Gospodarska zbornica Slovenije

Paper and Paper Converting Industry Association

Slovene Paper and Paper Converting Industry

SUSTAINABLE, ENERGY- INTENSIVE, PROMISING

SLOVENE PAPER INDUSTRY

17% of all costs are energy costs (on average)

among 35 top exporters

5 SI paper mills

37,958 € value added / employee

685 m € revenues

110 companies

7 large
9 medium
10 small
83 micro

495m € exports

(data refer to 2012)

CHARACTERISTICS
OF THE SLOVENE PAPER INDUSTRY

- Role model of sustainability in industry
  - Raw materials from renewable sources (*growing sources =wood; recovered paper)*
  - Naturally degradable products
  - High recycling rate *(paper can be used 6-8 times)*
  - Environmentally adapted processes - large investments for the protection of environment, particularly in closed circuits and waste water treatment

- Traditional Slovene industry

- Energy-intensive industry (as regards paper production)
  - On average, energy costs make 17% of all costs
  - Consumption of 600 GWh of electricity, 91m Sm3 of gas

CHARACTERISTICS OF THE SLOVENE PAPER INDUSTRY

- Export oriented; internationally competitive
  - Share of exports >88.4%; € 495m of exports in 2012
  - In direct contact with the competition abroad, which has lower environmental and energy taxes and contributions, lower costs of energy products, a more flexible labour market and a more stable business environment!

- Capital intensive industry as regards paper production/ labour intensive as regards paper converting.

- High share of foreign ownership
  - Industry highly integrated in a couple of large paper converting systems
  - Surcharges make a bad signal for the existing owners and eventual foreign investors

- Diverse product mix; niche producers

BRANCH C17 in 2012

Production of paper and paper products

		skupaj	velike	sredne	majhne	mikro	delež izvoza
št. družb	**C 17**	**110**	**8**	**9**	**10**	**83**	
	C 17.1	9	5		1	3	
	C 17.2	101	2	9	10	80	
prihodki (v €)	C 17	**683.206.000**	**560.971.798**	**92.662.412**	**31.399.861**	**36.848.626**	**71,5**
	C 17.1	458.496.221					88,4
	C 17.2	224.709.779					45,6
zaposleni (po del. urah)	**C 17**	**3.834**					
	C 17.1	1.519					
	C 17.2	2.315					
dodana vrednost na zaposlenega (v €)	**C 17**	**37.958**					
	C 17.1	43.761					
	C 17.2	32.177					

C 17.1 Production of paper and board C 17.2 Production of products from paper and board

8 large companies generate 77.9% of all revenues of the branch,
73.8% of the C17 companies are micro-enterprises generating 4.5% revenues of the branch. They all belong to paper and board converters.

Source: SORS

PRODUCTION

in tons

NACE	Kategorija	2008	2009	2010	2011	2012	2013oc.	*2013/ 2012 (%)*
17.110	Fibre total	183.679	191.938	202.514	212.941	227.385	240.029	*5,6*
	Paper	406.213	397.425	396.838	394.835	369.103	362.780	- *1,7*
	Board	207.828	218.934	232.473	206.182	232.521	236.128	*1,6*
	Cardboard	13.178	5.070	5.600	5.670	5.850	5.300	- *9,4*
	Sanitary paper	66.080	66.366	66.183	65.835	67.349	63.862	- *5,2*
17.120	*TOTAL*	*693.299*	*687.795*	*701.094*	*672.522*	*674.823*	*668.070*	- *1,0*
	Corrugated board	79.762	59.640	69.508	63.298	55.000	50.000	- *9,1*
	Packaging	75.169	72.107	78.662	75.405	71.560	77.285	*8,0*
	Paper sacks and bags	4.277	4.077	7.340	7.125	7.482	7.500	*0,2*
17.210	*TOTAL*	*159.208*	*131.783*	*155.510*	*150.543*	*134.042*	*134.785*	*0,6*
	Other board and cardboard produc	7.134	6.154	7.106	6.695	6.300	6.400	*1,6*
	Self-adhesive materials	6.470	6.170	2.483	2.478	2.350	2.300	- *2,1*
17.290	*TOTAL*	*13.604*	*12.324*	*9.589*	*9.173*	*8.650*	*8.700*	*0,6*
17.230	Envelopes, other products	8.191	8.541	5.619	5.200	4.800	4.800	-
17.220	Household and sanitary paper products	65.878	63.436	64.379	62.738	63.584	63.000	- *0,9*
	SKUPAJ PROIZVODNJA	**1.123.859**	**903.879**	**936.191**	**900.176**	**885.899**	**879.355**	- *0,7*

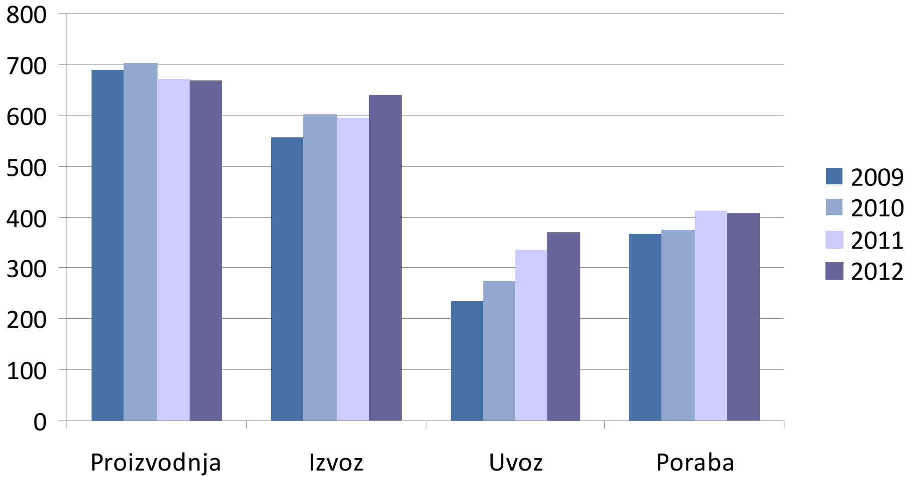
Total 2012 production in the branch was by a good 1% lower than previous year; the paper and board production was at the 2011 level, but lower figures were achieved in paper converting. (CEPI members in 2012 -1.7%, compared to 2011).

