Independently compiled and edited company profile: Sappi Limited (Also known as the Sappi Group)

sappi

About Sappi Limited

Sappi Limited is a multinational company with its global headquarters in Johannesburg, South Africa. It has extensive (Approx. 500 000 hectares) timber plantations, 16 chemical cellulose, pulp and paper mills in 7 countries on three continents, sales offices in 11 countries, and sells its products in over 100 countries.

Sappi shares are listed on the Johannesburg Stock Exchange (JSE).

Sappi Ltd. (SAP)

LAST	CHANGE	%CHANGE
3980	**-38**	**-0.95%**
Open 3948	High 4037	Low 3977
Volume 190,497	Prior day's close 4018	
52-week high 4755 (2014/09/18)	52-week low 2816 (2013/12/16)	

All price data is as at 12:51 08/12/2014, 15 min delayed, except for 52-week high and low which is updated daily

Source: http://www.moneyweb.co.za/moneyweb-click-a-company/sappi-ltd

After previously delisting from the London (2009) and Frankfurt (2005) stock exchanges, Sappi also delisted from the New York Stock Exchange at the end of 2013. See http://www.sappi.com/regions/sa/service/news/Pages/Sappi-Limited-confirms-delisting-from-the-New-York-Stock-Exchange.aspx

Sectors / activities

- Pulpwood and saw-log plantations (South Africa)
- Timber milling (South Africa)
- Pulp and paper mills (South Africa, USA, Finland, Austria, Germany, Belgium and the Netherlands)
- Chemical cellulose (dissolving pulp) mills (3) – 2 in South Africa and 1 in the USA.
- Solid waste disposal, liquid effluent disposal, and emissions into the atmosphere – plus associated media misinformation, green-washing & propaganda.

Regions of operation

Sappi Southern Africa has three sub-divisions:
"Sappi Forests" which presently includes its pulpwood plantations in 3 provinces, and its saw-log plantations and the Lomati sawmill at Barberton town in Mpumalanga province, which are in the process of being sold. See: **SAPPI** sells off excess pine forest land in SA

“Sappi Paper and Paper Packaging” includes the Cape Kraft, Enstra, Stanger and Tukela mills and a minor portion of the Ngodwana mill. **“Sappi Specialised Cellulose”** includes the Saiccor Mill and most of the Ngodwana Mill.

In 2010 Sappi closed down its Usutu mill in Swaziland, and its Adamas mill in Port Elizabeth was closed in 2011. For further information on Sappi Southern Africa see: www.sappi.com/regions/sa/SappiSouthernAfrica/Pages/default.aspx

Sappi Fine Paper North America produces coated paper used in glossy magazines, flyers, catalogues, and books. With Headquarters in Boston, Massachusetts, Sappi Fine Paper North America currently has mills at Somerset (Skowhegan), Maine; Westbrook, Maine; and Cloquet, Minnesota. The Cloquet mill was recently fully converted to produce chemical cellulose. The mill at Muskegon in Michigan was closed in 2009; the mill at Mobile, Alabama was closed in 2001, and the Brainerd Mill in Minnesota was closed in 2002 as a condition of Sappi’s purchase of the Cloquet mill from Potlatch Corporation. For more information about Sappi Fine Paper North America see: www.sappi.com/na

Sappi Fine Paper Europe has its head office in Brussels, Belgium. It owns the Alfeld, Ehingen and Stockstadt mills in Germany, the Gratkorn mill in Austria, the Kirkniemi mill in Finland, the Lanaken mill in Belgium and the Maastricht mill in the Netherlands. In 2011 the Biberist Mill in Switzerland was permanently closed and the Nijmegen Mill in the Netherlands was sold as a going concern in July 2014. Sappi UK, a former part of Sappi Europe, owned 6 mills in England and Scotland from about 1990, all of which were closed down between 2000 and 2008. For more information about Sappi Fine Paper Europe see: www.sappi.com/regions/eu/Pages/default.aspx

Sappi International is the sales division which is based in Hong Kong, but with 11 sales offices (previously 26) scattered across the globe.

