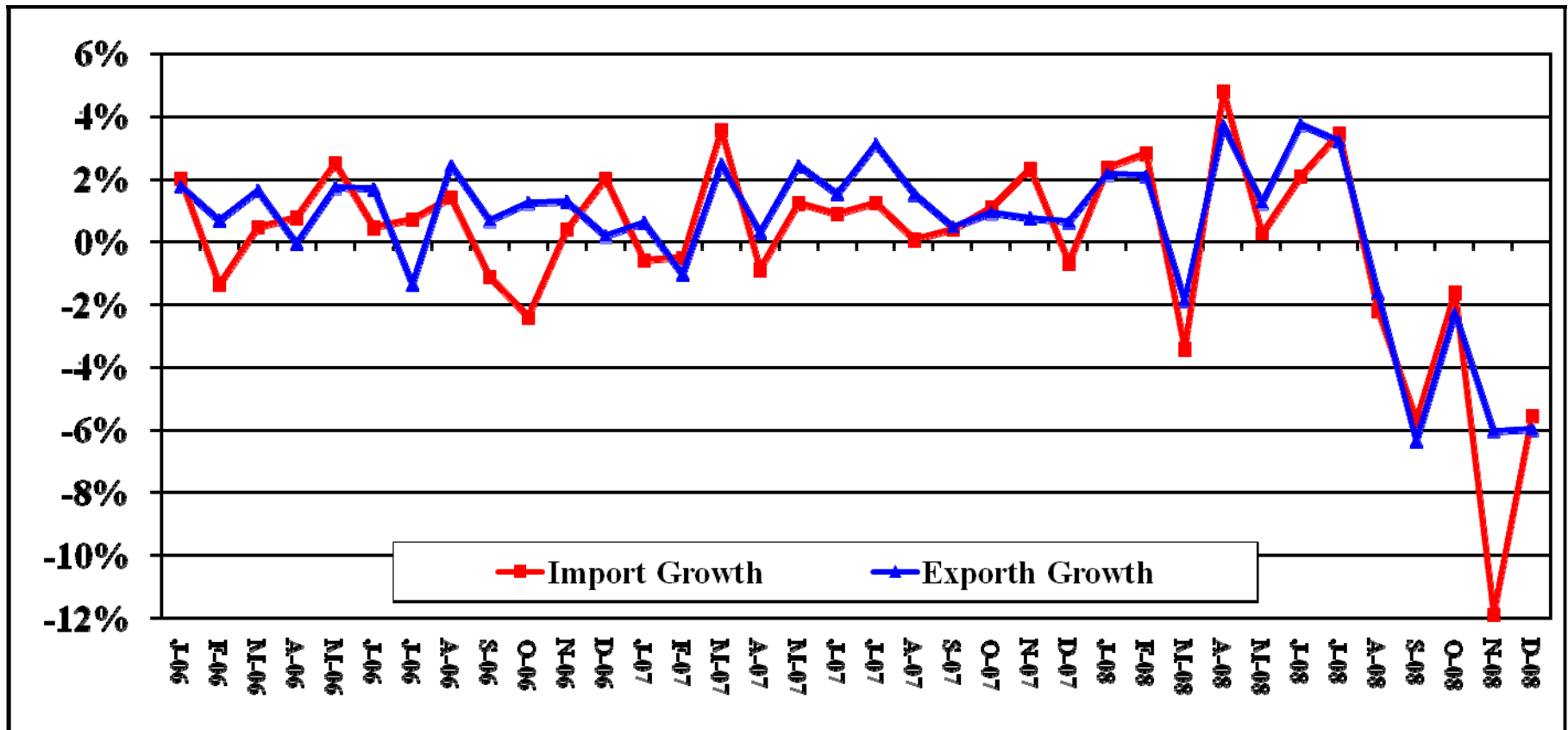
- Paper mill in Montville, CT
- Recycling plants in Woburn (MA), Worcester (MA), Pawtucket (RI)
- Corrugated box plants in Worcester (MA), Pawtucket (RI), Rochester (NH), Newtown (CT)
- Largest exporter through port of Boston
- Orchestrate truck & rail traffic in NE exceeding 45,000 loads/yr
- Use of breakbulk terminals in New London & New Haven
- Export wood pulp from Portland, ME



