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AND SUSTAINABILITY
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THE PAPER INDUSTRY’S RELEVANCE TO E.C. STRATEGIC OBJECTIVES

The EC Strategic Objectives 2005-2009 outline measures for reviving the European capacity to generate growth and jobs. The importance of the Union’s economic growth potential will be emphasised in political debate alongside the sustainable development framework. The European paper industry is in a unique position to contribute to the Strategic Objectives as it represents a win-win situation and an industrial example of how different aspects of competitiveness can be reconciled with a sustainability approach.

The industry’s track record shows that:

- The paper industry can remain competitive while complying with ambitious EU environmental requirements and contributing to social welfare.
- The industry has been able to decouple production growth from environmental impacts.
- The industry can reconcile competitiveness and sustainability provided it operates in an appropriate regulatory framework.

EU and national regulation of paper industry-related activities have been extensive. Complexities derive from the fact that several policy areas (energy, environment, trade, transport, forestry product policy, etc.) have a major impact on the paper industry and many of these impacts are closely inter-linked. At the same time, individual policy objectives can conflict with each other.

Ultimately competitiveness is the industry’s capacity to meet customer needs. This means being able to supply products which have the required quality, can be offered at market prices, and meet other consumer demands such as fitness for use, innovation and the environmental performance of products.

Cost competitiveness is defined by two elements: productivity (how much output is produced with given production factors) and unit prices of key production factors (labour, capital, fibrous raw material, energy, chemicals, etc.). Prices of production inputs are greatly influenced by the efficiency of markets and public sector policies. Productivity rests mainly in the hands of enterprises, who strive for improved efficiency within the operational framework defined by regulation. In addition, public sector support and incentives guide management decisions towards desirable outcomes (economic growth, employment generation, environmental conservation, etc.). These support measures are important components of an industry’s competitiveness.

Sustainability integrates three dimensions: economic, environmental and social. This means that the entire production-consumption chain has to be economically viable, socially responsible and environmentally sustainable. To achieve sustainability in practice is a major challenge as there are interdependencies, conflicts and trade-offs between the three dimensions. In addition, various stakeholders tend to have different values concerning sustainability.

In the long run, environmental sustainability is primordial for the other aspects of sustainability. However, without economic viability it is not possible to manage and conserve natural resources and to meet society’s needs for paper products.

Sustainability is defined by society. It is a moving target and therefore achieving sustainability is a continuous process. As new information accumulates, values evolve; they vary between countries, regions and stakeholder groups. This is indeed why there are conflicts over the use of natural resources, particularly forests. Stakeholder consultations and democratic decision-making are means to resolve these conflicts.

By definition, sustainability has a long time horizon. The main raw material of the paper industry, wood, is grown in Europe with a production cycle of up to 120 years or more, while industrial investments have an economic service life of up to 25 years. Planning is therefore always done with the needs of future generations in mind.

The crux of the paper industry’s sustainability strategy is how to use natural resources in an efficient way and to decrease the associated negative environmental and social impacts in meeting the needs of sustainable consumption. The challenge is broad, covering the entire life cycle of products, from forest management to paper consumption patterns and recycling. The industry forms a loop where almost anything that can be reused is utilised; keeping this loop efficient ensures good environmental performance. Making consumers aware of this would reassure them that the use of paper products does not contribute to environmental damage, but does bring social benefits.
COMPETITIVENESS:
THE ECONOMIC DIMENSION
OF SUSTAINABILITY

THE EUROPEAN PAPER INDUSTRY
IS A GROWING SECTOR
OPERATING IN A GLOBAL MARKET

European\(^2\) production of paper reached 99 million tonnes in 2004 representing 29\% of the world total. Over the last 10 years, production has been growing at an average of 2.5\% per year. This rate can be maintained if the industry remains competitive.

