The European paper industry and the international trade

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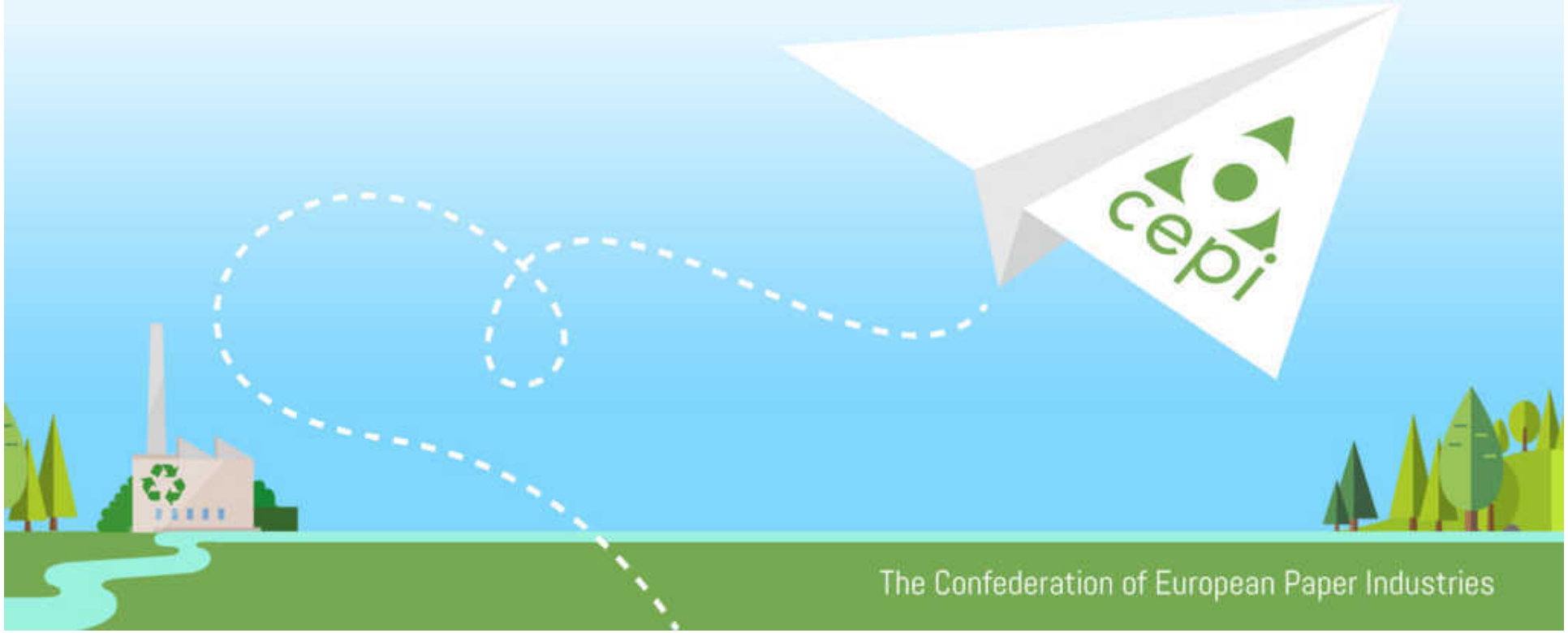
UTIPULP General Assembly, Leuven, 12 April 2019



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1.

A few words about CEPI

CEPI - Confederation of European Paper Industries

- 18 member countries (17 EU members + Norway)
- Represents in Brussels the 500 pulp, paper and board producing companies and 900 mills
- Engaged in international fora (UN, FAO, WTO) to defend 22% of the world production
- Working across the value chain – from forest owners to converters
- Member of the EU Bio-based Industry and Energy Intensive Industry Alliances
- Chair: Karl-Henrik Sundström, Stora Enso
- A staff of 18 industry, policy and public affairs experts

We are renewable and recyclable, sourced and made *in* Europe, leading the circular bioeconomy

Introducing CEPI and the European forest fibres and paper industries

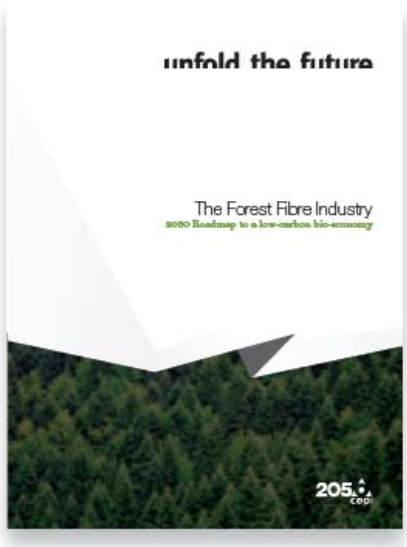
Transforming pulp wood into cellulose and bio-based products
>92% sourced in Europe and certified

