confederation of
european paper industries

Pulp & Paper Markets in 2005-2006
Main highlights

UNECE Timber Committee Market Discussions

Geneva, 4 October 2006

Bernard Lombard, CEPI

Pulp & Paper markets in 2005 and 2006
Main highlights

- **Global markets for pulp, paper & paperboard mostly firm in 2005 and first half of 2006, with limited expansion of production capacity in the UNECE region**

- **Favourable global economic conditions, continued global expansion of industrial production and growth in consumption of paper and paperboard in Europe and Asia (and China in particular)**

- **Markets characterized by generally higher prices (in USD) for most pulp, paper & paperboard products, continuing the general upward price trend observed since 2003**

Pulp & Paper markets in 2005 and 2006
Main highlights

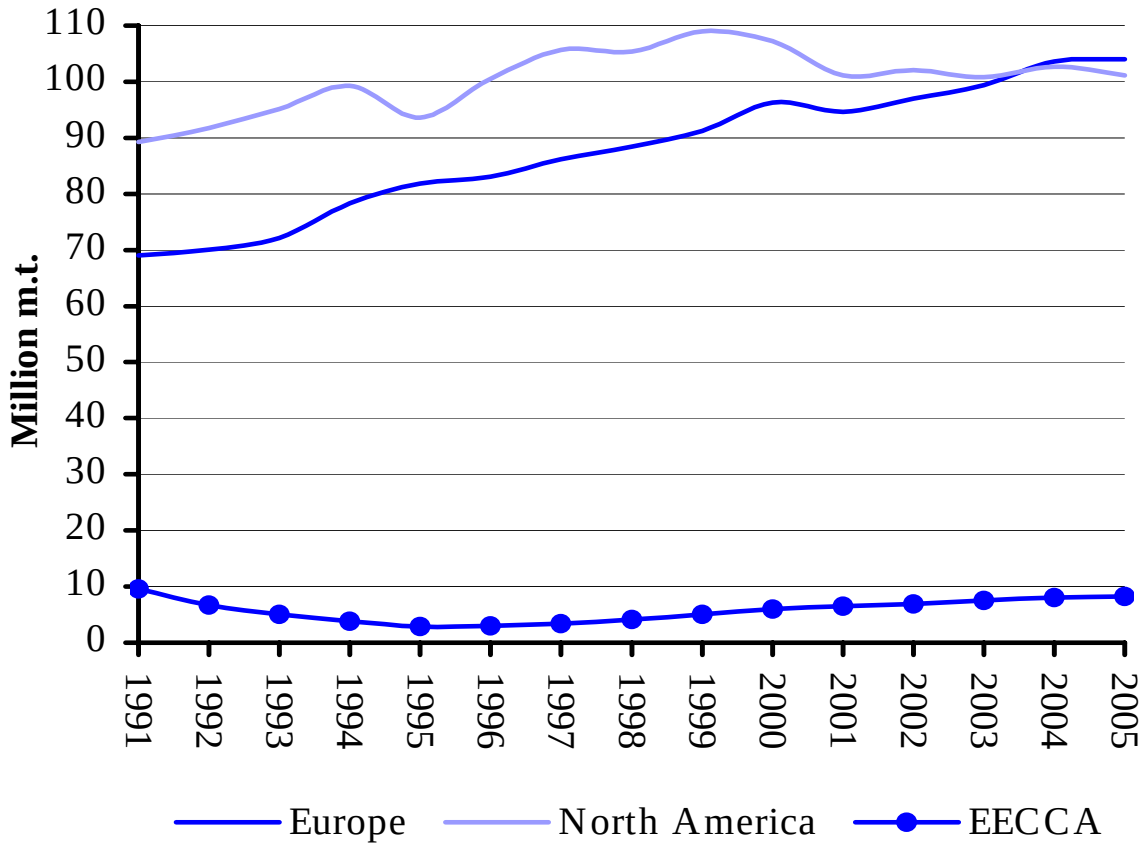
- **Production and consumption of pulp and paper declined in both the United States and Canada in 2005, but the production decline was much greater for Canada (-4.5%) than the United States (-0.8%)**