Europe imports 8 million tonnes of woodpulp (net)\(^3\) and exports 15 million tonnes of paper and board (net)\(^4\). The share of net exports in total production is 15\%. These figures demonstrate that the European paper industry has been successful in creating added value in processing domestic and imported fibre into exportable products. The growth trend in paper and board trade has been strong and sustained. The industry’s export performance is a clear indication of a comparative advantage\(^5\) and there is potential for export growth from West to East in Europe, and to the rest of the world.

The value added created by the European paper industry is EUR 25 billion with a turnover of EUR 74 billion, and that of the entire wood and paper chain amounts to EUR 125 billion, with a turnover of above EUR 375 billion. The respective share of the total EU value added in manufacturing is around 8\%.\(^7\)

The paper industry is capital intensive, annually investing an average of 6-10\% of its turnover to remain competitive. High capacity utilisation and use of modern technology are vital. The industry consists of large world-class corporations competing in global markets and a large number of small and medium-sized enterprises mainly serving local and regional markets or specialising as international leaders within selected niches of the global market.

\(^2\) CEPI Countries.
\(^3\) Total Net imports amounted to 6.3 million tonnes in 2004.
\(^4\) Total Net exports amounted to 10.5 million tonnes in 2004.
\(^5\) The share of imports in paper consumption is only 5\%.
\(^6\) Revealed Comparative Advantage.
\(^7\) ibid.
Direct employment by the European paper industry is 275,000 and indirect employment has been estimated at 1.8 million. Forestry, woodworking, paper converting and printing industries are closely intertwined with paper production and this whole cluster generates direct and indirect employment to 3.5 million people in Europe.

The European paper industry is a strong competitor in the world markets as the region is the world’s largest net exporter of paper and board. The traditional competitor has been North America, but the situation has changed in the last few years with new exporters in Latin America and Asia (especially Brazil, China, and Indonesia) entering the international market. Their export growth will continue. As a result, paper and board markets are increasingly globalised. In many products, the European paper industry is a price taker rather than a price setter. Pressure for lower market prices will persist or even increase when low-cost pulp producers expand their operations into paper and board.

So far, European competitiveness has been successfully maintained through strong productivity growth in spite of the fact that the unit prices of labour, fibre and energy tend to be higher than in competing countries. These three key production factors make up 58% of the total manufacturing costs of the European paper industry.

>> FIG. 1: AVERAGE COST STRUCTURE OF THE EUROPEAN PAPER INDUSTRY

Source: Jaakko Pöyry Consulting

9 These figures do not include packers, fillers and distributors.
10 http://europa.eu.int/comm/enterprise/forest_based.
The recent major study on “EU Productivity and Competitiveness: an Industry Perspective”\textsuperscript{11}, revealed that the annual growth of labour productivity in the European paper industry in 1995-2001 was 2.9\%, or more than twice the rate in the United States.

Even more important for the paper industry’s cost competitiveness has been sustained growth in total productivity, i.e. the efficiency in using all the production factors. During the 1995-2004 period, total productivity in the European paper industry increased by 13\% compared to less than 7\% in North America, which explains why the average unit costs of production have been increasing more slowly in the EU\textsuperscript{12}. Recently the strengthening of the Euro has had a negative influence on Europe’s position, but total productivity growth has been able to maintain the region’s unit production costs at a competitive level.

\textbf{Fig 2: total productivity in the paper industry}

Source: Savcor Indufor

\textsuperscript{11} EC DG Enterprise Productivity Study 2003.
\textsuperscript{12} Data by Savcor Indufor based on analysis of five key EU producing countries.
(Austria, Finland, France, Germany and Sweden) as well as the United States and Canada.
Productivity improvement has been associated with active investment in new capacity, allowing introduction of the latest technological innovations. It is vital to keep the industry on its expansion track to ensure continuous productivity growth.

As an energy intensive industry, the significant rise in energy prices is impacting negatively on its competitiveness (up to 50% to 75% during the last 3 years). There are many causes for this increase, one of them being the unexpected effects of the EU emissions trading scheme, whereby the CO₂ allowances allocated to the energy sector are passed onto the electricity price.