18 national associations representing 500 companies
945 mills across Europe
employing directly 175000 people,
exporting 22% of EU production

Keeping the fibres in the loop
>72% recycling rate of EU paper-based products

Producing
Pulp & fibres
Nano-cellulose
Bio-energy
Bio-chemicals
Print & graphic paper
Packaging solutions
Hygiene and tissues
Specialty papers

We champion sustainable growth and innovation for a low-carbon Europe …



2011

2013

2015

2017

We have a vision and demonstrate it through investments across Europe…

Featured examples of low-carbon, energy efficiency investments 2018-2019

Sources: CEPI 2019 – reinvest2050.org

We deploy our agenda in 6 focus areas

Outline of CEPI activity areas 2018-2019

Energy and climate change

ETS, energy policy, renewables, 2050 climate strategy

Environment health and safety

Food contact, sustainability performance, REACH

Forestry

Land use and forestry, certification, forest-based industries joint strategy

Trade and industrial affairs

Markets & production reports, Int[al] trade, industrial policy, transport

Recycling

Circular economy, recyclability guidelines, single-use plastics

Bioeconomy and social affairs

Bioeconomy strategy, R&D programmes, funding, skills agenda

Our agenda ahead stands in two words

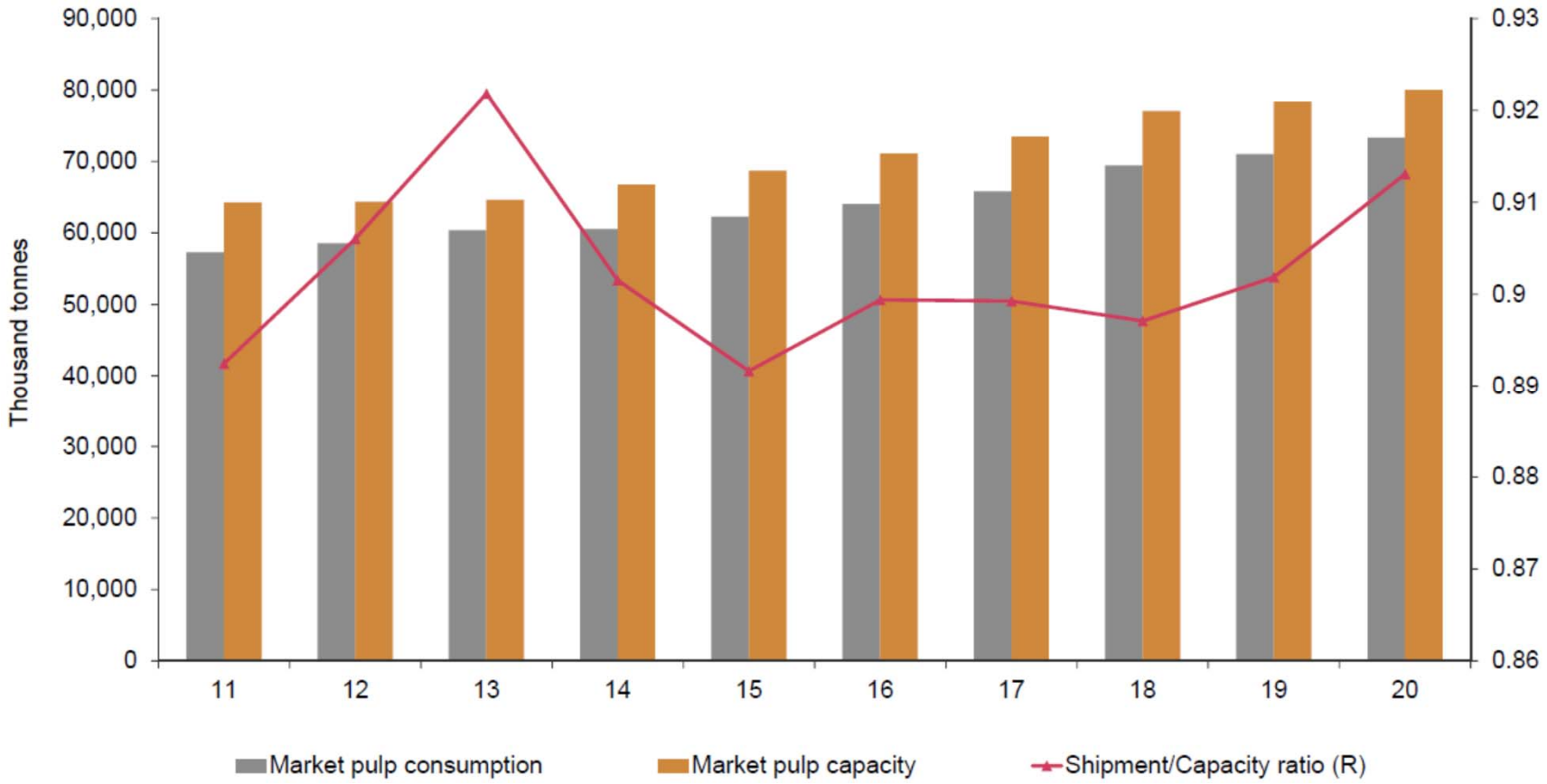
Climate change nexus of issues for industry