For more information on Sappi’s corporate structure and operations see: www.sappi.com/regions/sa/group/GroupProfile/Pages/Group-structure.aspx

Company history

Originally known as ‘South African Pulp and Paper Industries’, Sappi was formed in 1936 with a view to replacing costly imports with locally manufactured paper and packaging products. The first paper mill (ENSTRA) was built near the town of Springs in 1937, followed by the TUKELA mill at Mandeni in 1954. Over the years, Sappi has undergone numerous changes in its structure and areas of operation, and through mergers, acquisitions and disposals has now become a globally scattered collection of timber plantations, pulp and/or paper, and chemical cellulose mills under one ‘corporate roof’.

During the course of the past 15 years, Sappi has closed and disposed of 13 paper and/or pulp mills:– 3 in the USA, 6 in the UK, 1 in Finland, 1 in Switzerland, 1 in Swaziland and 1 in South Africa. Reasons given for the closing of these mills were that a decision had been taken “based on Sappi’s commitment to substantially improve profitability and returns to all its businesses”, its “strategic focus on high growth investments and debt reduction” and “Sappi's strategy to shut high-cost capacity” as well as to shift its focus to the chemical cellulose market. These closures resulted in the retrenchment of more than 3000 workers, and there are still many unanswered questions in respect of the long-term residual effects from the pollution generated by these mills during their lifetimes.

See timeline of events: www.sappi.com/regions/sa/group/Pages/Company-history.aspx

Current CEO, Chair and board

On 15 January 2014, Sappi announced that Ralph Boëttger would exit as CEO and Director on 30 June 2014. On 10 February 2014, it announced that Steve Binnie, then CFO, would succeed Ralph Boëttger as CEO on 01 July 2014. On 17 March 2014, it announced that Glen Pearce, then CFO of Sappi Europe, would succeed Steve Binnie as CFO, and join the Sappi board as an Executive Director on 01 July 2014.

See: **Sappi names new CFO**

Executive Directors	Non-Executive Directors
Chairman: Daniel Cronje	Godefridus Peter Franciscus
Group CEO: Steve R Binnie	Robert John DeKoch
Group CFO: Glen Pearce	Michael Anthony Fallon
CEO (N America): Mark Gardner	Dr Deenadayalen (Len) Konar
CEO (S Africa): Alexander van Coller Thiel	Nkateko Peter Mageza
CEO (Europe): Barend J Wiersum	John David McKenzie
Gary Bowles (Exec V/Pres: Specialised cellulose)	Mohammed Valli Moosa
Andrea Rossi (Group Head: Technology)	Sir Anthony NR Rudd
Lucia Adele Swartz (HR)	Dr Rudolph Thummer
Maarten van Hoven (Group Strategy & Legal)	Karen Rohn Osar
	Bridgette Radebe

Ownership and capital structure

Capital Structure

At its simplest level, "capital structure" means the proportion of **long-term ("LT" or "capital")** debt relative to equity; or, in other words, the extent to which the company is owned by shareholders (equity), who bear the bulk of business risk (in that they stand to lose all of their investment if the company fails), versus "owned" by lenders, who may also lose all of their investment if the company fails, but at least stand first in the queue for payout when it comes to liquidation. They also stand first in the queue for regular payments of interest (which are mandatory) at an agreed, fixed rate, vs. equity dividends, which are paid at the discretion of the directors. The ideal situation for shareholders is that the LT-debt-to-equity ratio is low (i.e. less than 50%), which means that when the business does well, as it should, more cash is available to them (as dividends), or to the business for being ploughed back into investment for growth.

Sappi's latest results (financial third quarter, ending **June 2014)** give **equity**, per the balance sheet, as **$1160m** with **LT gross debt** of **$2354m**, with a LT debt-equity ratio of **202% -** the inverse of the 'optimal' maximum (i.e. 50%). Using net debt (i.e. including short-term debt of $180m, less cash of $248m), it reduces to **197%**, indicating the scale of Sappi's long-term debt.

