

European Pulp and Paper Industry

A MANIFESTO FOR COMPETITIVENESS AND EMPLOYMENT

June 2009

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The negative impacts of the economic crisis are being felt across the European pulp and paper industry. Demand is in sharp decline, investment shrinking and unemployment rocketing. Year on year production of most paper grades is down by anything between 16% and 25%. The industry is struggling to hold employment steady at 260,000 and its €5 billion a year investment budget is under great pressure.

The European pulp and paper industry is eager to discuss its current difficulties and its structural problems with the European Commission and win its support for solutions that will maintain the industry's global leadership

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The European pulp and paper industry commends itself in an increasingly environmentally conscious global economy. The new business climate demands that future development reflects society's insistence on responsible energy and resource management with a clear demonstration of sustainability. Supporting the industry's ongoing transformation will benefit Europe's economy, its societal needs, and will reflect its core commitment to environmental responsibility.

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AVOIDING CRISIS

The pulp and paper industry is in many ways a business model of sustainability: it turns over €80 billion a year and €18 billion in value and wealth creation. Around 1.8 million jobs depend directly and indirectly on the industry, 63% of which are in rural areas.

Europe cannot afford to let the pulp and paper industry and its related value chain slide into crisis. It would mean compromising the industry's unique achievements in sustainable production and consumption. The value of paper, in its many forms, is at the core of society's needs. Ensuring its future developments will allow it to realise its full potential.

Our industry is an example to others in its responses to current challenges, not least in mitigating climate change. We practice sustainable forest management, pursue security of energy supply through renewable energy, and optimise resources through the highest recycling rates. We are a significant provider of employment, and add economic value through the constant harnessing and updating of new technologies.

With its responsibility for the single market, the European Union's role in charting a path to recovery is crucial. Whilst creating a framework for economic recovery, it must do nothing to make a bad situation worse.

The transformation of the European pulp and paper industry is based on the opportunities created by the new sustainability-minded economy. We call for the support of policy makers and politicians to that transformation that will further align the industry with changing demands in society, new business environment, and new priorities for the economy.

WHAT NEEDS TO BE DONE: FROM DAMAGE LIMITATION TOWARDS RECOVERY

In the pulp and paper industry's view, the EU should be ready to change priorities where necessary to:

1. ensure a better balance in policymaking between advocates of environmental, competitiveness and employment interests;
2. create winners not victims in the EU Emissions Trading System;
3. boost availability of raw materials, market access and fair competition;
4. allow Europe to compete with lower energy cost competitors;
5. apply flexibility to competition rules to facilitate restructuring;
6. fight protectionism in competing countries;
7. turn innovation into a reality.



ENVIRONMENTAL LEGISLATION

Getting the policy
making balance right
between environment,
competitiveness and jobs

In the current unprecedented business situation, European industry must not be faced with additional operating burdens and drain investment that otherwise are needed to keep production within the European Union.

It needs to be understood that it makes sense for companies to pursue sustainable production and consumption objectives if there are rewards for sound environmental performance. It makes no sense to create disincentives through the continual imposition of new and sometimes confusing product criteria that are of only marginal benefit to consumers and society. The impacts of such policy contradictions are made worse by allowing imports into the EU that do not comply with the same criteria.

Our industry's future would benefit from EU actions which:

- explore the possibility of legislation to prevent eco and social dumping into the European market;
- delay the introduction of the new emission limits in the Industrial Emissions Directive;
- clearly identify the benefits of a NO_x and SO_x emissions trading scheme before launching it;
- harmonise the application of public procurement rules on green products that currently fragment the internal market;
- allow paper to compete on its own merits by avoiding to convey inaccurate facts and perceptions about paper products.



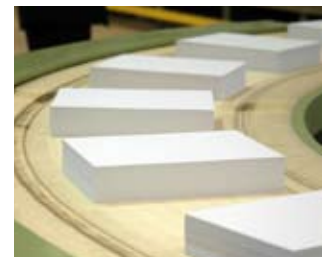
EMISSIONS TRADING SYSTEM

Create winners not victims

The system's goals can still be achieved without imposing unjustified burdens on pulp and paper. The industry competes in global markets and its competitive position should be strengthened, not weakened, by public policies.