biodiversity
competitiveness
carbon neutrality
circularity
energy transition
water
emissions
climate change
foot printing
innovation
sustainable forestry
transport
investments
bio-economy
forests adaptation
certification
plastics
land-use
biomass availability
disclosure
market access

2.

Trade: adjusting to a new context

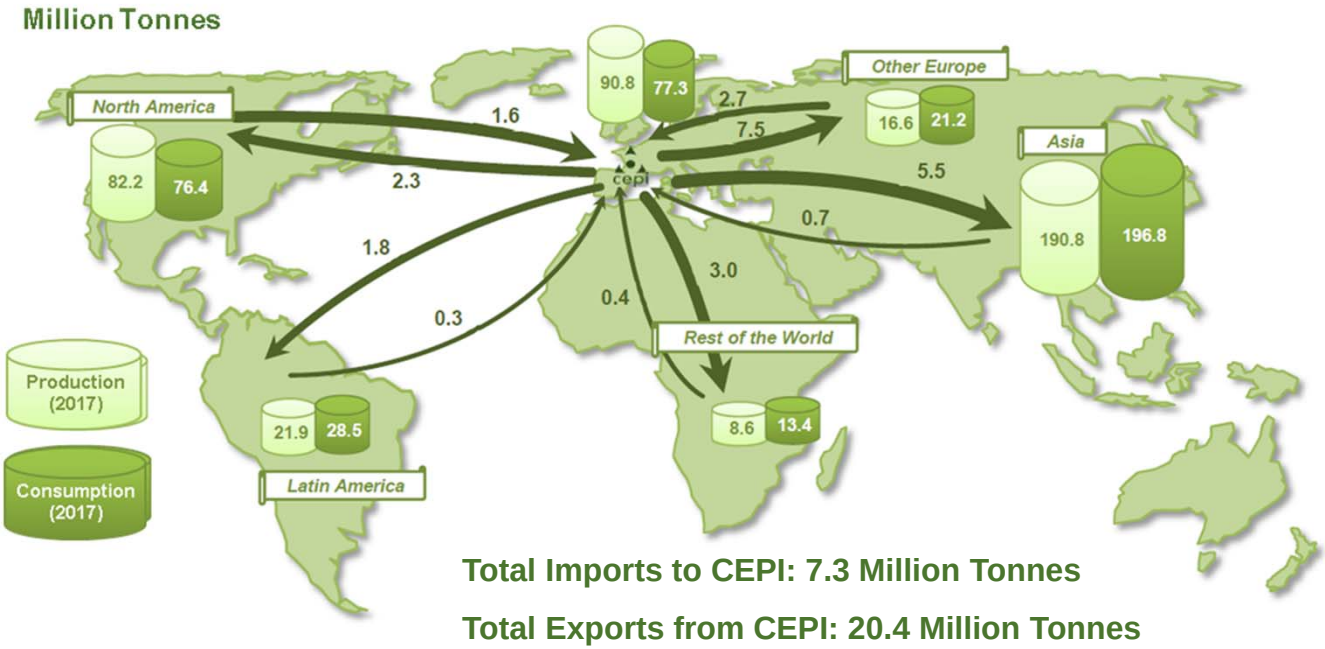
Pulp market still expected to grow tighter – Fastmarkets RISI (March 2019)



Definitely not the easiest period for market pulp buyers!

