



INTERNATIONAL PAPER COMPANY

A SHORT HISTORY OF INTERNATIONAL PAPER

GENERATIONS OF PRIDE

INTRODUCTION

On the threshold of the 21st century, International Paper is a diversified, global company with manufacturing operations in the Western Hemisphere, Europe, Asia and South Africa. Its international presence is the result of long-term changes that evolved since the company's founding in 1898. Starting as a pulp and paper company based in the Northeastern part of the United States, IP expanded into Canada and the American South during the 1920s. Three decades later the company began expanding beyond North America. This was followed during the 1980s by the acquisition of subsidiaries operating in Europe, South Africa and Asia.

ORIGINS AND GROWTH, 1898-1940

Incorporated in Albany, New York, on January 31, 1898, International Paper

was a merger comprised of 17 pulp and paper mills. Production facilities ranged from a small mill in Turners Falls, Massachusetts—which produced 11 tons of paper per day—to the Hudson River mill in Corinth, New York, one of the most advanced in the industry with a daily output of 150 tons. Holdings also included 1.7 million acres of timberland in the Northeastern states and Canada. During its early years, IP was the nation's largest producer of newsprint, supplying 60 percent of all newsprint sold in the United States and exporting to Argentina, England and Australia.

The company became an industry pioneer under the leadership of Hugh Chisholm, who served as president from 1898 to 1907. Milestones included the construction of the first laboratory in the American pulp and paper industry in Glens Fall, New York, the industry's first collective bargaining agreement and an innovative timber harvesting system that

protected young trees. Operating in the Northeastern United States, the heartland of the turn-of-the-century pulp and paper industry, IP employed some of the nation's most experienced papermakers, many of whom had honed their skills during decades of shop floor labor. These workers knew their pulpwood grinders and paper machines inside and out and rarely needed the advice of managers, who usually concentrated on administrative and financial matters.

The company's newsprint business declined after 1913, when the United States Congress eliminated tariffs on low-cost Canadian imports, which flooded U.S. markets, eroding IP's mar-

Above International Paper played a major role in the development of the "second" and "third" forests in the south. This photo is part of the second forest near Natchez, Mississippi.

ket share. Moreover, the company became embroiled in a labor conflict in 1921 that disrupted its system of collective bargaining. IP was subsequently led by Archibald Graustein, president from 1924 to 1936. Graustein reinvigorated the company's newsprint operations by forming Canadian International Paper, an IP subsidiary that acquired vast tracts of timberland in Canada and constructed some of the world's largest newsprint mills in the Province of Quebec. Within the United States, the company diversified into Southern kraft paper production by acquiring two mills in Bastrop, Louisiana, and one in Moss Point, Mississippi, and by building new mills in Camden, Arkansas, and Mobile, Alabama. Consolidating its operations in the Northeastern part of the United States, IP sold or closed several older mills and converted the remaining ones from newsprint to book and bond grades. The company also built up an extensive hydroelectric power business in the Northeast and Canada. This venture had to be dissolved when Congressional legislation prohibited the combination of manufacturing operations and electrical power production.

The Great Depression of the 1930s marked a difficult period. Like most manufacturing companies, International Paper suffered severe financial losses due to the unprecedented economic downturn, forcing the company to reduce output and lay off workers. In addition to selling off poorly performing subsidiaries, the organization weathered these hard times by introducing a range of new products and, later, by branching out into the packaging business. In 1931, IP became one of the first paper companies to manufacture linerboard on the Fourdrinier machine, which produced inexpensive, high-quality grades for use in corrugated containers. Major customers for this product included a leader in the corrugated container industry, the Agar Manufacturing Corporation, which was acquired by IP in 1940. This transaction made the company one of the first integrated linerboard manufacturers in the American pulp and paper industry.

