

**Tighter competition in a globalised world:  
Threats and opportunities  
for the European pulp & paper industry**

**International Meeting of Slovene Paper Industry**

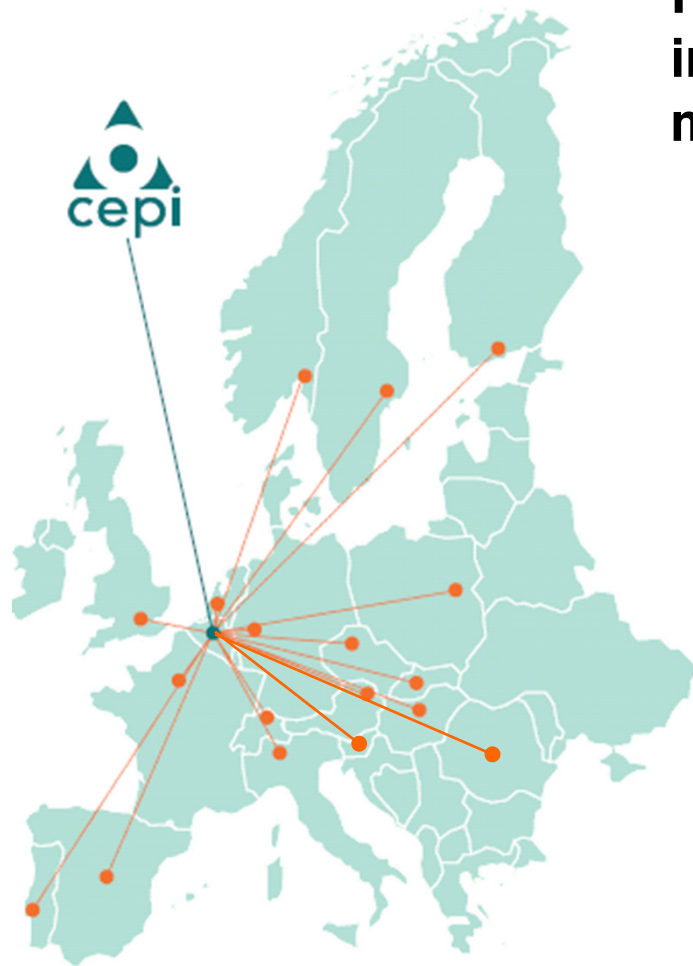
Bled, 23 November 2011

Bernard Lombard, CEPI

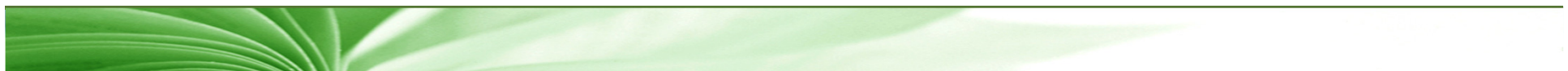
# Confederation of European Paper Industries



**Represents the European Paper Industry in Brussels, with National associations as members in 19 countries:**



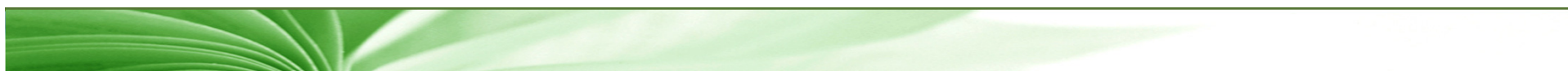
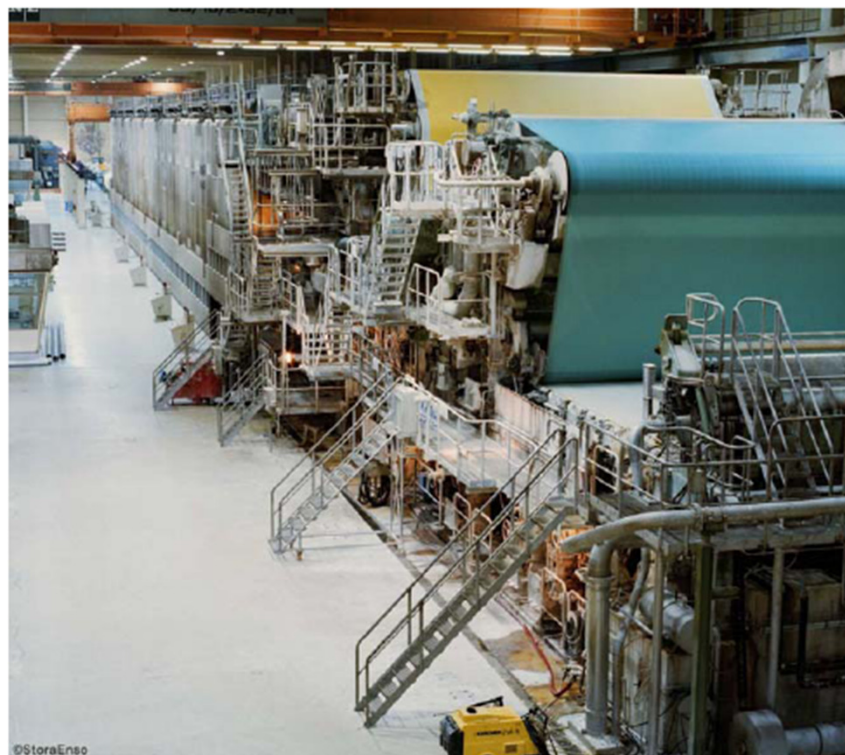
	Austria		Belgium		Czech Rep.
	Finland		France		Germany
	Hungary		Italy		Netherlands
	Norway		Poland		Portugal
	Romania		Slovakia		Slovenia
	Spain		Sweden		Switzerland
	United Kingdom				



# The European Pulp & Paper industry



- **96 Mt of Paper & Board and 13 Mt of market pulp produced in 2009 - 95% of the European production, 24% of the World production**
- **700 companies, 1,000 mills**
- **Eur 81 Bn turnover, Eur 16 Bn added value, 3.6 Bn investments**
- **225,000 jobs, 60% of direct & indirect jobs in rural areas, 1.8 million indirect jobs (excl. distribution)**



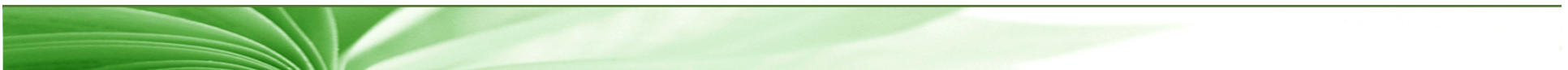
# CEPI's Goals



- To secure pulp and paper industries' competitiveness towards EU policy makers
- To represent the paper industry with EU institutions and Brussels based stakeholders
- To improve the image and visibility of the paper industry and other related industries



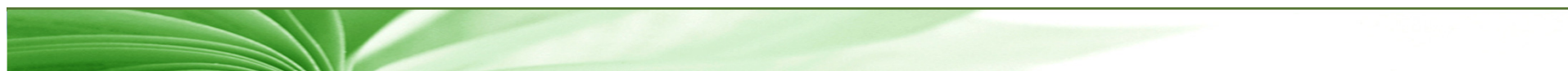
**To be the example of how competitiveness and sustainability can go hand in hand!**



# CEPI priority issues 2012

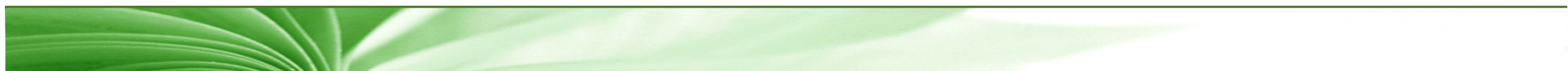


- **Climate Change & energy**: ETS and carbon leakage status, level playing field with global competitors
- **Raw materials**: security of recovered paper availability at affordable prices, biomass supply policy, competition from energy sector
- **Environmental policy**: acknowledgement of industry's sustainability performance
- **Food contact**: food safety and mineral oils
- **Transport**: policy measures affecting transport costs
- **Innovation**: support from EU and funding in innovation and R&D projects related to the place of the industry in the EU bioeconomy
- **Communication**: outstanding image and reputation to support CEPI goals and targets





## **The Economic Context**





# Economic developments in major industrialised economies: gloomy prospects



Output growth (%)	2007	2008	2009	2010	2011f	2012f
World	5.1	2.8	-0.7	5.0	3.7	3.5
EU	2.9	0.5	-4.2	2.0	1.6	0.6
US	2.0	0.0	-3.5	3.0	1.6	1.5
Japan	2.3	-1.2	-6.3	4.0	-0.4	1.8
China	13.0	9.6	9.2	10.3	9.2	8.6
Russia	8.1	5.2	-7.8	4.0	4.3	4.1
Brazil	5.7	5.1	-0.6	7.5	3.8	3.6
India	9.4	6.4	6.8	10.1	7.8	7.5

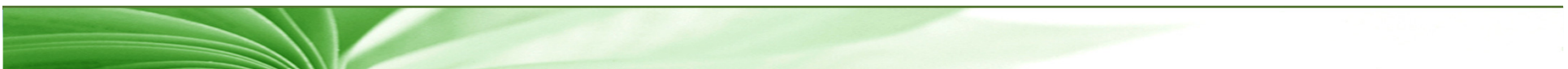
f : forecasts

- Global growth will be slower than expected. Forecasts, even for emerging countries, are less optimistic
- Forecasts for the EU have been revised downwards

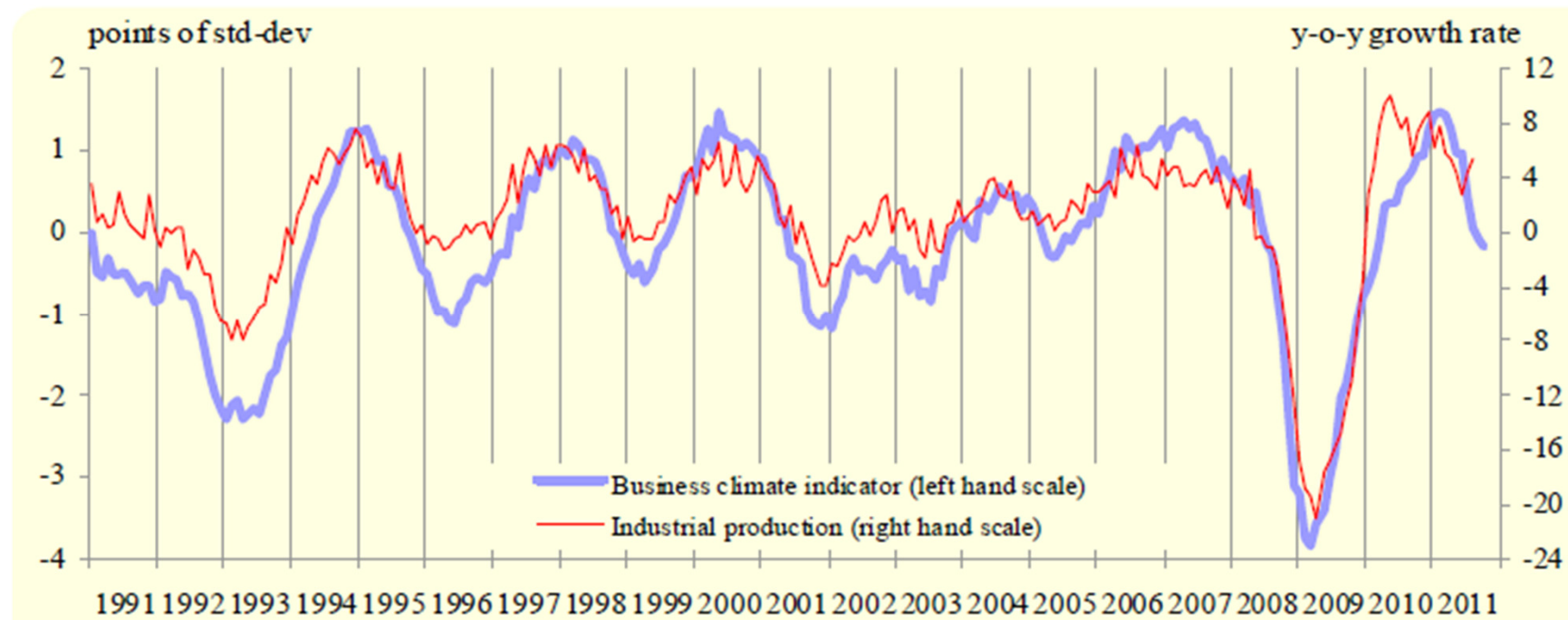
Unemployment  
rate

EU27	2010	2011f	2012f
Millions	23.2	23.0	23.4
In %	9.7	9.7	9.8

Source: IMF,  
Sep. 2011, EU  
Commission,  
Autumn. 2011



# EU Business indicators: lack of confidence

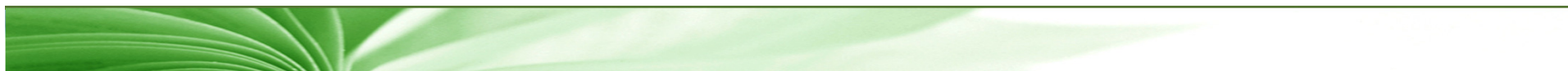


Source: EU Commission, Oct. 2011

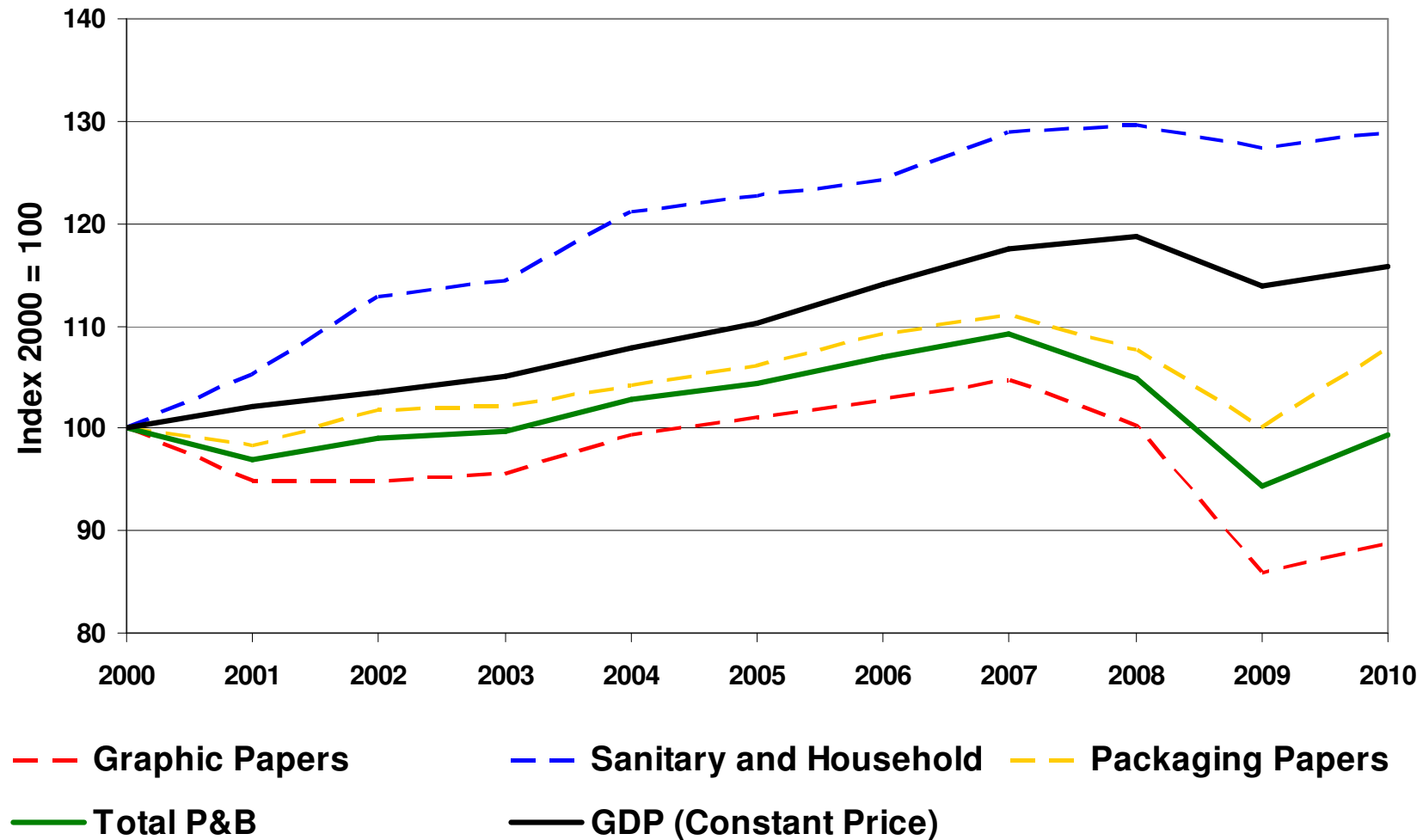




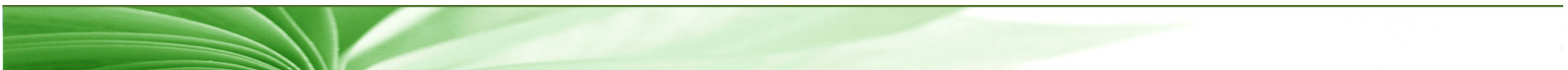
# **The current Situation of the European Paper Industry**