Europe is a global leader in paper exports

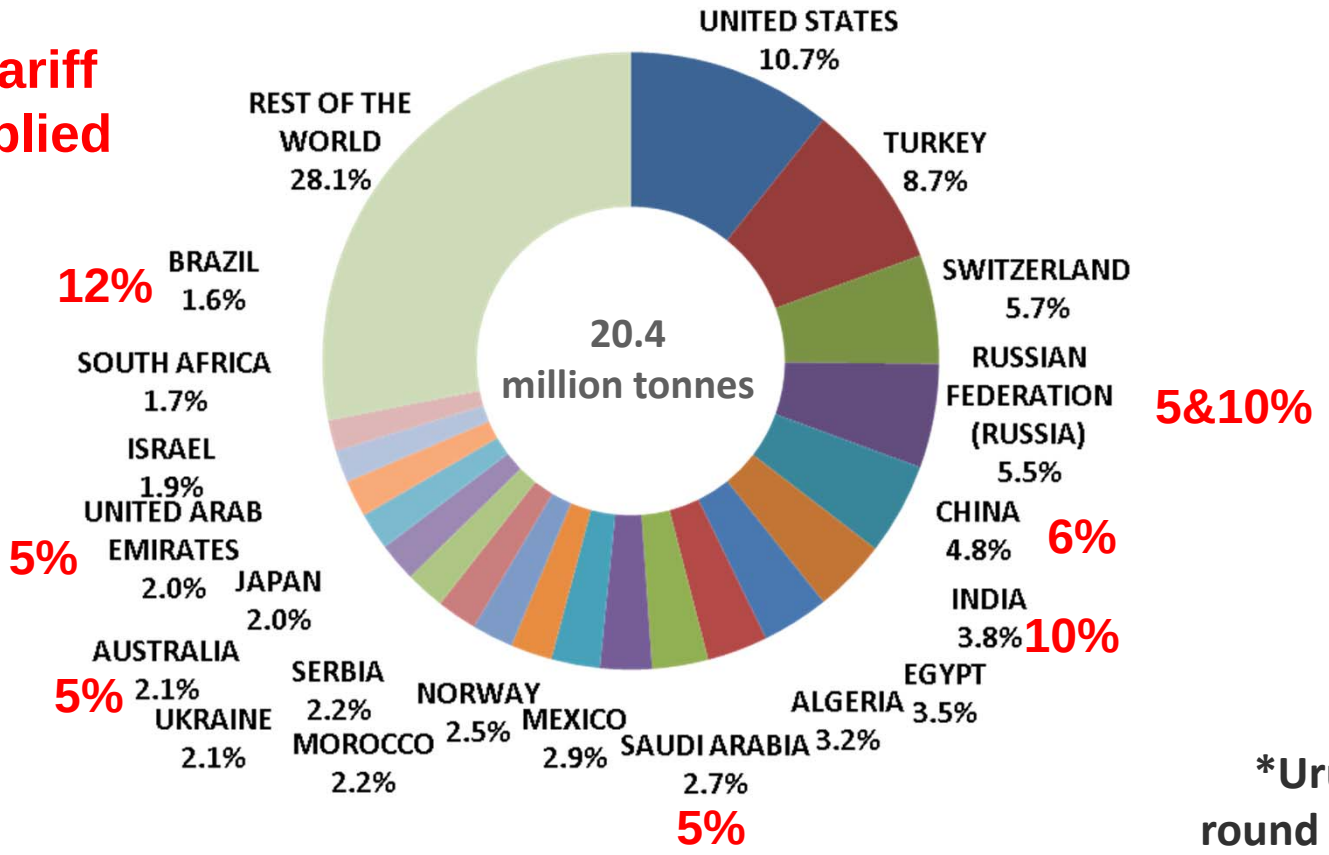
- >80% of our raw materials are sourced in Europe
- 22% of paper production is exported



- **EU markets are fully open to all global competitors**, but about 35% of our exports face tariff barriers and increased Non-Tariff Barriers
  - > Market Access Reciprocity shall prevail in all bilateral and WTO negotiations
- **Foreign countries tries to restrict imports**: more than 30 trade disputes over the last 10 years – paper but also wood and paper for recycling
  - > Strong Anti-Dumping methodology and Trade Defence Instruments needed

35% of EU P&B exports face tariffs, while EU markets have been fully open since 2004*!

