

## PositionPaper

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January 2010

### **“When paper values meet EU values”**

### **CEPI comments and input for the consultation on the future “EU 2020” strategy: a new strategy to make the EU a smarter, greener social market**

The EU Commission launched a consultation on the future EU 2020 strategy - a new strategy to make EU a smarter, greener and social market<sup>1</sup> - on 24 November 2009 and asked for responses from stakeholders. Through this paper, CEPI - the Confederation of European Paper Industries - wishes to contribute to the consultation, give comments on the proposed vision for 2020 and the 3 thematic objectives, with a special focus on the industrial policy.

#### **A new, modern and ambitious industrial policy to make the EU a smarter, greener social market**

European society as a whole is facing many challenges, among which a severe economic crisis, climate change, rapid globalisation, energy security and raw material depletion, aging population, etc. Overcoming these challenges will require a deep transformation for Europe. Public authorities set the pace of society and industry’s transformation as they provide the operating framework. Through directives, regulations and standards, taxes and subsidies, EU governments influence on industry’s performance and location.

In May 2009, the EU Competitiveness Council, and since then EU leaders, rightly emphasised that a strong and competitive industrial base was a key factor for achieving a knowledge-based, safe as well as sustainable low-carbon and resource-efficient economy.

CEPI fully supports the call of the EU Council of Ministers for the European Commission to develop a new, modern, ambitious and integrated long-term European industrial policy. This industrial policy should consist of a horizontal dimension aiming at establishing favourable, stable, consistent and predictable framework conditions in which businesses can operate and invest, to be further completed and implemented through a sectoral dimension promoting excellence, innovation and sustainability.

All policy measures on a national and European level should respect better-regulation and internal-market principles and reflect an integrated approach for dealing with the competitiveness, energy and environmental issues in a sustainable and cost-efficient way.

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<sup>1</sup> COM(2009)647 final and press release IP/09/1807



This industrial policy should include an action plan at European level to promote all uses of renewable resources produced by agriculture and forestry as mentioned in the memorandum issued by Germany, Austria, Belgium, Finland, France and Luxembourg<sup>2</sup>. This action plan should consider measures that allow the European Union to acquire the means for developing these sectors.

Continuing globalisation will mean that European industry's place in the world of 2025 will be radically different from that of today. European industry has the ambition to remain a world leader and will continue to provide solutions to these challenges. European industry also wants to continue creating wealth and providing employment.

Whatever is not produced in Europe to meet Europeans' needs will be imported, with a risk of environmental and social dumping and without providing the EU society with the related added value and jobs. In order to avoid it happens, it needs to be able to compete on an equal footing with other regions and be profitable.

To be competitive, Europe must actively support a level playing field to EU industry in a global market, namely by bringing solutions to carbon leakage risks, increasing energy prices and high costs related to environmental policies, and securing competitive access to raw materials.

World paper demand is projected to increase by 25% by 2020. The European pulp and paper industry has been able over the last decade to invest in new capacities, become a world leader and increase its exports. EU must combat protectionism, seize part of that future growth and gain market shares.

In this context, the European pulp and paper industry will strive to create ever more value for society through excellent bio-based products contributing to citizen's quality of life and competitive industrial base, skilled employment opportunities, particularly in rural areas, and strong returns for Europe's sustainable resources.

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 pulp and paper industry's ongoing transformation will benefit Europe's economy, its societal needs, and will reflect its core commitment to environmental responsibility.

The EU pulp and paper industry is in many ways a truly eco-industry and a business model of sustainability: it turns over €78 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.

Technology will be a key driver for EU 2020 strategy to deliver greener and socially inclusive growth. A strong and supportive research framework that steers innovation in European industrial sectors is a key precondition for European competitiveness.

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<sup>2</sup> Memorandum on the industrial use of renewable resources in the EU – Germany, Austria, Belgium, Finland, France and Luxembourg, Council of the European Union, document 16620/07, 14 December 2007.



With an ambitious framework to make Europe a leader in technology and a strong skills development programme, the EU 2020 strategy will deliver.

Thanks to this ambitious and target-oriented research framework, the pulp and paper industry will fully contribute to the success of the EU 2020 strategy.