The European Union must:

- only agree to a future climate agreement that delivers fair and equal burden sharing between the EU and competitor pulp and paper-producing countries;
- ensure an equal burden between industry sectors in Europe, with allocation and eventual benchmarking rules being fair and conferring neither advantages nor disadvantages on any of the EU's industrial sectors;
- adopt a combination of auctioning and allocation that achieves targets without the overshooting that will drain the industry of its investment resources;
- manage the carbon price and its indirect price impacts, to limit extremes.





RAW MATERIALS

Boost availability of raw materials, market access and fair competition

We see no reason why the preliminary list of critical materials under the EU Raw Material Initiative does not include our sector's strategic sustainable raw materials wood and recovered paper. Fair competition and equal access to wood for both pulp and paper and bio-energy producers are a requirement so that our industry maintains its contribution to EU's renewable energy targets.

European Commission initiatives in support of the pulp and paper industry are needed that:

- aim at more sustainable production of biomass through better mobilisation of existing forest resources and a more rapid use of policies to encourage the forestation of idle land;
- avoid excessive subsidies, tax breaks and supply guarantees that incentivise the use of biomass solely for incineration and focus instead on energy efficiency criteria and value creation with adequate sustainability criteria;
- restore the supply of Russian wood as soon as possible by securing the removal of the export duty which goes against free trade principles;
- deliver early implementation of the Waste Directive provisions (separate collection by 2015, and 50% recycling target for municipal waste by 2020) that generate good quality recovered paper to meet increasing demand by the European and Asian paper industries;
- progressively abandon the EU's import duties on starch (up to € 224 per tonne) to allow access to world markets.



ENERGY

Allow Europe to compete with competitors enjoying lower energy costs

Energy costs are one of our main competitive factors. Our industry is operating within an energy market where competition is virtually impossible.

To mitigate this situation, the European Commission should:

- recognise the pulp and paper industry as “energy intensive” and ensure it is treated as such throughout the EU so that it benefits from special measures such in the Energy Tax directive;
- put substantially more efforts into removing barriers to competition in electricity and gas markets;
- ensure further transparency in price forming mechanisms.





COMPETITION RULE

Apply competition rules flexibly to facilitate restructuring

Sectoral industrial competitiveness can be supported by:

- ensuring a level playing field across the EU within our sector, and combating protectionist measures both inside and outside the EU;
- allowing companies to explore different responses to current economic conditions, even including restructuring and consolidation;
- not encouraging unsustainable overcapacity in the pulp and paper industry through national incentives not justified at EU level.





TRADE

Fighting protectionism in competing countries

The EU's market is open while a number of other pulp and paper producing countries are protecting theirs, putting at risk the EU's exports. The Commission must deploy all possible diplomatic initiatives and trade policy instruments against current protectionist policies.

Examples of these include:

- US competitors benefiting from a disproportionately *de facto* \$175 per tonne production subsidy worth \$6-\$7 billion to producers through an excise tax credit designed to boost biofuel production;
- Vietnam's discriminatory tariffs in favour of ASEAN producers;
- India's safeguard investigation against paper coming from Europe;
- Israel's anti-dumping investigations against recycled containerboard and fine papers produced in Europe;
- Algeria's additional information requirements on each import delivery in the form of origin and quality control certificates for goods.





RESEARCH & DEVELOPMENT

Turning innovation into a reality

To guarantee the EU's future, the European Commission should step up efforts to make the EU more competitive in developing and applying new technologies. Research and innovation programmes need to be given an even higher priority in the EU's allocation of resources to translate its high quality research and development into commercially exploitable applications. Progress on this front must be made a reality with bio-refinery. Key projects inside the pulp and paper industry need major support to deliver and supply solutions not yet available through carbon capture and storage.

These projects include:

- pilot and demonstration projects under the umbrella of the Joint European Technology Initiative and Public Private Partnerships;
- integrated pulp bio-refineries, wood-based bio-fuels, recycling based bio-refineries and related technologies.