Other efforts to develop new business followed the same pattern. In 1939, IP pioneered bleached kraft grades for fold-

ing cartons, tags and file folders and supplied the first bleached kraft paper grades that were suitable for milk carton production. The company sold the bulk of its milk carton board output to Single Service Containers. Determined to expand its presence in the converting sector, IP acquired Single Service in 1946 and later turned it into an integrated liquid packaging operation. The company also laid the foundation for its specialty products business during the Great Depression. During the early 1930s, it formed Arizona Chemical as a joint venture with the American Cyanamid Company. Arizona Chemical refined crude liquor turpentine, a by-product of the sulfate pulping process, and later became a specialty chemicals producer with operations in the United States and overseas. In 1939, Canadian International Paper teamed up with the Masonite Corporation to build a hardboard products plant in Gatineau, Quebec. Almost five decades later, IP acquired Masonite with operations in the United States, Europe and South Africa. The quest for new

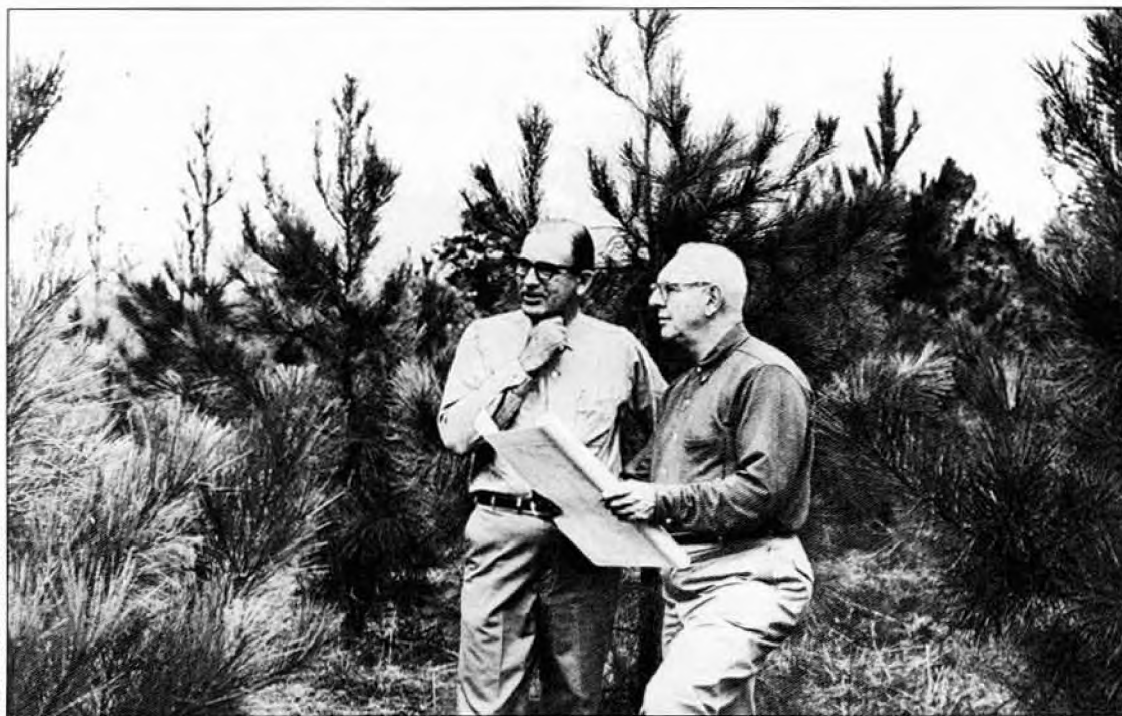
technologies, products and markets during the Great Depression of the 1930s was initiated by Richard Cullen, who served as president from 1936 to 1943, and as chairman of the corporation from 1943 to 1948.

