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Duluth Mill
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Commissioner Shawntera Hardy
Minnesota Department of Employment and Economic Development
332 Minnesota St., Suite E200
St. Paul, MN 55101

Mayor Emily Larson
City of Duluth
411 West 1st St.; Suite 402
Duluth, MN 55802

Dear Commissioner Hardy and Mayor Larson,

This letter addresses the Verso Duluth Mill's request for Minnesota Investment Funds (MIF) for our strategic project to convert the mill so that it can produce packaging products. The Verso Duluth Paper Mill was originally started up in 1987 to manufacture Super Calendar (S/C) grade papers. In 1993 a new Recycle Mill was started up to supply Recycled Pulp to the Duluth and other paper mills within the company and region. Unfortunately the demand for recycled paper has dropped significantly in the last 5 years. Additionally, fundamental changes in how consumers buy products and obtain information have resulted in a substantial decline in the demand for all paper grades including S/C Paper. As a result, the average sales price for the Duluth Mill's Paper products has declined by 30% in the last 4 years. These price declines have resulted in the Duluth Verso mill becoming unprofitable. In the last 15 years 50% of all mills in the United States have closed, four of them in just the last two years. Without a conversion to allow the mill to make new profitable paper grades the mill will be a likely candidate for permanent closure.

The Duluth Mill has developed a strategic project which will involve converting the Recycle Mill so that it can process packaging grade scrap paper into pulp. This pulp will then be used on the paper machine to manufacture bag, medium, liner and specialty paper grades. In addition the mill will continue to manufacture S/C grades. Total cost of this conversion project is approximately \$21 million. Projected project financials after this conversion are very favorable.

The Duluth Mill is competing with other Verso mills for strategic capital funding. Decisions on which projects to fund will in large part be based how much investment is required and projected financials after the conversion. The MIF funding that we are requesting will reduce the company's capital expenditure for this project and therefore will make it a more attractive candidate for strategic investment.

Sincerely,

John Bastian
Verso Duluth Mill Manager

