



Interview with Günter Dieball, Jürgen Evers and Ralf Schu:

"The output of PM 5 amounts to about 4 000 tonnes per employee and year"

On the occasion of the start-up of the new machine, apr talked to Günter Dieball and Jürgen Evers, who are now co-owners of



Papier- und Kartonfabrik Varel and members of the executive board of the main owner, the Gertrud and Hellmut Barthel Foundation. VAREL director Ralf Schu, whose responsibilities include selling the corrugated board base papers, took part in the interview too.

**Company founder
Hellmut Barthel
(1911-1999)**

apr: Papier- und Kartonfabrik Varel (PKV) is one of the few medium-sized paper and board manufacturers. It is majority owned today by a foundation established by Hellmut Barthel, who started the company. Mr Dieball, could you first of all explain the history of the company and its current ownership structure?

Dieball: PKV is majority owned by the Gertrud and Hellmut Barthel Foundation. The history of

the company goes back to Halbzellstoffindustrie GmbH, which was set up in 1938 and was bought by the textile manufacturer Hellmut Barthel, who came from the German state of Saxony, at the end of the 40s.

The first 750 tonnes per year of board were produced in Varel from 100% waste paper in 1952. We think that we were therefore pretty much the first to produce board from 100% waste paper. In response to the positive economic

development, Varel invested in another board machine in 1960. This machine now produces high-quality compact board with excellent strength properties in a basis weight range of 500 to 1350 g/m². Board machine 2 has a working width of 2.75 m and an annual capacity today of 80 000 tonnes.

Evers: The board manufacturing capacity was expanded systematically in 1966 by investing



The new management (from left to right): Horst Büsing, Klaus Schnitger, Uwe Wollschläger, Ralf Schu

in another short-former board machine. Board machine 3 now produces a large selection of grades. They range from white-lined and pigmented board grades to coated grades that are suitable for offset printing. The product range of the board division in Varel still includes grey and brown board grades for more sophisticated applications in this area too, however. Board machine 1 was shut down in the mid-80s. We have spent a total of € 75 million modernising KM 2 and KM 3 over the past twelve years.

They hold an outstanding position on the Central European market for standard board and compact board today, with a total capacity of 170 000 tonnes in basis weights between 300 and 1350 g/m². In 1974, we expanded our product range by adding the promising corrugated board paper product division. Flexibility in the satisfaction of customers' requests was already given high priority in Varel at this time and we decided in favour of a net working width of 5.10 m. A fact that will continue to give us an edge over machines

with a working width of 4.90 m or 5.00 m in future as the number of corrugated board machines with working widths of 2.80 m increases, since we can make combinations with the reel width of 2.30 m that is common in the corrugated board industry. This paper machine has been rebuilt on several occasions and is now in very productive operation in the basis weight range of 120 to 240 g/m², with an annual capacity of 230 000 tonnes. The two of us, i.e. Günter Dieball and I, joined the Varel shareholders in 1989. Since Mr Barthel did not have any direct descendants, he demonstrated enterprise and foresight in establishing the Gertrud and Hellmut Barthel Foundation as early as 1992. When he died in 1999, his shares were passed on to the Foundation, which holds a majority of the company's share capital today as a result.

Dieball: By taking this step, Mr Barthel created the basis for the company's survival as an industrial business managed by its owners. We have an extremely broad product programme in Varel with

the capacity that has now been increased by 250 000 tonnes per year. It will range in future from 70 g/m² fluting to 1350 g/m² compact board. Practically nowhere else in Europe can this be found at a single location. We do not just manufacture a large selection of products, however; with a capacity of 650 000 tonnes, we will in future be one of the most important production locations in Europe. This means that we can guarantee large customers the security of supply they require too.

apr: You reported your sales figures in apr, according to which roughly 310 employees generated sales of about € 120 million last year. How has production developed in the last ten years, apart from sales?

OUR CAPACITIES HAVE ALWAYS BEEN FULLY UTILISED OVER THE LAST TEN YEARS

Evers: We can say that we have always produced to our capacity



Günter Dieball (left) and Jürgen Evers

limits over the last ten years. There have been increases and decreases in turnover that are associated with the market situation. Since prices have gone down, turnover has fallen somewhat too, because we have been unable to compensate for this by increasing production. Turnover has been around € 120 to 125 million in recent years.

Dieball: In the last ten years, we have increased production by another third, so that we have produced about 360 000 tonnes per year in the past few years.

apr: Can you say something about profitability too?