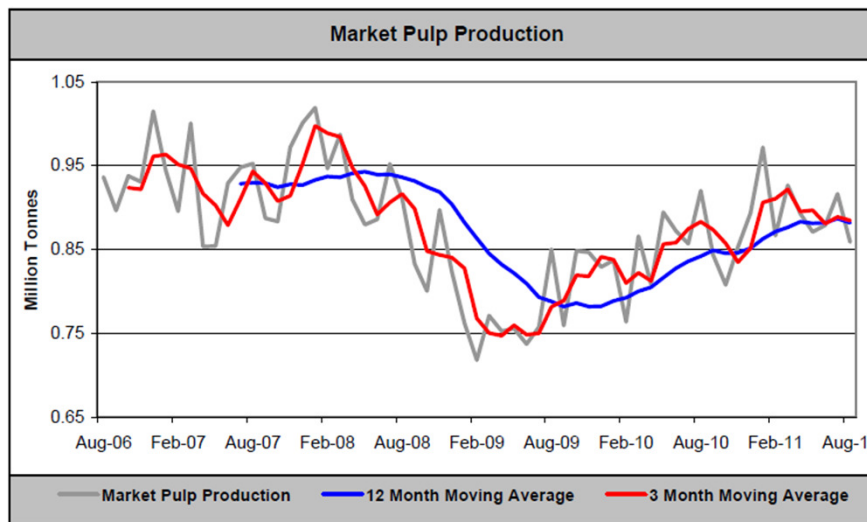
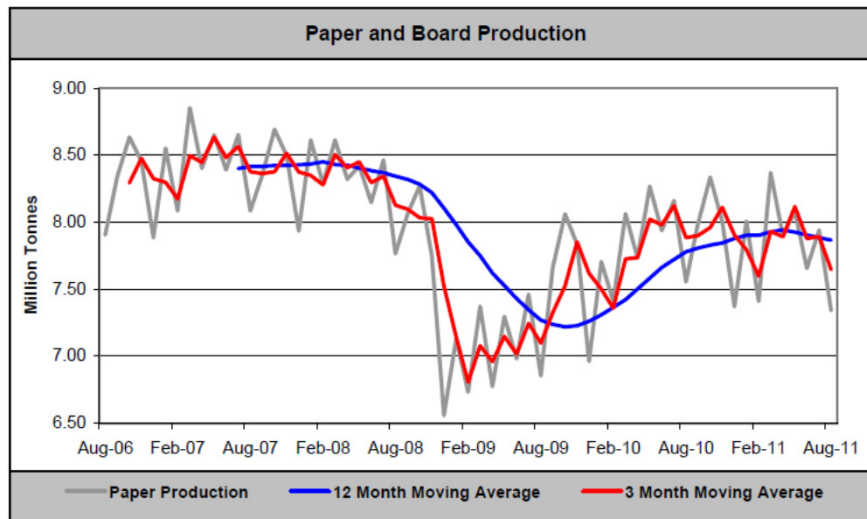
# GDP and Paper & Board consumption in Europe: an obvious decoupling



Source: CEPI, Eurostat

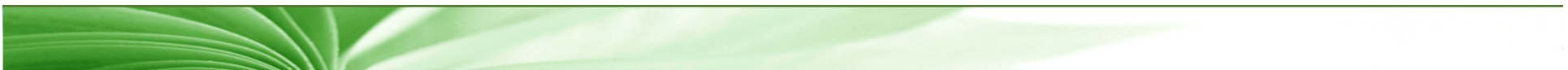


# CEPI production of market pulp and paper & board: not back to pre-crisis level



**Jan.-Aug.: 2011 / 2010**  
**Paper & Board: -0.2%**  
**Market pulp: +5.3%**

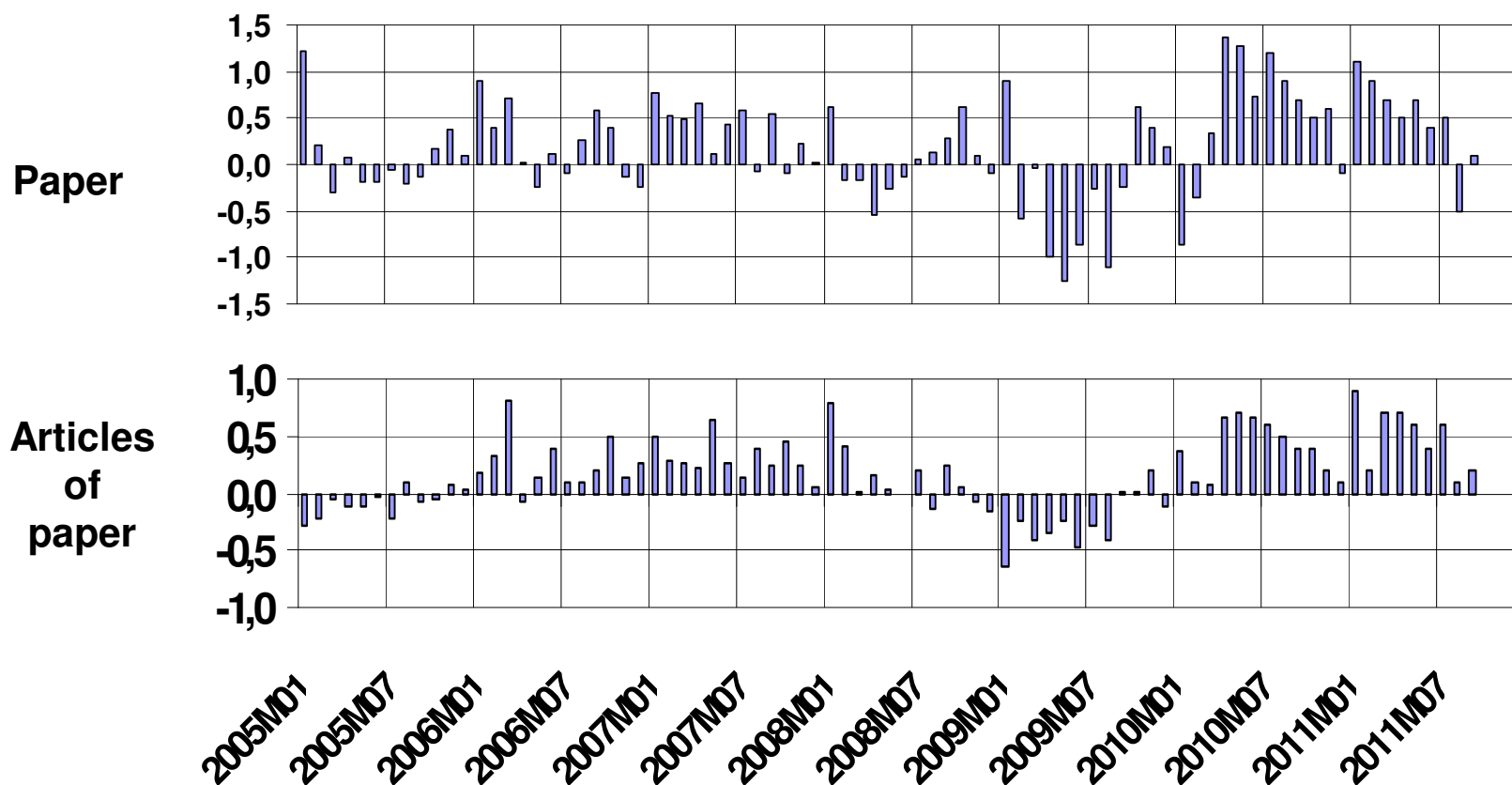
Source: CEPI, Oct. 2011



# Paper price developments: beyond the top...

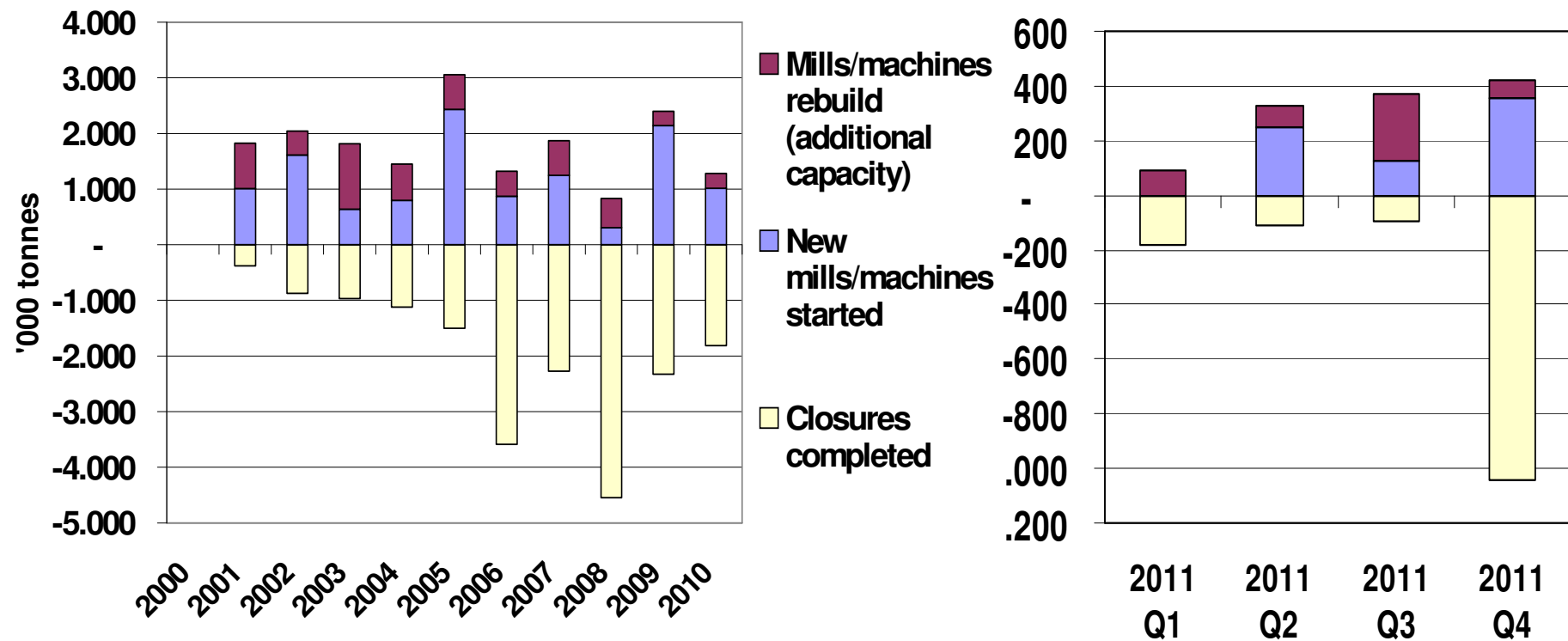


EU27, % change on previous period

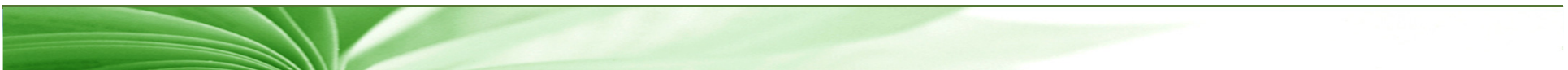


Source: Eurostat, Sep. 2011

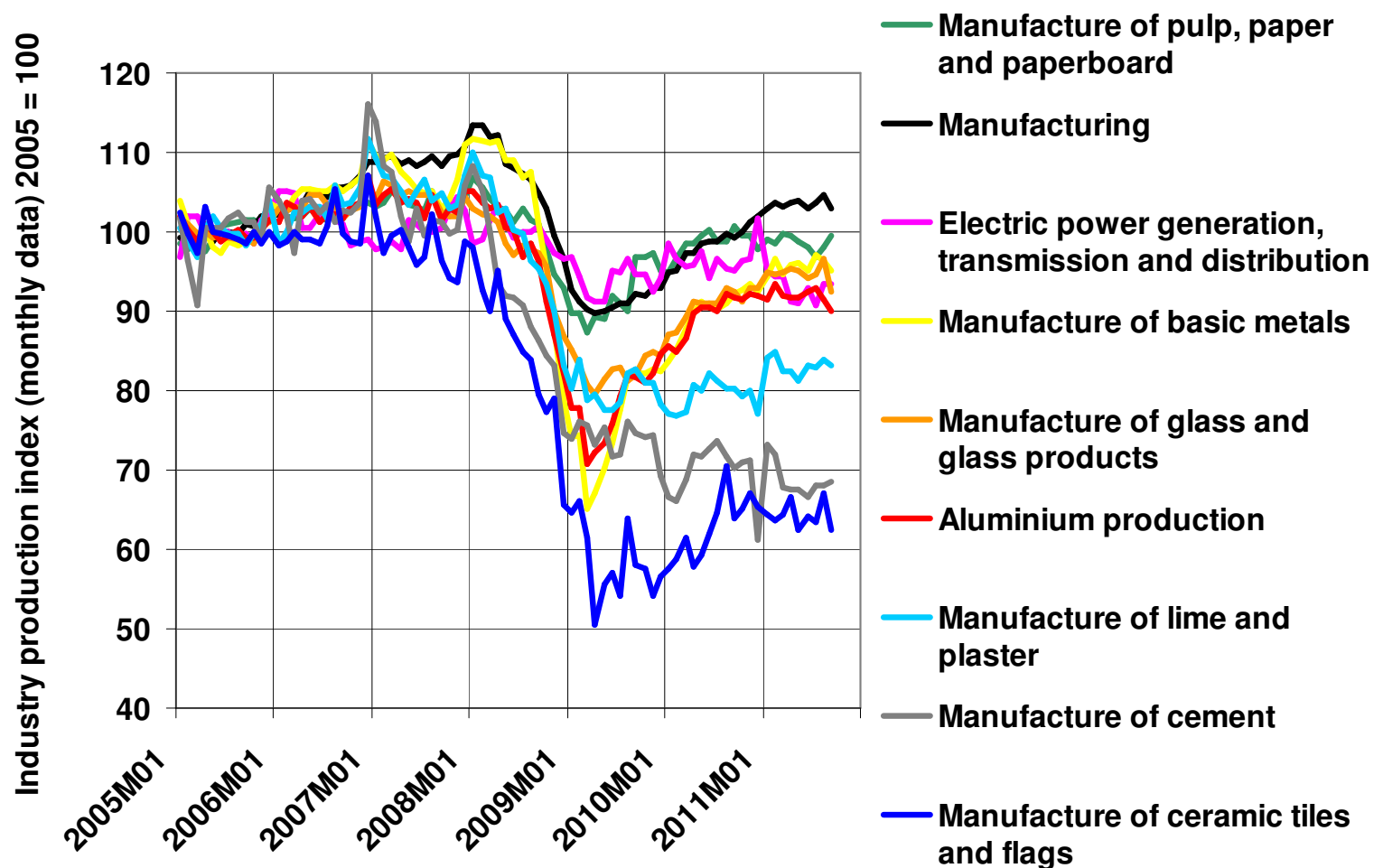
# European pulp & paper production capacities: supply/demand adjustments