Import tariff most applied



***Uruguay round sectorial agreement**

EU28 Paper & Board Exports: €20.6 Billion

Source: Eurostat, CEPI, 2017

Protectionism is not only about tariffs

Access to foreign product markets

- Applied import tariffs
- Non-Tariff Barriers

Level playing field

- Dumping, subsidies, safeguard measures
- Sustainability / environmental / health & safety requirements
- Public procurement

Access to foreign raw material and energy markets

- Export tariffs
- Quotas
- Dual pricing
- Technical & infrastructure restrictions

Other factors

- Transport & logistics costs
- Exchange rates

Wood market access restrictions in Russia, Ukraine and Belarus

70% of European pulp and paper Industry imports - 9 Mt / €600m

- **Russia:** Birch log export ban since 1 Jan. 2019 for a period of 6 months
- **Ukraine:** export ban in place since 2015 - consultation with Ukraine asked by the EU
- **Belarus:** export ban established in 2016 but replaced in 2017 by a very complex and discriminatory system of export licensing

CEPI Trade Strategy (2014)

- **3 priority objectives**: 1) access to foreign product markets, 2) access to foreign raw material markets and 3) securing level playing
- A set of **"relevance criteria"** was also defined to frame CEPI's involvement in a specific trade issue:

  a) be relevant for a priority objectives

  b) have a material impact on European companies

  c) CEPI should have a reasonable chance to influence the outcome

  d) CEPI should avoid any public action in cases involving countries where members have other operations

CEPI's Trade Network – key activities

- **Monitor global - WTO - and regional Free-Trade Agreement negotiations**, and analyse their impact on pulp and paper trade and the trade of raw materials
- **Support Free-Trade Agreement negotiations** and develop related regulatory cooperation when appropriate
- **Defend the European pulp and paper industry** in the context of third country trade defence actions against EU imports, with the support of the affected industry sector organisations and in close cooperation with the individual companies concerned
- **Monitor market developments** and in unfair competition (dumping and/or subsidies), launch feasibility studies for affected companies considering potential trade defence actions with EU Commission
- **Identify non-tariff barriers and coordinate efforts** to eliminate or mitigate them

A sensitive approach is required to avoid conflicting interests!
Reports to the Association Directors' Group and the Board

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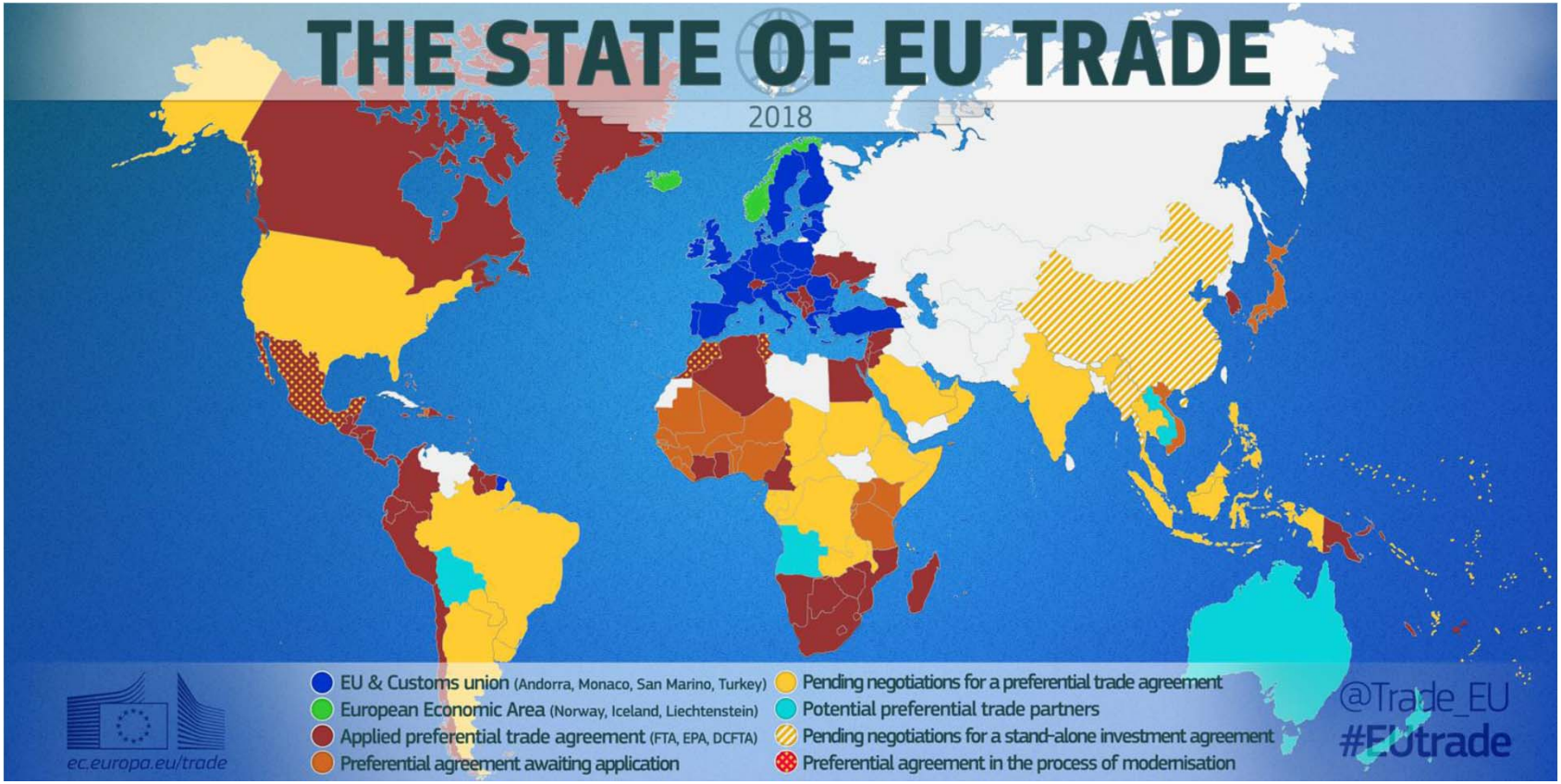
EU Free-Trade Agreements as a way to further open foreign markets