In other words, lenders "own" Sappi to the extent of double the amount that shareholders do. So, in the event of liquidation, there'd be nothing left for shareholders. Such a high ratio has been the "rule" for Sappi, rather than the exception, for some time. The following are **equity to "net debt"** ratios for the last 5 years (source: 5-year review, 2013 annual report, p 80):

2013:	2012:	2011:	2010:	2009:
194%	130%	142%	117%	144%

This long-term excessive debt is indicative of over-extending the business beyond its sustainable growth capacity, the first pre-requisite of which is being funded by internallygenerated cash flow. Such debt-financed growth can be seen as a criterion of poor, or over-ambitious, management, a view that should be shared by any prudent investor.

Who really owns Sappi?

Regarding who "actually owns" Sappi, as shareholders or as lenders, there is only one, single, beneficial equity owner, the **Public Investment Corporation (PIC)**, a South African Government wholly-owned investment management company whose "chief client", per its website, is the Government Employees Pension Fund. Per the latest (2013) Sappi annual report (p 82), the PIC owns **10.7%**. According to the Sappi company secretary (on 29/8/14), the PIC owns **10.99%,** so it appears that it has increased its stake since 2013.

The PIC is the only single ultimate (or beneficial) shareholder entity apparently owning more than the notifiable threshold of 5%. Why the PIC would want to own Sappi shares is a mystery, if indeed its priority is income, as it should be, given the nature of its chief client, because Sappi hasn't paid a dividend since 2009. Indeed its very profitability seems to be an erratic, hit-and-miss affair, given its dependence on volatile paper and paper-related commodity prices. The share price has shown no real direction over the last 5 years, trending sideways at best, as can be seen on p 78 of the annual report, though it has been moving up recently (see below).

Various investment funds (see below) own similar-sized stakes to that of the PIC, but these are on behalf of clients (the ultimate owners) whose shareholdings would not be discoverable to this investigation. However, portfolio managers would be accountable to such anonymous investors to explain the motives and ethics for investing part of their capital in Sappi shares.

Investors, other than PIC, holding 5% or more, are as follows (annual report, p 82):

Allan Gray: 19.4%
Coronation Asset Managers: 15.9% (updated per SENS announcement of 10/6/14)
Investec: 13.8%
Dimensional Fund Advisors: 5.4%
Prudential Portfolio Managers: 5.02% (updated per SENS announcement of 16/10/13)
(**Total here: 59.52%)**

Including the PIC, shareholders with notifiable interests thus hold a total of **70.5%** of the shares, and almost all are South African (p 3). Sappi directors own a mere 0.21%, although there is no requirement for its directors to own shares. See top 20 shareholders

Although Sappi's financial results are reported in USD, shares are quoted in South African Rands (ZAR). Since 2005 the exchange rate has changed from approx. USD 1 = ZAR 6.40 (ZAR1 = 16 US cents) to approx USD 1 = ZAR 10.80 (ZAR 1 = 9 US cents), meaning that SA Rands have lost nearly 40% of their relative value in 10 years. Therefore Sappi shares bought in 2005 for ZAR 75 (USD 11.80) each might now be worth a nominal ZAR 40 (JSE) (USD 3.60), having lost US investors USD 8.20 or nearly 70% per share, while the loss measured in ZAR as per the JSE would be misleadingly low by comparison.

Debt profile

In 2013, per the annual report (p 91) (i.e. at the end of the 2013 financial year), the LT gross debt/equity ratio was \$2499/\$1144 = **218%**. It's interesting to note how this debt is made up, by type and by geography. LT debt is of two principal types: bank loans and bonds. The significance of bank loan debt is that the lending bank normally holds the debt till maturity (i.e. payback time) in a contractual agreement. With bonds, the contract is tradable in the bond market, so the initial creditor may not be the same at maturity. Bonds

thus become speculative securities in much the same way as equity shares, though not with the same potential for loss, as explained above, though there is always "default risk" – i.e. risk of total loss as any loan can be at risk of not being repaid. Even with securitisation of bank debt, such loans may also end up owed to some bank (or other financial institution, such as a hedge fund) that were not the originator, rather like a bond.
For more on the nature of bonds etc., see box below.