Source: RISI, Sep. 2011



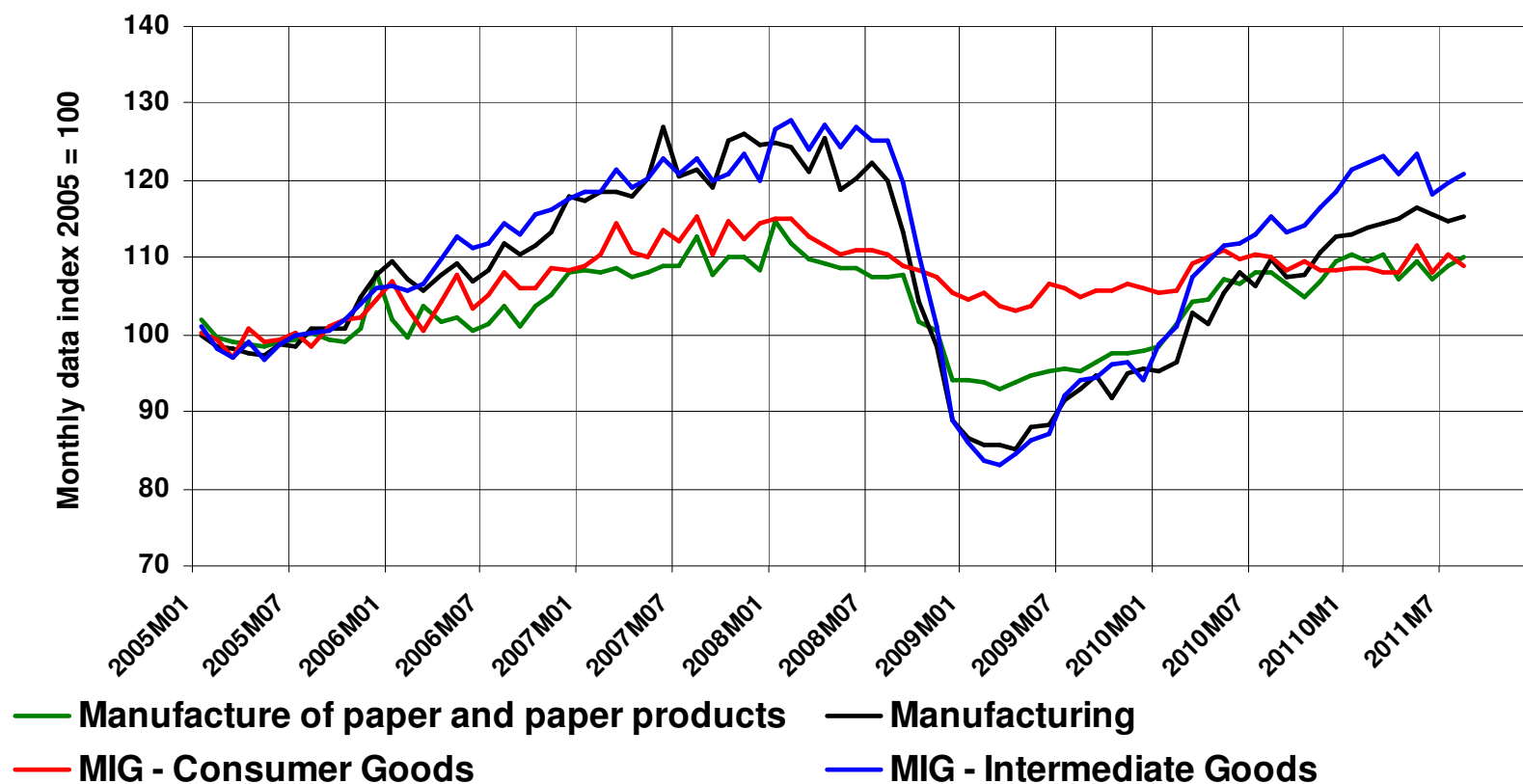
# EU industry production: all energy-intensive / ETS Sectors impacted



Source: Eurostat, Nov. 2011



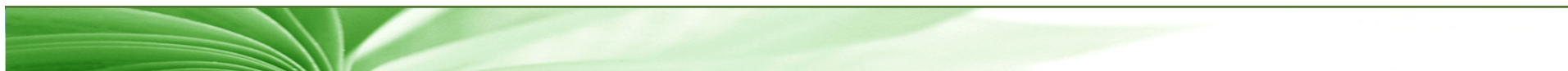
# EU paper industry: orders relatively stable, close to pre-crisis level



Source: Eurostat, Nov. 2011



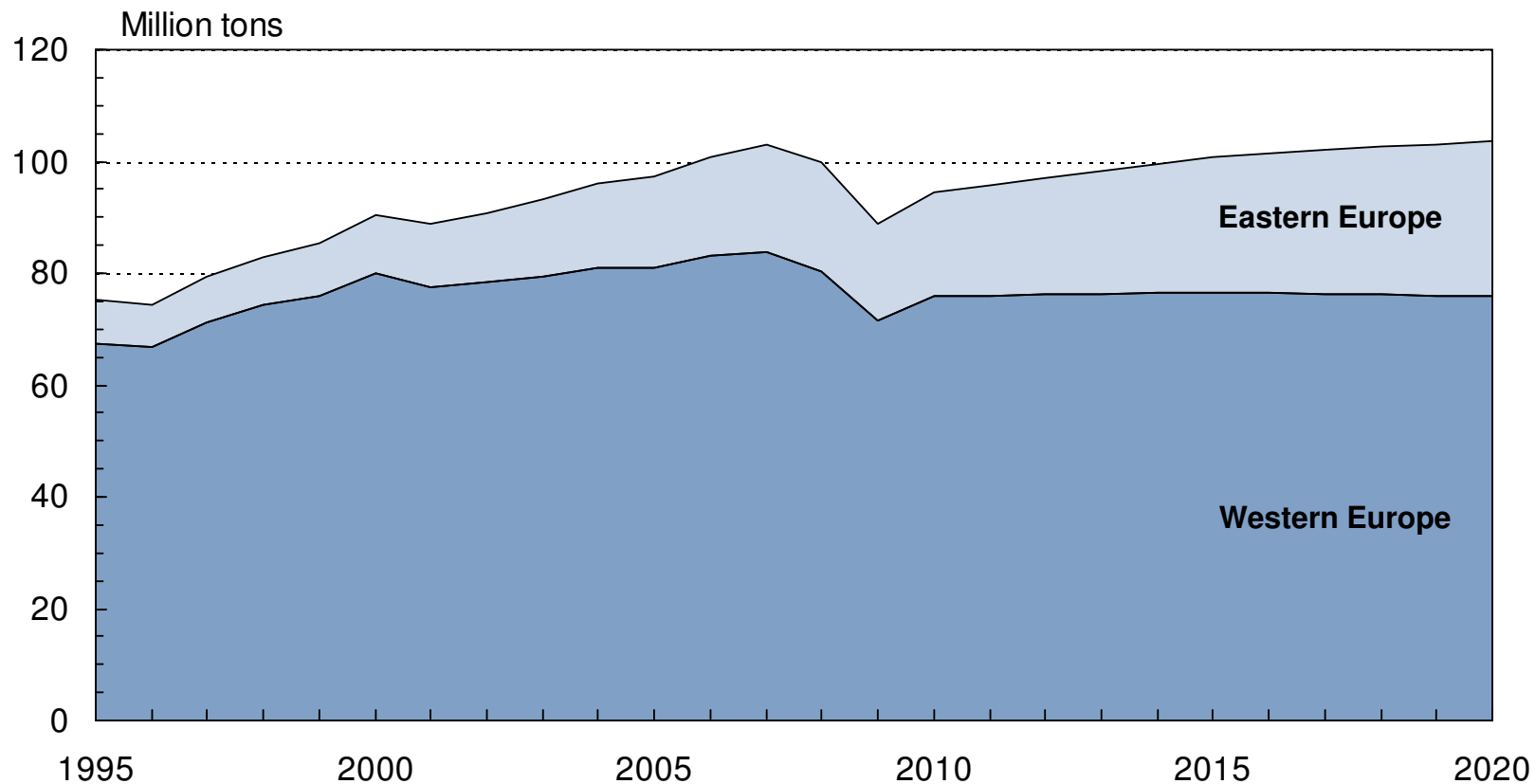
## About future Demand for Paper



# Paper Demand in Europe through 2020: East more dynamic



The demand for paper in Europe is projected to grow from 94 million tons in 2010 to 104 million tons by 2020. Eastern Europe (incl. Russia) is expected to account for most of the incremental demand in Europe, while the Western European paper market is expected to remain at the 2010 level.

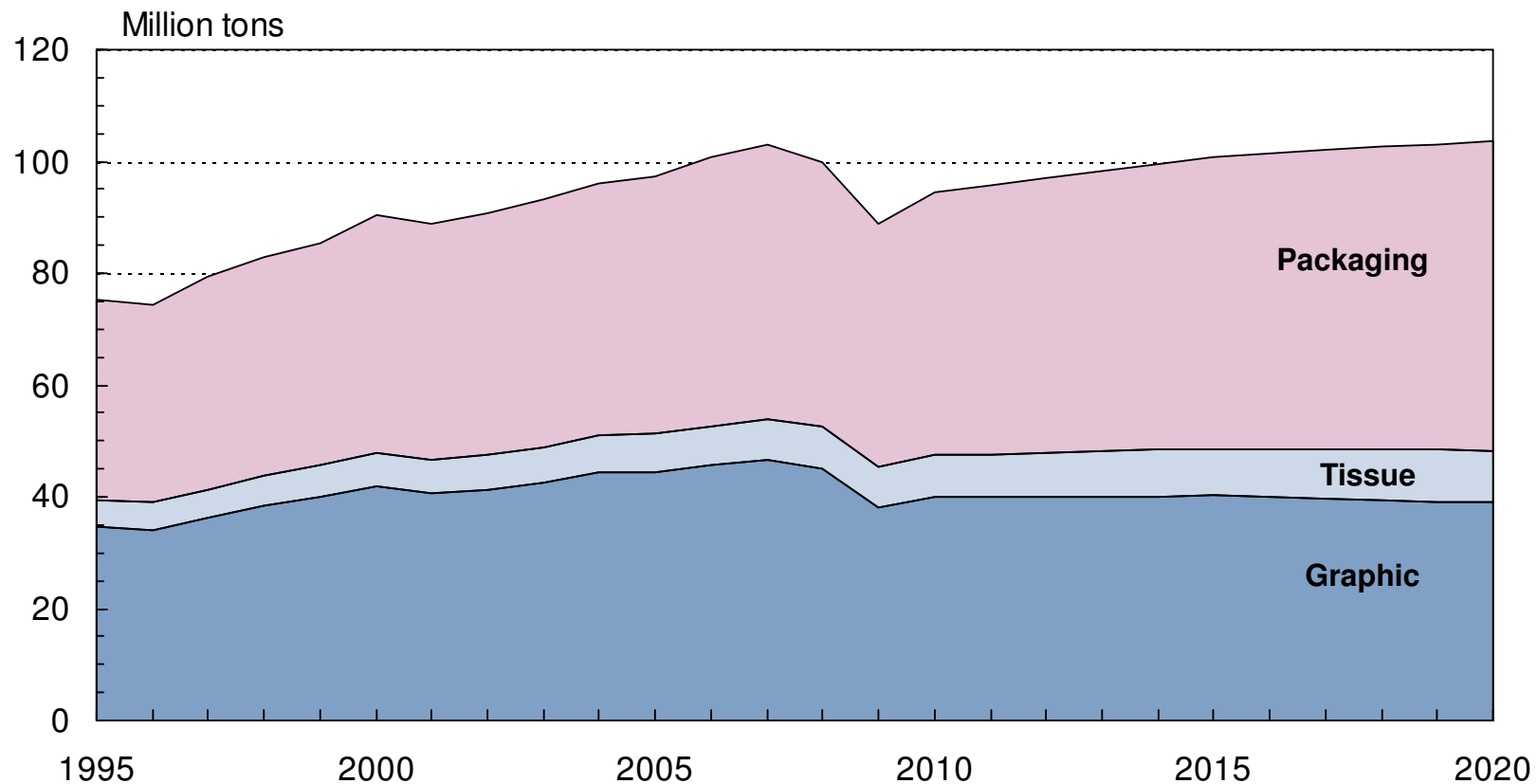


Source: Poyry, March 2011

# Paper Demand in Europe through 2020: packaging and tissue being ahead



Graphic paper demand in Europe is expected to decline by 1 million tons during the current decade, while demand for tissue paper and packaging grades will continue to grow.



Source: Poyry, March 2011

# Media reach & technology revolution, ICT: an accelerating trend



How long did it take for a media to reach an audience of 50 million people?



3 Years



100 mio users during first 9  
months



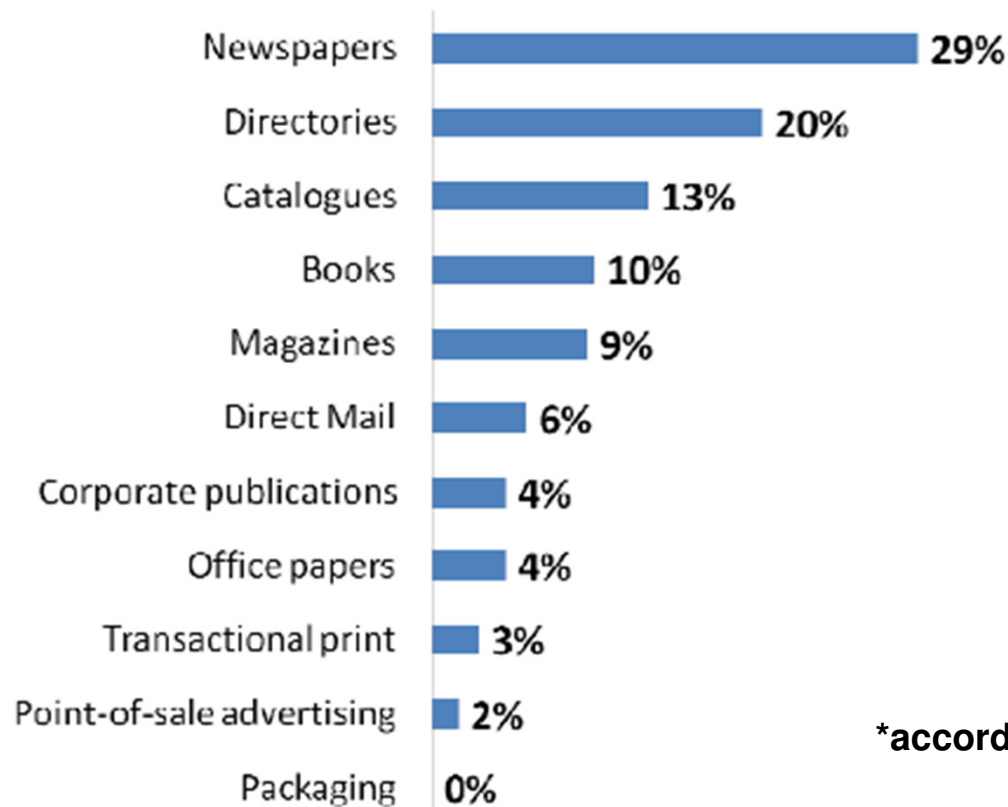
1.000.000.000 application  
downloads during first 9 months

Source: StepChange

# “Which paper applications are most likely to suffer from e-media?”



## Most impacted paper applications \*

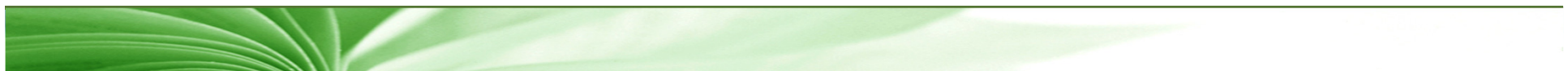


- Newspapers and directories expected to suffer the most from E-media substitution and growing online readership
- Office papers and transactional print expected to be impacted minor
- Packaging expected not to be impacted by digitalization