Economic Climate

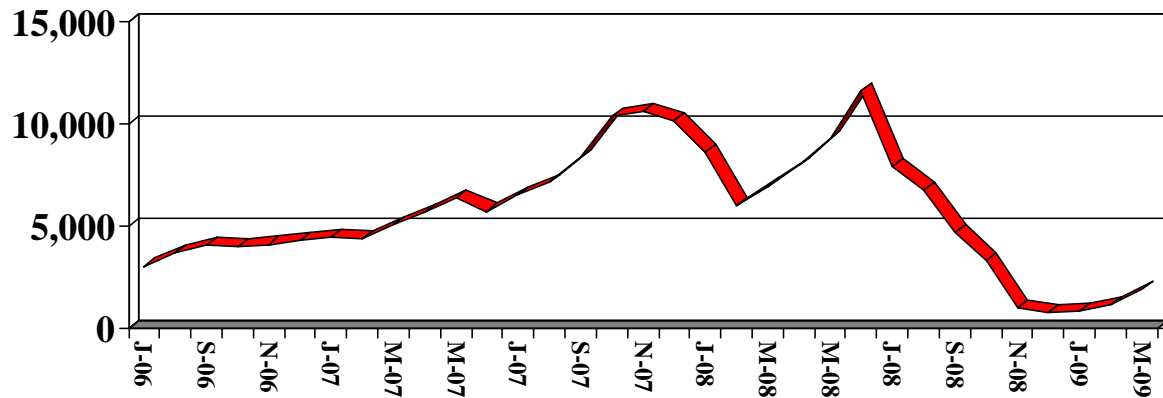
Macro Economy

- US Foreign Trade declining – Month to Month Growth



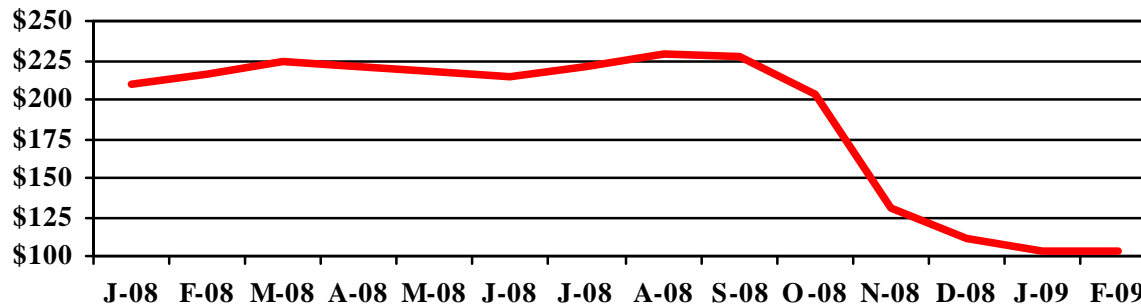
Macro Economy

- **Baltic Dry Index crashed in Q4 to under 1,000**



- **Fiber Commodities pricing showed similar drop**

Avg US Recovered Paper Price



Forest Products Industry Climate

- Lumber prices and demand are at a 20 year low (down more than 50% year to year)
- Corrugated box demand is down nearly 15% year to year
- Wood pulp prices down 25% since peaking in August
- Tight credit conditions are impacting the market as small buyers are being forced to pay cash
- Weak demand and an oversupply resulted in permanent mill closures and temporary downtime at the end of 2008 and into the first quarter of 2009
- Export demand, which had been supporting the industry, is expected to decline significantly in 2009
- Manufacturers are selling at levels which are below cash cost

International Forest Products- Accounts Receivable Metrics

	Dec. 07	Sept. 08	Jan. 09
Days Sales Outstanding	70	61	64
Receivables more than 60 Days Past Due	0.1%	2.1%	2.7%
Receivables more than 1 Day Past Due	21.1%	22.4%	28.3%