The 2013 total production in the branch is estimated to be by another 1% lower than last year; paper and board production will be slightly lower than in 2012, but the production of packaging from board and corrugated board will be slightly higher.

CEPI Jan-Aug:2013/2012
P&B production: -1.4%
Pulp production: -1.1%
Market pulp production: +5.2%
Utilisation of paper for recycling: 0.0%

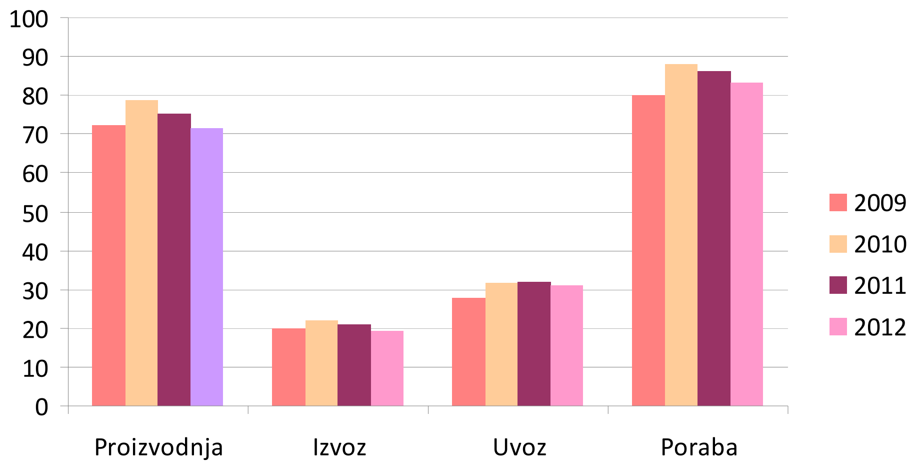
SLOVENIA
Material flows

Paper and board in thousand tons



Products from paper and board

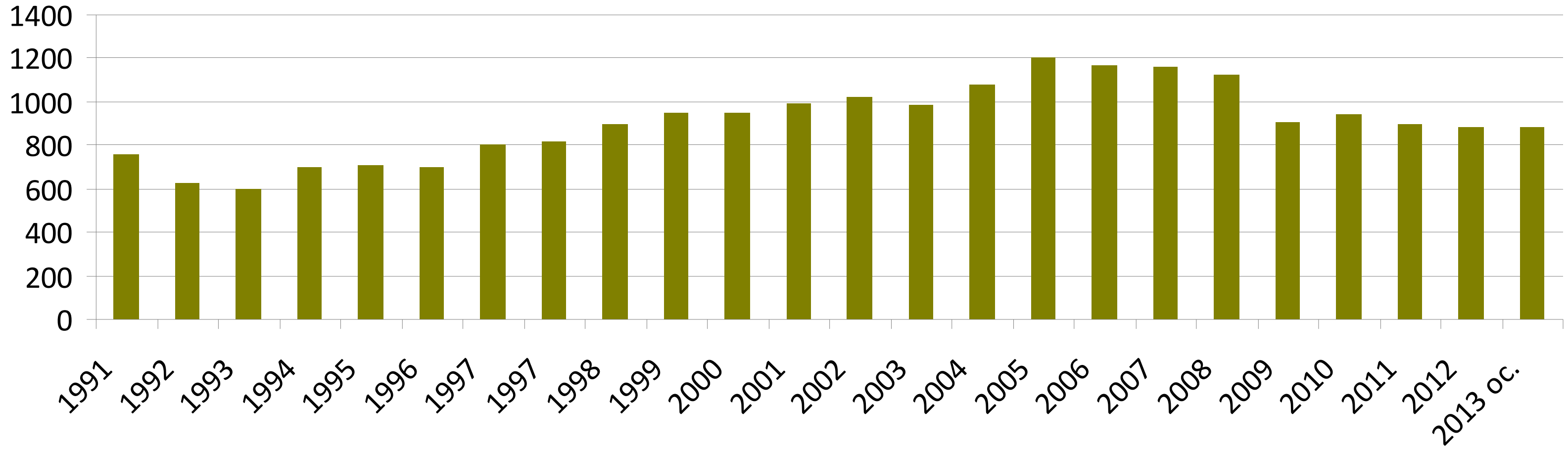
Consumption volumes have been derived by calculation.