VIEW FROM THE TOP, 1940-1960

The early 1940s marked a watershed in the history of the company. In 1941, International Paper completed a large-scale reorganization that recapitalized the company and simplified its corporate structure. During World War II, International Paper converted some of its manufacturing operations to the production of military items. These included the V-1 Box, an ultra-strength container developed by IP that replaced wooden crates for the shipment of military supplies. Featuring five layers of moisture-proof kraft board laminated with insoluble adhesive, the V-1 Box underwent rigorous testing, in which it was left to soak in the ocean surf for 24 hours and then dropped repeatedly on a con-



Wet-strength linerboard produced at the Georgetown and Camden mills was used to produce these "V boxes" for American servicemen and women overseas.



Established by IP in 1957, the Southlands Experiment Forest became the company's central forest research facility that developed management techniques and the SuperTree™. Fred C. Cragg (left), vice president and general manager-woodlands, Southern Kraft Division and Lawrence J. Kugleman, vice present and general manager-woodlands, inspect a test plantation of slash pine trees grown from genetically improved seed at the SEF in Bainbridge, Georgia, 1966.

crete floor. Using large amounts of recycled paper, IP also manufactured kraft cases for the transportation of gun shells and hundreds of other military items. Nitro-cellulose for explosives was made from dissolving pulps produced by Canadian International Paper's mills.

The postwar era witnessed unprecedented growth and prosperity. John Hinman, who led the company as president from 1943 to 1954 and as chairman from 1954 to 1961, reduced its debt to zero and increased dividend payments. During his tenure, International Paper established a research laboratory at Mobile, Alabama, and the Southlands Experiment Forest at Bainbridge, Georgia, which developed IP's SuperTree through selective breeding of genetically superior pine trees. In 1950, the company started a dissolving pulp mill in Natchez, Mississippi, that was the first to use 100 percent hardwood, and started a paper mill in Pine Bluff, Arkansas, producing newsprint, milk carton grades and lightweight white papers.

In 1956, IP acquired the Long-Bell Lumber Corporation in an attempt to diversify into markets outside paper production and conversion. Although the Federal Trade Commission initially argued that this transaction violated anti-trust legislation, the merger was eventually approved. The struggle with federal

authorities over the Long-Bell acquisition, however, convinced IP to proceed cautiously with further efforts to expand beyond pulp and paper. As a result, IP became less diversified than major competitors during the 1950s and early 1960s, leaving it more exposed to the highly cyclical market for newsprint and kraft paper products. The company tried to address the diversification problem during subsequent years, but a viable solution was not implemented until the 1980s.

The late 1950s marked the beginning of International Paper's expansion overseas. The company had been a major exporter for decades and maintained sales offices in London, Paris, Zurich and Johannesburg. In 1959, it added the first overseas manufacturing operations through joint ventures with container companies in Israel, Germany, Greece and Italy. The same year it organized a new subsidiary and built a liquid packaging plant in Caracas, Venezuela. It also acquired major shares in a bagasse paper mill in Cali, Colombia; converting operations in Arecibo, Puerto Rico; and a folding carton plant in Mexico City. Also in 1959, International Paper first achieved \$1 billion in sales.

Under the leadership of Richard Doane—elected president in 1954 and chairman in 1961—International Paper

further developed its pulp and paper business. Responding to growing competition that resulted in a decrease of domestic market share, Doane established a creative marketing center and launched an innovative sales training program. On the manufacturing side, IP added new mills in Vicksburg, Mississippi; Gardiner, Oregon; and Jay, Maine. In 1962, the Georgetown, South Carolina, mill became one of the first in the pulp and paper industry to install computerized information and process control systems. Improving its converting operations, IP built and acquired liquid packaging, corrugated container and folding carton plants in the United States.

THE CHALLENGES OF CHANGE, 1960-1980

International expansion continued throughout the 1960s. Overseas manufacturing operations acquired during the 1960s included corrugated container plants in Catania, Italy; Bilbao, Spain; and Arles and Mortagne, France. These facilities improved International Paper's presence in the European market. The company also built new corrugated container plants in Pomezia, Italy; Guadeloupe, French West Indies; and Las Palmas, Canary Islands.