\*according to a PRIMA survey carried out in 2010

© StepChange Consulting

**ICT and paper are complementary. ICT is not carbon neutral!** Source:  
StepChange

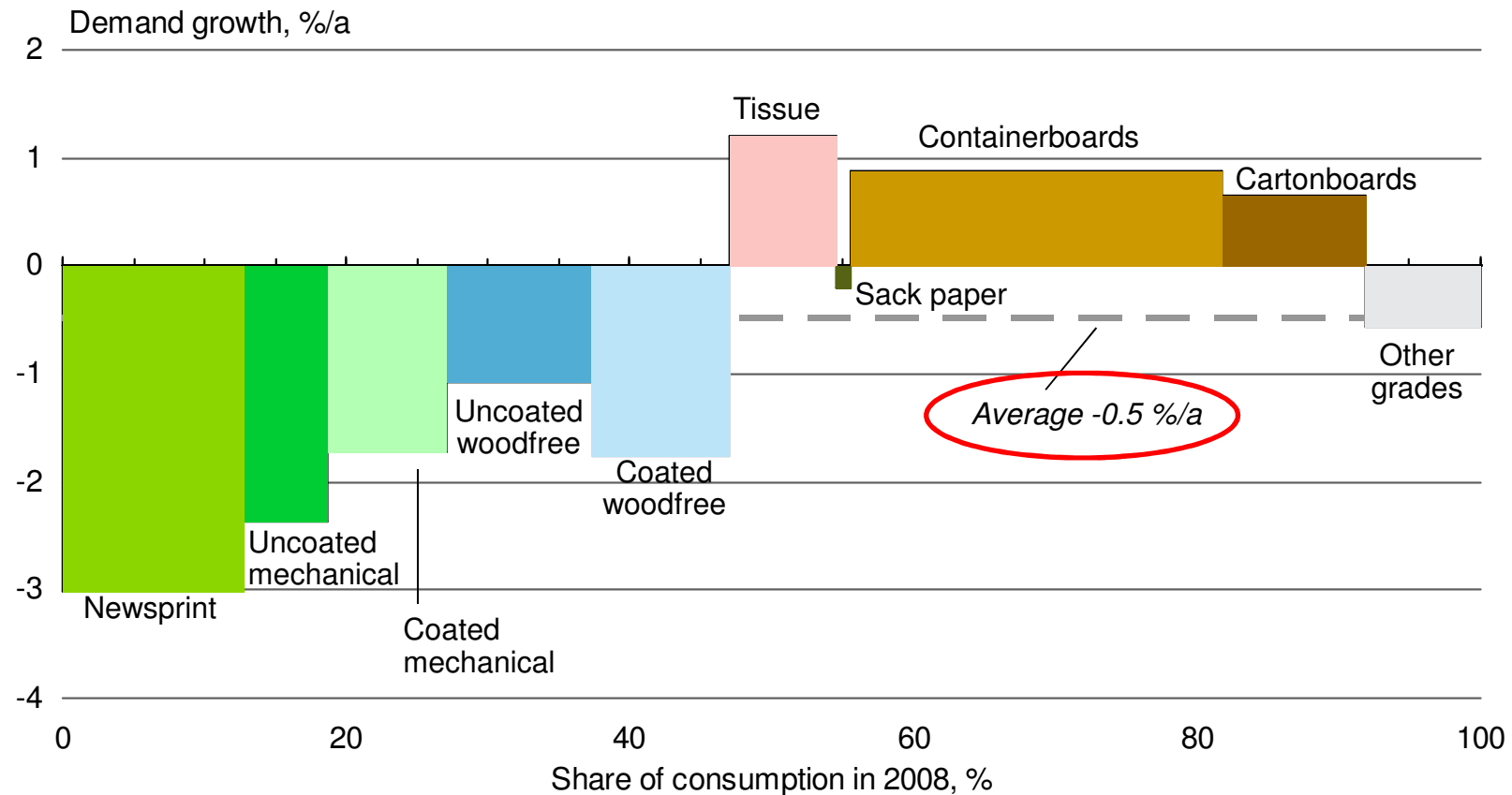




# Long-Term Demand Growth in Western Europe through 2020



**Demand for paper in Western Europe is expected to decline by 0.5%/a through 2020, calculated from the high 2008 level. The demand for graphic papers is relatively weak.**

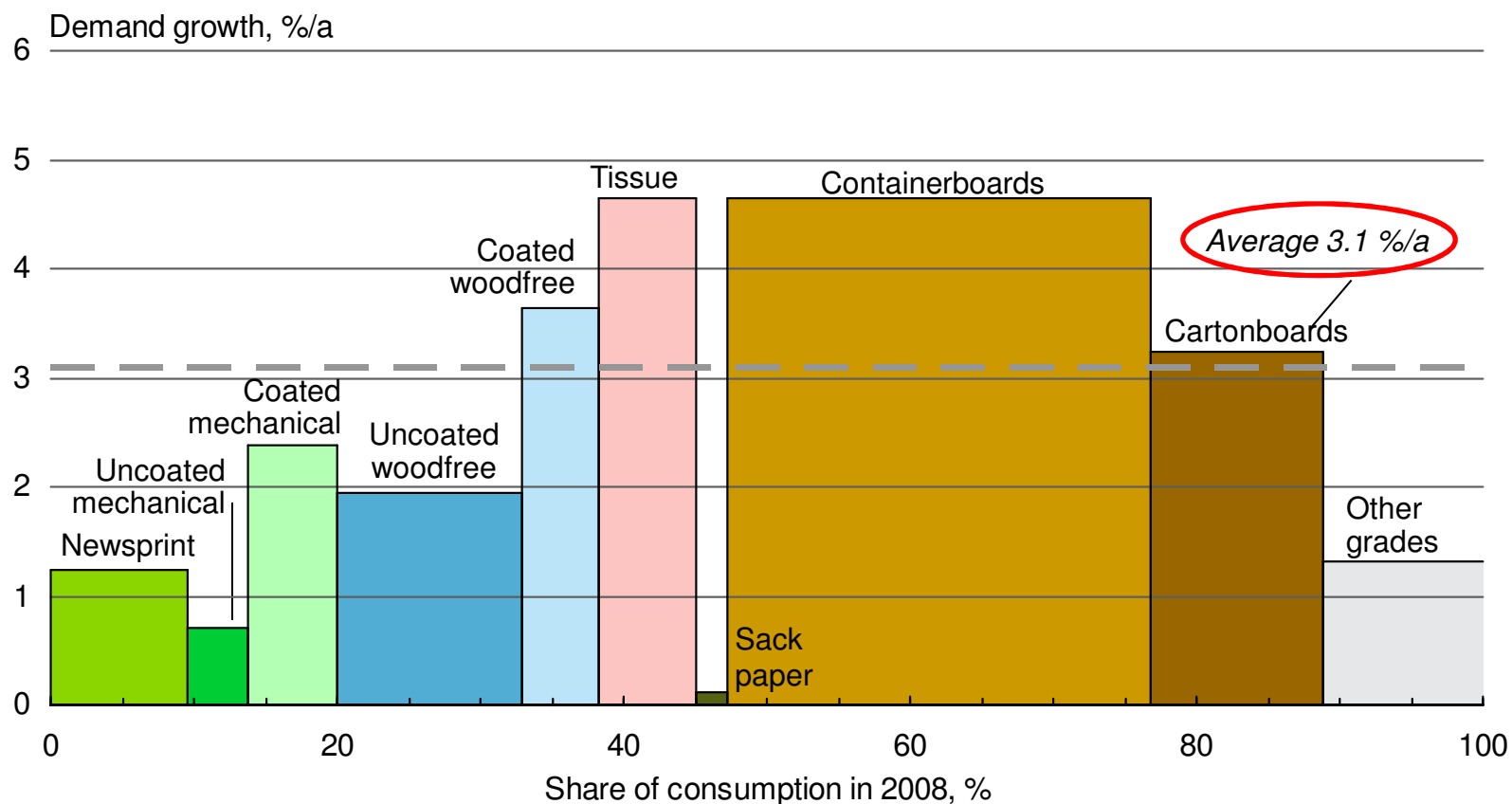


**Source: Poyry, March 2011**

# Long-Term Demand Growth in Eastern Europe through 2020

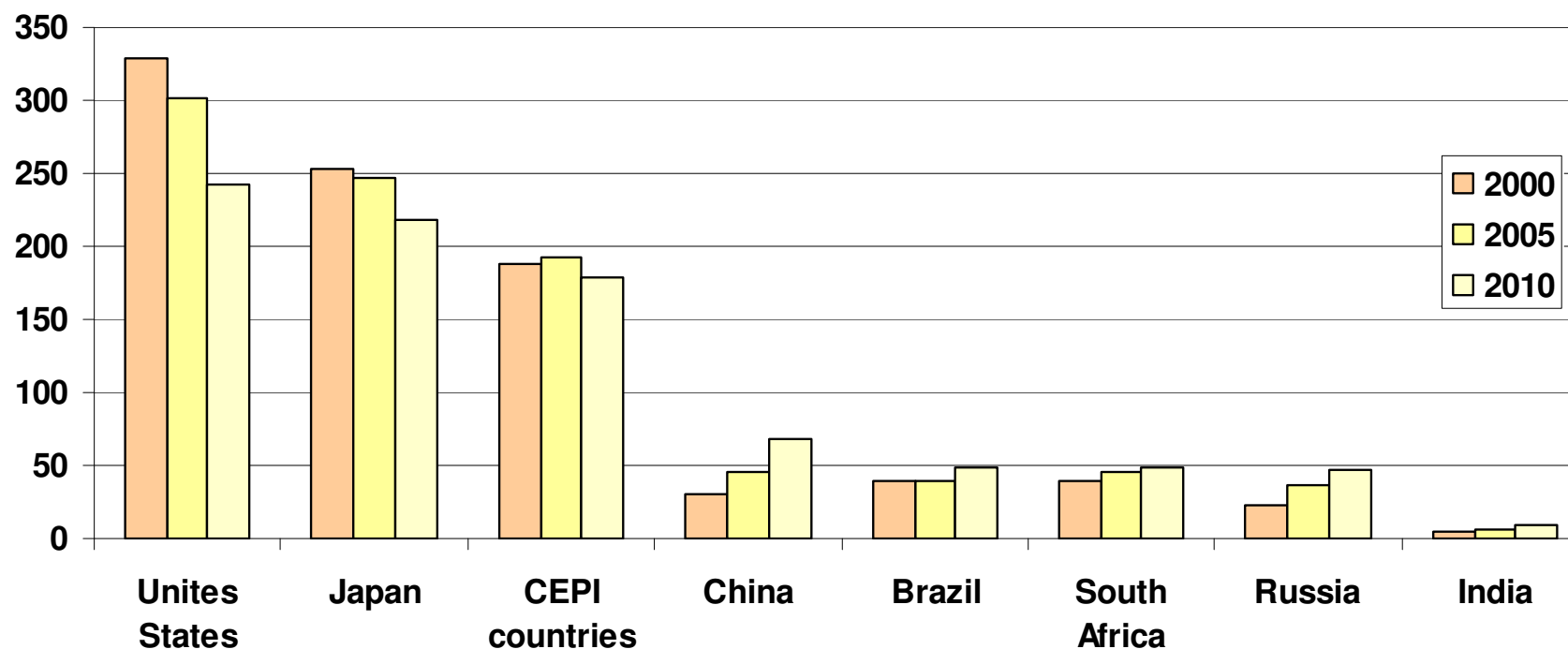


The rapid growth of the Eastern European markets is forecast to continue well into the future. Demand for coated woodfree will increase relatively fast.



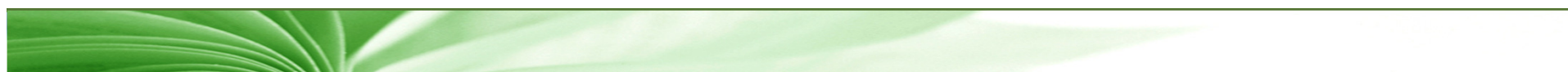
Source: Poyry, March 2011

# Paper & Board consumption per capita: huge potential in the emerging countries

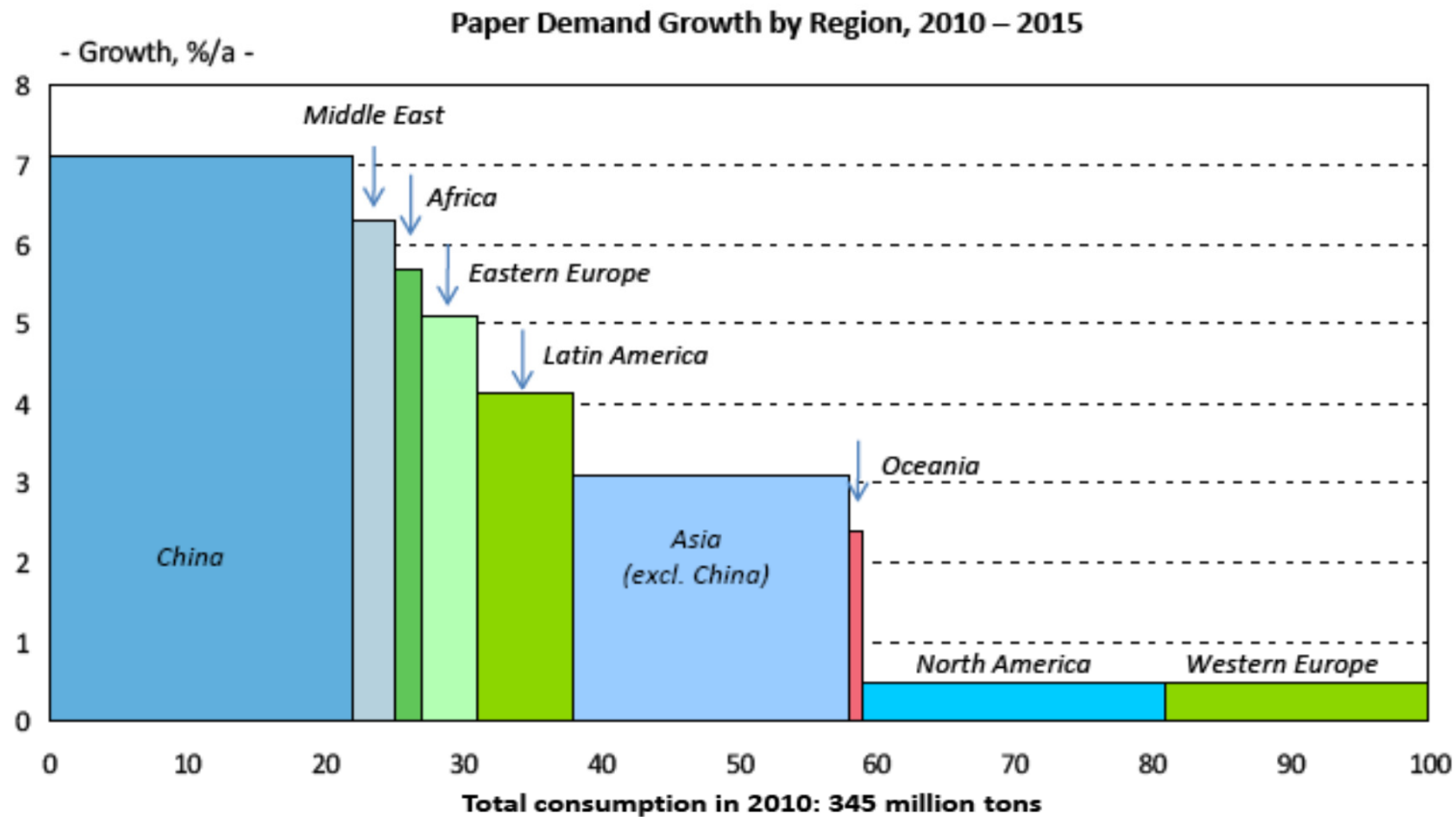


**European industry should benefit from this potential growth!**

**Source:  
RISI**

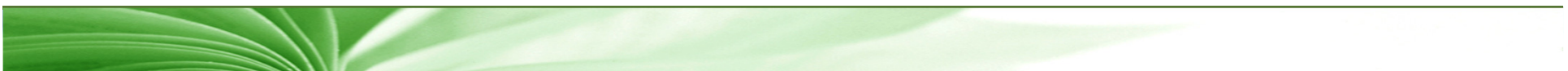


# Paper demand forecasts 2010-2015 by main regions: Asia in the driving seat



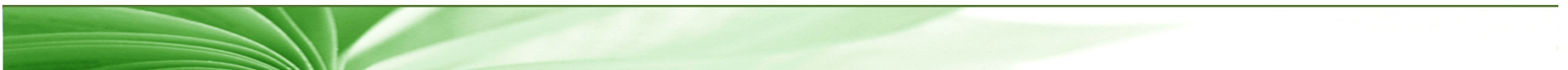
**Better market access has to be secured through WTO and bilateral trade agreements.**