There are also other factors that explain strong European competitiveness such as knowledge, technology, management systems, marketing skills and the branding of products. Through information networking, the paper industry is closely integrated with its customers’ and suppliers’ logistical operations, which has minimised working capital tied to product and raw material stocks. Development of new technologies to generate breakthroughs in processing and management systems will be necessary for the future competitiveness of the industry. The Vision 2030 Forest-based Technology Platform has been launched as a co-operative effort between the private sector and the research community, with the support of the European Commission, to ensure future leadership in innovation.

European policies and regulation provide a framework for competitiveness by setting common goals and ground rules for industrial operations. However, the cost implications of these policies can be detrimental. As an example, recycling of waste is a policy goal fully supported by the paper industry. However, inappropriate new regulation and standards could in fact work against the environmental objective by reducing recovered paper availability and utilisation. Inappropriate regulation could not only raise costs but also increase uncertainty about future investments in paper recycling facilities.

13 For example incentives to incineration of recovered paper for energy recovery and food contact requirements which do not address appropriately the different characteristics of materials.
ENVIRONMENTAL SUSTAINABILITY

THE PAPER INDUSTRY RELIES ON NATURAL RENEWABLE RAW MATERIAL WHICH IS PRODUCED SUSTAINABLY

The fibrous raw materials of the European paper industry are wood and recovered paper, each being equally important. In addition the industry uses coating materials, fillers, chemicals and a wide variety of various operating supplies.

WOOD RAW MATERIAL
The paper industry uses 46% of the industrial wood that is produced in Europe\textsuperscript{14}. The wood raw material of the paper industry comes from two main sources: (i) wood residues from saw milling and other woodworking industries, and (ii) forest fellings. Pulpwood is harvested from (a) thinnings of young forests to ensure their health and vitality, and (b) from final cuttings as a by-product when large-sized logs are harvested for saw milling and plywood production.

More than 90\% of the European paper industry’s wood raw material\textsuperscript{15} comes from the region’s own forests. Wood is abundant in Europe’s forests and its potential availability is projected to increase over the next 20 years as a result of expansion of forest area and the natural increment of existing forests. At present, only about 70\% of the annual wood increment is being harvested in Europe\textsuperscript{16}.

Even if fellings increased to meet the growing demand for wood, there is no doubt that industrial expansion would not threaten the sustainability of forest resources. On the contrary, harvesting as part of sustainable management will be necessary to maintain the forests in a healthy condition. The vitality of trees improves their resistance to fire, wind and flood damage, and other environmental hazards.

The role of the paper industry is important in ensuring economically viable sustainable forest management as the industry generates one third of the total roundwood sales revenue received by European forest owners\textsuperscript{17}. Experience shows that natural resource assets having no economic value are not usually well managed. However, the economic viability of forest management is also under pressure as increasing areas are set aside for biodiversity protection, and other environmental requirements increase the costs of wood production. Therefore, the mobilisation of wood supply in terms of volume, quality and price remains a key concern for the paper industry and further increases in imports appears inevitable\textsuperscript{18}.

\textsuperscript{14} Estimated based on data from UNECE Timber Committee Forest Products Statistics (http://unece.org/trade/timber/mis).
\textsuperscript{15} Ibid; calculated based on total industrial roundwood.
\textsuperscript{16} UNECE/FAO, 2004. European Forest Sector Outlook Study.
\textsuperscript{17} Estimated based on data from UNECE Timber Committee Forest Products Statistics and UNECE/FAO, 2004.
\textsuperscript{18} A long-term supply shortfall of 231 million m\textsuperscript{3} per year has been projected by 2060 in 36 European countries by Alterra/EFI/SBH, 2003. Future Wood Supply from European Forests. Implications for the Pulp and Paper Industry. Wageningen.
BIOLOGICAL DIVERSITY
AND FOREST MANAGEMENT QUALITY

The preservation of the natural environment and biological diversity as well as the protective functions of forests are widely recognised and highly valued by the European public19. Therefore, industrial wood production takes place in a way that maintains these functions, making the two management goals compatible.