Evers: We have rarely made losses. There has never been any danger of us going under, although we did experience difficult times in the early 80s. We succeeded in consolidating in the 90s. Since then, there has been an upward trend – supported by investments.

apr: Paper and board manufacturers need to make good profits. When they reinvest, they need to have generated funds in the form of internal earnings. Do you think

that the arrangement of having a foundation as owner – which is comparatively rare – is an advantage or a disadvantage?

Dieball: It is most definitely an advantage for our company in Varel. The ownership structure with a foundation makes it possible to continue the policy of paying modest dividends to the shareholders that Mr Barthel already followed. It goes without saying that an appropriate return on the capital employed is not unimportant to us either. We are convinced, however, that our industry can only serve the markets successfully if it maintains a high level of investment. As moderate a dividend policy as possible – thanks to the Foundation – supports this approach.

LOW STAFF TURNOVER

Evers: The structure of a foundation as co-owner means that Mr Dieball and I, who have been directors for many years, will continue to be involved in controlling the fortunes of Varel – as directors and as members of the executive board of the Foundation. Staff turnover at

our company is very low at all levels. All the members of the current Varel top management have been with the company for more than ten years.

apr: You are members of the executive board of the Foundation and co-owners who are very involved in the business?

Dieball: Yes, this is the way the originator of the Foundation wanted the executive board of the Foundation to be structured, in which Mr Evers and I together to all practical purposes hold a decision-making majority. I consider short lines of command to be a very important feature of our company. There are no restrictions for the younger members of the company management today either. We are always both decisive and aware of risks.

Evers: We have discussed the issue of investments in the next few years and will probably be continuing to invest on a large scale.

apr: What do you think are the biggest advantages? What risks does a medium-sized company face in your opinion when it is competing with large corporate groups?

Schu: We are absolutely convinced that companies managed by their owners will play a firm and important role in our industry in future as well. The present investment cycle in the paper manufacturing industry confirms this in principle too. It is very definitely the case that private companies are demonstrating particularly clear willingness to innovate and invest in new machines. The current investments are being made by Jass, Leydier, Hamburger and – last but by no means least – by us as well. In the final analysis, what we aim to do with this investment is send a positive signal to our customers that they will also be able to rely on us in future and that we will supply them with state-of-the-art corrugated board base papers with basis



Ralf Schu

weights of less than 100 g too. This is necessary so that corrugated board is also able to compete successfully against other packaging materials on the market. There is no doubt at all in our minds that we have the ability at our medium-sized company to implement customers' requests extremely quickly. The time between the customer submitting his request and implementation of it cannot be shorter than in our organisational structure. This is an invaluable advantage in view of the way the market is developing more and more dynamically and quickly.

I would also like to make it clear, however, that large corporate groups can be suitable customers for us.

Even though the current procurement policy followed by the global players is based more or less on integration, we believe that we can be an attractive partner for some integrated groups with the new products we are manufacturing on PM 5 and can supply certain niches there effectively that they cannot cover themselves. At the end of the day, however, it is also the case that we concentrate very strongly on serving corrugated board mills that are run by their owners. This remains our primary

focus. It is our firm conviction that we can help our customers to create an attractive competitive edge in the next few years, so that corrugated board mills managed by entrepreneurs continue to have a bright future in Germany as well.

apr: You mentioned a new corrugated board base paper machine. What thinking led to the installation of this machine and what corrugated board base papers are to be produced on the new machine for which markets?

Schu: There were two very dominant reasons.

First and foremost the increasingly loud demands made by our customers in the course of the years for corrugated board papers below 120 g/m². In recent years, the basis weights for the fluting have even dropped to around 100 g/m². Although this weight range can still be provided in good quality by our PM 4 down to 100 g/m², lower basis weights under 100 g cannot be produced as effectively with the technology that makes this machine more suitable for testliner and high fluting weights.

In order to be able to supply our customers inexpensively and

competitively in future, we had to invest in new technologies. The second important reason is what Mr Dieball and Mr Evers have already said about the subject of volume development. We have been producing to our capacity limits for some years now. Further investments in PM 4 do not necessarily make sense to us, because it is in itself a machine that has excellent technical equipment for producing testliner. A rebuild would in the final instance have made this machine into a dual-purpose machine that cannot operate perfectly at the lightweight end of the fluting range while being unable at the same time to satisfy our customers completely in the basis weight range beyond 140 g/m². Producing at our capacity limits for years prompted us to take the decision to continue exploiting the growth potential of the market. That has always been our company's philosophy. We have grown with the market and will be doing this in future with PM 5 too.

apr: What technical highlights do you think the new corrugated board base paper machine has to offer?

Evers: I have already indicated briefly that the machine design was discussed very precisely by us and our planning partner, VTP in Witzenhausen, with the two major suppliers. We are completely certain that we have chosen the optimum machine parts to manufacture the best product. I would like to come back here again to the peripheral investments that we have made.