Source: SURS, PPCIA Survey

PRODUCTION

Panoga C 17 od leta 1991 v 1000 tonah



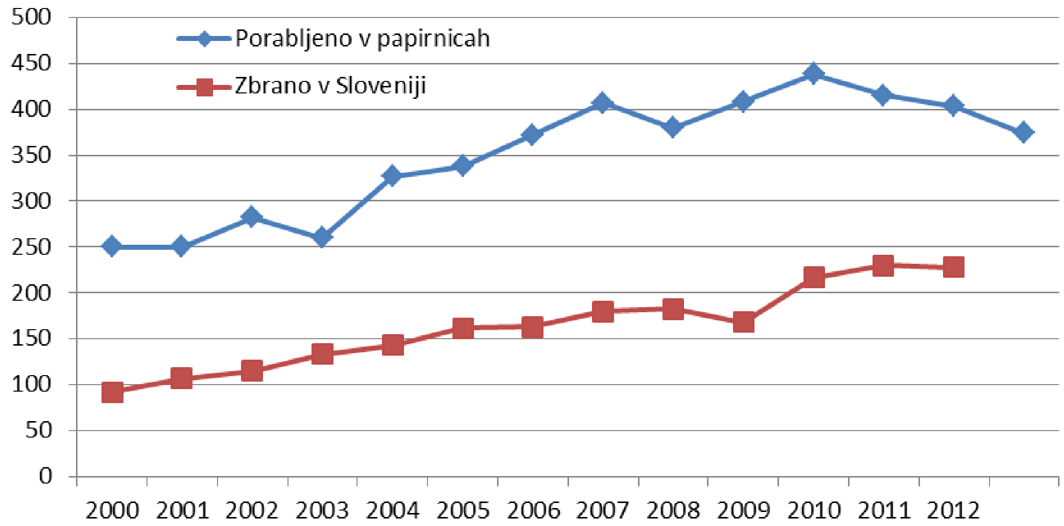
In 2012 total production of the branch was lower than the year before (-1.1%) and achieved the figures from 1998.

PAPER for RECYCLING

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 oc.
Porabljeno v papirnicah	250	250	282	260	327	338	372	407	380	408	438	415	403	374
- uvoz papirnice	171	163	196	173	239	238	270	301	247	271	302	288	287	268
- odp. papir zbran v Slo	79	87	86	87	88	100	102	106	133	137	136	127	116	106
Zbrano v Sloveniji	92	107	115	133	143	162	163	180	183	168	217	230	228	370
Uvoz SLO	184	172	201	180	246	248	294	322	313	312	349	307	301	126
Izvoz SLO	26	29	34	53	61	72	85	95	115	72	128	121,7	125,9	122

The share of RCP collected in Slovenia compared to total consumption of RCP in paper mills amounts to 50.9 % *(49.5% in 2010, 60.4% in 2011).*

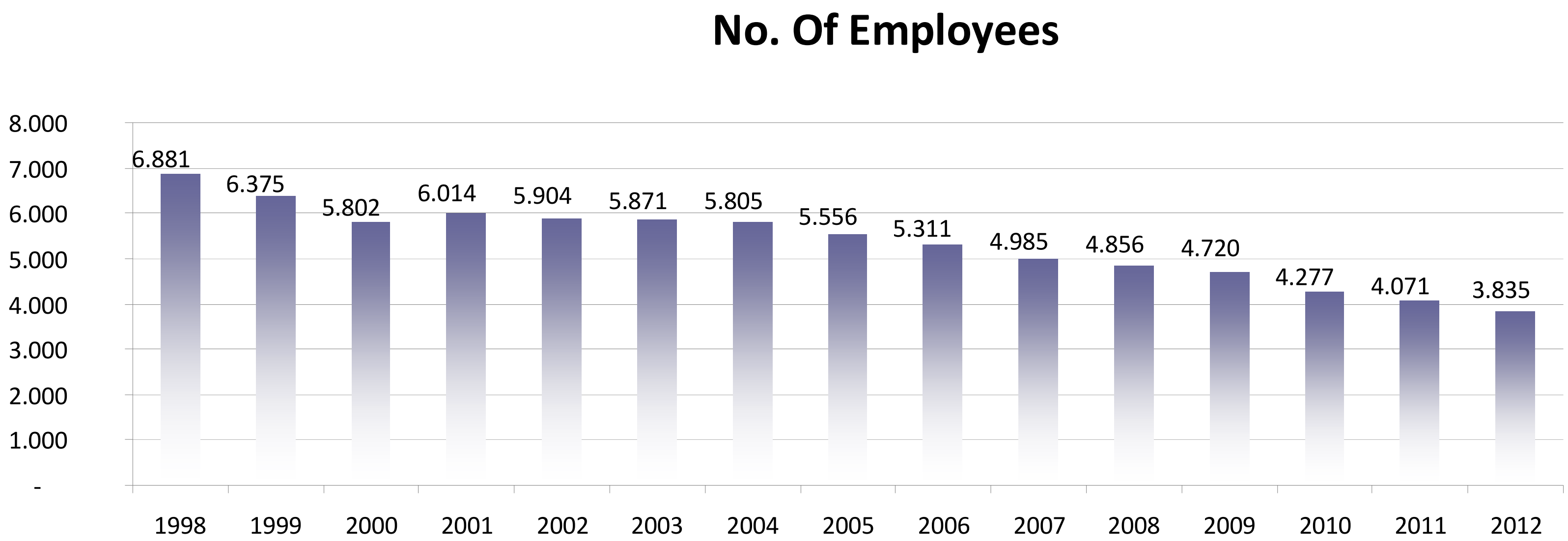
Volume of paper collected per capita is 108.5 kg



Recycling rate:
(Consumpt. of RCP–import +export/paper consumpt. in SI)
56,6 %
EU average: 71,7 %

Source: SORS, PPCIA, CEPI Volumes of paper consumption and paper collected in Slovenia have been derived by calculation.