Following is a summary of Sappi's LT-debt profile, per the 2013 annual report (data, p 73):

Long Term Debt In $m:

	South African	Non-South African	Total Debt
Bank Debt	**67 (2.6%)**	**671 (405 securitised) (25.6%)**	**738**
Bond Debt	**273 (10.4%)**	**1609 (61.4%)**	**1882**
Gross Debt	**340 (13%)**	**2280 (87%)**	**2620**

The reason for the discrepancy between the LT debt figure of 2499 per the balance sheet (p 91) and the 2620 per the debt breakdown (p 76) is not known. As indicated above, Sappi has $405m of securitised, non-SA bank debt which, if included in non-SA bond debt, would raise the latter percentage to 88.3% of total non-SA gross debt (instead of 70.6%), and 77% of total gross debt (instead of 61.4%). That 77% is, in effect, the extent of Sappi's anonymous, 'non-caring', debt financing or *de facto* beneficial ownership.

Issues arising from this analysis

Most of Sappi's debt is non-South African; and of that, the bulk is bond debt. Given the preponderance of debt in the capital structure, identifying any ultimate beneficial majority or significant "owner" of Sappi (other than the PIC) is an impossible and meaningless task. Sappi is thus truly a *global* public company, with the chief beneficiaries of income streams (as interest) arising from Sappi operations, and attributable to *de facto* (debt) ownership, being offshore and, for all intents and purposes, anonymous. We can talk of *"de facto"* (vs. *'de jure')* ownership because while a legal owner of an asset may have title deed etc, the fact and reality is that if this asset is not fully paid for and is tied as collateral to the lending institution, in the event of default, the legal owner is liable to lose ownership, at the lender's discretion. Any company, such as Sappi, which has a LT-debt/equity ratio greater than 100%, is therefore *de facto* "owned" by its creditors. The very fact that it has not paid a dividend for 5 years, while it must continue to pay interest on its debt, is a dramatic demonstration of how equity "owners" are "crowded out" by *de facto* debt owners when it comes to income payouts. They stand to be similarly crowded out in the event of liquidation.

Bank and Bond liabilities

Sappi's global financial dealings are controlled mainly by its administrative headquarters in Brussels, with Southern Africa and US operations taking subsidiary roles. For Sappi in Southern Africa, local institutions Nedbank and First National Bank (FNB) to a lesser degree, are used for retail banking purposes. For raising operating capital and funds to meet its commitments to its creditors and bondholders, Sappi uses commercial banks such as Nedbank Capital. In the EU, it appears that Sappi finances its operations via bonds issued by wholly owned subsidiaries, PE Paper Escrow GmbH, and Sappi Papier Holding GmbH. Sappi rolls over its short-term bond-finance debt on a yearly basis in order to maintain its liquidity, while trying to reduce its debt, currently well over USD 2 Billion, as well as the high interest it has to pay (USD 250 Million p.a.). Its total debt is spread over the three currencies: USD 59%, EUR 28% and ZAR 13%, split between public debt (87%) and bank debt (13%) (Source: Sappi Debt Update 2013).

Years & reference	Institution	Amount
2013 – 2020 SSA06	**Nedbank Capital (SA)**	**ZAR 745 million**
2013 – 2018 SSA05	**Nedbank Capital (SA)**	**ZAR 500 million**
2013 – 2016 SSA04	**Nedbank Capital (SA)**	**ZAR 255 million**
2013 – 2013 SSA03	**Investec Bank Limited (SA)**	**ZAR 400 million**
2012 – 2015 SSA02	**Nedbank Capital (SA)**	**ZAR 750 million**
2011 – 2016 SSA01	**Nedbank Capital (SA)**	**ZAR 500 million**
Loan due 2014	**Nedbank Retail (SA)**	**ZAR 397 million**
Loan due 2014	**Osterreichische Kontrolbank (EU)**	**EUR 320 million**
Revolving facility	**State Street Bank (US)**	**USD 136 million EUR 231 million**
Loan due 2015	**Rand Merchant Bank (SA)**	**ZAR 148 million**
Equity SD Warren 1994	**DLJMB (EU)**	**USD 125 million**
Equity SD Warren 1994	**UBS (EU)**	**USD 25 million**
Loan SD Warren 1994	**Union Bank of Switzerland (EU)**	**USD 200 million**
Loan SD Warren 1994	**Chemical Bank**	**USD 1,1 billion**
Guarantor for EU bonds	**Bank of New York Mellon (US)**	**USD 700 million**
Guarantor for sales income	**Galleon Capital**	
ADRs (terminated 2013)	**Bank of New York Mellon (US)**	**Variable**