Two years ago, we already expanded our power plant by adding a large new steam turbine and a big gas turbine.

We generate all the electricity with our own combined power and heat generation facilities using the gas and steam process. We are to all intents and purposes independent and only have a parallel mains operation. We have a system that was installed here for the first time

in Germany in 1989: the patented Hutter process, which incorporates intermediate exhaust gas cooling. This enables us to reach a low flame temperature in the boilers and very low NO_x and CO levels.

This is a tremendous advantage from the environmental point of view. The waste water treatment plant was extended one-and-a-half years ago on the basis of state-of-the-art principles too. Although it was already considered to be the best plant at the national level beforehand, it was expanded and optimised again. Now it is definitely better than the state of the art, a fact which has also been confirmed by the relevant authorities as well as by the Ministry of Economics of the State of Lower Saxony.

Another highlight of the paper machine: we have said that we will be creating 65 new permanent jobs. If you relate that to a capacity of 250 000 tonnes, you will arrive at an output per employee of 4 000 tonnes. This is a figure that has not been reached anywhere in the world before, as far as we know. It includes purchasing, sales, administration, storage, dispatch and the machine itself. So this is a real highlight of the machine, enabling us to compete at the level of our personnel costs too.

apr: What are your expectations about the quality that you produce on the new machine? You have said that there is a trend towards lower basis weights. For what markets – geographically in particular – do you intend to produce?

WE LIKE USING SHIPS TO TRANSPORT OUR PRODUCTS

Schu: It is certainly the case that we have always considered Europe to be our home market, with Germany as the focal point. We have always sold somewhat more than half of the total production of corrugated board papers in Germany. We were always highly geared towards Europe even when the EU

was not as strongly unified as it is today. We will be maintaining this approach. We think that it is advisable to spread sales across many different markets, in order to take advantage of the different economic developments in these markets.

Our location in Varel does not only have advantages as far as road transport is concerned. We are in something of a peripheral region here. But we are in a position to compensate for this very effectively by making heavy use of ships. I think that there are practically no other paper mills that are able to transport by ship at such low freight costs. We do this extremely efficiently. We have established an international distribution network, via which we have been serving customers successfully for years now in liaison with trading partners in overseas markets, not only in the Far East but also in many other regions of the world.

apr: So not just Great Britain, which is quite close, but also markets outside Europe are important to you?

Schu: Definitely. Overseas exports will be particularly important to us in the next few years, when we have to assume there will be very fierce competition in view of the many new capacities.

apr: Turning to the issue of the expectations on the quality of the papers produced and the start-up curve of the machine: what do you think you will be able to produce per day by the middle of the year?

Schu: Producing is one thing, selling is another. I have great confidence in our technology, because it has never disappointed us in the past years and decades. Our team of engineers here in Varel is exceptionally adept at looking after and optimising the machines.

We are working on the assumption that our machine will have a very good technical start-up curve, like other machines supplied by

Voith. For me as a salesman, the marketing start-up curve is more important.

And here we are assuming that we will be selling about 100 000 to 120 000 tonnes of top-quality products on the European market in 2005.

apr: In basis weights between 75 g and 120 g?

LIGHTER PAPERS ARE MORE EXPENSIVE TO PRODUCE

Schu: In the first year after start-up, the weights of 75 g up to about 90 g will not play a major role. They are certainly weights with future potential. In this context I have to make it very clear I am not sure that the square metre price advantages which corrugated board manufacturers have welcomed in recent years can be maintained completely in this low basis weight range below 100 g.

We will have higher production costs due to better waste paper grades or due to greater expense in the film press and higher electricity consumption because of higher speeds.

Evers: The question was also about our quality expectations. Since we held very tough guarantee negotiations with the two companies that were supposed to supply the machine, we are certain that we will manufacture a very good product, thanks in particular to the special gap former configuration, the Duo Centri Nipco Flex press and the film press. They are things that are not yet in operation in this form in Germany.

We are sure that we will provide the market with really good quality. We have optimised the water control systems emphatically again too. We are operating with very little fresh water, but are processing a great deal of purified biologically clean water, so that the COD of our finished paper will be considerably lower than others.



apr: You have now made an investment totalling € 120 million – not exactly peanuts for a family-owned company.

How have you managed to finance this? To what extent have you used internal funds?

Dieball: We have been able to finance the equipment mainly with internal funds and some bank loans and have only received modest grants by comparison with competitors.