IP's Thomas Busch developed machinery that influenced later developments in logging operations. The most famous is the Busch combine or "Buschmaster" shown here circa 1960. It cut individual trees, delimbed them, cut them in lengths and stacked them.



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International Paper entered a critical period in the late 1960s. Controlling valuable and debt-free assets that had been built up over decades, IP witnessed an era of an unprecedented number of mergers and acquisitions. To avert a hostile takeover and tackle IP's diversification problem, Edward Hinman—elected president and CEO in 1966—increased the company's indebtedness and acquired specialty businesses, including a major real estate developer and a manufacturer of medical products. However, like many leading corporations of the late 1960s that diversified into markets that were unrelated to their core businesses, IP found it difficult to integrate its recent acquisitions and most were sold a few years later. A recession in the pulp and paper market meanwhile led to a 30 percent drop in the company's earnings in 1970, producing additional financial hardships.

Despite these difficulties, International Paper scored a number of important successes during this era. Its non-woven fabrics division, which built a plant in Lewisburg, Pennsylvania, made IP an important nonwoven fabrics producer and laid the groundwork for

Veratec, a specialty business launched in 1987. Another major initiative of the late 1960s and early 1970s was the construction of the Corporate Research Center at Sterling Forest, New York. This facility has pioneered important manufacturing and environmental technologies as well as innovative products during subsequent decades. IP also built state-of-the-art pulp and paper mills in Ticonderoga, New York, and Texarkana, Texas.

Edward Hinman was succeeded by Frederick Kappel who served as chairman of International Paper's board of directors from 1969 to 1971. Formerly chairman of American Telephone & Telegraph, Kappel was the first leader of International Paper since Philip Dodge (1912–1924) who had spent most of his career with another company.

Streamlining its operations during the 1970s, International Paper phased out several facilities and improved its marketing organization. These tasks fell to Paul Gorman—who served as chairman from 1971 to 1974—and his successor J. Stanford Smith, who led the company until 1980. During their respective tenures, IP closed or sold older mills in Livermore Falls, Maine; Panama City,

Florida; and Springhill, Louisiana. A large-scale corporate reorganization in 1976 replaced the Southern Kraft Division and the Northern Division with functional business units: white papers, consumer packaging, industrial packaging, wood products and specialty packaging. In each business unit, production managers were encouraged to think as marketing and financial managers, and vice versa. As a result, strategic changes in a unit's manufacturing operations were made with a keen eye on earnings and sales.

MEETING THE CHALLENGES OF CHANGE, 1980-PRESENT

This restructuring led to a major new initiative in the 1980s, when IP launched a large-scale overhaul of its mills. Led by Dr. Edwin Gee—who served as chairman from 1980–1985—IP conducted in-depth studies of mills and plants. The Bastrop, Louisiana, mill had to be closed in 1982. Other mills received extensive upgrades in a \$6 billion capital improvement program that included a complete reconfiguration of the Georgetown, South Carolina, mill. The program

phased out inefficient linerboard operations and switched to more profitable bleached paper products. The program also included the reconfiguration of the Mobile, Alabama, mill from newsprint and kraft grades to white papers. These mill reconfigurations enhanced production efficiency and contributed to a 5 percent cost decrease in per-ton production of white papers from 1982–1988. Financial resources for the corporate capital program were raised through the sale of Canadian International Paper, General Crude Oil Company and other subsidiaries, stock offerings and loans. In addition to reconfiguring existing facilities through the corporate capital program, International Paper built a highly efficient containerboard mill in Mansfield, Louisiana, which helped the company reduce containerboard production costs by 18 percent in a six-year period.