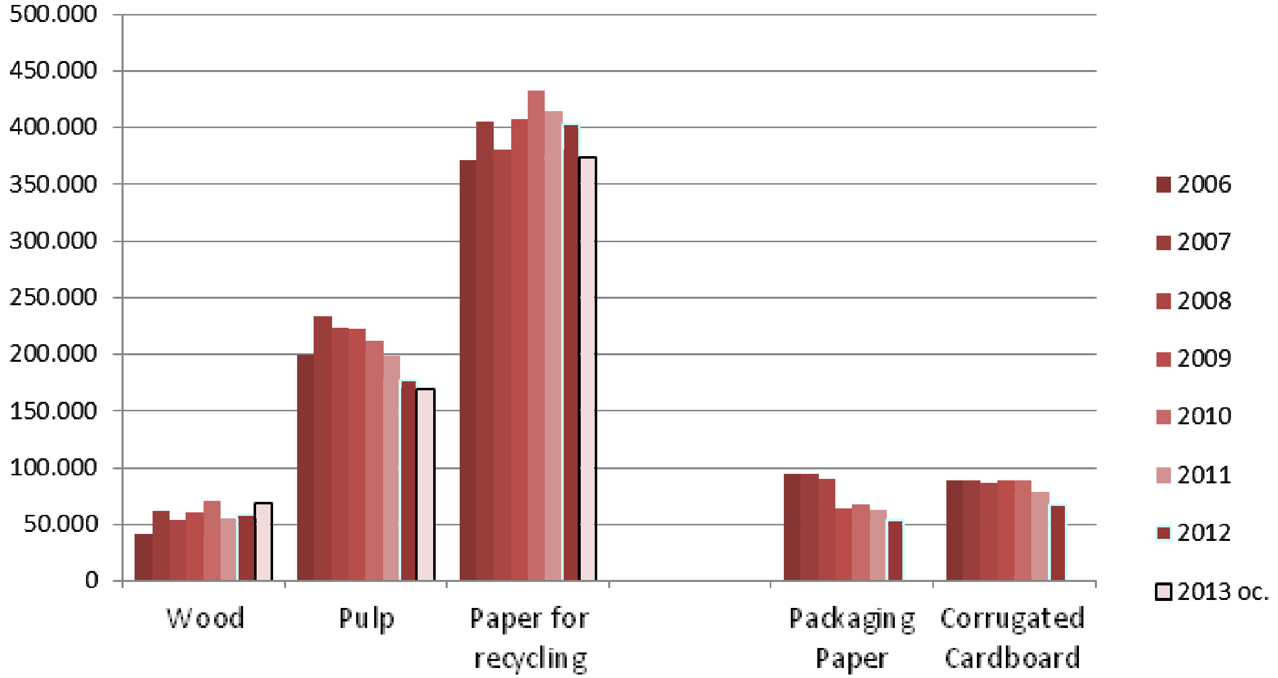
EMPLOYEES



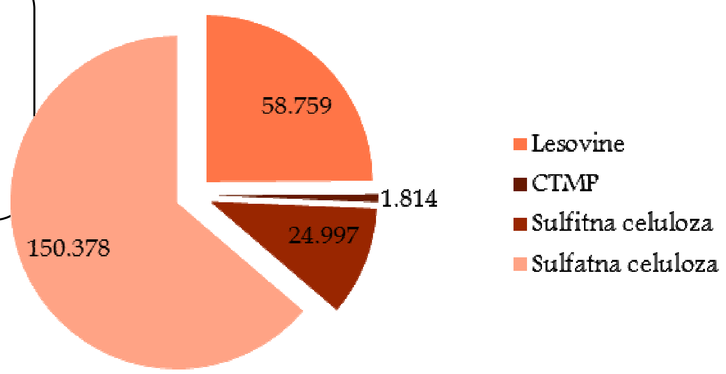
In 2012, the number of employees in the C17 branch decreased by **4.7%;** 14.1% of that fell to paper mills (Radeče papir); (CEPI average: -1.6%). Over a recent period the number of employees has decrease mostly in medium-sized and large companies.

RAW MATERIAL CONSUMPTION

(in tons)



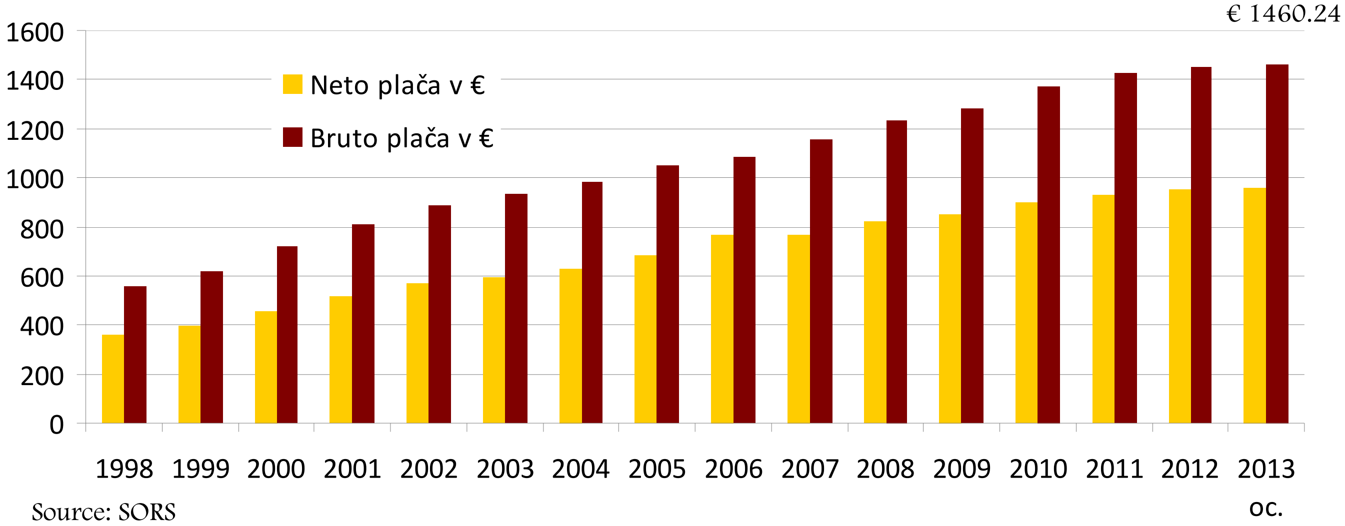
- Consumption of virgin fibres is being decreased on account of higher consumption of groundwood as well as paper for recycling.
- The share of virgin fibres amounted to about 37.9% of total fibres.



