Marketing Papers Made from Kenaf Fiber

By: Brandon Davis

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Some of you have been following developments in kenaf paper for years and some of you may not know all that much about it. This will be a nontechnical discussion of the history of kenaf paper, the current markets and the extent to which we plant to broaden those markets. All of you are here because you have some sort of interest in the development of kenaf for various uses. According to the North American Pulp and Paper Fact Book in 1998 over twenty-six million tons of printing and writing paper were produced in the U.S. The potential for the kenaf paper market is that big. All of the other kenaf markets would benefit from the kind of mass use that would come from paper production.

In the U.S. kenaf paper gained recognition in the 1950's when the USDA began a study called A Search for New Fiber Crops. The purpose of the study was to investigate new crop alternatives for U.S. farmers. Finding a fiber crop that can be used as a raw material for commercial papermaking was one of the priorities. The study evaluated over 500 different materials that can be used for papermaking. Kenaf was picked as the most viable replacement for trees for commercial pulp and papermaking in the U.S. They picked kenaf because of fiber properties and crop economics. This means that kenaf has more potential than any other fiber to cause a paradigm shift in the pulp and papermaking industries, away from one that relies on forest ecosystems and chemically intensive pulping processes, and toward a sustainable solution. When the president of Vision Paper, Thomas Rymsza, learned of this study in the late eighties, he decided to take some big risks and try to turn this into a business that he called, appropriately, Vision Paper. He actually began handmaking paper out of kenaf that he grew in his backyard. Finally, in 1992, he convinced Acusta mill in North Carolina to pulp kenaf and run it on their fourdrinier paper machines. Pioneering this whole process and convincing paper mills to run this new fiber on their equipment was no easy task but gave birth to a new and better way of manufacturing paper in this country.

For the next five years, Vision Paper manufactured lightweight text and cover papers exclusively out of 100% kenaf. Retail prices of these papers were high but customers were impressed with the quality and environmental integrity of the paper. In 1997, after successful testing, Vision Paper began producing papers that blended kenaf fiber and recycled wood fiber. This gave us options. Thicker text and cover papers contain significantly more fiber than lightweight papers. Producing thicker papers using only kenaf has always been possible but the price points would have been extremely high. Many paper consumers prefer printing their publications on heavier weight papers. The new kenaf/recycled blend allowed us to be able to produce kenaf content sheets that are heavier, and competitively priced. Now our blended papers are our best sellers.

There are so many types of papers that are out there. The versatility of the kenaf fiber allows us to be able to produce any of those papers but as a small company, we have to capture these markets one step at a time. Early in the year 2001 Vision Paper came out

with the first coated kenaf sheet. Coated papers are papers that have a light clay coating that creates surface characteristics that allow colors to show up better. Our coated kenaf papers are blended with recycled wood fiber. They are becoming quite popular with companies printing high end reports and brochures. The most recent addition to our product line is a 100% kenaf sheet that is bright white but still totally chorine free. Since most of our sheets are a natural cream color this new addition helps us capture additional markets. We also custom manufacture to meet customer needs.

Like any company we certainly have our obstacles. In the long run kenaf paper will be price competitive with wood based paper, which I'll talk about in a bit. As for now, it is more expensive than most other sheets out there. There are several reasons for this. Most of it can be attributed to the fact that we use existing pulp and paper mills. To get our relatively small paper runs coordinated with pulp and paper mills that are used to dealing with giant paper companies that are producing millions of pounds per year isn't cheap. To gain additional clout with our vendors, sales must be increased.

One recent obstacle to any paper company is the popular trend of putting material on the internet instead of printing publications. Printing is expensive so it does make sense to a lot of companies. Ultimately printed material will always be a necessary component to keep customers thinking about the product or service, generate investor interest, and maintain membership levels.

Another hurdle is trying to convince someone to pay more for paper in a slow economy. Many companies are leaning away from putting money into using environmentally preferable papers. Getting people to pay even more than they would pay for recycled paper isn't always easy. This is why we target publications with extensive design or printing costs associated with them. With these types of publications, paper is only about 1/3 of the overall cost of the job, so the increase in paper cost shouldn't significantly affect the overall job cost. When the marketing executives look at this, they often feel that the price difference is worth the public relation value that follows.

The existing distribution systems that are in place are often unkind to the idea of a different source of paper. Often when there is interest, someone along the way has an incentive to sell a different paper so they tell the customer that kenaf paper is not available or doesn't run well. If we are not following up on an account to knock down this misinformation, chances are that we may not get the sale. Since we are the only ones producing kenaf paper on a large scale, if they are sold on the idea of kenaf, they are sold on our paper. The existing pulp and paper industry does not want to see kenaf paper become mainstream. Obviously they have incredible amounts of money put into forested land, and equipment built to cut down, chop up and spit out trees. Kenaf represents a change that puts that money into farmers' pockets instead.

So is anybody buying kenaf paper? Absolutely. In the last two years our first quarter sales have increased 290%. The number of small, medium and large accounts are all increasing. Our staff is becoming more effective at working together to generate interest, process sales and give customer service.