The above table illustrates some of Sappi's dealings with financial institutions

Sources:www.capital.nedbank.co.za

Also see

http://www.wikinvest.com/stock/Sappi_(SPP)/Sappi_Fine_Paper_North_America

http://www.sappi.com/Investors/FinancialInformation/2Q%202014_4g76ci9_results/Debt%20Update%20March%202014.pdf

Pages 36 & 37 of Sappi's 2013 Group Financial Statements

General

The following data (from the 5-year review (p 80)) point to Sappi being a 'net destroyer of wealth' (i.e. in the conventional sense), at least over the last 5 years. This should come as no surprise, given the nature of its business (plundering depleting natural capital) and its proclivity for over-indebting itself in the pursuit of unsustainable growth, or maintaining a semblance of sustainability, or liquidity, at static, or even declining, levels of activity.

	2013	2012	2011	2010	2009
NAV/share (USc)	219	293	284	385	348
Market Cap ($m)	1317	1484	1535	2639	1989

"NAV/share" (i.e. Net asset value, or equity, per share) is a key indicator of shareholder wealth creation/destruction over time. It is simply equity (which is synonymous with "net asset value") divided by the number of shares in issue. **Market capitalisation** (i.e. number of shares in issue times the share price), is an absolute indicator of the size and potential of the enterprise, as rated by the market. Companies normally trade at significant premiums to their net asset value, showing that the market expects the assets employed to generate significant cash flow and asset growth in excess of current asset value. Equity in 2013 is reported as $1144m, thus showing a very low **15%** premium relative to its market cap figure of $1317m. With a market cap currently of R23.27bn ($2.18bn at R10.66/$, which is +66% on $1317m), it is trading at a much better premium to equity, given, in the latest results, as $1160m, making the premium **88%**. This much higher rating by the market is due to: (1) its newfound profitability (earning 3 US cents for the quarter in the latest results); (2) its repositioning as a producer of "specialised cellulose and packaging"; and (3) the recent agreement of sale of the Usutu business for R1bn (which will be used to pay down debt) (SENS 16/7/14), and the disposal of the Nijmegan Mill, for an undisclosed amount, effective 16/6/14 (SENS 17/6/14). This new rating, however, is at the expense of a shrunk, if leaner, business. Whether this new strategy will succeed or not remains to be seen, but the market is certainly hopeful.

Sources: 2013 Sappi Annual report and Stock Exchange News Service (SENS) announcements

Bonds (and securitised loans)

A bond is simply a debt contract which is specifically designed to be traded in a formal, highly liquid market, in the same way as equity shares are. Hence the price and yield of it will fluctuate according to market perceptions of risk vs. return, where the higher the perceived risk (of the issuer defaulting), the higher the yield demanded and received.

The way it works is as follows: The issuer (i.e. borrower) offers, say, R100 of debt in its business for an agreed interest amount, say R10, which equates to a yield of **10%**. However, the *amount* of interest (called the "coupon") is fixed rather than the *percentage yield*, so that the yield, as a percentage of principal, fluctuates according to the price paid for it. So if, in the market, buyers of this debt are only prepared to pay R90 for the originally R100 bond (because they think they might only get repaid R90 in the event of default), the R10 which the buyer receives in interest is **11.1%** (i.e. 10 as a % of 90) - a higher yield than the issued rate ("coupon") of 10%. This is why bond prices and yields move in opposite directions; and why, when we hear of a government's, or a company's, bond yields rising, it means that the market is selling them off because it perceives the default risk as rising. It is in *this* way (i.e. as an expression of a market's perception of risk/reward) that a bond market is similar to an equities market. Market players can also make money in the bond market simply by short-term trading them rather than buying them to hold to maturity.