Europe has a long tradition of good forest management dating back to the 18th century. However, management objectives have changed over time and current practice is orientated towards maintaining the different roles of forests such as production, conservation, recreation, within the framework of sustainable forest management (multi-functionality). While scientific information does not allow comprehensive measurement of biodiversity, it is important to monitor its trends. The paper industry is carrying out such monitoring in its own forests as well as taking other measures to conserve biodiversity (e.g. establishment of protected areas, integration of biodiversity conservation into forest management practices).

The trends in forest resources in Europe suggest that there will be enough scope both for economic expansion and biodiversity conservation as both objectives can be combined in decision making on land and forest use. Conflicts between stakeholders are local by nature (although often widely communicated) and they need to be solved through consultative processes to which the paper industry, as one of the stakeholders, makes important contributions reflecting the views of its customers and consumers.

ENVIRONMENTAL SUSTAINABILITY

THE RECYCLING LOOP IS A VITAL PART OF THE PAPER INDUSTRY’S ECO-EFFICIENCY

Recovered paper has become a principal source of raw material for the European paper industry. This is a result of systematic efforts to improve collection systems and utilisation technologies. Europe is a world leader in paper recycling and recycled fibre has become one of the main competitive advantages of the region. The recycling loop is an essential component of the paper industry’s contribution to sustainable development as fibre reuse, in many cases, reduces the overall emissions of the product life cycle.

Recycling has limits, and it is estimated that no more than 80% of all the paper and board consumed can be recycled. In 2000, CEPI members made a commitment to increase the rate of recycling to 56% by the year 2005. Preliminary data indicates that this level will be achieved. Further increase is possible and the industry seeks to reach an optimum recycling rate, from the environmental and economic viewpoint, by 2010.

As fibre can only be recycled a number of times, there is a continuous need to feed the industry’s raw material inflow with virgin fibre in the form of woodpulp. As European countries have different raw material endowments their roles in paper production are also different: some rely almost exclusively on recycled fibre while forest-rich countries focus on virgin fibre-based production to ensure that the whole production system remains sustainable. This specialisation between countries contributes to logistical efficiency, minimising the need for transportation of products and raw materials, including recovered fibre.

Separate collection of recovered paper has made it a valuable source of raw material for the industry. There is however a risk that this unique strength of European competitiveness can be jeopardised by EU policies. These policies support the establishment and operation of efficient waste recycling systems, promotion of new technologies and reduction of the volume of non-recycled waste – all objectives that are fully endorsed by the paper industry.

However, instead of recognising recovered paper as a fibrous raw material to be recycled, it is considered waste not needing separate collection. Paper recycling is carried out under the regulation on waste management operations, which clearly creates an obstacle to economic efficiency. The result is detrimental to the environmental effects of the production-consumption system, ruling out one of the competitive strengths of European paper producers. The current win-win situation (economic growth and environmental protection) would change into a lose-lose situation.

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23 A study has been commissioned to define the potential recycling rate under European conditions.
THE PAPER INDUSTRY AS A LEADER IN RENEWABLE ENERGY AND MITIGATION OF CLIMATE CHANGE

At present, one of the most difficult policy issues is how the increased energy demand can be met within the Kyoto commitments to reduce greenhouse gas emissions. The European paper industry has already significantly contributed to addressing the mitigation of climate change. Specific carbon dioxide emissions were reduced by 26% between 1990 and 2003 through four main approaches:

- About 53% of the paper industry’s energy generation is presently from renewable sources.
- Energy efficiency has improved; the industry’s specific energy consumption decreased by 11% between 1990 and 2003.
- The on-site energy generation in pulp and paper mills has been expanded through investment in combined heat and power (CHP) technology, allowing some 30-35% in energy saving compared to conventional technology. 93% of electricity produced in pulp and paper mills is generated through the CHP technology.
- Recycling in 2000 contributed to a total reduction of 28% in CO₂ emissions.

