

UTIPULP GENERAL MEETING

Vienna – April 20th, 2018

KEYPOINTS OF THE PULP AND PAPER INDUSTRY

IN THE MEMBER COUNTRIES

COUNTRY: AUSTRIA

Main events that occurred in the pulp and paper industry in your country (evolution of the markets, costs, profitability, new investments, closures...) over the last months and main issues that the Industry is dealing with in Austria:

KEY FIGURES

In 1000 tonnes	2016	2017	Δ%
Pulp production	2116	2056	-2,8%
Paper and board production	4995	4860	-2,7
- Graphic papers	2739	2552	-6,8
- Packaging grades	1942	1999	3,0
- Specialties	314	309	-1,7

KEY POINTS OF THE PULP AND PAPER INDUSTRY

Comment

- Generally speaking the paper situation in Austria is good, prices and turnover are up.
- Volumes went down due to major investment downtime at Laakirchen and Traun, plus shutdown of PM3 at Steyrermühl. Laakirchen gave up TMP and changed to PfR
- The largest investment in Austria were
a new H&P generator for Mayr-Melnhof in Frohnleiten (50m €)
improvement for PM3 at Feurstein mill, Delfort (40m €)
rebuild of PM 10 in Laakirchen, to make RCCM in the future (100m €)
pulp extension in Lenzing (50m €)
New hubs for district heating: Sappi Gratkorn connected to Graz, Norske Skog connected to Bruck
- Announcements for 2019 are:
new PM 3 for Zellstoff Pöls, making additional 100.000 tonnes of kraft paper
major improvement for PM9 at Gratkorn, Sappi
- The competition for wood continues, with pulp mills (cascade) on the one side, and energy (direct combustion) on the other. Austropapier is calling for a redesigned Austrian Eco energy act, which regulates funding for biomass burners. It also lobbys the newly elected government (conservative/right) in connection with the new Austrian Climate and Energy Strategy (IKES) which was presented in April.

COUNTRY: FRANCE

Main events that occurred in the pulp and paper industry in your country (evolution of the markets, costs, profitability, new investments, closures...) over the last months and main issues that the Industry is dealing with in France:

Key figures

	2016 (in KT)	2017 (in KT)	Δ%
Pulp production	1720	1 713	-0.4
Paper and board production	7 984	8 021	0.5
- Graphic papers	2 258	2 223	-1,5
- Packaging grades	4 439	4 514	1,7
- Hygiene	846	841	-0,6

General Comments:

- Consumption and production of paper and board were up of 0.5 % in 2017.
- Same consumption pattern as in many European countries: packaging grades are boosted by several trends (economic recovery, e-commerce, bad image of plastic, ban of single-use plastic bags...); graphic papers are declining but the pace has reduced in 2017; hygiene grades face the difficulties of a mature markets.
- Regarding pulp capacities production in France: several investments for incremental capacities increase (last one in the Facture Smurfit Kappa mill)
- Regarding the governmental agenda, the ministry of environment is preparing a strategy against “imported deforestation”. The main focus will be on palm oil and other food ingredients but COPACEL will watch closely if there is something impacting pulp imports.

Regarding companies

- French paper mill Papeterie Raon was put under compulsory liquidation by the Trade Court of Épinal, France, on February 13, 2018. The decision, which comes after the paper mill was put into administration in October 2017, affects 67 workers. Papeterie Raon, which was owned by the Italy’s Cartiera Galliera, was specialized in the production of recycled-based paper for food packaging.
- Arjowiggins is about to finalize its exit from the banknote paper production business. The company has entered into exclusive negotiations with the investment group Blue Motion Technologies Holding for the disposal of Arjowiggins Security, which primarily produces banknote paper at its Crèvecœur mill in France.
- SAICA has taken control of Emin-Leydier (corrugated paper producer base on paper for recycling) and is now in the implementation phase or reorganizing the business operations.