**Source: RISI,  
Vision  
Hunters**

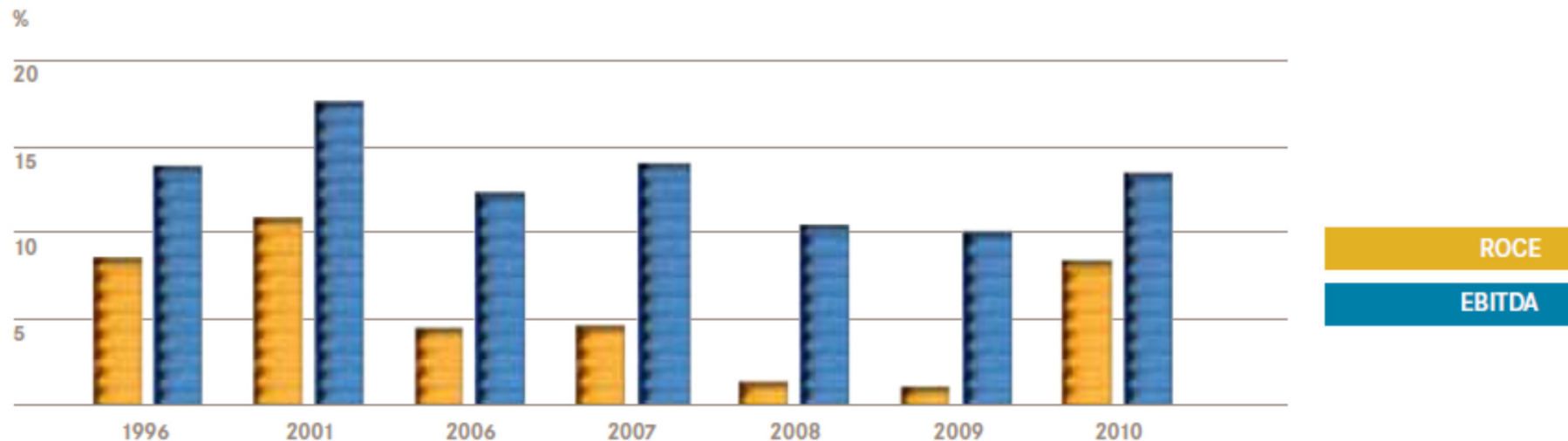




## About Competitiveness and Profitability

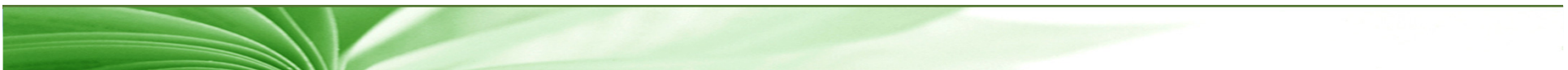


# Profitability of the European pulp & paper industry – 1996-2010: too low level



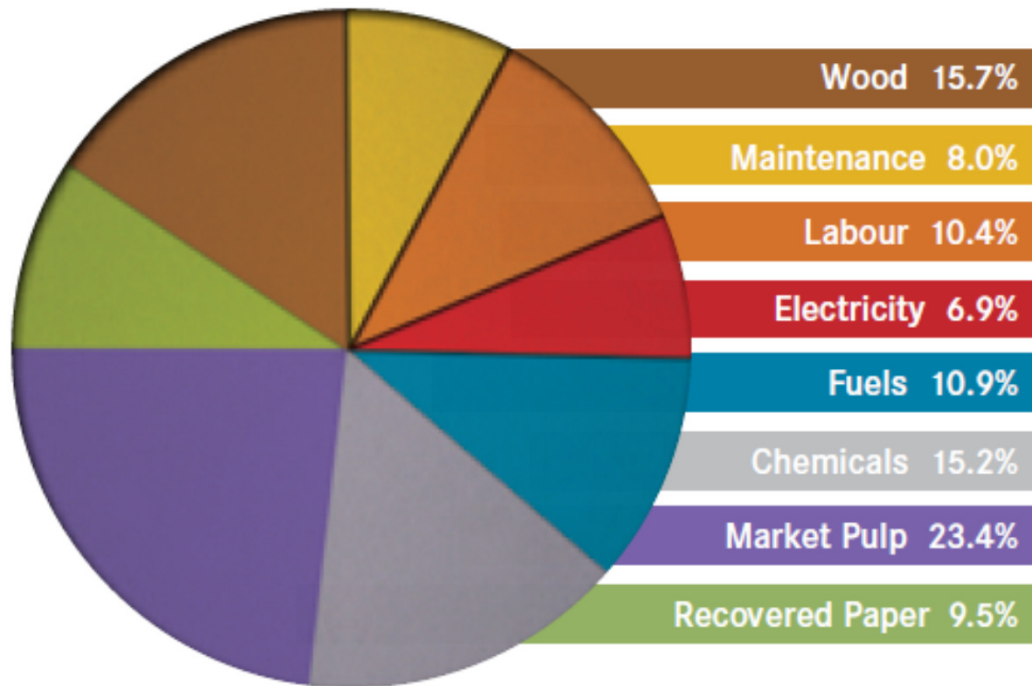
**Less dynamic markets and economic crisis, tighter competition from foreign countries, higher input prices, overcapacities, stricter environmental requirements have a cumulative effect on profitability.**

Source:  
Poyry





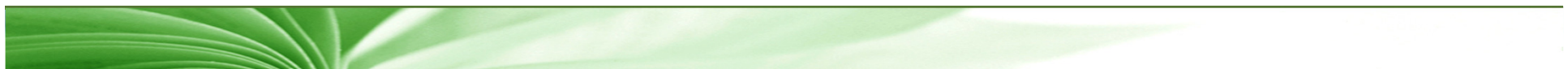
# Cash manufacturing costs structure of the European pulp & paper industry - 2010



Billion euros
4.5
6.0
3.7
6.5
8.8
14.0
5.7
8.8

**Fibres account for 50% and total raw materials two thirds, energy 18%, labour 10%.**

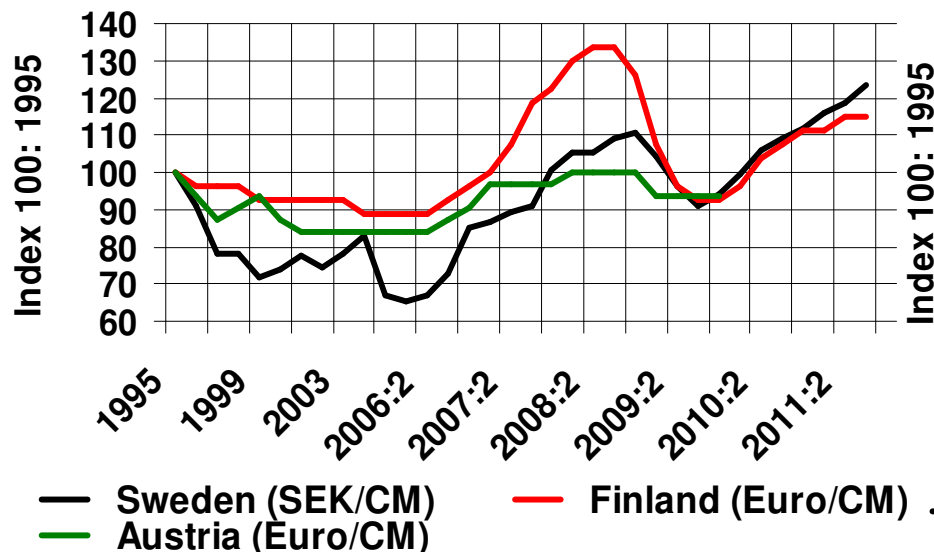
Source: RISI



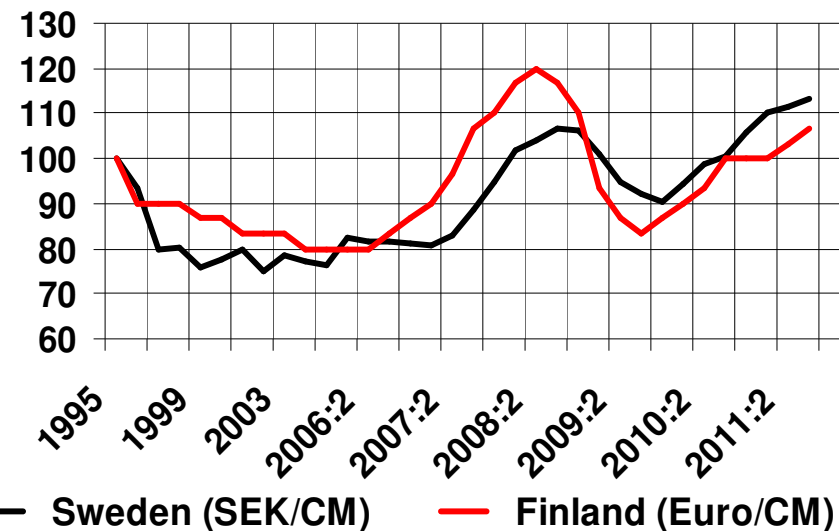
# Pulpwood prices developments: the upward trend



Pine price - local currency



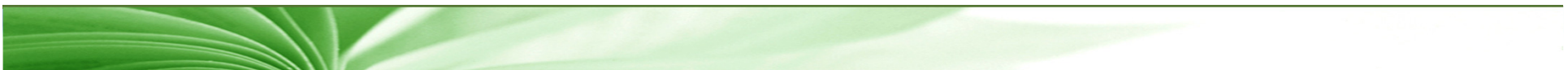
Birch price - local currency



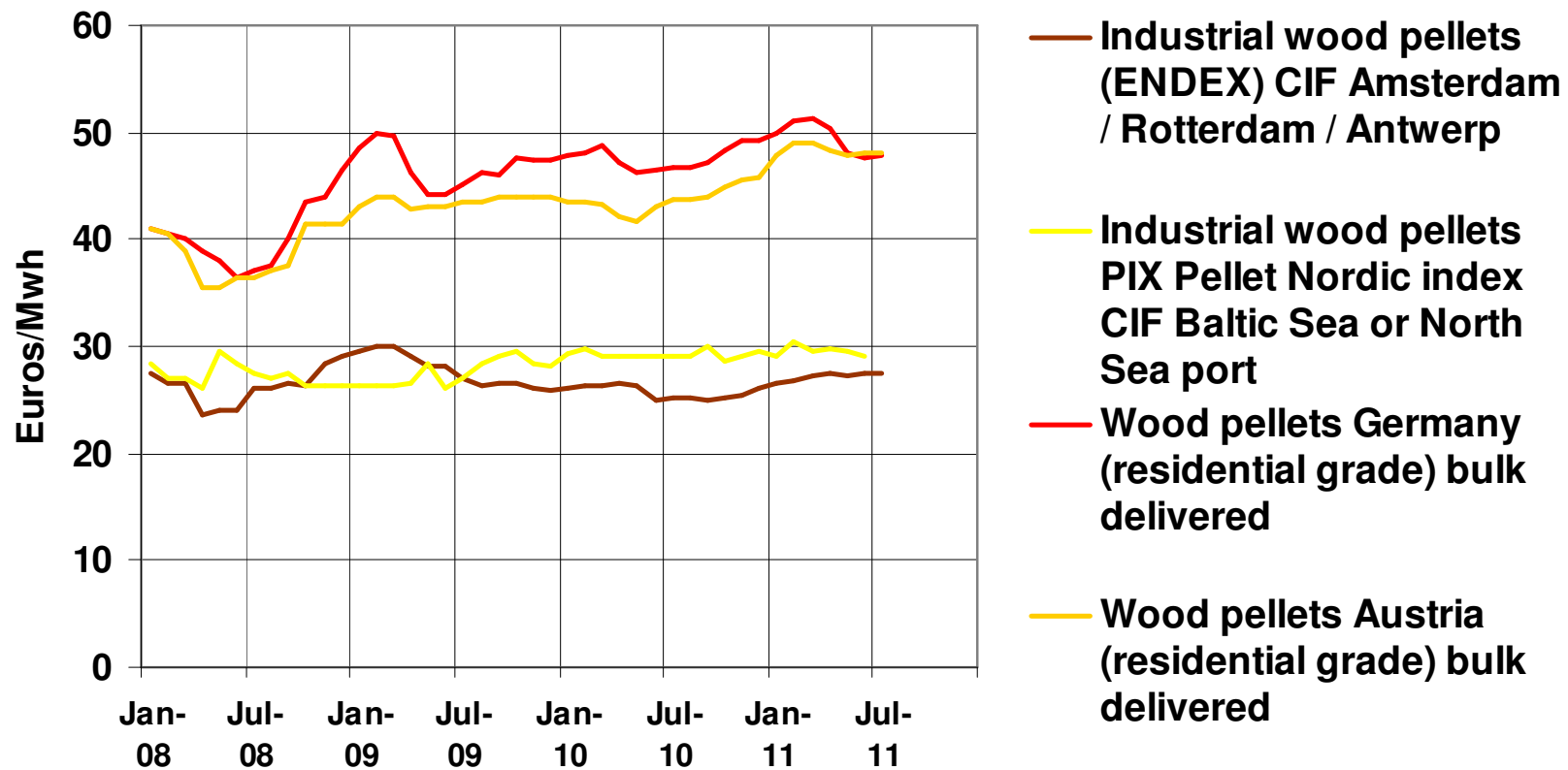
Price delivered at road side

**Wood mobilisation is crucial and access to foreign markets key (Russia).**

Source: RISI,  
Sep. 2011

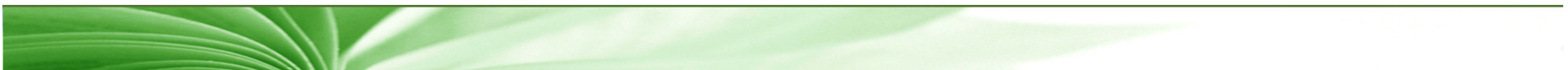


# Wood pellets price development: competition from energy sector has to be fair

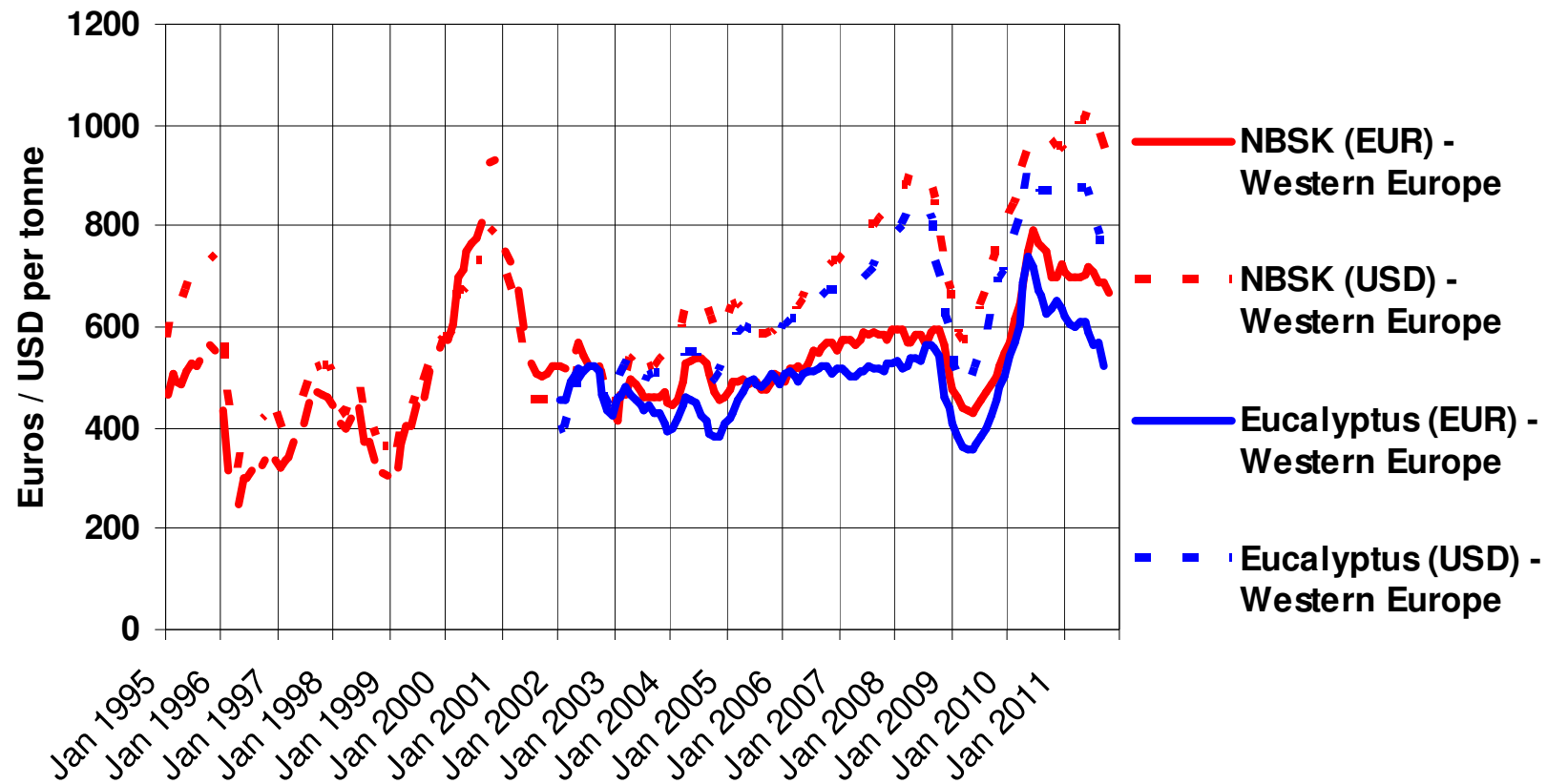


**The competition on wood for energy is growing. Sustainability criteria is a must. Subsidies have a distorting impact.**