The paper industry produces 17% of Europe’s renewable energy and 28% of the region’s biomass-based energy. There is still room for expansion and CEPI members have made a commitment to increase the current share of biomass in on-site total primary energy consumption from 49% to 56% by 2010.

Apart from the reduction of emissions, the paper industry has another instrument to contribute to mitigation of climate change: enhancement of carbon sinks in (i) the forest and (ii) paper products in use. The carbon stored in European forests amounts to about 10 billion tonnes and it is increasing annually by about 116 million tonnes. This corresponds to 10% of the total CO₂ emissions in Europe. The on-going increase in carbon sinks is taking place within the current and projected levels of forest harvesting thereby being compatible with the growth of the paper industry’s production.

Carbon sinks in the forest could be further increased as a complementary management objective, but this would require specific incentives for forest owners. On the other hand, enhancement of forest sinks should not jeopardise the wood supply of the industry.

Paper and wood products produced from sustainably managed forests are carbon neutral and their use can therefore be an important element in mitigating climate change. Extending the life cycle of paper products through efficient recovery and reuse leads to increased carbon sinks, further justifying the special treatment of these products in waste management policies.

25 CEPI data base on paper industry energy consumption.
26 Jaakko Pöyry, 2002. Greenhouse gas emissions from the pulp and paper production chain with a special focus on the management of paper products at the end of their life-cycle.
28 Compared to 2001. During the same period the industry will create an average increase of 25% in the amount of biomass energy for heat and power generation needed by industrial processing.
30 Based on 2002 data of the Carbon Dioxide Information Analysis Centre.
The recent national subsidies for bioenergy use as a measure to achieve the EU target for Renewable Energy Sources (RES) and EU emission trading have created new markets for low-quality wood and other biomass. This evokes a distortion of competition for the paper industry’s competitiveness.

The sustainability contribution is also grossly undermined as industrial wood raw material is used for energy before it has passed through the value chain (including recycling).

Table 3 illustrates that the value chain approach generates greater than eight times more value added and 60 times more employment compared to a case where industrial wood is directly used for incineration instead of being processed first. Recycling is responsible for 14.5% of the total employment generated. The value chain approach would also enhance climate change mitigation, as it would extend the life cycle of forest carbon to paper and paper products.

>> Fig 3: Impact assessment of forest-based bioenergy options

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Option 1</th>
<th>Option 2</th>
</tr>
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<tbody>
<tr>
<td>Per ton of dry wood</td>
<td>Value chain approach (processing, recycling and energy use of fibre at the end of its life cycle)</td>
<td>Use of industrial wood raw material for bioenergy generation</td>
</tr>
<tr>
<td>Value added EUR</td>
<td>993</td>
<td>118</td>
</tr>
<tr>
<td>Employment</td>
<td>124</td>
<td>2</td>
</tr>
</tbody>
</table>

32 Or recovered paper.
The paper industry has taken a two-pronged approach towards addressing the growing concerns related to clean water and air: (i) reduction of specific water consumption and (ii) control of effluents which can deteriorate water and air quality.

Pulp production is a major consumer of fresh water. Through technological development focusing on a closed production system, the specific consumption of water has been reduced by almost 40% from 1990-2003. At the same time, the regulation on effluent limits has led to improvements in water treatment and pollution abatement, practically eliminating any negative impact of the paper industry on water and air quality.

In its environmental management, the European paper industry is taking improvement measures based on existing knowledge, monitoring of effects, and investigation of options for reducing negative impacts and enhancing environmental conservation in the future. CEPI members have committed themselves to the target of putting in place certified environmental management systems (EMS/ISO 14001). Today, environmental management systems have been certified in 469 pulp and paper mills in Europe (76% of the total).