SALARIES

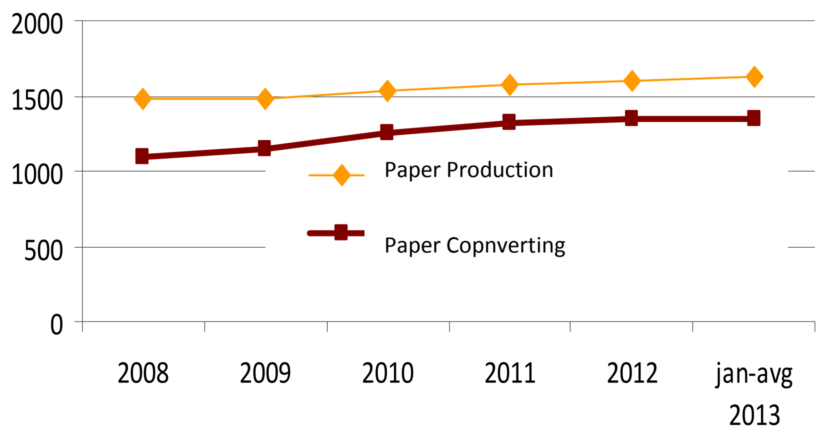
Average salaries in CI7 since 1998

Gross salaries increased by 6.4% compared to 2010



Source: SORS

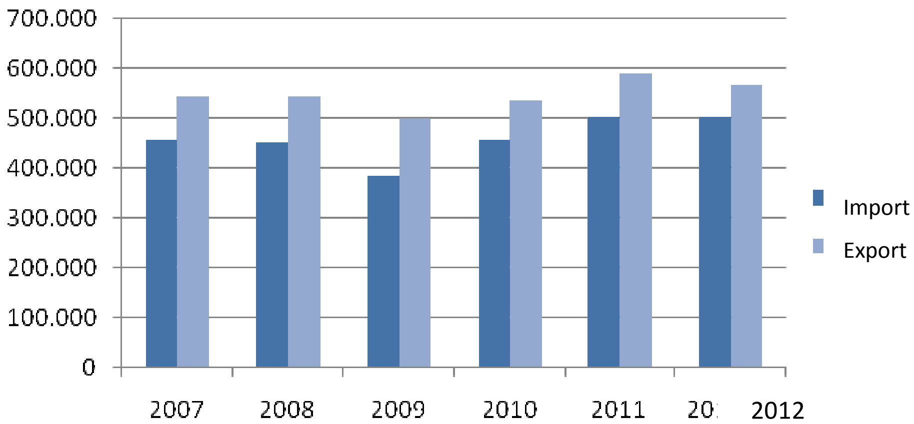
Average gross salaries in paper production and converting



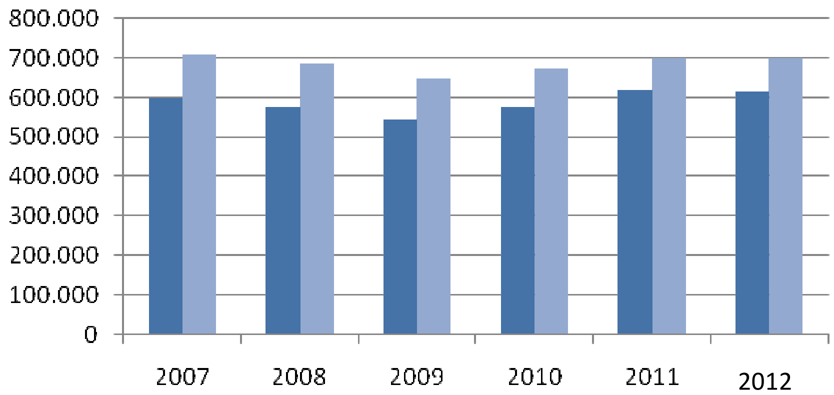
IMPORT and EXPORT

Paper and paper products

In terms of value (€ thousand)