The significance of Sappi's high component of bond debt is therefore that this type of lender is unlikely to have any *specific* or *enduring* interest in the nature of the business of Sappi, certainly to have zero interest in its ethical status, being only interested in making a profit in the market, based on whatever risk/reward criteria the market, on aggregate, deems important at the time. Bond holders thus may have a very different approach to that of a bank, for example, which normally has far more incentive to know the business, be close to management, and possibly even be ethically motivated (as some banks are, at least *pretending* to be, nowadays).

Nowadays, even banks are selling loans which they have originated (which is a new development, over the last 20 years or so), which is what *securitisation* is. These are bond-*like*, in that there is a market for securitised loans (albeit less liquid), and which introduces an element of anonymity into these loans – i.e. the original borrower no longer knows who its creditor is, and the lender has no knowledge of its debtor. If this sounds insane, it is, and it is also the principal reason for the financial crisis of 2008.

Key Issues

The production of plantation timber and the manufacturing of Sappi's paper and cellulose products are responsible for a wide range of negative social, economic and environmental impacts:

Social impacts

Negative social impacts include some that affect Sappi workers and members of local communities immediately and directly, as well as a number that have either indirect or 'downstream' impacts – only being felt years later. Taken together, direct and indirect negative impacts also bring cumulative harm to local communities and the environment.

Direct social impacts can include:

- Physical injuries (mainly to plantation and transport workers)
- Exposure to toxic chemicals (pesticides and herbicides)
- Exposure to polluted air in and around pulp mills
- Disruption of family life for plantation contract workers
- Displacement of rural communities by plantations
- Loss of access to surface water after plantations are established
- Loss of access to sacred sites such as ancestor's graves
- Loss of access to wild plants and animals for medicine and food

Indirect or 'downstream' social impacts can include:

- Gradual onset of disease due to exposure to toxins
- Conflict over natural resources due to loss of water and biodiversity
- Loss of livestock (cattle) due to reduced grazing
- Increased crime from non-local contract workers
- Increased risk of assault on women walking through plantations

Environmental impacts

Negative effects on the natural environment are also either immediate and direct or indirect but can sometimes only become evident many years later.

Direct environmental impacts can include:

- Destruction of natural vegetation including dependent wildlife
- Displacement of less damaging land-uses such as food-farming
- Loss of habitat and food for migrant animal and bird species
- Reduction of groundwater resource under and around plantations
- Introduction of potentially invasive alien plantation tree species
- Increased soil compaction caused by heavy logging equipment

Indirect and deferred negative environmental impacts can include:

- Increased fire risk to adjacent farms and habitat, especially forests
- Erosion and loss of top soil caused by disturbance during logging
- Increased silt load/turbidity causing downstream erosion and siltation
- Introduction of alien invasive plants and animals into plantation areas
- Loss of the naturally occurring indigenous soil micro-organisms
- Overall landscape degradation due to cumulative impacts over time
- Worsened effects of climate change due to soil desiccation by plantations
- Increased greenhouse gas emissions from plantations, pulp mills and dumps
- Waste products in rubbish dumps emit methane and pollute groundwater

Economic impacts

Negative effects on the local economy may be either immediate and direct, or indirect and deferred, but some impacts only become evident many years later, often on a wider scale.