COUNTRY : GERMANY

Main events that occurred in the pulp and paper industry in your country (evolution of the markets, costs, profitability, new investments, closures...) over the last months
and main issues that the Industry is dealing with in Germany:

Key figures

	2016 (in KT)	2017 (in KT)	Δ%
Pulp production	2.485	2.433	-2,1
Paper and board production	22.629	22.919	1,3
- Graphic papers	8.354	8.154	-2,4
- Packaging grades	11.390	11.816	3,7
- Hygiene	1.507	1.514	0,5

The Paper Market in Germany

April 16th 2018

The German pulp and paper industry recorded positive quantitative developments in 2017 compared with the previous year. In Germany, annual production of paper and board rose by 1.3 percent to 22.9 million tonnes.

Capacities remained virtually unchanged in 2017 compared with the previous year with a slight increase of 0.1 percent. Together with the rise in output, this led to higher capacity utilization of the paper machines. Capacity utilization rose to an average of 95 percent in 2017.

In a global comparison, the German paper industry remains number four after China, the US and Japan and number one in Europe.

The positive overall economic development of foreign demand was also reflected in the German paper industry. In 2017, foreign sales rose by 1.7 percent over the previous year, for instance. Domestic sales also increased, though more moderately by 1.1 percent in 2017.

Apparent consumption in Germany fell slightly by 0.6 percent in 2017, to just under 20.5 million tonnes. Imports fell minimally by 0.1 percent to 11.3 million tonnes. The import ratio rose to 55.3 percent in 2017.

Developments in the German paper industry varied greatly in the specific grades.

The share of packaging papers in output rose to 51.5 percent in 2017, making it the largest segment of the German paper industry. Increases in output have been noted here for several years already. For instance, a total of 11.8 million tonnes were produced in the packaging paper sector in 2017, equivalent to a rise of 3.7 percent over the previous year.

For graphic papers, the second largest product group with a share of 35.6 percent in paper production, the negative trend continued. Production volume in 2017 was 2.4 percent lower than in the previous year. The main reason for this can be found in the progressive changes in the media-usage behaviour of consumers.

Technical and speciality papers, which account for a share of 6.3 percent and comprise a large number of different products, were able to maintain and then further extend a high output level in recent years after a deep slump in the crisis year 2009 and an increase in output of 15.6 percent in 2010. In 2017, output in this area rose 4.2 percent.

Hygiene papers account for 6.6 percent of total output. From a value-add angle, however, the significance of this market segment is infinitely greater, since all companies in this group have integrated a processing stage. Machine output rose by 0.5 percent to 1.5 million tonnes in 2017.

COUNTRY : ITALY

Main events that occurred in the pulp and paper industry in your country (evolution of the markets, costs, profitability, new investments, closures...) over the last months
and main issues that the Industry is dealing with in Italy:

Key figures

Paper & Board -KT	2016	2017	2017/2016%
Pulp Production - 12 months	392	388	-1,1
Paper and Board Production - 12 months	8.888	9.071	2,1
-Graphic papers	2.593	2.587	-0,3
-Packaging grades	4.374	4.496	2,8
-Hygiene	1.481	1.549	4,6
-Others	441	440	-0,2
Paper and Board Export - 12 months	3.943	4.055	2,8
Paper and Board Import - 12 months	5.152	5.280	2,5
Paper and Board Consumption - 12 months	10.097	10.297	2,0

ISTAT figures processed by Assocarta

Turnover 2017 12 months: +5,9% respect to 12 months 2016

Paper markets and Costs

- **P&W and Specialty papers** – demand and production on good levels since the beginning of 2018 in general, mainly in January and February; difficulties on prices side, which levels are still inadequate to recover pulp cost levels

- **Tissue** - profitability downsized in 2017 due to difficulties in adjusting paper prices to increasing pulp costs. Increasing uncertainties with reference to 2018, connected to levels of demand not adequate to the offer ones, even more considering next start-up of new production capacities.
- **Pulp costs** – many concerns about rising pulp prices and relative effects in terms of margins and competitiveness for Italian industry; concerns about possible impacts on pulp prices too of Chinese policy directed to limit import of low qualities of PFR
- **Energy costs** - on 2017 electricity average market price is higher than previous year (+26%), and the trend is confirmed during first months of 2018. The lowest prices of 2016 are now far. Gas price is also increasing on yearly basis: 2017 price is 26% higher than 2016 due to the increasing gas consumption. The same trend is confirmed also in the first part of 2018. PSV – TTF spread is growing on yearly basis even if in some occasion (for instance in march 2018) there is the reversal of the spread sign.