Risk

- Credit Risk
- Currency Risk
- Trade Risk
- Supply Chain Risk
- Regulatory Risk

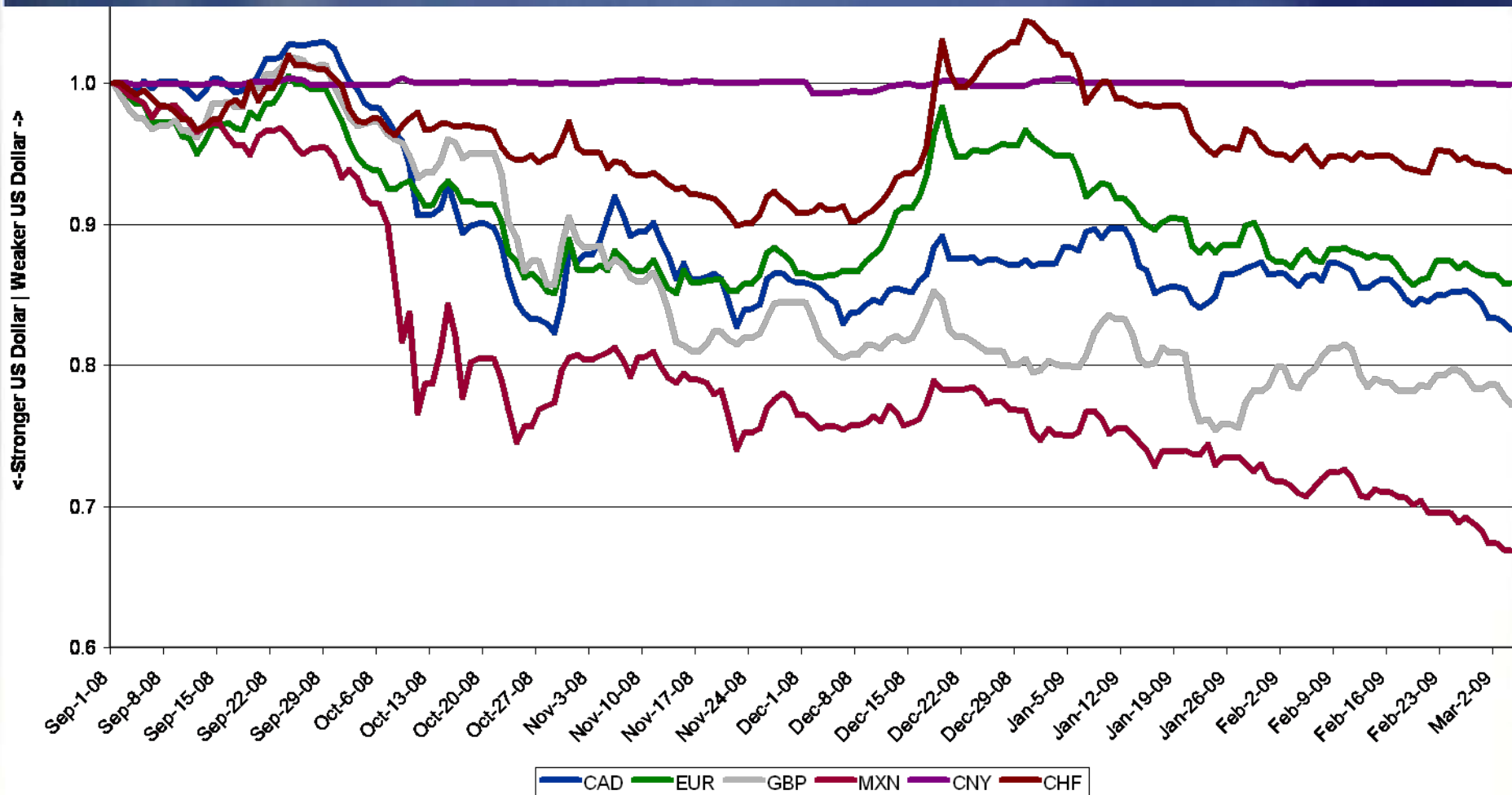
Credit Risk

- Understand your customers and your customers' customers
- Financial statements for Sept 08 or earlier are probably stale
- Customers who are profitable may not be enough. Understand balance sheet, foreign exchange exposure, debt maturities, and ability to refinance
- Letters of Credit:
 - Understand bank risk for both issuing and confirming banks
 - Develop relationships with local banks
 - “Fabricated” discrepancies are on the rise
 - Consider letter of credit confirmation or credit insurance on issuing banks
- Credit Insurance:
 - FCIA
 - AIG
 - Attradius
 - Euler Hermes
 - ExIm Bank
 - EDC
 - Coface
- Understand the strength of the underwriter

Currency Risk

- Review all purchases and sales to identify foreign exchange risk
- Look for natural hedges and lock in unhedged positions
- USD sales to foreign markets still have currency risk - it is just more difficult to manage (i.e. Mexico, India)
- Hedging is not a profit making opportunity. Hedging should protect existing profits
- Over-hedging creates just as much risk as under-hedging

Currency Risk



Value of 1 unit foreign currency in USD Indexed to September 2008

Trade Risk

- Understand Incoterms and each party's obligations in transactions
- “Quality” claims are on the rise
- Commodity prices are falling, increasing the risk of cancelled orders
- Transit Insurance:
 - Insurance claims are on the rise. Must manage customers who abuse the process
 - Insurers will look to deny claims. Understand coverage and quantify gaps
 - Consider contingency insurance on open account C&F transactions
 - Named/ unnamed warehouse coverage

Supply Chain Risk

- In today's economic environment, buyers are less tolerant of shipping delays which can result from the following:
 - Manufacturing delays
 - Port congestion
 - Container shortages
 - Labor disruption
 - Natural disasters: hurricane season in the US Gulf
 - War Risks
- Unpredictable events occur with regular frequency
- Build resiliency throughout the supply chain
- Diversify risk with multiple service providers
- Develop strong relationships with all service providers

Regulatory Risk

- As the global economy weakens, protectionism and trade barriers will continue to increase
- Expect Foreign Reaction for every US action

Recent trade “barrier” examples involving Forest Product sector:

- 2005 China anti-dumping duties on Linerboard – brought 2006 US response on thermal paper & other specialty paper grade imports
- Softwood Lumber Act – 2006 ADD/CVD dispute between US & Canada regarding “stumpage” rights and proper value of Canadian lumber exports
- China/India Licensing Agencies create informal trade barrier for recyclates
- Current Lacey Act impacting Lumber, Pulp & Paper HTS codes
- Stay on top of trade legislation
- Role of CONECT as lobbying interest for trade concerns

Risk vs. Reward

- Risk cannot be completely eliminated
- Understand profitability of product being exported, including the following:
 - Selling price
 - Cost (direct/indirect)
 - Cost of money
 - Opportunity costs
- Make certain profit justifies risk
- Communicate risk/reward trade-off throughout the organization

*International
Forest Products
Corporation*