The pulp and paper industry is highly capital intensive. This means that decisions concerning fuels, energy procurement options, production processes and their efficiencies, as well as main raw materials and products, are determined for many years. There are therefore limited possibilities to make rapid, major changes in existing facilities and processes. Large investments are needed for achieving environmental improvements over sufficiently long adjustment periods. The European pulp and paper industry has invested an average of EUR 560 million per annum in industrial operations alone, over the period 1992-2004. Creating a favourable investment climate is thus a precondition for environmental improvements in the pulp and paper industry, as well as in other manufacturing industries.
SOCIAL CONTRIBUTION TO SUSTAINABILITY

THE PAPER INDUSTRY’S HUMAN RESOURCES ARE HIGHLY SKILLED

The paper industry creates, directly and indirectly, 1.8 million jobs. The indirect jobs are found in forestry, transportation of wood raw material and products, collection and handling of recovered paper, supplier industries (chemicals, machinery and equipment, energy, and other products and services) as well as in the downstream industries that use paper and board as their main raw material.

Labour productivity in the paper industry and its associated production chain, has been rising faster than the volume of production. In terms of numbers, direct industrial employment has declined when lower paid, enduring tasks have been mechanised and the degree of automation has increased. This has been necessary to meet the growing requirements of quality control and to maintain total productivity growth. Through outsourcing, many jobs have been transferred to other sectors where they can be carried out more efficiently (e.g. machine maintenance, industrial services, transportation, etc.).

The quality of employment has significantly improved and salary and wage scales have risen, while skill requirements have increased. The industry is committed to increased and continuous training to ensure employability of its personnel, illustrating the key role of human resources in capital-intensive production.

Occupational health and safety is a priority for the European paper industry. The accident rate has been falling and in 2003 accidents resulting in an absence of more than three days stood at no more than 37 out of 1000 people employed. The industry has specifically committed to making efforts towards zero accidents and best practices on how to prevent accidents are disseminated.

34 CEPI Sustainability Report 2005.
EXTENSIVE CONTRIBUTION TO RURAL DEVELOPMENT

As stated in the EU Strategic Objectives, rural communities face particular challenges in terms of economic development, social exclusion and depopulation. Both agriculture and forestry are increasingly considered within the broader context of rural development, which is aimed at protecting the rural population, economy, ecology and landscape from the multiple threats posed by an increasingly urban society with limited understanding of rural realities. Forest-based activities, including the paper industry, are important agents in rural development.

The economic procurement area of wood raw material for a pulp and paper mill typically has a radius of up to 200 km from the mill site. Silviculture, logging, transportation and other related activities maintain the social and economic fabric of rural areas consisting of public services, communication and transportation infrastructures, commerce, and a broad range of other services.

Most European forests are privately owned. For the approximate 16 million small-scale private forest owners, revenues from roundwood sales are an important, and sometimes the only, source of family income. The paper industry pays directly or indirectly about one third of the total wood sales income of private forest owners estimated at EUR 1.9 billion per year.

In addition to employment and income generation, the paper industry and its related activities are also an important source of fiscal revenue in many countries. In the impacted rural areas this income is crucial for municipalities to maintain basic social services for the entire population. About 620 pulp and paper mills are located in small rural communities and the industry's economic viability will determine whether their populations can be maintained in the future. The paper industry, through its direct and indirect social impacts, helps keep many marginal areas inhabited in the EU.

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35 Estimated by the Confederation of the European Forest Owners (CEPF).
36 Estimated based on UNECE/FAO Forest Resources of Europe, CIS, North America, Australia, Japan and New Zealand (2000), data from UNECE Timber Committee Forest Products Statistics and national wood price statistics. The total revenue estimate covers pulpwood stumpage paid to private owners plus the respective share of sawlog sales revenue.
37 Less than 10,000 inhabitants; source Jaakko Pöyry Consulting, 2005.
SOCIAL CONTRIBUTION TO SUSTAINABILITY

SOCIAL ACCEPTABILITY OF THE EUROPEAN PAPER INDUSTRY

Social acceptability of the paper industry derives from the consumer needs satisfied by paper and board, respect of strict environmental regulations, and the recyclability of paper products after their use. In addition, the production of wood must be balanced with other values and functions of forests. Certification of forest management and the chain of custody of products up to the final consumer have been rapidly taken into use by the European paper industry and forest owners to assure consumers and stakeholders that raw materials are sourced from sustainably managed forests or are recycled fibres. More than one third of the global certified forest area is located in Europe. Half of the EU’s forests have already been certified, which is the highest regional share in the world.