It is our general view that subsidies should not be a major motivation for investments.

apr: Corrugated board processors' desire for lighter testliner and fluting is being viewed with some concern by competitors of your company, with whom I have already talked about the subject. Two reasons being because the envisaged basis weights of 75 g cannot be produced everywhere and because they are in addition paid for by the number of kilograms sold rather than by the number of square metres produced. What do you think about these problems?

Schu: As a salesman, I am delighted that our shareholders took this decision. If we had not done so, then I would agree with you that we would be in the same boat as many others, who really are very much more worried today. We will be able to cover the requirements with our PM 5. It is an enormous technical challenge to paper manufacturers to produce the paper with the strength and quality characteristics that are being demanded.

I would not want to talk about the production of 75 g/m² papers for corrugated board on a large scale as yet. One restriction does have to be made, however. We will certainly have the necessary technical skills. There must, however, be at least grave doubts whether the square metre price, which is the driving force behind corrugated board manufacturers' demands for lower basis weights, will also drop on a linear basis.

apr: A look at the political environment nowadays reveals that many entrepreneurs are critical of the general political conditions in Germany. What changes would you most like to see in this area?

TOO MANY RULES AND REGULATIONS

Dieball: The increasingly overwhelming flood of rules and official regulations is developing into a serious problem for medium-sized companies. The personnel and capital resources needed to satisfy these requirements are a challenge that is particularly difficult for medium-sized businesses to tackle effectively. One good example is the trading of pollutant emissions, which is creating bureaucracy of enormous proportions. Typical medium-sized businesses are not prepared for this.

Evers: Thanks – among other things – to the high level of acceptance of our mill in the region and neighbourhood and thanks to purposeful co-operation with the authorities, we did not have any difficulty obtaining approval for our machine. This should not, however, be allowed to obscure the fact that an immense amount of work had to be done. 16 copies of several files had to be submitted. Not only the anti-pollution approval procedure but also the environmental impact assessment and the review of the consumption of more fresh water take a great deal of time and effort. They would be an insurmountable obstacle for a medium-sized company that is not as well organised as we are.

apr: Did you appoint extra staff for this purpose?

Evers: We made use of an external engineering company to a minor extent. We were required to submit reports that we were unable to compile ourselves. They had to be produced by special experts.

apr: It can be assumed that the management at all levels will have had a heavier workload too.

Evers: That is unfortunately the case. Since we have a very streamlined organisation and lean structures, the demands on the management are immense.

The effect of this is that less attention occasionally had to be devoted to the normal business operations. We had to concentrate all our energy on PM 5 and other things that needed to be done and were done in the past had to be neglected.

Dieball: Coming back to the overall conditions: we continue to think that Germany is a competitive location for industrial manufacturing. It is, however, necessary for us to start reducing the barriers to entrepreneurial action to a greater extent.

Alongside flexibilisation of the employment markets and a reduction in the level of ancillary pay costs charged to employers, this is the main assignment the political community needs to tackle in the next few years, if it wants to strengthen medium-sized companies and maintain Germany's role as an industrial location.

apr: Many corrugated board base paper manufacturers are critical of the large fluctuations in waste paper prices, which – incidentally – are generally a complete mystery to outsiders or stock market players. How do you think the price of your most important raw material will develop in the next two years?

Dieball: It is practically impossible to give a proper answer to this question. The entire industry is complaining about the large fluctuations in the price of its waste paper raw material, which are triggered mainly by the export of our recycled fibre overseas. Germany could be self-sufficient even after the start-up of the new capacities in Germany in 2005. Enough waste paper is available.



If our European neighbours intensify their collection activities even more, it is not inevitable that the more serious problems some people are expecting will in actual fact occur. It is certainly the case, however, that no-one can count on a move towards less expensive recycled fibre in the coming years.

This is, however, a trend that we are observing with some concern, because packaging made from paper and board is a product that needs to be inexpensive in order to be able to compete successfully with other packaging materials.

1300 APPLICATIONS WITHOUT ANY ADVERTISING

apr: The new paper machine has created 65 new jobs. How many applications did you receive for the 65 positions? How did you carry out the selection process?

Evers: We were very surprised that more than 1300 applications reached us although we had not placed a single advertisement. A positive factor is that we have a very good reputation for safe jobs.

An article in the local newspaper by an environmental organisation described our mill as exem-

plary from the environmental point of view. These are background features that make us a popular employer. The applicants were first of all screened in an approximate selection process and were then arranged systematically. A committee with members from the works council and the personnel department in addition to the production manager for the two paper machines then made its choice. We have made very large investments in young staff and training.

We have always trained a disproportionately large number of apprentices, who receive additional instruction at the mill, i.e. their work is made easier, they are given extra teaching in mathematics, physics, English etc.

apr: Is that more necessary than ever before today?

