The EU enlargement, extending the Union's borders further east by gradually incorporating a dozen more countries into the economic and monetary union is the most ambitious plan in the existence of the EU.

The Central and East European Countries (CEEC-10) which have applied for a membership are: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia.

Creating a larger single market, which removes obstacles to free movement of goods, services, capital and people, and offering a level playing field for all members to compete fairly, is by no means an easy or quick task.

After ten years of freedom and reform many people in the candidate countries have a weak economic development. Democracy brought freedom, but only a minority of the population has enjoyed the fruits of this freedom in the form of a real increase in income and living standards. The majority, however, looks forward to EU membership.

Political expediency to maintain the pro-EU momentum is understandable as overlong negotiations would weary people in the candidate countries.

Expediency is reflected in the debate on entry dates, realistic or unrealistic. Extensive delays in membership negotiations might cause political and security risks which go against the political mission of the EU. After all, the European Union sees itself not merely as a political and economic force, but also as a supranational entity with a major commitment to peace, democracy and defence of human rights.

**Painful progress towards enlargement**

At the Nice Summit in 2000 the EU officially declared itself to be ready to accept new members as from the end of 2002. More profound institutional reforms to facilitate the proper functioning of an enlarged union are to be agreed upon at a Summit only in the year 2004.

According to the European Commission road map, access negotiations with the most advanced candidate countries could be concluded in 2002. We should accept the years 2005-06 as realistic dates for the entry of new member states. Some of the really difficult issues like state aids, regional policy and agriculture are still to be addressed.

The gap between political statements and the actual state of play is revealed in the EU progress reports on the candidate countries. The reports show that all candidates still
face a heavy workload in adapting to EU legislation. No wonder, because for EU membership today the CEEC-10 countries have to take a much bigger step than in any of the previous enlargement processes. In view of their starting point, adopting and implementing EU legislation is an exhaustive task. Dismantling the previous system has been costly and created inequality.

A transition from a command to market economy is complex and some CEEC-10 countries have advanced more rapidly than others. **ANNEX 1** gives some key figures. Market liberalisation and privatisation have facilitated a fairly quick transition to a market economy, but developing the institutions and behaviour required for well functioning markets and private enterprise takes much longer. The real challenge for EU membership lies in creating effective governments, structures, laws and regulations and the sound behaviour of governments, enterprises and financial institutions.

**Impact on the industry**

The impact of enlargement on the industry in the present Union will depend on how the reform proceeds in the applicant countries and the final outcome of membership negotiations. The timetable increases political pressure for compromises on difficult issues. The ultimate impact will reveal itself only after enlargement has been completed.

When pondering the impact of enlargement on the European paper industry, it is advisable to look for opportunities rather than threats.

The CEEC-10 countries are primarily producers of wood products with an emphasis on furniture. In 2000 these countries produced around 5 million tonnes of paper and board against 84 million tonnes in the EU and 90 million tonnes of the CEPI members (including the Czech and Slovak Republics and Hungary).

Poland alone covers more than one third of CEEC-10 countries' paper production and together with the Czech Republic (807,000 tonnes), these two countries represent over half of the production. When the CEEC-10 countries become members, the paper and paperboard capacity of the European Union will increase by approximately 6-7%.

Most governments reckon that foreign investments and acquisitions facilitate the future of this sector in their countries. In Latvia, the government has taken a stake in a new pulp mill to be built by two Scandinavian companies. So far paper production is virtually non-existent in Latvia. In Lithuania, the Ministry of Economy, together with an Asian international co-operation agency, has conducted a pre-feasibility study for building a pulp mill with a capacity up to 500,000 tonnes/year. Raw material would be supplied from local forests. Foreign investors are being looked for.

Without rapid and costly reconstruction the privatised companies in the CEEC-10 countries face long-term difficulties to prosper in the fiercely competitive EU markets with the ever restructuring industry of the Union. Even if the industry in the applicant countries could obtain some short-term advantage in the environment field or otherwise which seems unlikely, it is difficult to see that any unmanageable problem could emerge. Benefits, such as low labour costs are already taken advantage of by foreign investors.
A substantial part of the capacity in the CEEC-10 countries is owned by foreign interests (ANNEX 2).

No exceptions but maybe some transitional periods

From the outset the European Commission was determined not to grant the applicant countries any exceptions nor transitional periods. In order to fulfil political promises it is now clear that at least some transitional periods will be applied. The CEEC-10 countries have made it clear that it is impossible for them to adapt to all EU legislation in the environment field. The countries have listed their requests for transitional periods. Those most relevant to the pulp and paper industry are listed in ANNEX 3.

Raw material base

The raw material base is a decisive factor in future reconstruction and expansion of the pulp and paper industry in the CEEC-10 countries. The commercial forests in the CEEC-10 countries amount to 27 million hectares, accounting for around a quarter of current commercial forests in Western Europe. While forest resources in some countries like Poland and Romania are said to provide room for expansion, resources in some other countries like Hungary are already fully utilised. The Baltic states constitute a third group with under-utilised forest resources to be used for one or maybe two pulp mill projects.

ANNEX 4 provides basic data for resources and the paper and board industry in the CEEC-10 countries. With growing consumption of paper and board from the currently relatively low levels, availability of secondary fibre will increase, facilitating further long-term capacity expansion.

There are today 32 pulp mills in the applicant countries with a total capacity of approximately 3 million tonnes, an average capacity remaining just under 100,000 tonnes. In view of more stringent environmental requirements, a majority of them face restructuring. There are still political, financial and environmental question marks for the final go-ahead for the pulp mill projects in the Baltic states. The one in Latvia is not yet finalised. If and when the Baltic projects come on stream, it would result in extra short-term supply of market pulp in Europe. In the longer term it seems likely that these mills would be integrated into new paper mills. There are no exact pulp capacity outlook figures for the CEEC-10 countries available.