The success of the EU 2020 strategy will also require a strong leadership from the EU Commission with a designated Commissioner and Directorate General involving the industrial sectors and their related trade organisations to drive implementation and report on progress.

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. Five values show the benefits of the paper industry and its products to the European society:

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



Our industry is an example to others in its responses to current challenges, not least in mitigating climate change. We practice sustainable forest management, which captures CO<sub>2</sub>, 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.

What needs to be done to optimise the value of paper to the full benefit of European society:

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.



## **To achieve a “smarter, greener social EU market”, an integrated and ambitious EU industrial policy that includes a comprehensive sectoral dimension is needed!**

What will it take for an industry to thrive in 2020? In the future, sustainability and social responsibility will be at the heart of successful businesses.

The paper industry's unique advantage is that it has already laid a strong foundation for the future upon which it is building every day. Perfectly placed to play a key role in a sustainable society, the sector aims to make optimum use of renewable forest resources and strive for best practice in a bio-based, low-carbon, customer-driven and globally-competitive European economy.

In the context of world paper demand which is projected to increase by 25 percent between now and 2020, the European pulp and paper industry will strive to create ever more value for society through excellent products, skilled employment opportunities, and strong returns for Europe's sustainable resources.

In May 2009, the EU Competitiveness Council rightly emphasised that a strong and competitive industrial base is a key factor for achieving a knowledge-based, safe as well as sustainable low-carbon and resource-efficient economy.

CEPI fully supports the call of the EU Council of Ministers for the European Commission to develop a long-term European industrial policy integrating the following guiding principles:

- establishing favourable, stable, consistent and predictable framework conditions promoting excellence, innovation and sustainability, conditions in which businesses can operate and invest;
- all policy measures on a national and European level must respect better-regulation and internal-market principles and reflect an integrated approach for dealing with the competitiveness, energy and environmental issues;
- compliance with new requirements should not cause excessive costs to businesses in all policy areas. Otherwise, such costs could lead to “production leakage”, which the Council defines as “the possible delocalisation of industrial production outside the EU as a result of a wide range of factors and excessive costs arising from, for example, social, administrative or environmental requirements and refers to a possible loss of attractiveness for future investments”;
- the volume, effectiveness and efficiency of public investment in research and development (R&D) and in translating the results of research into innovative products and services should be increased;
- sectoral initiatives must be launched for implementing the above horizontal principles and improving the specific operating framework of sectors;
- at the early stage of designing a new Community initiative, it is essential to mobilise all relevant Commission Directorates-General for the various policy dimensions to integrate. Balanced policy integration must be achieved at the latest when a proposed initiative comes up for final discussion in the College of Commissioners. In this connection, industry calls for more systematic and improved impact assessments encompassing regulatory development and respect for industry investment cycles in order to prevent major social impacts and maintain the competitiveness of European industry.



In 2008, the EU Commission adopted a Communication to the Council and the European Parliament on innovative and sustainable forest-based industries in the EU. An Action Plan has been approved by the Commission. This Action Plan now needs to turn into reality. The main priorities for the European pulp and paper industry are reflected in this paper.

## **“Creating a competitive, connected and greener economy”**

### **Environmental legislation: 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;
- actively promote all uses of renewable resources produced by agriculture and forestry as mentioned in the memorandum issued by Germany, Austria, Belgium, Finland, France and Luxembourg<sup>3</sup>. This action plan should consider measures that allow the European Union to acquire the means for developing these sectors;
- clearly identify the benefits of a NO<sub>x</sub> and SO<sub>x</sub> emissions trading scheme before launching it;
- harmonise the application of public procurement rules on green products that currently fragment the internal market;
- support paper as part of the bio-based products lead market initiative and consider paper recycling as part of eco-industries;
- allow paper to compete on its own merits by avoiding to convey inaccurate facts and perceptions about paper products.

<sup>3</sup> Memorandum on the industrial use of renewable resources in the EU – Germany, Austria, Belgium, Finland, France and Luxembourg, Council of the European Union, document 16620/07, 14 December 2007.