Direct negative economic impacts can include:

- Loss of short-term income from existing land uses e.g. food farming
- Increased livestock grazing burden on scarce remaining grassland areas
- Rural depopulation due to fewer jobs available in timber plantations

Indirect and downstream/cumulative economic impacts can include:

- Increased costs to the state/taxpayers for support to the timber industry
- Cost of repairing damage to public roads caused by overloaded trucks
- Expensive infrastructure required for exporting low-value products (e.g. wood chips)
- Low financial returns on public funds invested into Sappi equity and loans
- The opportunity costs of using good fertile farmland for high risk plantations
- Costs of degradation and lost productivity are deferred to future generations
- The future cost of remediating land polluted through mill waste disposal

The costs of many of the negative impacts listed above can be described as having been ‘externalised’ by Sappi, as they have been made the responsibility of the relevant local communities and governments. However the worst environmental impacts can only be repaired through natural processes such as the regeneration of topsoil and biodiversity which could take many hundreds of years to recover. At the same time, polluting pulp and paper companies such as Sappi have already accumulated a massive ecological debt, and if all of these ‘externalised’ costs were to be valued in financial terms and then ‘internalised’ as balance sheet liabilities, they would exceed Sappi’s gross asset value many times over. This would mean that Sappi should be considered ecologically bankrupt.

In South Africa, endangered species such as the Blue Swallow, Wattled Crane and the Oribi Antelope have all been severely impacted by the loss of natural habitat caused by plantation expansion, as well as increased exposure to risks from toxic agrochemicals and poaching by temporary contract plantation workers. These impacts are a direct result of the conversion of biodiverse grasslands into sterile timber plantations, described by some as a ‘green blanket of death’; of which Sappi’s are among the worst in southern Africa.

Timber production is generally a lot slower in the North American and European regions, due to slower tree growth resulting from lower temperatures, although the resulting negative impacts of large-scale industrial tree plantations - clear-cut logging and pollution from timber processing plants and mills - still come with huge hidden ecological costs.

The timber industry’s self-serving response to this unpleasant reality has been to adopt forest and plantation management certification schemes, including those of the FSC (Forest Stewardship Council), the PEFC (Programme for the Endorsement of Forest Certification) SFI (Sustainable Forestry Initiative®) and the Rainforest Alliance. These schemes supposedly give assurance to consumers that certified products are derived from “responsibly managed forests”. However the reality on the ground, especially in the case of Sappi’s plantations in South Africa, is very different from its exaggerated claims.

The worst economic effects of Sappi’s operations in South Africa have been the acute hardship and poverty experienced by plantation contract workers, especially women, and their families and local communities, which, in effect, subsidise Sappi’s global operations.

For further information visit www.fsc-watch.org and www.wrm.org.uy

Dodgy deal

Sappi's 'triple green-washed' paper products

In 2005, the Sappi Stanger mill in South Africa was embroiled in a pollution scandal that threatened to do serious damage to the company's already shaky reputation. Samples of silt from a riverbed downstream from the mill were found to be contaminated with dioxins. See: **Chemical poisons found in KZN river** and - **The Current Ecological State of the Lower Mvoti River, KwaZulu-Natal** (abstract) and the full article **HERE**

Then, apparently as a well-timed knee-jerk response, **Sappi Stanger launched the "Triple Green"** range of paper products in 2006; accompanied by a blaring fanfare of green-wash, hype and narcissistic self-acclaim in Sappi-generated propaganda media.

See: **Sappi Triple Green Brochure**

Initially, Sappi's efforts to brand its "triple green" local paper products as environmentally friendly were based mainly on the claim that 60% of the fibre used to make them came in the form of waste fibre from processing sugar cane, called 'bagasse'. However in reality this material is not greatly different from the fibre produced from timber plantation logs, as the growing and processing of sugar cane is not much less environmentally harmful or as polluting as establishing alien invasive tree plantations and producing wood-pulp.

See: **Triple Green tissue products launched**

Sappi's 'triple-green' brand also relied heavily on the fact that its ecologically destructive, socially harmful and environment-polluting industrial timber plantations had been certified by the Forest Stewardship Council (FSC) as "responsibly managed forests". Using this dubious claim, Sappi has expanded its triple-green brand to include products from its other polluting mills as in the case of the "Typek" brand from its Enstra mill.