Concerns have emerged about illegal logging. There are increasing market demands for assurances on legality of the wood raw material that is used by the European paper and woodworking industries. Due to well-established forest and environmental laws, strong traditions in their respect, and effective controls, illegal logging is not a significant problem in EU forests.
The European paper industry recognises that imports of wood and woodpulp from other countries may unintentionally provide markets for illegally harvested wood, which should be avoided. The paper industry is also concerned about loss of competitiveness resulting from unfair competition from non-European suppliers who do not respect their national laws and thus avoid costs related to sustainability. This creates market distortions and means that there is no level playing field. Policy measures to combat illegal logging should however, address the root causes of illicit activities in producing countries, rather than adding bureaucracy and costs for the importing industries in Europe.

As a response to these concerns, the European paper industry has made a commitment to combat illegal logging. CEPI, in consultation with other stakeholders, has developed a Framework Code of Conduct on Legal Sourcing of Wood as one of the private sector measures targeted at contributing to the objectives of the EU FLEGT Action Plan.

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CONCLUSIONS

TAPPING FUTURE POTENTIAL

With the globalisation of paper markets, the maintenance of the European industry’s competitiveness has become an increasing challenge. The track record shows that the paper industry is capable of growing competitively while providing unique contributions to sustainability.

UNIQUE SUSTAINABILITY CHARACTERISTICS OF THE PAPER INDUSTRY

• Paper is needed to meet a wide variety of human needs, ranging from communication, information storage and cultural functions, to packaging, hygienic uses in households and hospitals.

• Forests as renewable natural resources are the necessary source of raw material of the European paper industry; they are versatile and resilient and can be managed to produce various combinations of products and services (multi-functionality).

• Paper is recyclable and recycled: recovered paper is used as a principal raw material of paper production.

• Renewable energy forms a major part of the industry’s energy supply.

• Forests and paper contain carbon and this carbon pool can be enhanced to remove CO₂ from the atmosphere.

• The paper industry has the proven capacity to decouple production growth and environmental impacts.

• Social contributions of the paper industry are extensive, particularly to employment, income and rural development.

However, a conducive policy environment is required as there are important threats looming to the industry’s competitiveness. Fast growth of export-oriented production in low-cost producing countries can lead to new industrial investments being directed outside Europe with detrimental losses to national economies in the EU. Not only would value added and employment be lost but also positive environmental impacts in forest management, renewable energy and waste management would be reduced.
In addition, the social contribution of the forest-based activities in maintaining the economic and social fabric of large rural areas would be jeopardised.

EU regulation tends to apply single-issue measures (e.g. biodiversity, renewable energy, climate change mitigation, waste management and recycling), which are well intentioned but which, in the case of paper industry, often result in negative indirect outcomes. This could be avoided were comprehensive business impact assessments carried out on new policy initiatives before decisions are made.

Regulation should be based on a holistic view, while being coherent and effective in achieving the goals of competitiveness and job creation within the sustainability framework. Enhancing the entire value chain of the paper industry provides such a holistic approach to achieving targeted impacts. As an example, wood fibre should be used and recycled first for value creation before utilising it as a source of renewable energy.

The two highly ambitious commitments\(^{40}\) of the European paper industry to recycling and renewable energy clearly indicate that a well-functioning paper loop can contribute to both a high recycling rate and to high renewable energy sourcing.

The European paper industry has the necessary ingredients to evolve as a growth sector while continuing to make significant contributions to sustainable development. Public support for its efforts is therefore justified while the industry’s specific characteristics should be duly considered in EU policies. This would avoid ruling out the necessary preconditions for future growth and employment generation of the European paper industry.

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