Signatories of 1994 Uruguay Round sectoral agreement: EU, US, Canada, Hong-Kong, Japan, Republic of Korea, New Zealand and also Singapore – no import tariffs since Jan 2004!

Access to foreign paper market access: restrictions on the rise

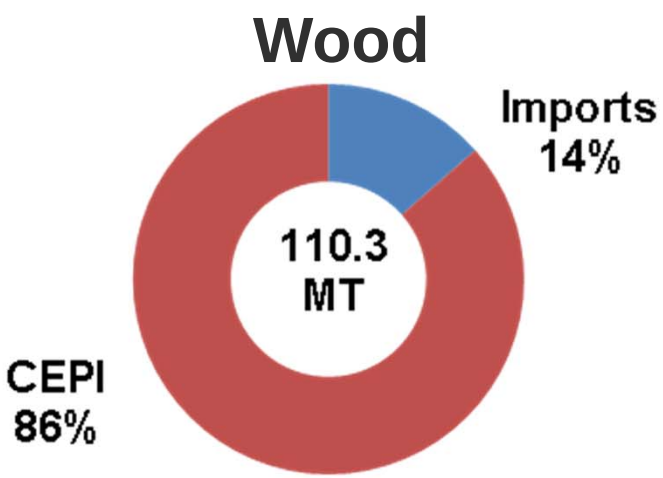
Foreign anti-dumping / safeguard investigations on EU paper & board exports (about 30 over the last 10 years):

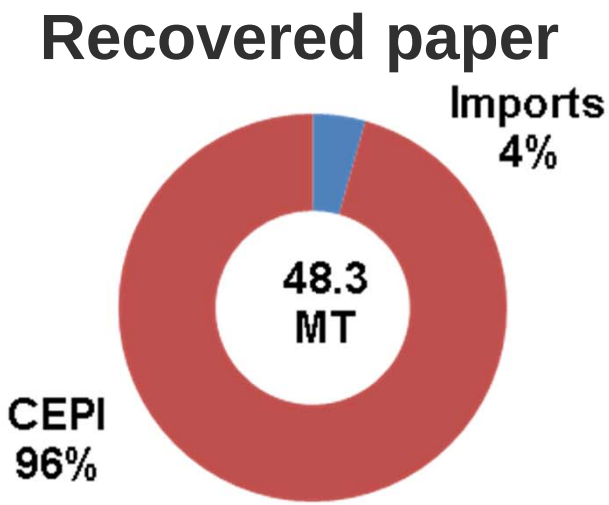
- Turkey on copy paper (2014) - €175m
- US on copy paper (2015) - €160m
- China on unbleached sack kraft paper (2015) - €26m
- Gulf countries on containerboard (2017) - €60m
- India on coated P&B (2018) - €100m

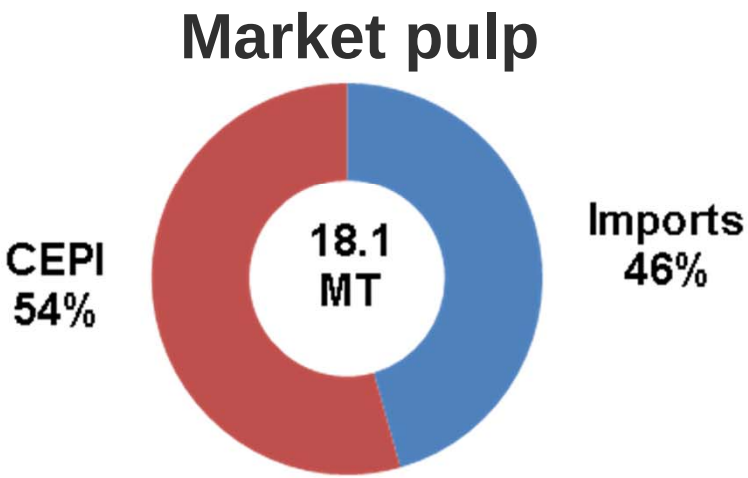
Other market access restrictions:

- Russia on coated P&B: too high import tariffs - EU complaint at WTO level (2016) - €200m
- Turkey on copy paper: import license - CEPI Trade Barrier Regulation complaint (2017) - €150m
- US on packaging P&B made of recycled fibres - food contact rules compliance (2018…) - €200m?

