

World view: the long reach of Georgia-Pacific's Harmon Associates is beginning to extend beyond North America.(Company Profile)



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Georgia-Pacific is a corporate name that most Americans find recognizable, which is why it is also a name that Harmon Associates turns to when striving for economies of scale.

Harmon Associates, the scrap paper trading arm of Georgia-Pacific (GP), employs approximately 150 people around the world who procure secondary fiber for GP'S own mills as well as for mill customers seeking scrap paper.

Harmon, based in Jericho, N.Y., is managed as its own profit center within GP, but also calls upon the wider resources of its parent company when seeking optimal freight rates and other arrangements that can help it provide what it calls the best value proposition for its mill customers and scrap paper suppliers.

HEAVYWEIGHT CLASS. Marc Forman (pictured at top), vice president and chief operations officer of Harmon Associates, is able to talk about annual tonnage handled by the subsidiary in millions rather than thousands.

"In 2005, we anticipate that we'll invoice about 5.6 million tons of scrap paper, with about 5 million tons of that coming from North America and the rest [from] overseas," says Forman.

Much (roughly 60 percent) of that tonnage is being purchased to furnish Georgia-Pacific mills that make products ranging from tissues and towels to corrugated packaging. "Where we specialize is in the de-inking grades," notes Forman. "GP is the largest user of de-ink fiber in the world. When you combine what Harmon buys for GP with the de-ink tons Harmon buys for all its other customers, we are by far the largest seller in the world of these grades."

But as a way of serving both recyclers from whom it buys product and the mill customers to whom it sells product, Harmon trades in "the entire spectrum of scrap paper grades," says Forman, saying this involves "well over 100 grades of paper." The company also trades some types of plastic scrap.

Linking sellers and generators of scrap paper with buyers is the primary activity of Harmon Associates. "For the most part, we are about as close to a pure trading company in our industry that you can find," notes Forman.

But the company does have physical operations under the name Ecosource in plants operated in tandem with GP mills in Green Bay, Wis., and Muskogee, Okla.

Additionally, Harmon helps oversee the placement and maintenance of some 350 balers located at generation sites it serves. "As a part of how we secure tons, we have a very active equipment program," says Forman. "We'll work with an account to supply a baler in exchange for the fiber," he notes, remarking that those balers can range in size from small vertical models to high-volume horizontal balers.

The tonnage traded by Harmon Associates comes both from generating sites (printing plants, converters, supermarkets, distribution centers) as well as from paperstock dealers and other recyclers who arrange for Harmon to act as their trading agent to the consuming mill side. "Any place scrap paper is found, we're actively trying to buy that paper," says Forman.

"It's a traditional model where, because of our need for fiber, we basically have an entree into just about any paper dealer in the U.S.," he continues. "Our strongest relationships are with the paper packers, I think because we have a solid value proposition for them."

ROLLING ON. Part of the value proposition Forman refers to comes in the critical areas of transportation and logistics. It is an operational aspect where the resources of Georgia-Pacific provide an advantage.

Robert Burns, senior manager of communications with GP, notes that the company "is among the top five dry van freight buyers in the U.S." GP's considerable transportation buying power also extends to rail shipping and intermodal container transportation.

GP's size allows Harmon to tap into solid fleet arrangements with some of the largest trucking shippers serving North America, such as J.B. Hunt Transport Inc. and Schneider National Inc., and to provide timely and reliable service to both paper recyclers and consuming mills.

Additionally, when scrap paper is bound for GP mills, the company can almost ensure that trucks will leave those mills with finished paper as a backhaul. "For example, when we take a load of OCC into one of our containerboard mills, we can bring out finished product," says Burns. "Just about every one of our trucks into a GP mill is part of a backhaul arrangement," he adds.

"Being part of GP sets Harmon apart; we're able to tap into the corporate strength in logistics and technology, says Forman. "The transportation services we provide are valuable. Packers want to turn their inventory, and we supply a steady home and a steady transportation line at all times," he continues. "Our position within Georgia-Pacific gives us a tremendous company behind us, both financially and physically, to support operations."

In addition to transportation, the other critical part of the equation is the consuming demand of GP's paper mills. "We offer homes in all markets," says Forman. "We can take that position because we have large mills behind us that use 10,000 tons per day of secondary fiber."

Forman also is quick to add, though, that the people of Harmon Associates are critical to the company's performance. "What sets us apart as much as anything is the quality of our fiber traders," he remarks. "They are by far the most skilled and experienced fiber traders in the world, and they are renowned for their integrity and they are what makes the world go around here."

Of the company's 140 employees, about 35 are full-time traders, says Forman, with other employees performing administrative, managerial and sales support roles.

REACHING OUT. Harmon Associates was founded in the mid-1960s as an independent trading company, but was purchased by Wisconsin-based Fort Howard Paper Co. in 1980.

Harmon functioned as Fort Howard's procurement arm for 17 years, until the merger of Fort Howard into James River further broadened the company's scope in 1997.

Just three years later, the re-named Fort James Corp. was itself acquired by Atlanta-based Georgia-Pacific, with the result that Harmon Associates again broadened its scope by folding existing GP trading operations into its operations.

Since its integration into Georgia-Pacific, many of the growth opportunities pursued by Harmon Associates have involved overseas activity.