Structure of the paper industry

The same goes for the paper and board capacity outlook in the CEEC-10 countries.

In the year 2000, paper and board capacity amounted to 5.9 million tonnes, corresponding to about 6.3% of capacity in the CEPI member countries. The average capacity of the paper mills in the applicant countries is 45,000 tonnes. It should, however, not be overlooked that there are plenty of very small paper machines in Western Europe as well.

It can be expected that a number of mills in the CEEC-10 countries will have difficulties to survive in the long term. Adapting to EU environmental legislation, not to mention financial, raw material, energy and technological problems is for many companies a high hurdle to overcome. Those surviving will be reconstructed into modern,
competitive units matching the best in Western Europe. This development is already under way and strongly promoted by Western investors wanting to capitalise on a favourable long-term market outlook. The road to success might not be easy, but the companies involved will undoubtedly strengthen their position in the European markets. A further impetus is given by the fact that free access to the EU market is by and large already a reality for the applicant countries’ industrial goods.

While the paper and board capacity in Western Europe will continue to grow at a rate of just under 2% to a level of around 105 million tonnes by the year 2005, there are no proper capacity outlook figures for the CEEC-10 countries. CEPI associate members Hungary and the Slovak Republic have indicated capacity increases of 17% and 31% respectively up to the year 2005. These dramatic growth figures have to be viewed against the modest capacities of today but they are a clear indication of things to come.

**Growth of consumption**

In view of the per capita consumption figures of paper and board in the CEEC-10 countries, the above mentioned growth figures could turn out to be even more dramatic. Slovenia has the highest per capita consumption with 122kg followed by the Czech Republic with 90kg and Hungary with 80kg, the others remaining well below these levels. Bulgaria and Romania show very low per capita consumption figures with 18kg and 19kg respectively, which is less than 10% of the consumption rate in Western Europe.

It remains to be seen to what extent the overall consumption pattern for various grades will follow that of Western Europe. Developing the infrastructure and basic industries requires packaging.

Until recently the packaging industry in the Central and Eastern European countries focused on basic packaging requirements for protecting goods. Transport packaging was in the forefront and the local paperboard industries were developed to supply suitable raw materials. These trends continue as demand for transport packaging continues to grow, resulting in short-term capacity increases in this sector.

Consumption of corrugated materials is still low compared to the 50kg per capita consumption in the EU. In most CEEC-10 countries the per capita consumption is well below 30kg.

Using packaging for marketing purposes was not a priority during the earlier regime. This has changed with rapidly increased demand for consumer packaging. The lack of modern production technology has partly been overcome with the help of foreign investments. Demand for high-quality board such as folding boxboard and solid bleached board qualities are to a great extent covered by imports. It seems obvious that stricter packaging requirements, not least for hygienic reasons, will increase demand for higher quality consumer packaging. Within limits, the local paper industry will respond to these challenges with increased capacity and improved quality.

Similarly, the per capita consumption of newsprint as well as of printing and writing papers is very much below that in the EU. Newsprint production in the CEEC-10 countries in the year 2000 was only 449,000 tonnes, with Poland and the Czech Republic as dominant producers. There was no newsprint production in Bulgaria,
Estonia, Hungary, Latvia, Lithuania and the Slovak Republic. The region is therefore heavily dependent on imports of newsprint.

The same applies to printing and writing papers as total imports were slightly higher than total production in these countries. Total production amounted to 1.4 million tonnes with Poland accounting for one third followed by the Slovak Republic, Slovenia and Hungary (see **ANNEX 5**).

Trade flows in 2000 between the EU and the candidate countries are shown in **ANNEX 6**.

**Opportunities as well as challenges**

Raw material availability, financing and energy are the crucial challenges, whereas growing markets, transfer of technology, skilled labour and - for the time being - low production costs offer opportunities. The scope for developing the paper industry varies greatly among the countries in question and in some countries the scope is already rather limited.

The standstill in the CEEC-10 countries is broken and restructuring of the paper and board industry is under way. Whatever industrial structure finally emerges, the new or surviving companies will be technically advanced and competitive. Many Western European and American companies have already decided that the opportunities outweigh the challenge.

The CEPI position is that opportunities in the emerging member states cannot be favoured by government-related measures distorting competition. It is the task of the EU authorities to ensure that the applicant countries fulfil all requirements of the internal market in the EU. Any distortions could not only endanger competition in the pulp and paper industry, but also undermine the basic idea of the Union. Enlargement poses a challenge for all parties involved.

**CEPI has to be prepared**

For CEPI, enlargement means welcoming ten new member countries as full members during this decade. The extended partnership opens new opportunities for strengthening the competitive position of the European paper industry.

The challenge is to secure the well-functioning of CEPI with a much larger membership. CEPI structures and resources have to be developed accordingly. The applicant countries need guidance for adapting to a smooth functioning within CEPI. CEPI already has three associate members from the CEEC-10 countries. An association membership should be offered to all of them.

The impact of enlargement on CEPI and its structures should be discussed within the organisation.

Claes von Ungern-Sternberg  
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16-October-2001
ANNEXES

ANNEX 1 : Economies of EU applicant countries (CEEC-10)
ANNEX 2 : Foreign ownership of paper & board production in EU candidate countries
ANNEX 3 : EU Enlargement - Transitional periods
ANNEX 4 : Forest industries in 2000 in the EU candidate countries (CEEC-10)
ANNEX 5 : Newsprint, printing & writing papers in EU applicant countries in 2000, 1,000 tonnes
ANNEX 6 : EU forest industry trade flows with candidate countries in 2000