Our customers are happy to have tree-free and tree-free content sheets available to them. Many other companies that were producing tree-free papers have discontinued those

lines. Domtar Weeds and Crane's Continuum are two examples of large paper mills making tree-free specialty papers that were recently discontinued. Those lines were treated as specialty papers instead of their main product. We are manufacturing paper out of kenaf with the intention of pushing this stuff into mainstream status. It's not something that we offer as one option. We feel that kenaf is so important that it is a percentage of all of our papers. Our range of customers is very broad so I'll discuss three segments. Environmental groups, corporations, and government entities.

Environmental groups such as the Sierra Club, Co-op America, Native Forest Council, Siskiyou Project, and TreePeople give our product credibility simply by using our paper. We get a lot of calls from people that notice that an environmental group that they support is using our paper and they would like to switch. They feel that if it is good enough for people that work so hard to protect the environment, it must be good enough for them.

The federal government is an area of high potential for additional sales of kenaf paper but currently is not a huge customer. They are talking about it. In December of 2001 I participated in a conference call that discussed environmentally preferable papers and was geared toward government purchasers. Vision Paper and our kenaf papers were mentioned several times. In fact, one of the speakers, Dana Arnold, the head of the White House Task Force on Recycling, even listed kenaf paper as a prime example of a biobased product. The significance of this was realized five months later when the 2002 Farm Bill was released. In it, the administration encourages the purchase of biobased products by all federal agencies. We do plan to aggressively target some federal agencies to introduce them to kenaf paper but working with the government is always a time consuming, twisted venture. As a small company, our time spent is most effective targeting corporations and other large, private sales.

Corporations such as Disney, BP Amoco, Texas Instruments and Motorola strategically use kenaf paper for publications going out to the public. By including a story about kenaf and their commitment to preserving the environment, they effectively portray a positive message to readers. We love to get these sales. They are usually high volume sales that also have an impact on decision makers in other companies. Just like the environmental groups, if it is good enough for Disney, it is good enough for my company.

Two of our largest customers are insightful companies who just found a niche that wasn't filled.

Tree Free Greetings is a New Hampshire company that produces greeting cards exclusively on our kenaf paper. The cards and envelopes are printed with matching images. On the back, there is a paragraph describing the importance of kenaf paper. They are now available in many museums, specialty stores, and gift shops across the country. Initially we were making only the envelopes. We specially manufactured them a white, 100% kenaf sheet. Now, we also manufacture the paper used for the card. It is also specially made and is gloss coated on one side and matte coated on the other. These cards are getting into the hands of 100s of thousands of people and sparking lots of interest.

Another company, O'Brien and Whitaker, began manufacturing small, bound notepads and notebooks called Boku Books. During book production, instead of discarding offcuts

from books, they began using them as little notebooks. To sell these books they needed a marketing spin. They decided to use our kenaf paper and include an insert that describes the importance of kenaf paper. They are currently using the blend but intend to switch to 100% kenaf in the near future. They have recently entered into an agreement with a distribution company and expect their sales to greatly increase. With these types of accounts where people make kenaf a selling point for a retail product, the manufacturer, designer, and the retailer are all happy because they are all making money.

So what are the borders of this market? As I said earlier, in 1998 there were over 26 million tons of paper produced in this country. We think that we could likely capture the majority of that market. In order to get there, kenaf pulp needs to be competitive with wood pulp. If we were to continue to depend on existing pulping facilities, our costs would be higher. We need our own mill.

After years of planning, we are getting closer and closer to a groundbreaking. Why have we worked so long and hard on a pulp mill? The potential is huge because we will see efficiencies that cannot be seen in any wood based pulp mill. Lignin is the glue that holds the cells of the plant together. It's what you have to cook out in order to free the cellulose to produce a pulp product. Kenaf contains much less lignin than trees. So, we are able to produce kenaf pulp with less chemicals, heat, water and energy than producers of tree pulp. Also, we will be growing all of the kenaf that we need near the mill so transportation costs will not be an issue. These savings will allow our small kenaf pulp mill to produce kenaf pulp that will be at least cost competitive with wood pulp.

The significance of being able to produce a high quality, competitive pulp becomes even greater when you realize that pulp prices are increasing over time. Our numbers are for the first kenaf mill that has ever been produced. When subsequent mills are built, additional efficiencies will be realized. Also, as with any new crop, kenaf yields are likely to increase over time. We are already producing more fiber per acre per year than forests. When yields increase we will be producing even more fiber per acre than and be able to lower our raw material costs.

The road behind us and ahead of us is certainly not free of obstacles. It has taken some dedication and breath holding to come this far. The possibilities have been understood for a long time. We are up against some of the largest corporations in the world that don't want to see this happen because they own millions of acres of timberland. The fact is that there is a very good chance that this will make economic sense. I'm confident that our free-market society will choose the option that makes economic, social and environmental sense. Thank you.