- **In 2005 in North America, output of paper and paperboard decreased by 1.5% to 101.1 million m.t. from 2004, although prices continued to increase in 2005 and the first half of 2006**

- **European producers of paper and paperboard set a new record for output, at 104 million m.t. in 2005, growing slowly by 0.4% from 2004**

Pulp & Paper markets in 2005 and 2006
Main highlights

Production of paper and paperboard in the UNECE region, 1991-2005

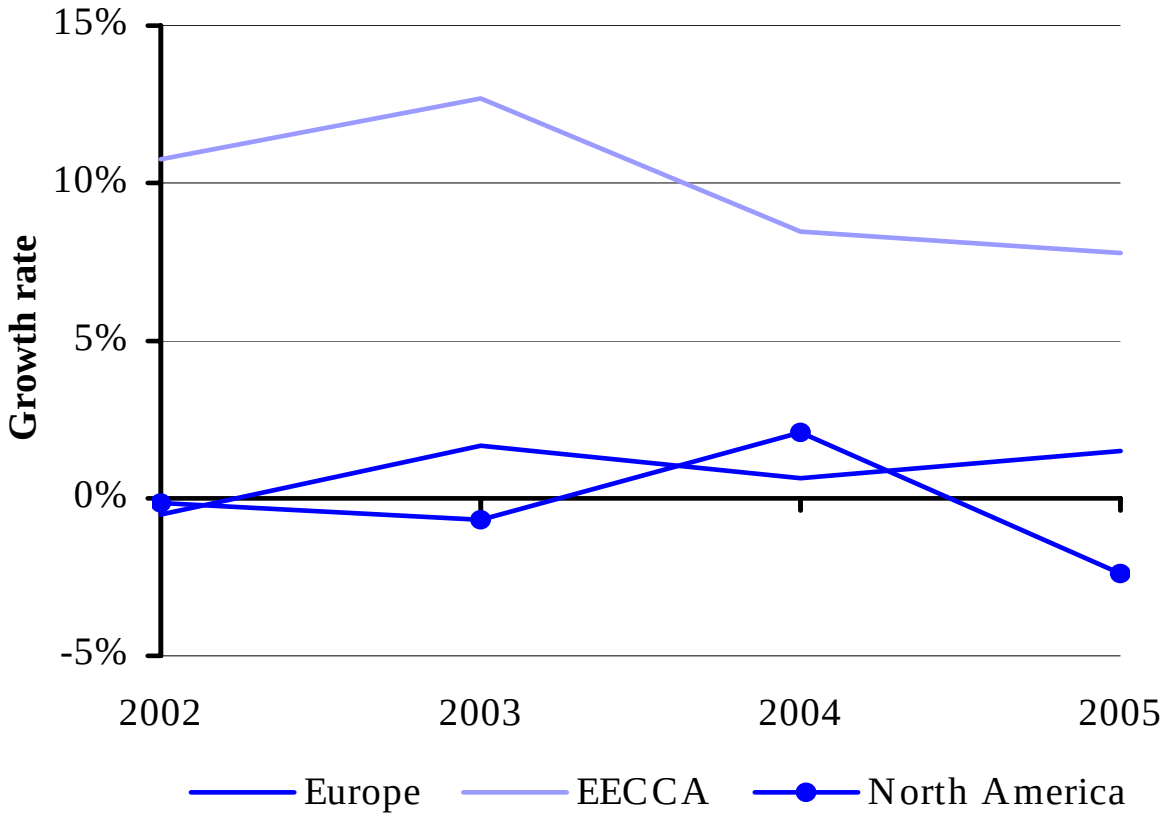


EECCA: Eastern Europe, Caucasus and Central Asia

Source: UNECE/FAO Timber database, 2006

Pulp & Paper markets in 2005 and 2006
Main highlights

Consumption growth rates for paper and paperboard in the UNECE region, 2002-2005



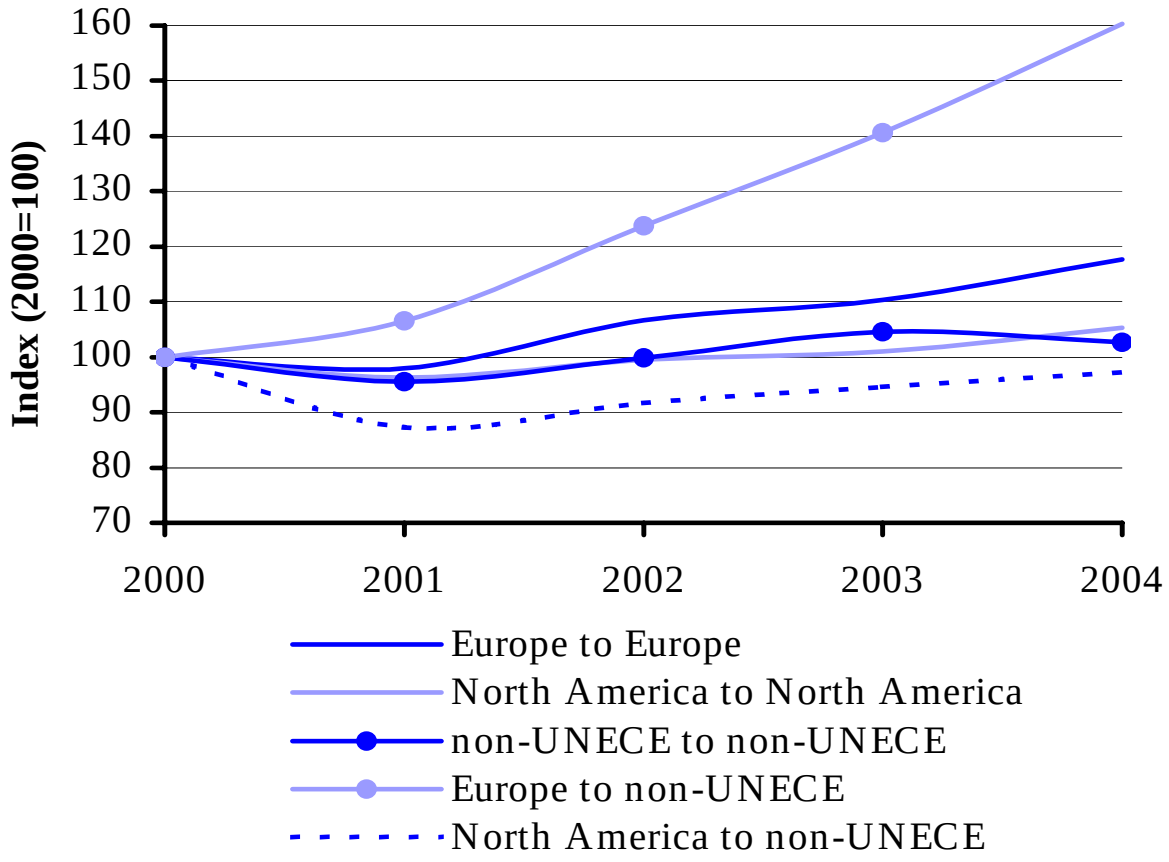
EECCA: Eastern Europe, Caucasus and Central Asia

Source: UNECE/FAO Timber database, 2006

Pulp & Paper markets in 2005 and 2006
Main highlights

Shipments from Europe to non-UNECE regions (mainly to Asia) have experienced the largest relative increase in recent years

Major paper and paperboard trade flows in the UNECE region, 2000-2004



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Source: UNECE/FAO Timber database, 2006

Pulp & Paper markets in 2005 and 2006
Main highlights

- **Pulp and paper markets in the UNECE region were influenced by higher demand growth in Asia and higher energy prices in 2005 and 2006**

- **High global energy prices pushed up costs of production and prices for pulp, paper and paperboard, with price increases partly absorbed by relatively strong global market demands – depending on the country / area**

- **China continues to be a growing source of global demand for wood fibre, including recovered paper, which China imports in large volumes from the UNECE region**

Pulp & Paper markets in 2005 and 2006
Main highlights

- **Continued expressions of interest in sustainable forest management by forest and paper associations (and by customers of paper and paperboard products)**

- **Related public procurement policies for paper and paperboard might become more common in the future**