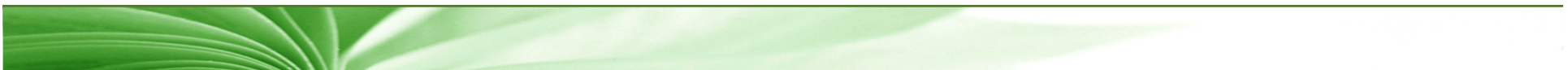
Source:  
Hawkins  
Wright,  
July 2011



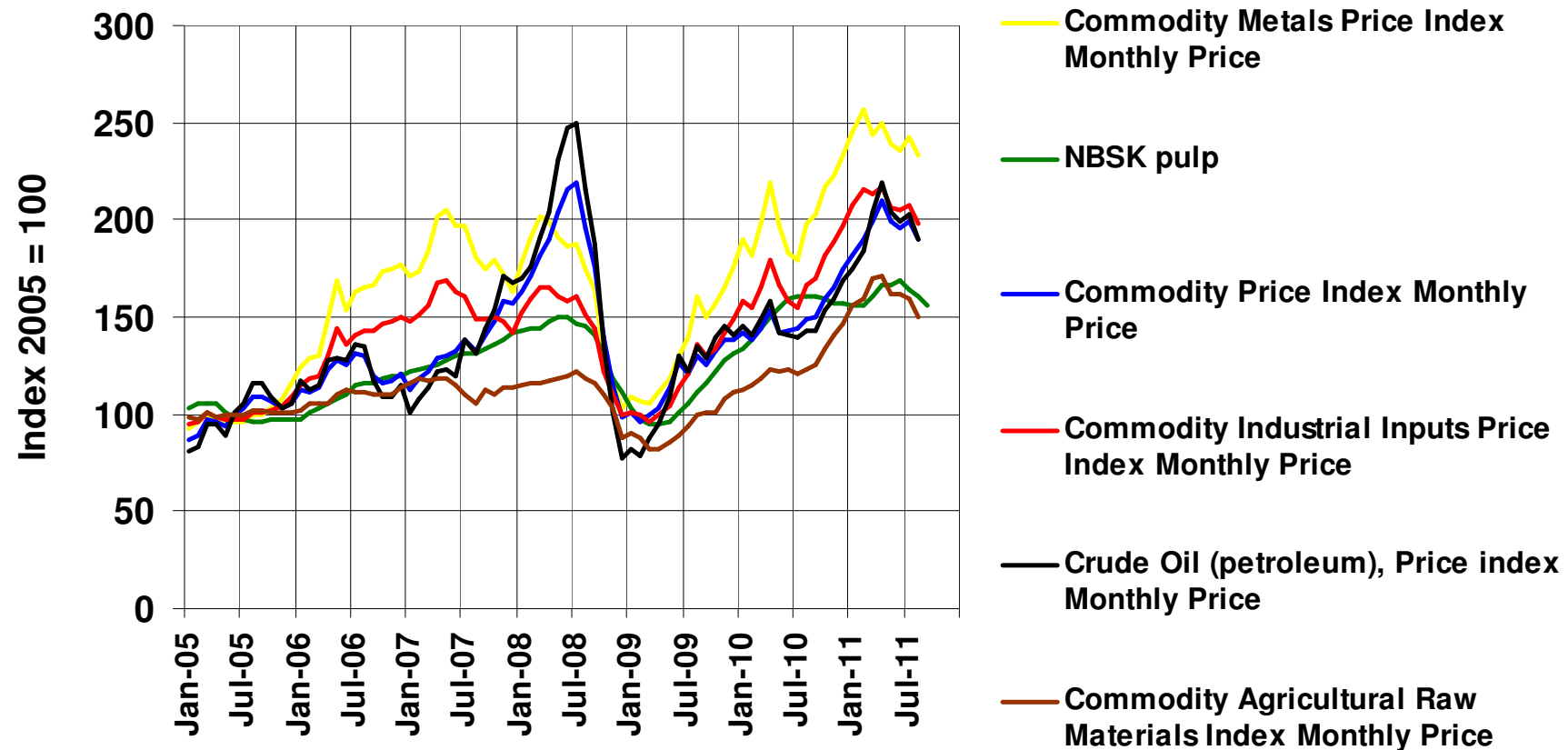
# Pulp prices: down from record levels



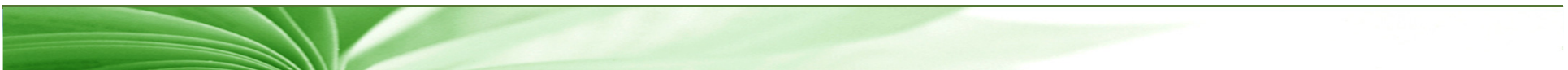
Source: RISI, Oct. 2011



# Commodities price volatility: pulp is not an exception



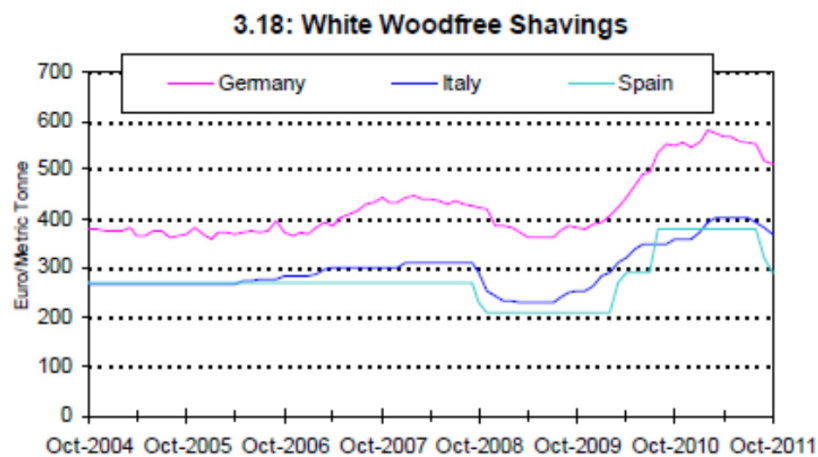
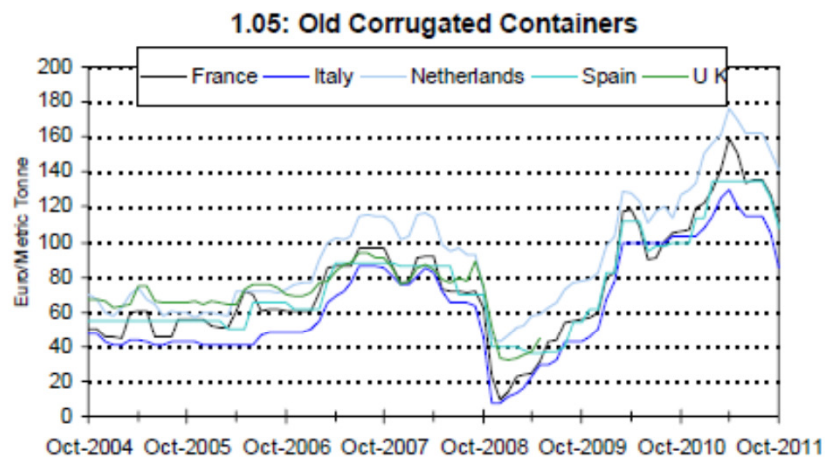
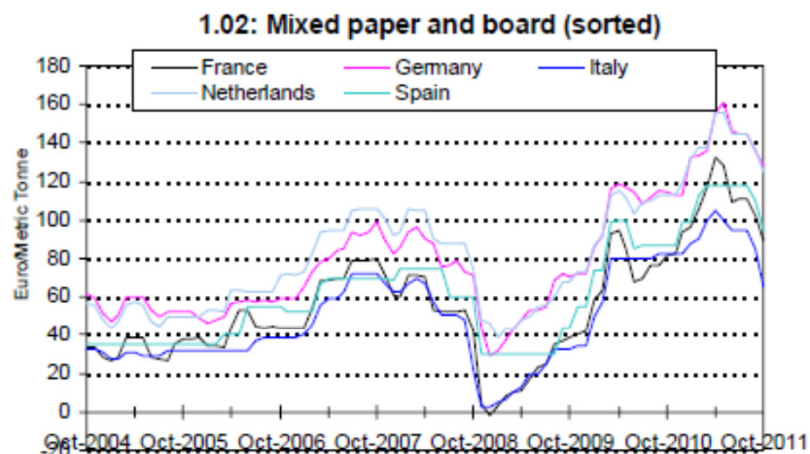
Source: IMF, RISI, Sep. 2011