In 2002, Harmon formed a joint venture with ICM in Mexico to increase its presence in the Mexican market. The next year, Harmon assumed responsibility for purchasing fiber for GP mills in Western Europe, a responsibility that is now largely carried out by Harmon's office in Seven Oaks, U.K.

And just last year, Harmon Associates announced the formation of a partnership with China-based Paccess to provide fiber trading and management operations in China. Paccess, a paper and packaging industry firm in existence for more than 20 years in China, manages and distributes secondary fiber under the Water Lily brand name. According to Forman, this partnership now operates four trading offices in China.

While Harmon will always pursue opportunities in North America, the company's leadership team recognizes the growth potential in other markets. "Much of the potential growth is overseas," says Forman. "We have geared the company in the last several years to take part in the growth in China, Mexico, Europe and

India, as well," he says. "Our growth strategy is to think globally and grow strategically."

Georgia-Pacific President of Recycled Fiber and Bleached Pulp and Paper Simon Davies says the China venture is particularly critical. "Our goal is to provide the rapidly growing Chinese market with high-quality secondary fiber, assured supply, financial tools and logistical services, managed by a professional local sales team," he said when the joint venture announcement was made. "We will work closely with the paper industry leaders in China to establish strategic relationships that are based on a shared commitment to reducing the cost and complexity of the secondary fiber supply chain."

Forman foresees a demand imbalance that will see scrap paper continuing to flow into China for another 15 years or more. It is a flow that will have to come from throughout the world.

"There is a lot of talk about Japan being able to furnish China, but that nation is already recovering 70 percent of its paper, says Forman. "I'm not sure how much it can grow as a supplier. Chinese mills are going to need U.S. fiber."

Of the long-term, he says, "In China, you have the emergence of a middle class, which provides a huge potential for more paper generation, and through the proper recycling infrastructure investments, that nation will become very disciplined in its recovery methods."

PLANS AND IDEAS. Growing strategically places few limits on how Harmon Associates will proceed as the century's first decade continues.

Internet-based trading has proceeded in fits and starts in the paper industry, but Forman believes an emerging model being made available by Harmon Associates will bolster the company's trading options.

An online auction portion of Harmon's Web site (www.eharmongp.com) currently allows scrap paper suppliers to offer material to the market in a reverse auction format.

Forman says activity on the Web site has been increasing and should increase even more when mills can begin buying fiber through the site in a "forward auction" format that will be introduced late this year or early next year.

"It's innovative and ahead of its time," Forman says of the Web auction, although he acknowledges that Harmon Associates is "not getting a million tons a year" through the reverse auction portion of the company's Web site.

However, Forman also notes, "We haven't seen a market in a long time where it's actually hard to move material." Should market conditions change, reverse auctions could become more viable. "I believe it has a place and can be very valuable," he says of the Web-based trading component of the business.

Whether traded via the traditional method of "calling on the telephone and making deals" or through newer communication methods, Forman is confident Harmon Associates can continue to grow.

"Clearly, we've got two strategic focuses," Forman says. "One is growth through global expansion, and the second part is strengthening our infrastructure-- becoming easier to do business with. There are a lot of exciting things happening both externally and internally."

WHERE THE ACTION IS

Marc Forman serves as vice president and chief operations officer of Harmon Associates, Jericho, N.Y., with the benefit of having a background in finance and trading.

Forman graduated from St. John's University in New York with a master's degree in finance and came to Harmon Associates in 1991 to serve as the trading company's director of finance.

But after arriving at Harmon, Forman says he opted "to make a relatively quick switch to learn the trading business and then worked the export desk for awhile."

He says the sense that the real heart of the company was beating on the trading side of the business led him to make the switch.

"In a trading company, finance people have to say 'no' a lot," Forman comments, "and I had spent my whole career being a business developer. By going to the trading side, I could help build the business."

In his current role, Forman says he continues to identify with the firm's traders. He credits his years spent as a trader as helping him weigh all of the risk-reward factors of a transaction or strategy quickly and thoroughly.

"We live in a world where we want to minimize risks, and as a trader it is hard to get rewarded if you take either no risks or if you take undue risks," Forman says.

MIXING IT UP

Harmon Associates, Jericho, N.Y., made news this June when it announced revised recovered paper specifications that it contends can more accurately reflect the quality of recycled fiber based on the effectiveness of the sorting procedures of recyclers.

Mark Forman, COO of Harmon Associates, announced the new grading specifications at the Paper Recycling Conference & Trade Show, held in Atlanta in late June. He says suppliers of unsorted shredded paper will still have a market for their products, but the price will "reflect the quality of recycled fiber they are providing in the marketplace."

Harmon Associates office pack 1 (OP1) grade is defined as having 0.5 percent or less of various contaminants, including carbon paper, Post-Its, mailing labels and coated copy paper. OP1 contamination cannot exceed 2

The company's sorted office paper (SOP) grade cannot exceed 5 total contamination, defined as Post-Its, mailing labels, groundwood/mechanical pulp fiber.

The new file stock (FS) specifications call for a 15 percent contamination ceiling, with raw food, glass and "cafeteria waste" prohibited.

Harmon's post-consumer mixed paper (POMP) grade must be free of insoluble inks, coatings and "excessive glues." A Harmon Associates news release says that "this grade is generally for curbside generated papers."

The author is editor of Recycling Today and can be contacted at btaylor@gie.net.