- **In June of 2006, the International Council of Forest and Paper Associations announced the signing of an agreement by its global member companies on sustainability**

Pulp & Paper markets in 2005 and 2006
EU Focus

- Political fragmentation and unprecedented uncertainty
- Disappointing economic performance
- Globalisation and its effects
- Political focus on Europe economic growth and industry competitiveness
- Entrenched national policies
- Actions moved from Brussels to national capitals:
  - Unemployment
  - Labour market structures
  - Need to control public spending
- Absence of leadership, absence of binding idea

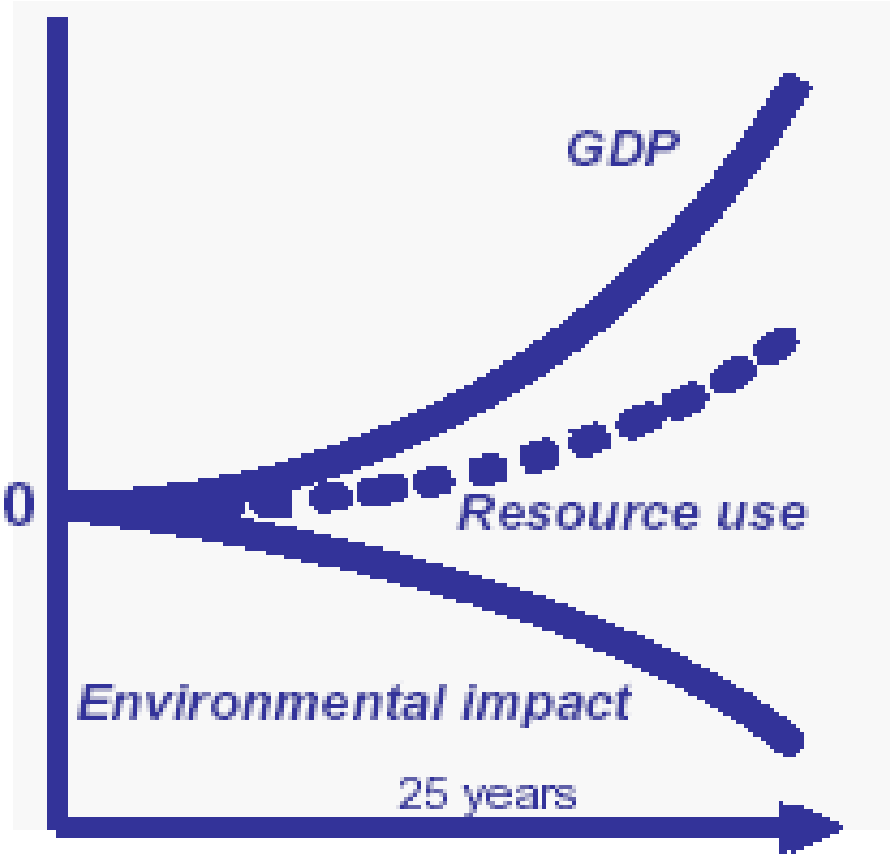
Pulp & Paper markets in 2005 and 2006
EU Focus

- EU continuing importance as everyday business regulator:
  - Competition policy, trade negotiations, environmental policy, standards, company law
  - Permanent factor in corporate and business compliance and reputation
- Evolution from regulatory process to policy principles/strategies
- Increasing horizontal approach to policy
- Simplification of legislation initiative
- Environment versus competitiveness
- Sustained societal pressures threatening Industry's business and reputation

Pulp & Paper markets in 2005 and 2006
EU Focus: Impact on Pulp & Paper industries

- Structural changes in the sector (international competition, consumers preferences, production technologies)
- Increasing trend to bilateral trade agreements
- Energy emerged as the key policy and business issue
- Obstacles to raw materials availability resulted from legislation
- Inconsistent environmental legislation impacting on industry's competitiveness
- Amount of red tape
- Image problem
- Focus on research, innovation, education

Pulp & Paper markets in 2005 and 2006
New vision for EU



The Vision

Reducing impacts in a growing economy

From protection to more improvement

From effectiveness to more efficiency

Pulp & Paper markets in 2005 and 2006
New vision for EU

<u>The future of paper also depends on EU legislation</u>:

- **Influenced by Environmental Groups**
- **Wood sourcing**
- **Renewable energies: biomass**
- **Emissions Trading System**
- **Energy Efficiency**
- **REACH – Chemicals regulation**
- **Waste Policy**
- **Green Public Procurement (ecolabels, forest certification, recycled content)**

Pulp & Paper markets in 2005 and 2006
New vision for EU: Business versus policy

Renewable Energy

Subsidies to biomass distorts competition with wood for papermaking.