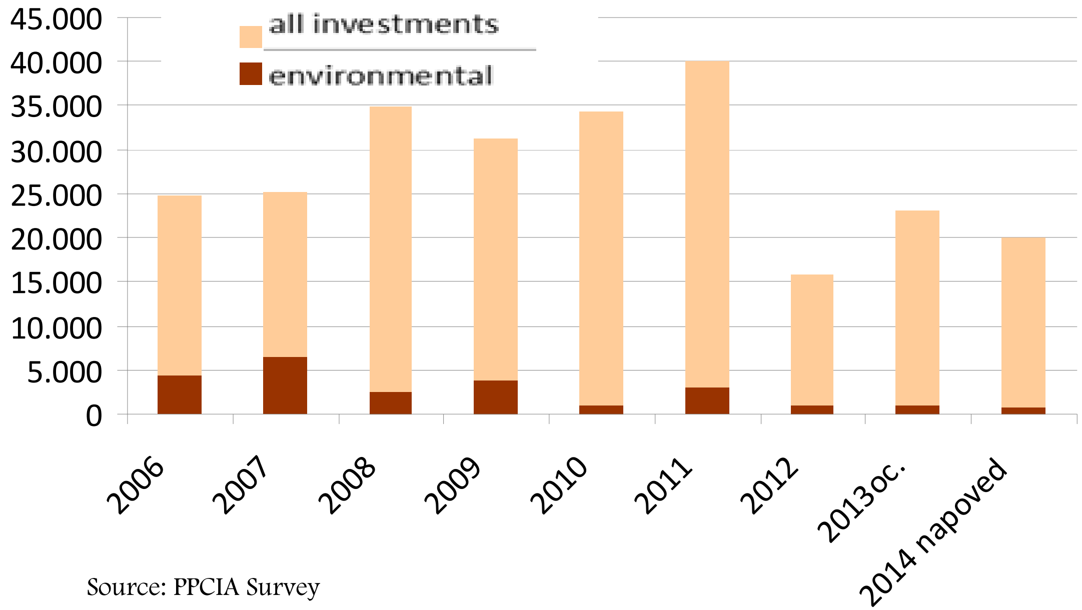
In terms of volume (tons)



Share of paper industry exports in total Slovene exports: **3.04 %**
Share of imports of paper and paper products in total Slovene imports: **2.4 %**

INVESTMENTS

in € thousand

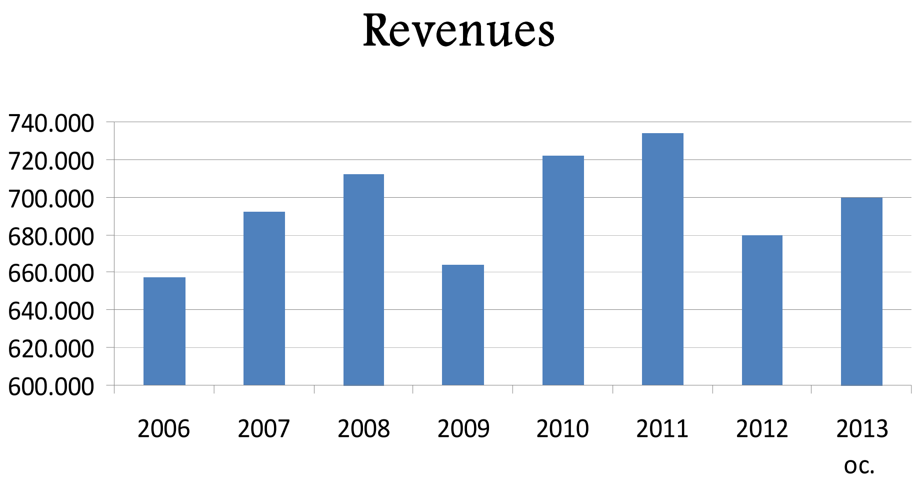


Source: PPCIA Survey

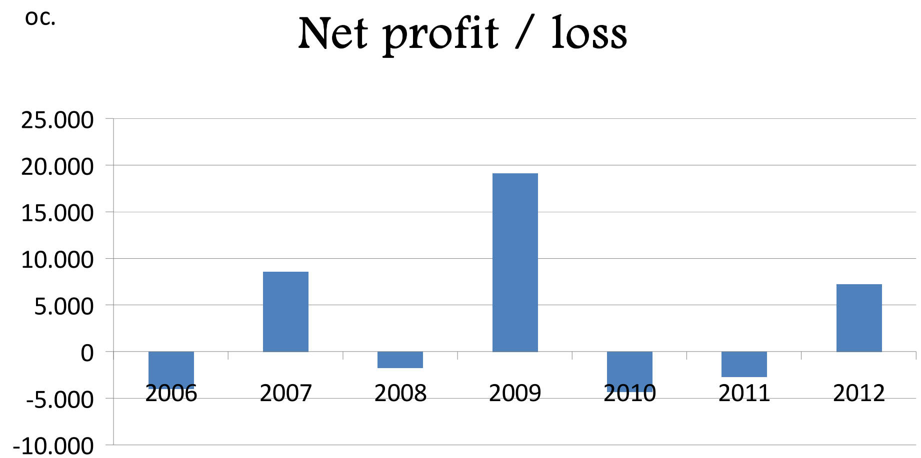
The largest investment in 2011, in the branch as well in Slovenia, was the reconstruction of BM 3 in Količevo Karton; in 2012 there were mainly regular investments, and in 2013 a large investment in Papirnica Vevče. The scope of investments has been essentially influenced also by the scarcity of financing sources.

