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2019 Market Forecast

After a tumultuous
2018, what will 2019
bring us?

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The story behind the story

Two years ago, a mysterious white knight purchased the kraft pulp and paper mill in The Pas, Man., mere weeks before it was slated for closure by the former owner, Tolko Industries, citing financial unsustainability.

The closure meant unemployment for 330 workers and loss of an annual payroll of about \$37 million to the community, with the mayor stating that it would impact about a third of the town's population of 5,500 residents.

But the mill – which produces 165,000 tonnes of heavy kraft paper annually for such applications as cement, sugar, seed and potato bags – was purchased by an unknown player in Canada's pulp and paper market at the time: Canadian Kraft Paper Industries Limited (CKPI), in partnership with Swampy Creek Holdings, a local First Nations business.

Tears of sorrow turned to tears of joy just before Christmas in this remote, northern Manitoba community.

Yet, the whole transaction really begged for more investigation. There was a connection discovered between CKPI and a much larger conglomerate called American Industrial Acquisition Corp (AIAC), which at the time had practically no online presence.

Needless to say, this raised more than a few questions about whether this was some sort of scheme to take advantage of the five-year, 50 per cent property tax reduction, 10 per cent wage roll-back agreed to by the union, and a big concession from the province of Manitoba of a three-year exemption for making solvency special payments, that would otherwise have been required under the Pensions Benefits Act, for Tolko pension plans.

According to Premier Brian Palliser, this concession alone amounted to about a \$20 million saving.

Since 2016, however, AIAC has had a major coming out party. There is only one word really to describe the company – impressive.

The short explanation of what AIAC



The pulp and paper mill that was brought back from the brink.

does is that its owners like to shop. They buy underperforming assets at a discount, then turn them around into going concerns. The pulp and paper mill in The Pas fit all those criteria. It doesn't always work, but AIAC's track record is pretty good.

What's interesting about this firm is that they not only seem to be interested in acquiring underperforming assets, but they actually seem interested in operating the businesses after turning them around – proven by their continued joint ownership and successful operation of the CKPI pulp and paper mill in The Pas. Since 2016, it has invested over \$20 million into the mill. They have done the same to other Canadian assets like Arnprior Aerospace, which they acquired over 12 years ago, and continue to operate, and have since expanded.

This year, CKPI was awarded the Turnaround of the Year Award for a midsize company by the Turnaround Management Association, a global non-profit organization comprised of turnaround and corporate renewal professionals, with some 9,000 members in 49 chapters around the world.

In its rationale for the award, the association says that, "in 18 months, the mill went from multi-million-dollar losses in 2016 to a profitable 2017, to record profitability in 2018. CKPI's financial position is now solid and kraft paper is again the envy of the industry, with satisfied customers on five continents and a bright, sustainable future."

This alone would be cause for great

celebration, but there is more to the story involving the creation of greater business and employment opportunity for many First Nations communities living in that area of Manitoba.

In July, CKPI entered into a 50-50 partnership with a seven-First Nations-member corporation called Nekoté in a new venture called Nisokapawino Forestry Management Corporation (NFMC). It will co-manage 8.7 million hectares of boreal forest, sharing responsibilities for forest management, maintaining sustainable forestry practices, protecting environmental values, and bolstering local economies.

What's noteworthy is that this is the largest forest tenure in North America, overlapping with the traditional territories of nine First Nations.

"I'm excited about the partnership," says Chief Clarence Easter of Chemawawin Cree Nation, on behalf of Nekoté. "CKPI is the first company to recognize the value of working with First Nations."

Nekoté wanted this equal partnership because CKPI is operating in the First Nations' backyard.

"We make a living from our backyard," Easter says. "We have fisherman, trappers, berry pickers, and medicine pickers; we have wildlife like moose that are important to us. By bringing in the traditional knowledge of our people, we can improve the process. This is just the start. Now the real work begins with our communities."

NFMC will be responsible for developing forest management plans, silviculture and renewal plans and activities, and maintaining the CSA Z-809 Sustainable Forest Management and ISO 14001 Environmental Management System certifications. This includes commitment to community involvement and feedback as forest management plans are developed, which will strengthen engagement and create opportunities for community-based monitoring and oversight of existing operations. ❧