Evers: It is necessary. We have at any rate achieved terrific success with it. Most of the apprentices have passed their examinations and tests with flying colours.

We have trained and continue to train numerous master craftsmen too, even when they will not be deployed in a supervisory position at the present time. A master craftsman as a machine operator with appropriately higher wages is already very valuable, however. For

four years now, we have been training staff in evening correspondence courses as well.

They are employees who have already been with us for years and have very good practical qualifications but are going back to "school" for a correspondence course because they want to receive advanced training. The paper machine is staffed almost exclusively with trained paper-makers.

apr: Quite a few of your customers are doing everything they can to avoid increases in the price of testliner and fluting at the moment and think that there will be such excess capacity for corrugated board base paper next year because of the start-up of new machines that prices will drop anyway.

Do you share this view?

FIERCE COMPETITIVE PRESSURE IN 2006

Schu: It is certainly the case that competitive pressure on the market will be increasingly immensely because of the machines that will be starting up in the next twelve months. There is no denying this. However, it is at the same time

Günter Dieball



Jürgen Evers



very frequently forgotten – since there are fewer press reports about it – that very many smaller capacities have been shut down in the past two years. The grand total of what has been taken off the market is considerable. We have felt this in 2004 too.

In the past two years, annual capacity of about 500 000 tonnes has been shut down in Central Europe. This is in itself the equivalent of the production of two PM 5 machines of the kind we have invested in. What we should not forget is the fact that the competitive pressure due to the reduction in basis weights will speed up the shutdown process among smaller machines even more.

With corrugated board growth of about 2% that we all in Central Europe can certainly hope to reach, relief of some 400 000 tonnes per year will be coming from this side too. Combined with the shutdowns, this ought to lead to more balanced markets again from 2007/2008 onwards at least. All of us definitely need to be prepared for a challenging year in 2006.

In 2005, I am assuming that the additional capacity will in practice lead to available production of about 500 000 tonnes. Taking into account the raw material price trend, where there is unanimous agreement that we cannot expect raw material costs to decrease, and also taking into consideration the fact that the profit margins of the corrugated board base paper manufacturers have suffered considerably in the past two years in particular, we are working on the assumption that the absolute prices in Euros per tonne will not be dropping significantly in 2005.

apr: We talked before about the lighter corrugated board base paper grades that some of your customers are demanding.

What do you think are the chances of producing such grades in view of the fact that more than just a few suppliers are critical of the increasingly poor quality of waste paper?

LIGHT TESTLINER IS AN INTERESTING PRODUCT

Schu: We are keen for virgin fibre amounting to about 20% to be maintained in the system too. This is also a basic precondition so that the entire fibre loop works.

We have, on the other hand, been complaining about this development for many years. I have been at Papier- und Kartonfabrik Varel since 1993. Ash levels back then were about 10% and the figure now is 14%. I am perfectly justified in claiming that our paper is better today than it was ten years ago.

Thanks to the machine technology and certainly thanks to additives as well, we have been in a position to counter this trend. To come back to the testliner you referred to: if the aim is to enter a range of 100 g or less, it is certainly necessary to use better paper grades to some extent, in order to fulfil the demands on the technology and appearance – a factor that should not be disregarded.

Light testliner as such will be a very interesting product for the future. There is much talk about light fluting at the present time. But if you take a look at the structure of corrugated board and hear the things my customers say, then I have to come to the conclusion that it may be very interesting to use light testliner for the outside layers of the corrugated board and to include appropriately stable fluting with high strength properties, in order to keep compression strength as high as possible.

This is particularly true of all the boxes where bursting resistance is of secondary importance and compression strength is a more significant factor. We are already noticing this.

Fluting with higher strength properties is being demanded.

apr: Where do you think Papier- und Kartonfabrik Varel will be in

three years' time? Can you earn the depreciation and interest charges for the new machine at the current price level?

STRATEGIC EYE FOR THE FUTURE

Dieball: As it has already been mentioned in the answer to your question about the start-up curve of PM 5, we have the firm conviction that we will utilise the full capacity of the new machine in three years and that the three other machines will maintain their established position on the market too.

We are also working on the assumption that we will earn the depreciation and interest charges for the new machine. What is needed here, however, is a strategic eye for the future. It is definite that the running-in phase cannot be the yardstick here. We are confident about the future, however, not least of all because of our extremely sound financing structure.

In view of the very dynamic progress that is being made in product development, we will certainly be dealing with new projects again in three years' time, in order to keep Papier- und Kartonfabrik Varel firmly on the right track for the benefit of our customers.