REVENUES AND PROFIT/LOSS IN THE BRANCH

in € thousand

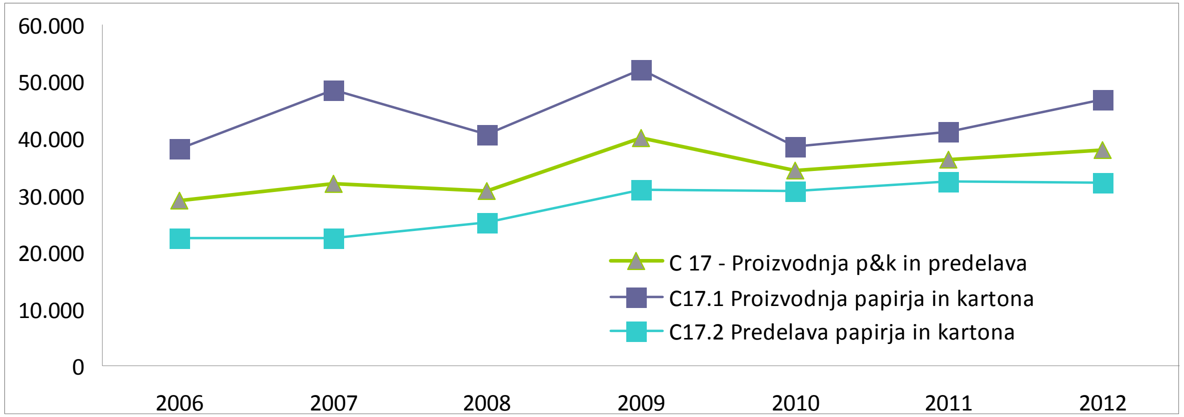


High energy costs, fierce conditions on the market and generally unsupportive economic environment which is even intensifying are the main reasons for poor performance of the branch, which in turn does not provide adequate conditions for investments, R&D and training.



VALUE ADDED PER EMPLOYEE

v €	2008	2009	2010	2011	2012	Indeks 12/11
SLOVENIA	35.279	34.168	36.044	36.966	38.006	102,8
C Converting industry	32.003	31.523	34.205	35.567	36.374	102,3
C 17 - Production/converting of paper & board	30.737	40.028	34.246	36.228	37.958	104,8
C17.1 Production of Paper & Board	40.610	52.257	38.665	41.071	46.761	113,9
C17.2 Paper & Board Converting Products	25.141	30.890	30.773	32.500	32.177	99,0



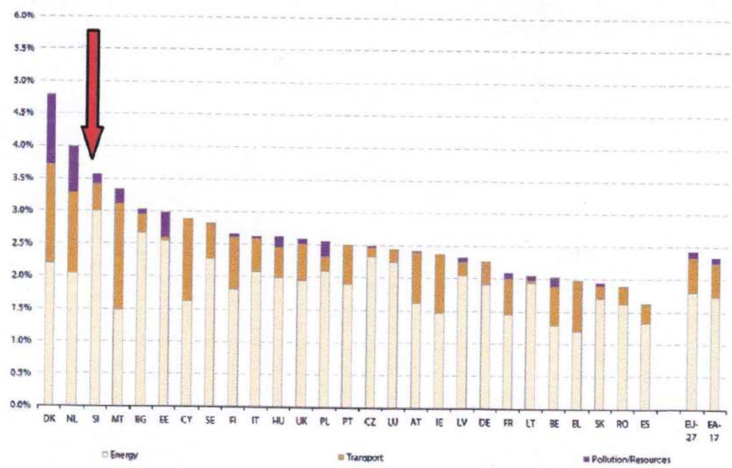
Compared to the previous year, the value added per employee increased by 4.8% in 2012; mainly in paper production (subsection C17.1) - by 13.9%. The value added generated in the branch amounted to € 145.6m, which was 1% lower than in 2011.

Goal: to be competitive on foreign markets!

1. Energy costs

   - Energy costs in SI are nothing but increasing!!!
   - € 683m revenues…. € 85m for energy products
   - The problem lies not only in the prices of energy products, but also in high surcharges on them in the form of excise duties and contributions.

Slika: Environmental tax revenues by Member States and type of tax 2009, in % of GDP



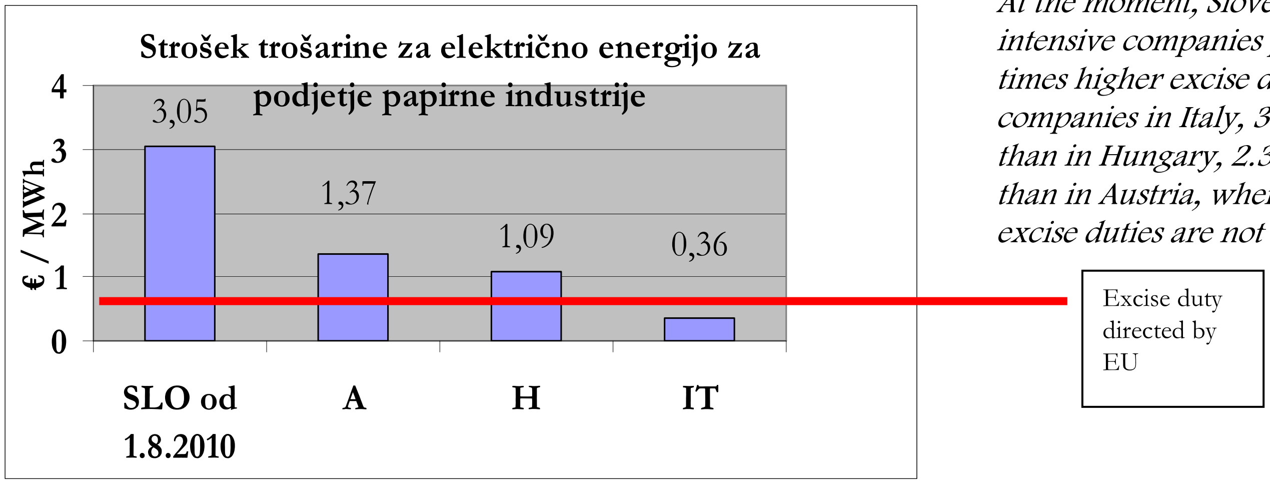
Vir: EuroStat, Taxation Trends in the European Union, 2011

Goal: to be competitive on foreign markets!