See: Sappi launches Typek Triple Green into the market

This deliberate mis-information flies directly in the face of Sappi's ongoing pollution of the Mvoti River from Sappi's Stanger mill efflent, as reported in this recent newspaper article:

Toxic spill fears as river turns black

November 26 2014 at 08:11am - By Colleen Dardagan

Durban - Paper producing giant Sappi has been identified in a massive effluent spill into the Mvoti River that has environmentalists and tourist businesses calling on the authorities to act.

Read the full article **HERE**. And see here too: Sustainable #sappi? **Look what their paper mill (Stanger, KZN, South Africa) has done to Umvoti River. Black, stinky**.

Other issues

Energy use and contribution to climate change

There is no doubt that Sappi has taken small steps to clean up its act in terms of energy use and efficiency.

However, this statement, *“Over 85% of the energy used by Sappi's North American mills* ***comes from renewable resources****, resulting in* ***one of the lowest carbon footprints*** *of any major North American coated paper supplier”,* fails to acknowledge the considerable greenhouse gas emitted from forest logging and timber plantation management activities, from log and product road transportation and shipping, from mill waste and effluent, and from the downstream disposal of end-user products, especially packaging and other disposable or un-recyclable items. Even so, it is now general knowledge that burning biomass instead of fossil fuels to produce steam and electricity cannot contribute much towards reducing emissions of greenhouse gases from pulp and paper mills.

Emissions of carbon through soil disturbance in forests and plantations, and the burning of logging residues; from chemical fertiliser and pesticide use, and of methane emitted from decomposing logging waste, also need to be quantified and addressed if possible.

An FSC certified Sappi plantation in South Africa after logging and burning

Greenhouse gas emissions from the combustion of fossil fuels used in Sappi’s extensive road, rail and marine log, pulp and finished product transportation networks also need to be quantified, and internalised in their carbon footprint calculations.

Heavily loaded timber trucks also damage roads and endanger other road users

The impacts and after-effects of mill closures

Sappi's decisions to decommission older and less profitable mills around the world may have made their bottom line look better in the short term, but this does not reflect the social and environmental costs of the many negative impacts that result. When walking away from these sites, Sappi has failed to take responsibility for dealing with issues such the cost of remediating waste disposal sites, such as at the Usutu mill in Swaziland, that unless properly managed far into the future, will continue to cause air and water pollution.

A small mountain of ash, waste and sludge at the now-closed Sappi Usutu mill

Toxic residues in soil and water from waste disposal sites

Recently Sappi Saiccor in South Africa has been challenged by local environmentalists regarding the company's solid waste disposal practices. Dumping of ash and mill sludge in the open next to streams and rivers has been the norm for Sappi Saiccor for many years.

See: Dumped ash sparks investigation

Also see: Saiccor pulp mill, South Africa | EJAtlas

Polluting mill waste dumped irresponsibly on nearby farmland by Sappi Saiccor

Pollution by solid, liquid and gaseous mill emissions

Although mill pollution is apparently fairly well regulated and controlled in North America and Europe, the same cannot be said for South Africa, where environmental laws that govern pollution emissions are often flouted, and/or poorly enforced by the authorities. It is strongly suspected that Sappi's operations in South Africa receive preferential treatment because of the large financial stakes held in it by two government entities, the PIC (Public Investment Corporation) and the IDC (Industrial Development Corporation).

Job losses caused by Sappi's restructuring efforts

The closure of more than half of Sappi's pulp and paper mills (13 in all), must have severely disrupted the local economies of the towns where these mills were sited, despite compensation agreed with various relevant worker organisations. While these decisions might have made economic sense to Sappi at the time, and might also have had some beneficial effects for the environment and community health, there will still be numerous unavoidable medium and long-term financial repercussions for the affected communities and governments, that are ultimately Sappi's responsibility.

Further reading

Wood you believe it!
Pulp fiction
Sappi making a big stink - Environment News South Africa
Wood-based Bioenergy: The Green Lie.pdf
Swaziland: The myth of sustainable timber plantations
Rich land, Poor man

Green-washing and media misinformation

http://www.sappipositivity.com/

http://www.sappi.com/regions/eu/SappiEurope/Documents/Two%20Sides%202013%20Myths%20Facts%20Sappi%20ENGLISH.pdf

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