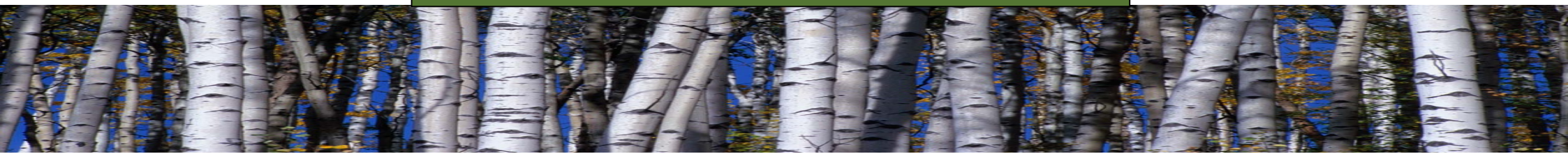
Need to increase harvesting

Biodiversity

Natura 2000 and other conservation directives lead to setting aside land.

Reduced harvesting possibilities

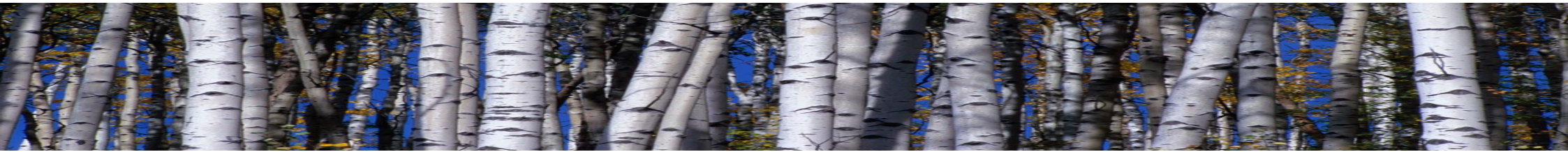
Cost disadvantage
Market distortion



Pulp & Paper markets in 2005 and 2006
New vision for EU: Business versus policy

- **Projections for 2020 point to a target of 100 Mtoe of biomass for heating alone.**
- **This corresponds to 500 bio m3 of wood**
- **Current yearly felling in EU (source: FAO) is 427 bio m3**
- **The European Paper industry will not be able to continue operating**

Unavailability of raw material



Pulp & Paper markets in 2005 and 2006

New vision for EU: Business versus policy

- **Energy markets “half’ liberalised**
- **Not enough electricity generation capacity**
- **Gas supply linked to political motivations, price linked to oil prices**
- **Monopolistic powers setting the price for energy, concentrating production and distribution**
- **Long term contracts under competition scrutiny**
- **Environmental legislation causes an increase in energy prices**

Cost disadvantage versus competitors

Pulp & Paper markets in 2005 and 2006
The Paper Industry: associated words

Pollution

Chemicals

Illegal Logging

Chlorine

Climate Change

Tree Killers

NGOs

Waste

Communities

Protected areas

Deforestation

Forest Certification

Water

Plantations

Energy

Pulp & Paper markets in 2005 and 2006
The Paper Industry: an image problem

- Emotional connotations with “killing trees”
- Conservation at the core of Environmental Groups “selling pitch”
- Paper competing with “modern” values, materials and technologies
- Paper has large exposure and global companies are easy targets
- Deforestation in tropical areas
- Legislators, politicians, opinion makers focused on new industries and services
- The paper industry has not communicated its attributes: they are not valued
- Messages conveyed by Environmental Groups undermining the industry’s image…
- …and impacting on public authorities and citizens