- Electricity

- open market, the problem lies not in the price of electricity, but in taxes, contributions and network charges!!!

Excise duty on electricity



At the moment, Slovene energy-intensive companies pay up to 10 times higher excise duties than companies in Italy, 3 times higher than in Hungary, 2.3 times higher than in Austria, whereas in Croatia excise duties are not charged at all.

Special treatment SHOULD be granted to energy-intensive companies ; a system of exemption from or refund of excise duties for energy-intensive industries should be set up, as arranged in all EU member states

MAIN Challenges in PAPER INDUSTRY
3 E: ENERGY, ECONOMY, ECOLOGY

Goal: to be competitive on foreign markets!

- Electricity

FACT: the price of electricity in total electricity cost is only 62%; the remaining 38% falls to excise duties, network charges and contributions!

CONTRIBUTION UNDER ARTICLE 64 OF THE ENERGY ACT = CONTRIBUTION FOR RES AND CHP

When purchasing 420 GWh, the increase in contribution by 316.6% (adopted by the government on 3 January 2013) means about <u>€ 2.3m of extra cost for paper industry .</u>

As of 1 September 2013 we managed, on the initiative of the Paper and Paper Converting Industry Association, organized within the CCIS, to reduce the increase by 50%!

A QUICK RESPONSE and a special treatment of energy-intensive companies is required!!!

MAIN Challenges in PAPER INDUSTRY
3 E: ENERGY, ECONOMY, ECOLOGY

Goal: to be competitive on foreign markets!

- Natural gas

  FACT: Prices of natural gas in Slovenia are the highest in EU; even Bulgaria managed to negotiate better prices with Gazprom.

  This is a multilayered problem:
  - inadequate national legislation, which not in conformity with the Directive on Internal Market (Regulation on Natural Gas Market is in its final stage of preparation)
  - long-term contracts which were made when economic conditions were substantially different

It SHOULD be made possible for the industry to chose suppliers freely, to cancel long-term contract without high penalties, and to ensure competitive costs, as is the case with companies in EU.

Goal: to be competitive on foreign markets!

2. Environmental levies

- Environmental requirements and costs have been growing daily
- We support a clean and healthy environment, but at a reasonable cost!
- Green public procurement

Goal: to be competitive on foreign markets!

3. Education and personnel in paper industry

- In 2001, The Secondary School for Print and Paper was closed
- There is no formal education in the field of paper production and converting available in Slovenia!
- All expert knowledge is concentrated in companies within the industry!
- Companies send, <u>at their costs,</u> their personnel abroad for education.
- There is a generation renewal ahead in paper industry, and much knowledge will "disappear", because today, the processes and the ways in which companies are organized are not inclined, also due to labour costs, to the system of transfer of knowledge to successors, which used to function well in the past.
- WHAT IS TO BE DONE???

MAIN Challenges in PAPER INDUSTRY
3 E: ENERGY, ECONOMY, ECOLOGY

Cooperation between PPCIA and Pulp and Paper Institute resulted in a successful application to tender for the Competence centre for paper industry personnel

Duration of the project: Feb 2013 – Aug 2015

The project is supported by 19 companies from paper and paper converting industry.

Internal and external education; technical, general and development education; exchange of good practice, networking, etc.

COLLECTIVE AGREEMENT FOR PAPER AND PAPER CONVERTING INDUSTRY

After the adoption of the new Employment Relationship Act (ZDR -1) the collective agreement for paper industry is likely to be one of the first that will be completely renewed.

Goals: to set minimum standards and enable higher flexibility for employers with regard to the conditions and companies' performance, to attain higher employment flexibility, acceptable labour costs, and to adjust stipulations of the agreement to the present time and current circumstances

Estimations for 2013

- End of recession in large, advanced economies in the EU. Growth in the second half of 2013 and stable economic activities.
- Despite that the unemployment rate is still high (10%); labour market still declining.
- Many member states, including Slovenia, still in recession. Slow growth and fierce financial situation.
- During the summer months the CO2 prices hit the bottom.
- Adapting the capacities of graphic paper production to lower demand.

Estimations for 2013

Source: Survey done by the Paper and Paper Converting Industry Association

2013 …… as expected; for some not so good as expected

What is currently the main obstacle for your business?

1. Financing of current operations
2. Payments received from customers
3. Getting new orders
4. Financing of investments

What are the achievements of this year you are most proud of?

- Increase of export share
- New product launch
- Successful investment
- That we are still alive and kicking…

Expectations for 2014

Source: Survey done by the Paper and Paper Converting Industry Association

2014 will be …… similar, or mostly expected to be better!..... than 2013

What are your expectations for 2014 concerning:

1. Prices of raw materials……No major changes compared to this year.
2. Prices of energy products….. Further price cuts are expected.
3. Prices of finished products …. Will remain unchanged.

What is your biggest concern in the current situation?

-Personnel

-Solvency

-Political and economic instability ….

Thank you for your attention