# Recovered paper domestic prices: record levels

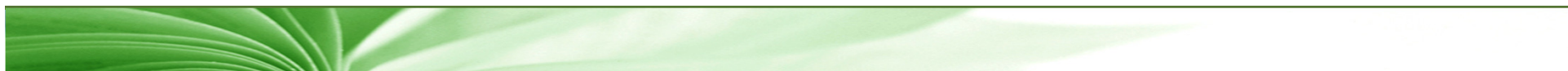


First 10 months 2011: utilisation increased by 0.2% in Europe



Germany and the Netherlands: Free-delivered prices

Source: CEPI, Nov. 2011

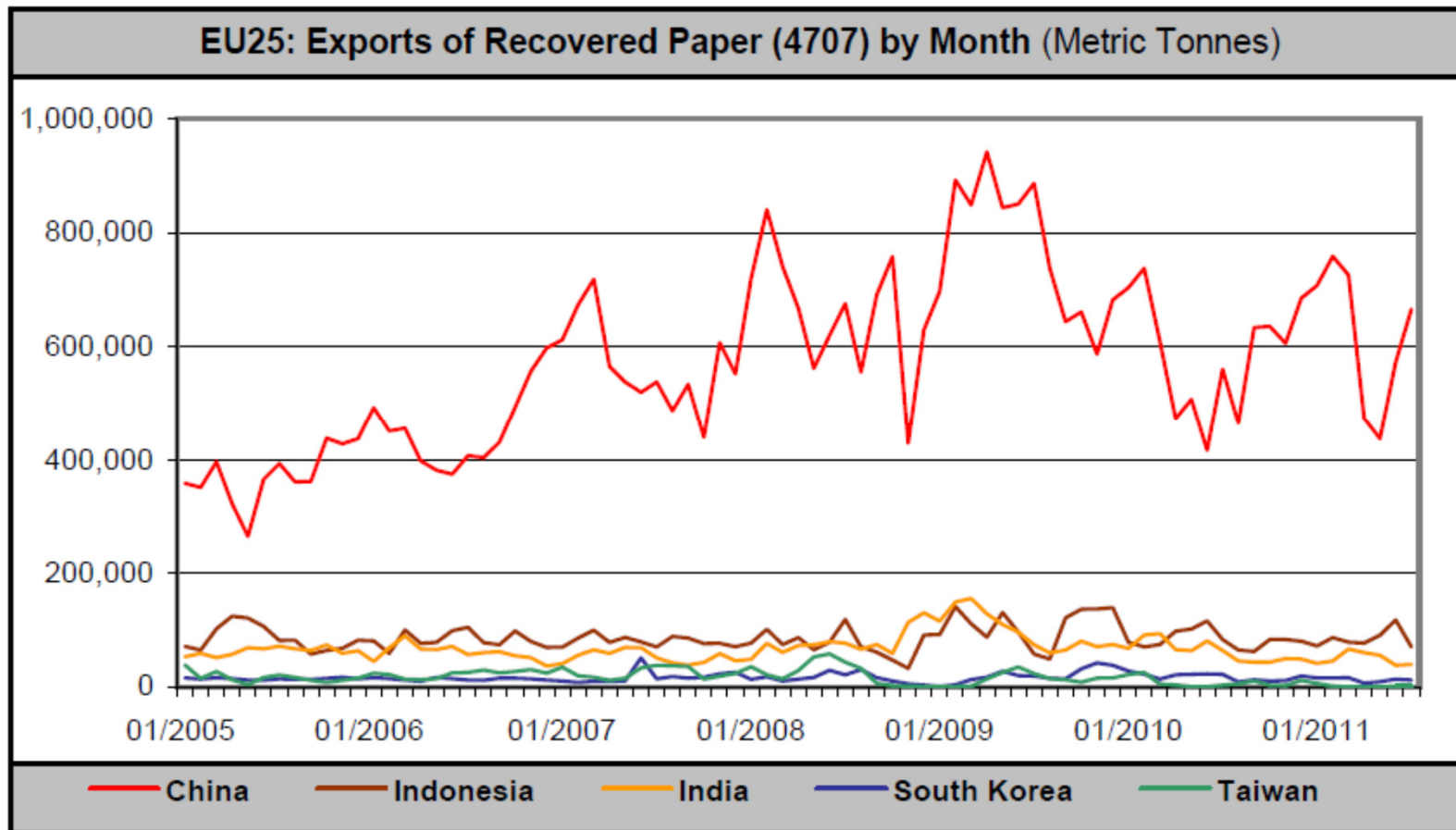




# Recovered paper prices: China's impact

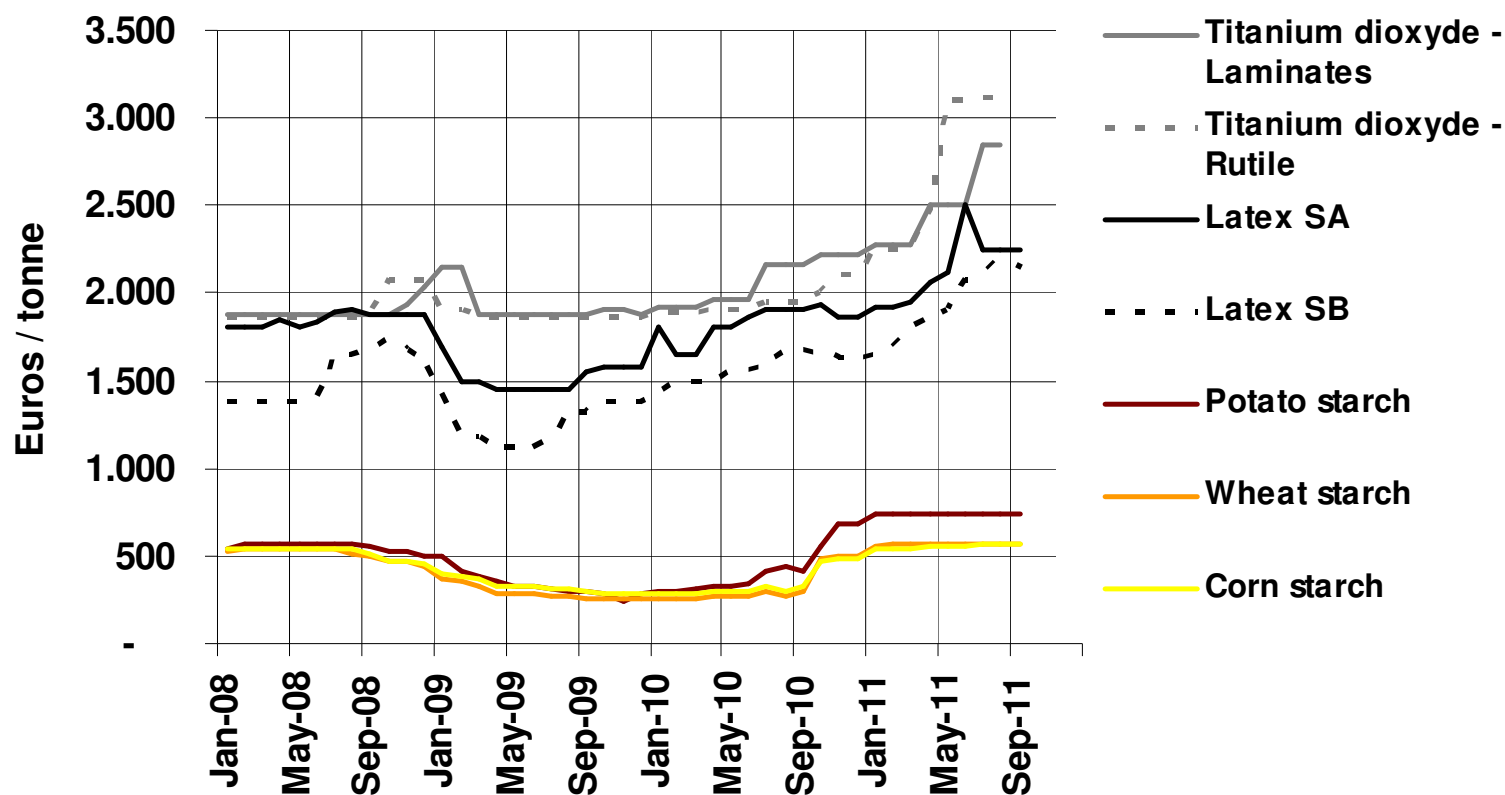


First 7 months 2011: exports increased by 1.1%, to China: +8%



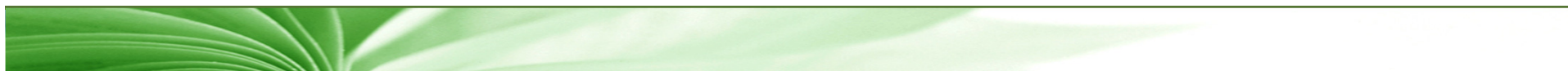
Source: GTIS, CEPI, Nov. 2011

# Chemicals and non-fibrous raw materials: the upward trend

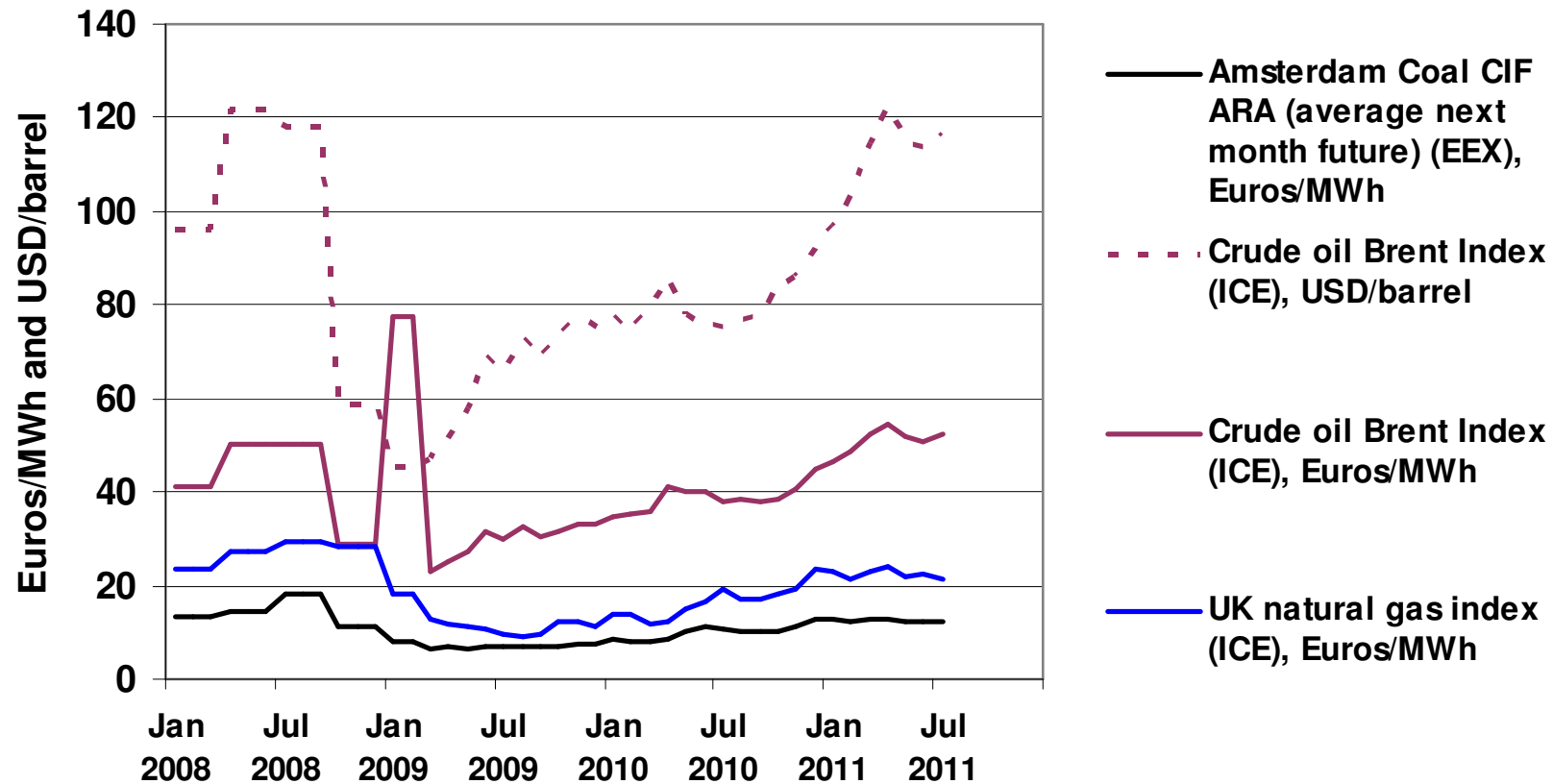


Starch: Euros/metric tonne CIF; Latex: Euros/dry metric tonne Free-delivered

Source:  
PaperChem,  
Sep. 2011

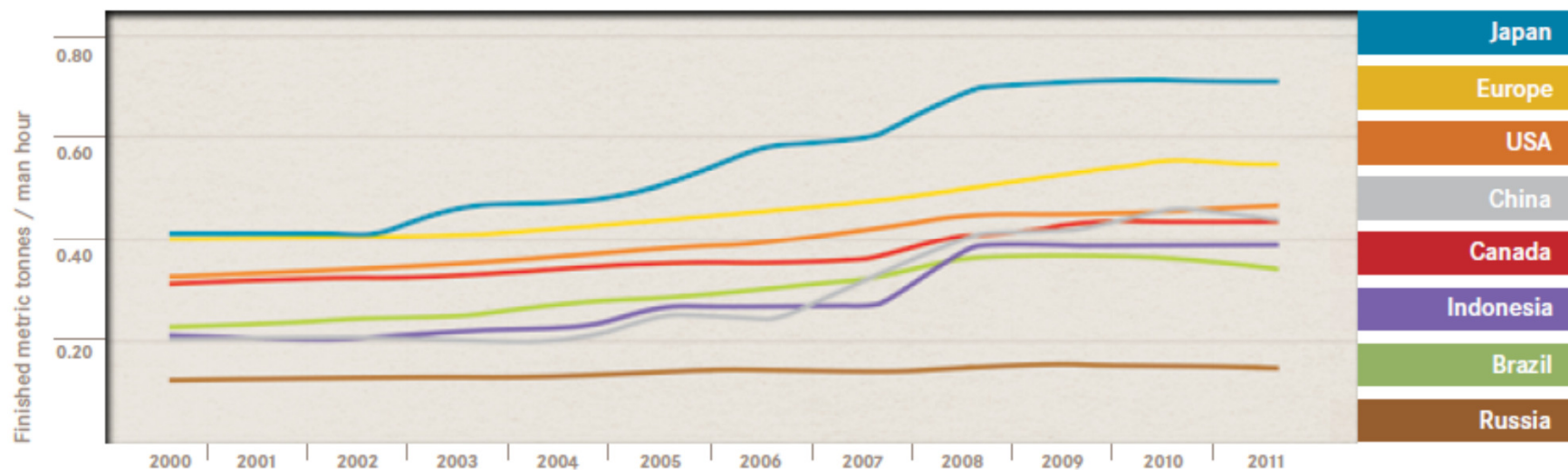


# Energy price developments: a boost for higher efficiency and renewable energy sources



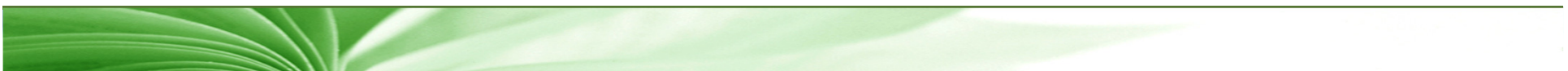
Source: ICE, EEX, Sep. 2011

# Labour productivity in the pulp & paper industry: skilled people availability is key

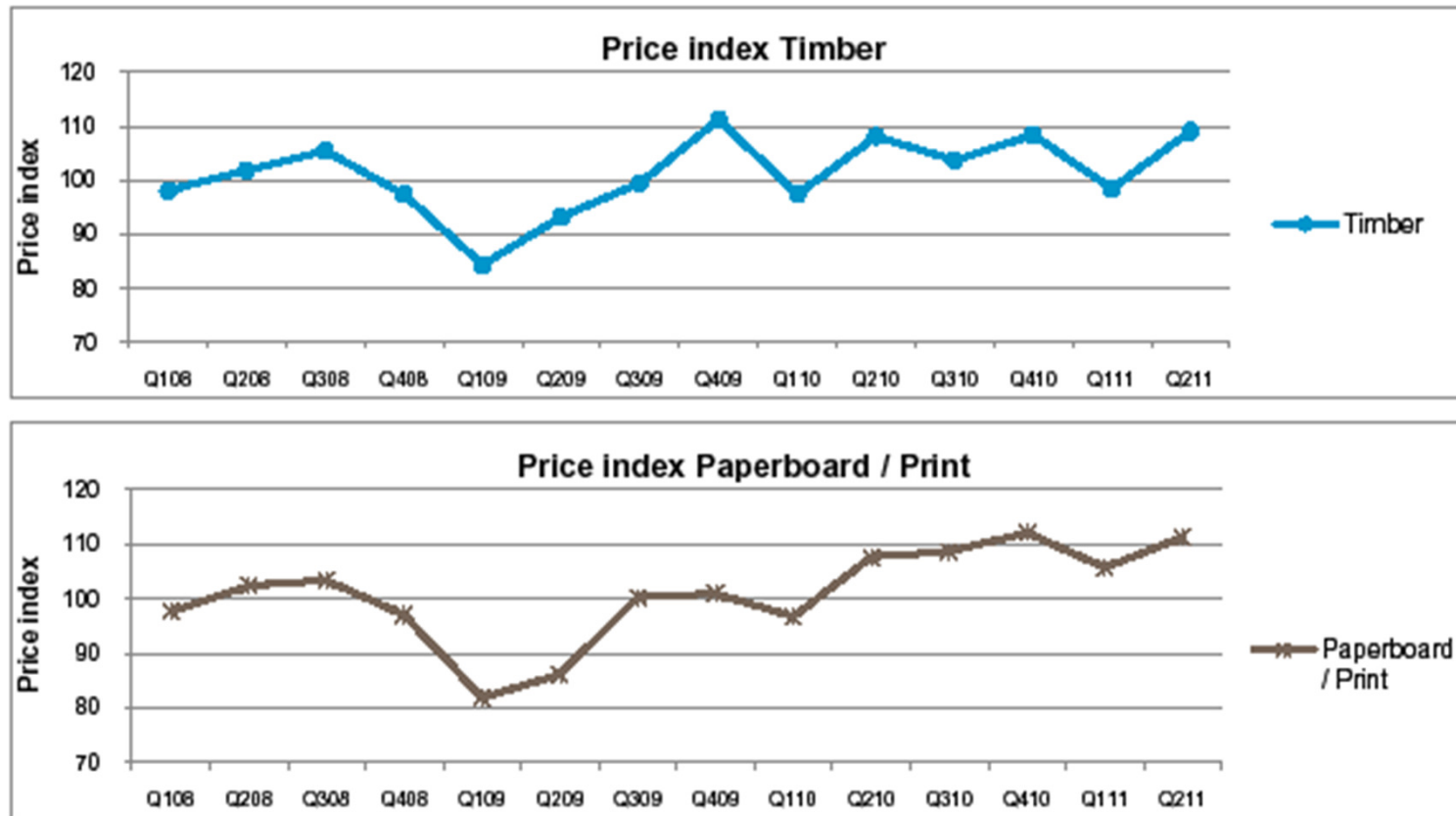


**Japan and Europe are leading, but China has improved its labour efficiency substantially. Attracting young talents remain a challenge**

Source: RISI,  
Sep. 2011

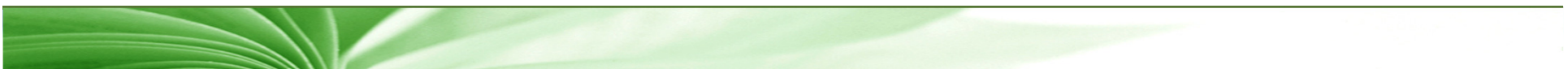


# Road transport price in Europe: the need for more efficient transport modes

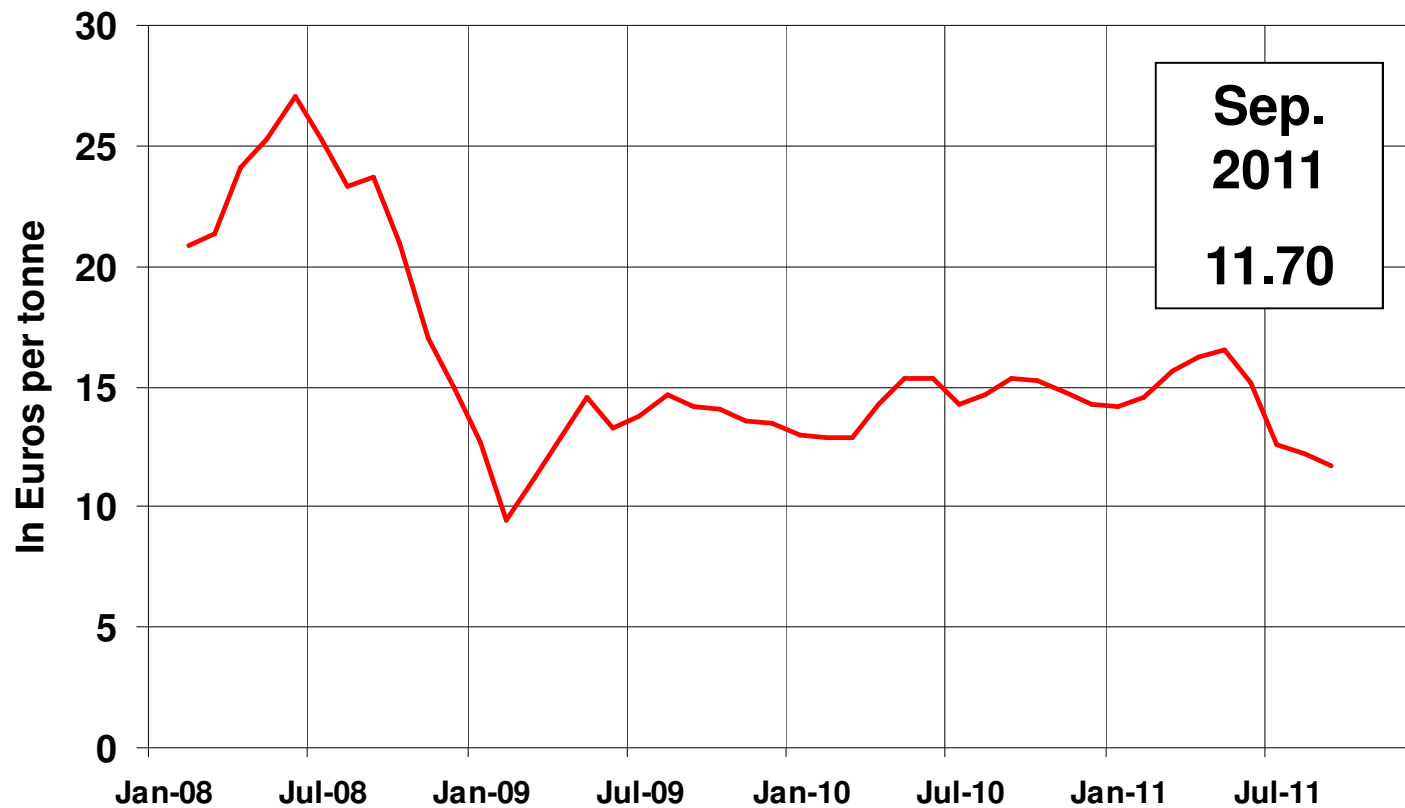


Source: Cap Gemini Consulting and Transporeon, Aug. 2011

**Higher weight & dimensions limits for trucks are needed. European Modular System should be promoted. Rail freight services remain of poor quality. Liberalisation has not materialised yet...**

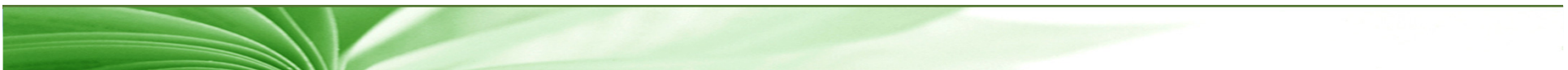


# CO2 emission price: the climate change challenge



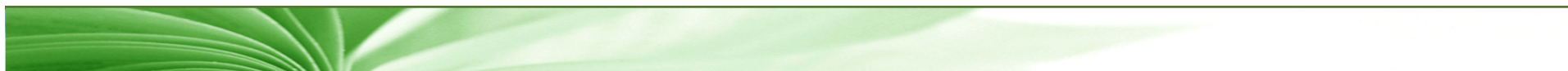
**CO2 emissions have to go down by 20% in Europe by 2020. The paper industry has to reduce its carbon footprint or face higher carbon price in the future.**