The decade from the mid-1980s to the mid-1990s marked a period of unprecedented expansion when sales more than quadrupled, reaching \$20 billion in 1996. This trend reflected the growth of high-value product lines, enhanced by the acquisition of the Hammermill Paper Company in 1986. This \$1.1 billion transaction was engineered by John Georges, chairman from 1985 to 1996. In addition to a rich tradition in fine paper production and nine mills, Hammermill brought invaluable marketing experience into the partnership. Recognized as the “best-known name in paper,” Hammermill had developed a distribution network and a reputation for quality that were unrivaled in the American pulp and paper industry. As a result of the merger, IP learned valuable marketing lessons and Hammermill improved the profitability of its manufacturing operations. Hammermill’s extensive distribution network later became the foundation for ResourceNet International, a large-scale marketing organization that sold a wide variety of products made by IP and other leading companies. Operating in 250 locations at the time, the distribution operation sold graphic arts supplies and equipment, printing paper, industrial packaging, janitorial and maintenance supplies, retail packaging and related products. ResourceNet International was renamed xpedx in 1998.

One year after the Hammermill acquisition, a labor conflict emerged at International Paper. In an effort to control production costs, the company had negotiated a number of agreements with the United Paperworkers International Union and others to eliminate premium pay for work performed on Sundays and holidays. However, strikes took place at

three mills and there was a lockout at a fourth. The strikes and lockout ended in the fall of 1988. In 1993, the company and the union signed a “peace accord” and agreed to return a positive relationship.

In the late 1980s, International Paper devised a viable solution to its diversification problem. In the pulp and paper in-

Hugh Chisholm (1847–1912),

one of International Paper’s founders, served as the company’s president from 1898 to 1907.

Born in Canada, Chisholm began his career as a newsboy on trains running between Toronto and Detroit. Possessing considerable business acumen, he soon controlled newspaper distribution on major U.S. and Canadian railroads and steamboats. In 1865, he sold the business to his brothers, emigrated to the United States and became an American citizen.

As a newspaper dealer and owner of a publishing house in Portland, Maine, Chisholm became interested in the paper business. After an exhaustive study of industry conditions, he acquired a small mill in Livermore, Maine, and organized the Umbagog Pulp Company in 1881. By 1885, Umbagog operated two paper machines. Two years later, Chisholm organized the Otis Falls Paper Company, which was followed by another venture that led to the formation of an extensive paper mill and power complex at Rumford, Maine in 1891.

Believing that a large-scale merger of American paper companies would stabilize the industry, Chisholm joined William Russel, A.N. Burbank and other industry leaders to form International Paper. At the company’s first board meeting, William Russel was elected president but he died in less than six months. Hugh Chisholm, who had been elected first vice-president, then became president of the new enterprise, which was the world’s largest paper company.



Widely considered the most powerful man of the time in the American pulp and paper industry, Chisholm helped IP gain control of 60 percent of the American newsprint market. His skillful financial management enabled the company to post significant profits throughout the early years. Chisholm’s success raised the ire of newspaper owners who argued that the “paper trust” charged exorbitant prices for newsprint. Chisholm denied these accusations at several highly publicized Congressional hearings. During his tenure at the helm of the company, Chisholm initiated IP’s first forest management programs. In 1901, he issued instructions forbidding the harvest of immature trees. He also forged a close relationship with Yale University’s forestry program, whose faculty and students helped IP select trees for cutting.

In 1907, Chisholm resigned as IP president so that he could devote his efforts to developing the Oxford Paper Company at Rumford Falls, Maine. He was succeeded by A.N. Burbank.

dustry, whose core business was highly cyclical, a secure foothold in less-volatile markets was necessary to maintain a healthy balance sheet when earnings from paper products declined. IP had learned painful lessons during the late 1960s, when it made acquisitions that did not fit into the overall organization. Determined to avoid this mistake, IP strengthened its position in markets for specialty products that were related to its core business but less cyclical in earnings than the pulp and paper market.

In 1988, for example, the company acquired the Masonite Corporation, modernized its manufacturing facility in Laurel, Mississippi, and later built an additional plant in Ireland. These investments fulfilled their purpose. In 1996, when the printing papers business stagnated, earnings in IP's specialty panels business grew at double-digit rates. IP derived similar benefits from other specialty businesses, including chemicals and petroleum, nonwoven fabrics and silicone-coated products.