Main issues that the Industry is dealing with

- **Energy** – Regarding national legislation on energy intensive industries, a new system to reduced RES (renewable energy sources) tariff of the energy intensive users was put in place. At the same level a national definition of “gas intensive company” was introduced and RES tariff reduction on gas price should be introduced in the upcoming months. Regarding wholesale gas market, the capacity restriction (from September 2017 till September 2020) on TENP pipeline (pipeline that transport gas from TTF hub across Germany to Swiss border) is producing wholesale price rising and the distance of Italian gas price and European price is now growing.

COUNTRY : NETHERLANDS

Main events that occurred in the pulp and paper industry in your country (evolution of the markets, costs, profitability, new investments, closures...) over the last months and main issues that the Industry is dealing with in Netherlands :

Key figures

	2016 (in KT)	2017 (in KT)	Δ%
Pulp production	n.a.	n.a.	
Paper and board production	2.671	2.983	+ 12
- Graphic papers	725	701	- 3
- Packaging grades	1.834	2.170	+ 18
- Hygiene	112	112	0

COUNTRY : SPAIN

Main events that occurred in the pulp and paper industry in your country (evolution of the markets, costs, profitability, new investments, closures...) over the last months and main issues that the Industry is dealing with in Spain :

Key figures

	2016 (in KT)	2017 (in KT)	Δ%
Pulp production	1676.5	1699.5	1.4%
Paper and board production	6218.6	6217.8	0.0%
- Graphic papers	1377.1	1229.5	-10.7%
- Packaging grades	3639.8	3759.5	3.3%
- Hygiene	723.3	704.1	-2.7%

Economic situation

- Spain leading EU GDP growth (3.1 in 2017, forecast for 2018: 2.7)
- Unemployment still high but decreasing (17.2 in 2017, forecast for 2018: 15.5)

Industry Developments

- In progress conversion of the recycling newsprint capacity to containerboard (previously Holmen Paper now under IP ownership). Aprox. 400.000 tn.. Start up summer 2018.
- New virgin tissue PM by Goma-Camps start up in March 2018.
- Essity announced closure of its tissue production facility in La Riba (aprox. 26.000 tn) and the closure of one tissue machine at its production facility in Allo.
- Iberboard restart the old Abellan Cataluña mill on recycled board
- Lucart buy and re-start up the Celltech / Ecofibras tissue mill

Regulatory affairs

- The Ministry of Economy and ASPAPEL publish a sectoral Agenda to boost competitiveness
- High debate on the future of energy in Spain in the context of Climate Change commitments. New Law to be proposed.
- Circular Economy high on the Agenda, national strategy under consultation

COUNTRY : UNITED KINGDOM

Main events that occurred in the pulp and paper industry in your country (evolution of the markets, costs, profitability, new investments, closures...) over the last months and main issues that the Industry is dealing with in UK :

Key figures

	2016 (<i>in KT</i>)	2017 (<i>in KT</i>)	Δ%
Pulp production	n/a	n/a	
Paper and board production	3,677.7	3,854.9	+4.8
- Graphic papers	897.0	918.4	+2.4
- Packaging grades	1,800.2	1,935.4	+7.5
- Hygiene	730.0	731.4	+0.2

Main points

Essentially business as usual for the wider UK industry as investment decisions are largely on hold pending more clarity on Brexit, though Essity has recently recommissioned a mothballed machine in north-west England.

Increased production has largely been driven by the return to full production of several sites following flood damage and equipment upgrades. Additionally domestic producers have generally benefited from a weaker UK currency making imported product relatively more expensive, though of course some of this gain is offset by a higher sterling cost of pulp.