## **Emissions Trading System: Creating winners not losers**

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.
- recognise carbon storage in wood products by ensuring that future accounting rules for forest management provide an adequate balance between further incentives for sequestration, for use of wood products and for biomass energy.

*As stated in the 2008 FBI Communication Action Plan, about the actions to improve the competitiveness of the EU Forest-based industries and the climate change policies and environmental legislation, the advantages and challenges of proposing to include carbon storage in harvested wood products as a supplementary element in the international negotiations regarding climate change policies beyond 2012 will be explored.*

## **Raw materials: Boosting 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:**

- consider the total environmental impacts such as land-use, biodiversity, sustainable forest management, food crops and transport, before supporting biomass development through public subsidies;
- aim at more sustainable production of biomass through better mobilisation of existing forest resources and a more rapid use of policies to encourage the reforestation 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.



*As stated in the 2008 FBI Communication Action Plan about the actions to improve the competitiveness of the EU Forest-based industries and the access to raw materials, the Commission and Member States will clarify the application of public procurement Directives for wood and paper products through an exchange of ideas and experiences concerning national public procurement criteria for legal and sustainable timber. Member States and the Commission are called upon to pay attention to the different uses of biomass when developing the national action plans and in the context of general monitoring and reporting on renewable energies.*

### **Energy: Allowing 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 rules: Applying competition rules flexibly to facilitate restructuring competition**

As said in the EU Communication, “Europe needs a new industrial policy emphasising innovation capacity, new technologies, skills, fostering entrepreneurship and “internationalising SMEs. Excess capacity in some sectors must be tackled”.

#### **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 fully open to competition while a number of other pulp and paper producing countries are protecting theirs, putting at risk the EU production and exports. The Commission must closely monitor the adoption of trade defence instruments worldwide and deploy all possible diplomatic initiatives and trade policy instruments against current protectionist policies.

### **Examples of these include:**

- Vietnam's discriminatory tariffs in favour of ASEAN producers;
- GCC's and Philippines' 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.

*As stated in the 2008 FBI Communication Action Plan about Trade and co-operation with third countries, The Commission will continue its efforts to establish and implement a market access strategy coherent with its growth and jobs and sustainable development objectives, ensuring access to raw materials internationally and supporting the elimination of tariff and non-tariff barriers.*

## **“Creating value by basing growth on knowledge”**

### **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:**

#### **Mobilise real resources to support the industry in implementing the strategic research agenda**

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



**For more information, please contact:**

Daniela Haiduc, CEPI Communication Manager, at [d.haiduc@cepi.org](mailto:d.haiduc@cepi.org) or +32 2 627 49 15  
Bernard Lombard, CEPI Trade & Competitiveness Director, at [b.lombard@cepi.org](mailto:b.lombard@cepi.org) or +32 2 627 49 22

**Complementary documents available on CEPI's website:**

<http://www.cepi.org/content/default.asp?pageid=5>

- CEPI Sustainability Report 2009 – 13 November 2009
- Manifesto for Competitiveness and Employment, 29 June 2009
- Fit for the Future – Europe's pulp and paper industry in 2020 and beyond, 27 November 2008
- CEPI Key Statistics 2008, 25 June 2009

**CEPI aisbl - The Confederation of European Paper Industries**

The Confederation of European Paper Industries (CEPI) is a Brussels-based non-profit making organisation regrouping the European pulp and paper industry and championing this industry's achievements and the benefits of its products. Its mission is to promote the member's business sector by taking specific actions notably, by monitoring and analysing activities and initiatives in the areas of industry, environment, energy, forestry, recycling, fiscal policies and competitiveness in general. Through CEPI, the paper industry increases its visibility and acts on emerging issues, making expert and constructive contributions on behalf of the industry.

Its collective expertise provides a unique source of information both for and on the industry; coordinating essential exchanges of experience and knowledge among its members, the ability to provide technical assistance to legislators and to identify independent experts on specific issues.

Through its 19 member countries (17 European Union members plus Norway and Switzerland) CEPI represents some 750 pulp, paper and board producing companies across Europe, ranging from small and medium sized companies to multi-nationals, and 1,100 paper mills. Together they represent 27% of world production.