Source: Blue  
Next (spot  
market)

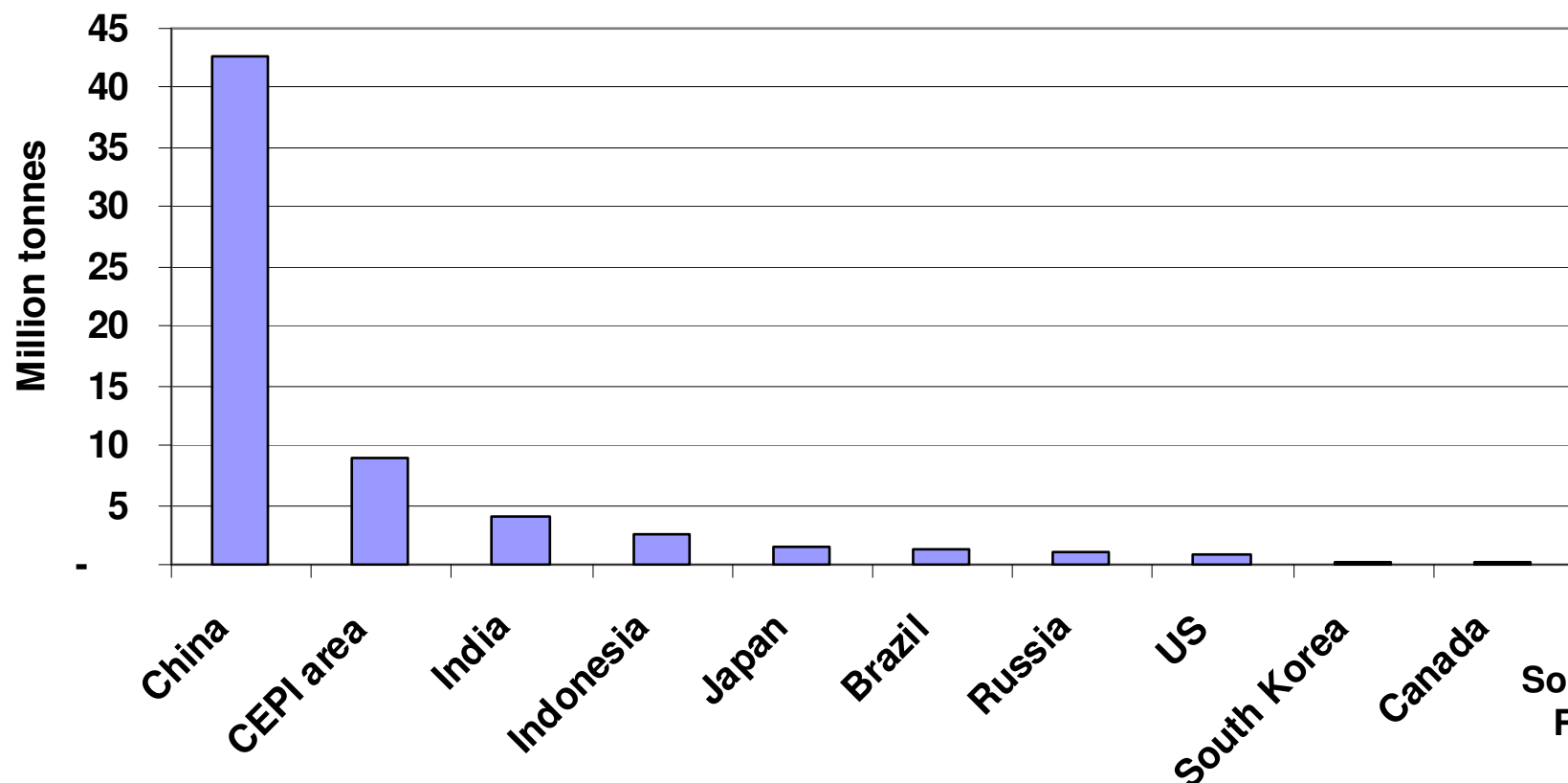




## About Investments and Level playing field

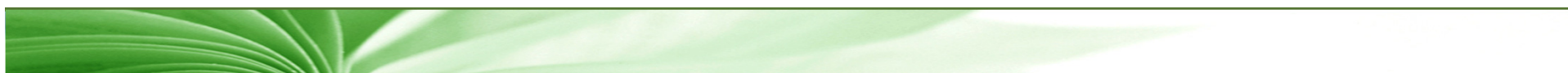


# Investments in new paper & board production capacities - 2005-2010: China, China, China



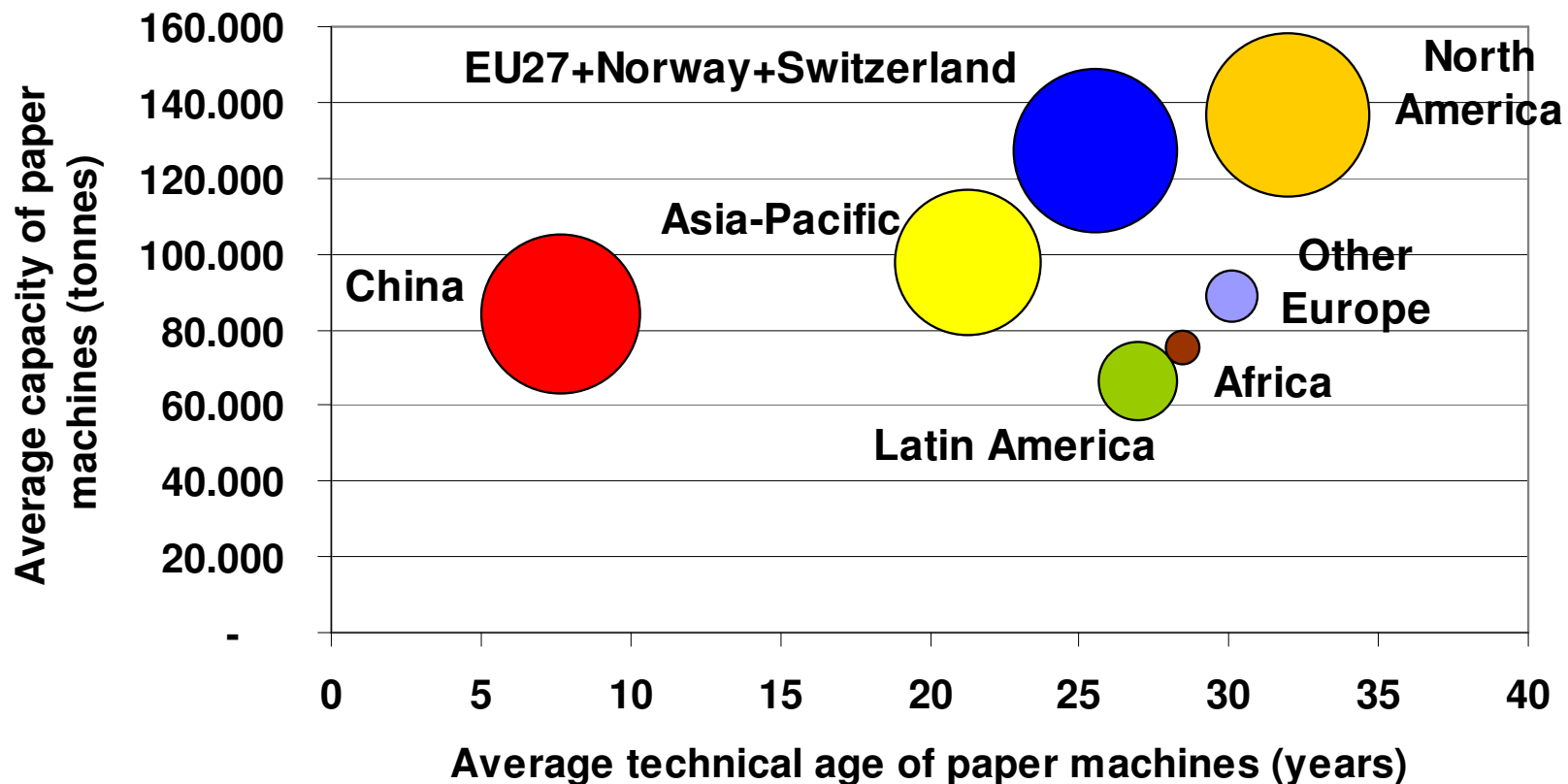
Source:  
RISI

**Anti-dumping and anti-subsidy measures were adopted by the EU against the fine paper imports from China into Europe in 2011.**





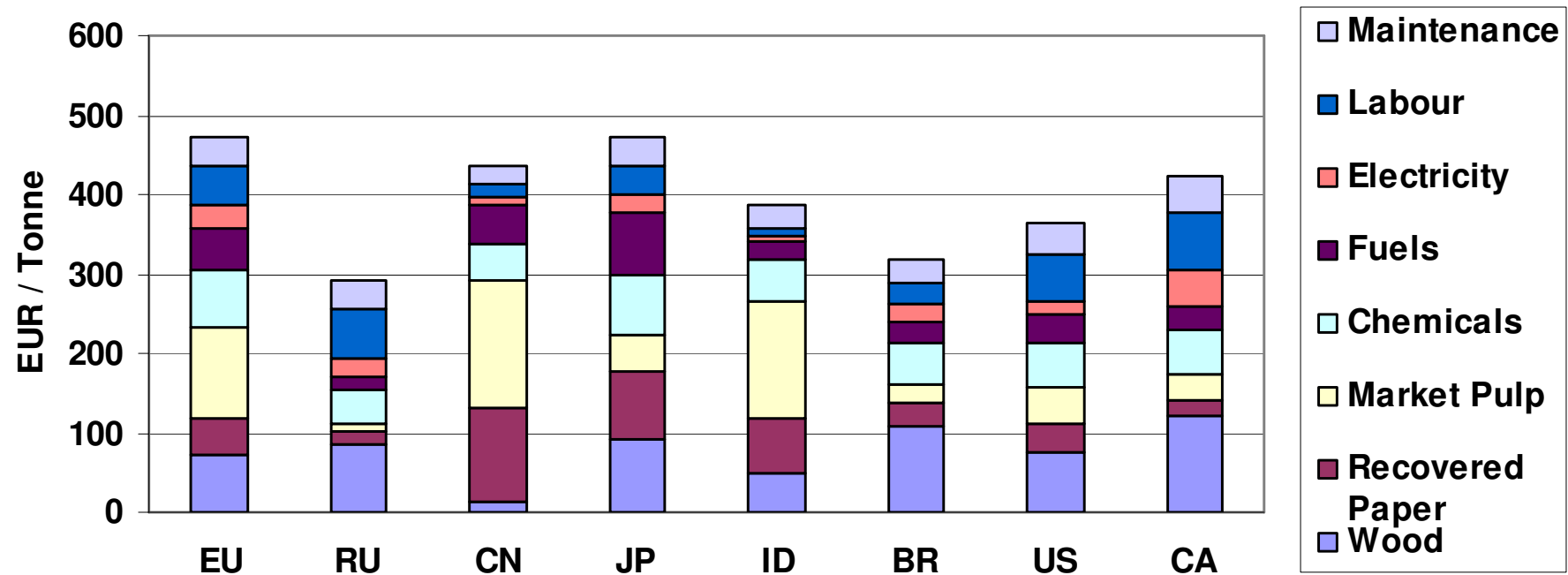
# Average capacity / age of paper machines: new investments make the difference



Bubble size: total paper capacity of the area / country

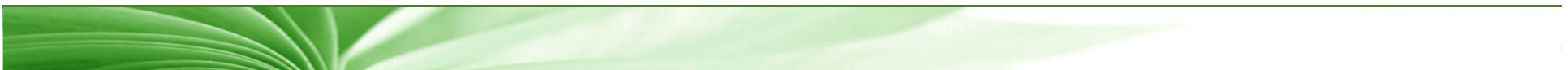
Source:  
RISI

# Pulp & paper industry average cash manufacturing cost structure benchmark - 4th quarter 2010



**Russia and Brazil are below other countries but capital costs and business environment matters as well.**

Source: RISI



# CEPI countries trade flows: paper to Asia and other European countries, Brazilian and North American pulp to Europe



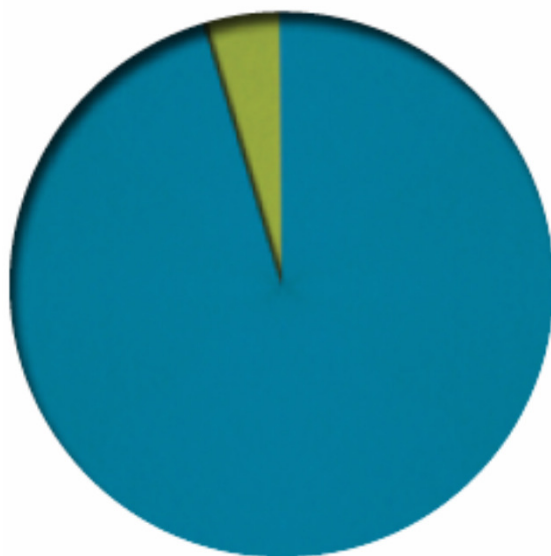
**Level playing field should be the rule of the game!**

**Source: CEPI**

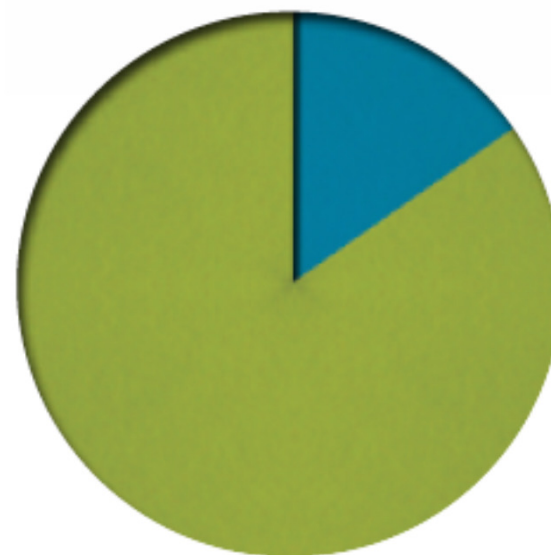
# European paper industry: remains strong on domestic markets and exports



**Only 5% of the paper consumption in the CEPI area is imported**

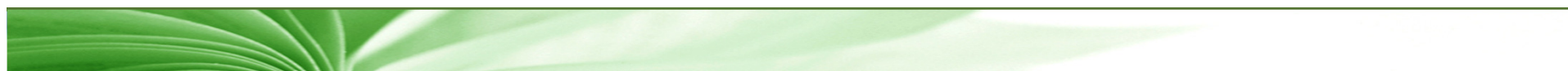


**18% of the CEPI paper production is exported**



**Able to keep these strong positions in the future?**

**Source:  
CEPI**



# Paper is not the only application for wood fibre: more value to be created



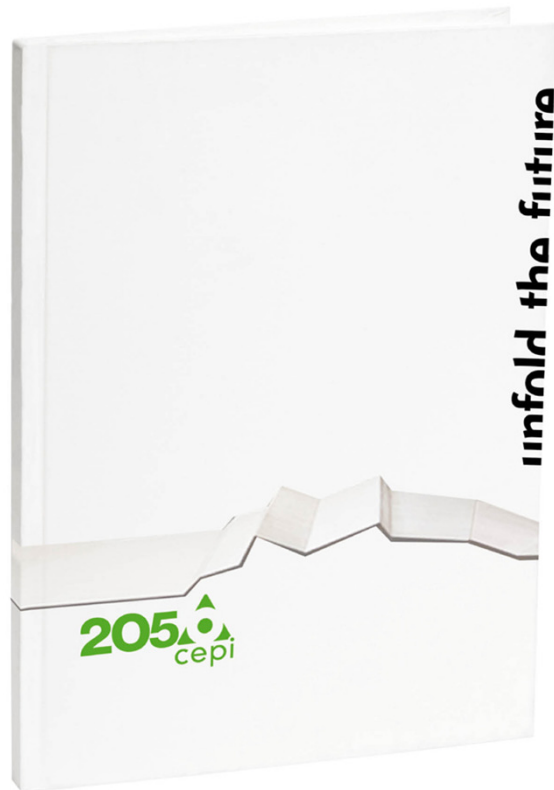
Photographic films,  
Cigarette filters,  
Technical applications,  
Sanitary products



Source: UPM



# The 2050 Roadmap: Unfold the future!



**In a broad sector scope –  
the forest fibre sector**

- **80% less fossil CO<sub>2</sub>**
- **50% more value**
- **40 years from now**



Paper is  
precious natural  
innovative essential  
natural renewable precious  
essential innovative  
natural essential  
innovative precious  
renewable



Remember the value of Paper

**Thank you!**



**Hvala!**

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