The late 1980s and early 1990s marked a period of international expansion. Prior to this era, the company had exported a significant share of its products to overseas markets but most of its manufacturing operations were located in the United States, the world's largest paper market. During the 1980s, however, overseas demand for paper rose sharply with the introduction of office copiers, computer printers and fax machines. In Europe, paper consumption per person rose at an annual rate of 3 percent, compared to 1 percent in the United States. In 1989, International Paper acquired two European companies: Zanders Feinpapier AG, Germany's leading producer of coated papers that had been founded in 1829; and Aussedat Rey, a diversified French manufacturer of office copying paper, specialty panels and related products whose origins date back to the 18th century. In 1992, IP expanded its European presence with the acquisition of Kwidzyn, Poland's most modern paper mill, which subsequently was expanded and upgraded.

During the early 1990s, IP also gained a major presence in the Pacific Rim, where it established over time a majority shareholder status in Carter Holt Harvey of New Zealand. Founded in the 19th century, Carter Holt Harvey became a leading manufacturer of pulp, paper, tissue, containerboard and wood products operating primarily in New Zealand and Australia. It also acquired a presence in a Chilean energy and forestry company, COPEC. Carter Holt Harvey's diversified holdings centered around a core business in wood products fit well with IP's overall organization and corporate philosophy. IP acquired majority shareholder status in Carter Holt Harvey in 1995.

The most recent chapter in the history of International Paper, which began with John Dillon's election as chairman and CEO in 1996, was still unfolding when the company approached its centennial. One of the leaders of IP's corporate strategy development during the 1980s and early 1990s, Dillon's philosophy emphasizes customer focus, low-cost production, technological innovation, workforce diversity, and employee involvement in running the business.

At the beginning of Dillon's tenure as chairman, IP extended its long tradition of community involvement by providing building materials for the reconstruction of churches that had been destroyed by a series of arson attacks. Moreover, IP was a major sponsor of the 1996 Olympic Games in Atlanta, Georgia.

One of Dillon's first business objectives was the successful integration of Federal Paper Board into the International Paper family. Federal merged with IP in March 1996 in a \$3.5 billion transaction that included mills in: Augusta, Georgia; Riegelwood, North Carolina; Versailles, Connecticut; the Tait mill in Inverurie, Scotland, as well as extensive packaging and wood products operations. The merger has exceeded its financial expectations.

Also in 1996, International Paper opened the new Cincinnati Technology Center, a major facility that includes,

among many operations, pilot project plants for development work in printing, packaging and extrusion coating. The Cincinnati Technology Center continues some of the function of the Erling Ris Research Laboratory which was phased out.

Under Dillon's direction, the company undertook a thorough evaluation of its business leading to decisions that would guide the allocation of capital and set new requirements for acceptable levels of profitability. As a result of this analysis, the company announced, in mid-1997, a performance improvement plan that would include the sale of \$1 billion in assets.

THE IP WAY

As in the past, International Paper is committed to continuous improvement in everything it does and the key is the people who make up the company. In 1898, a typical paper mill was run by skilled workers who knew more about pulp production, paper machines and product quality than anyone else in the organization. One hundred years later, International Paper is committed to becoming a High Performance Organization, a company with a greater degree of teamwork and greater decision-making power delegated throughout the organization in order to better satisfy customers and beat the competition.

Employees sharing their ideas and experiences to improve the business is part of what has come to be called "the IP Way." More formally, "the IP Way" includes a commitment to be a global leader and earn an excellent return. It includes being the company of choice not only for customers but employees, shareholders and suppliers.

In 1998, as International Paper enters the new millennium, its success in fulfilling its vision will depend on the ability to continue its legacy as a company of employees who think and act with creativity, energy and, most of all, the drive to succeed. □