European paper industry's fibres consumption: growing dependence on market pulp imports



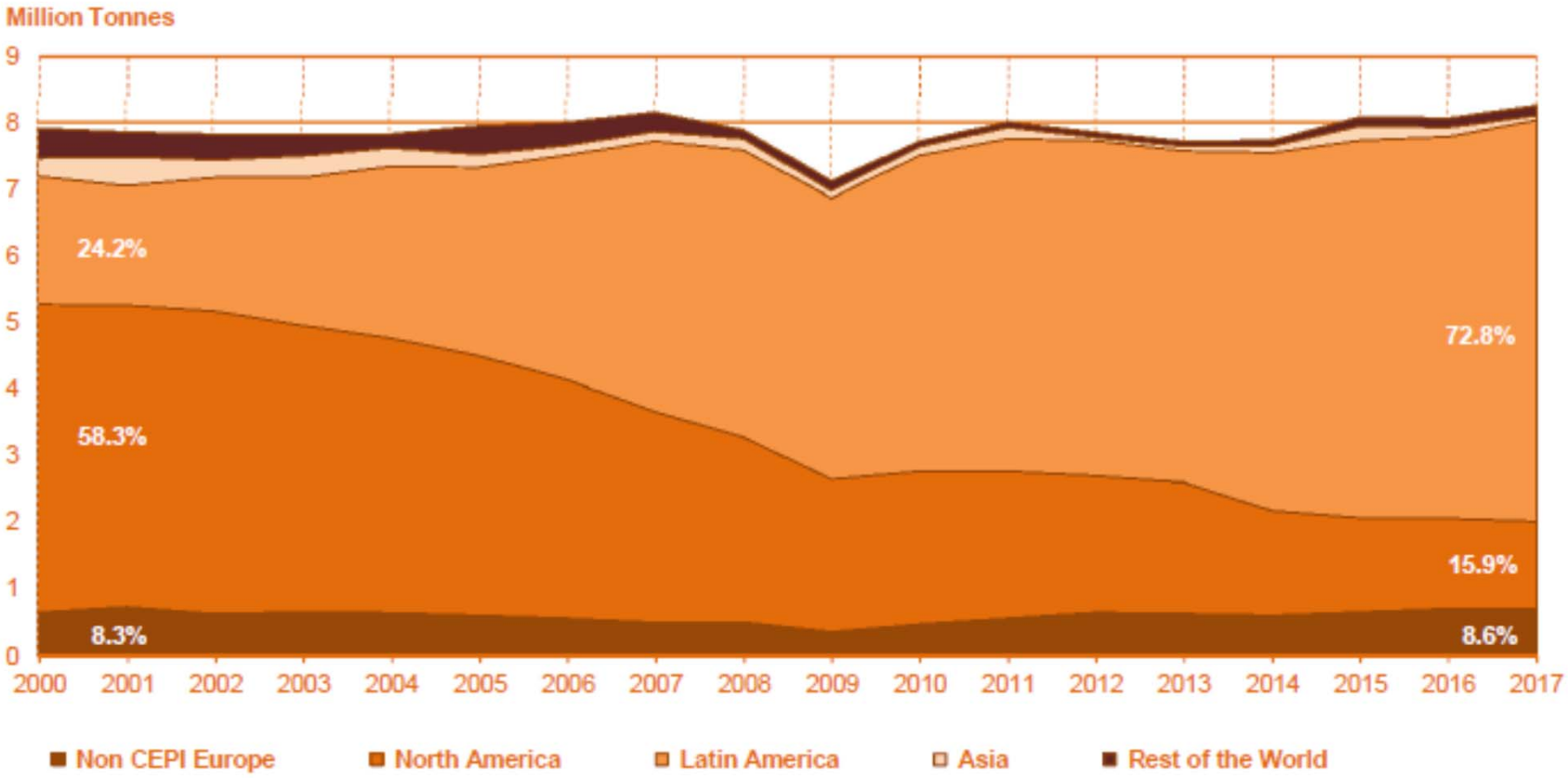




Source: Eurostat, CEPI, 2017

Europe market pulp imports

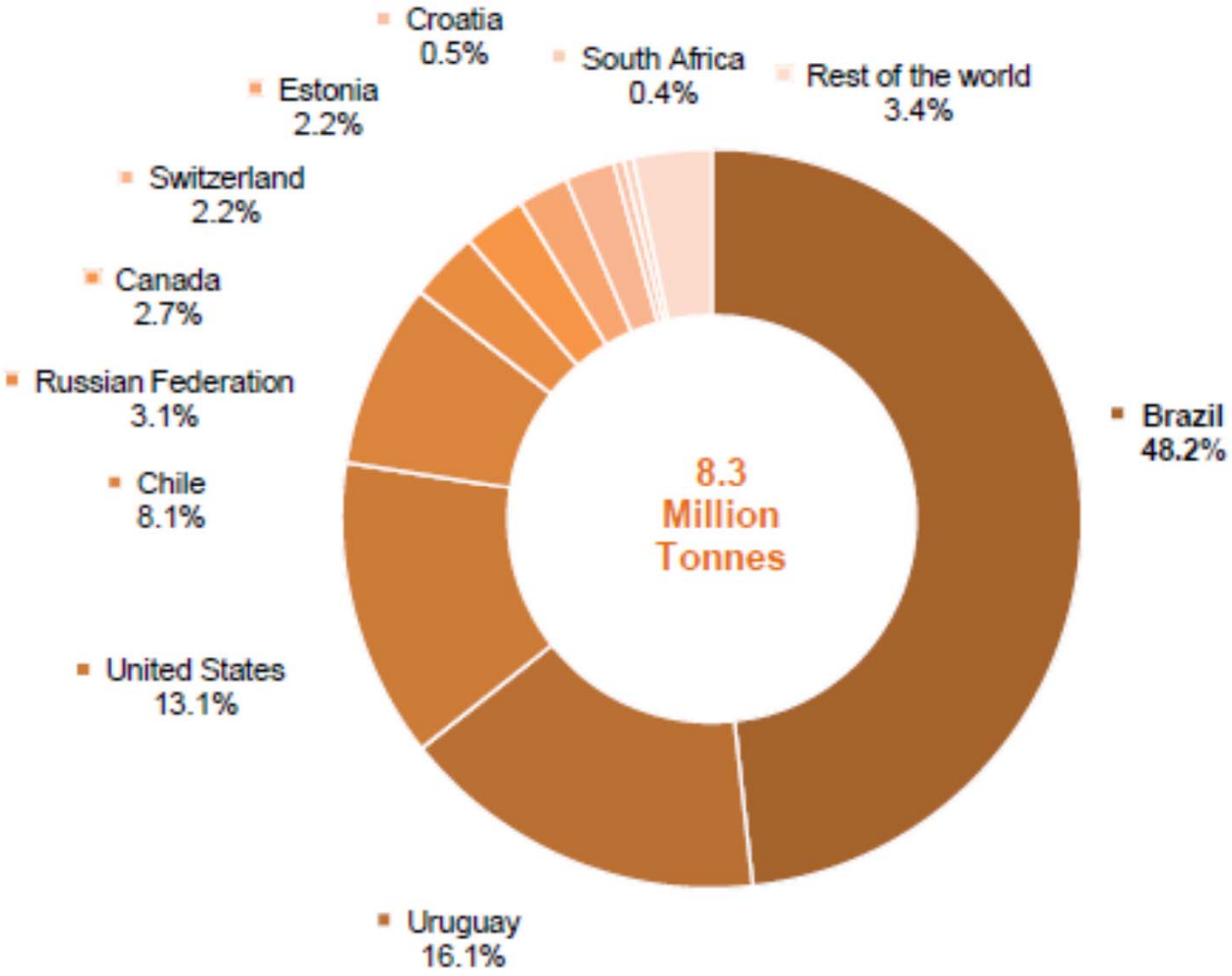
Latin America has gained substantial market share…



Source: CEPI, 2017

Europe market pulp imports

…with Brazil as the main supplier!



Source: CEPI, 2017

US ‘arm wrestling’ strategy against China and EU and its potential impact

- US and China are key trade partners for Europe

  - US: 1st EU trade partner – EU P&B exports 2 MT, EU P&B imports 1.5 MT

  - China: 5th export destination - EU P&B exports 1 MT, EU P&B imports 0.3 MT

- The paper industry is not considered as a strategic industry but…
- …is likely to be caught in trade disputes or a generalised trade war through targeted tariffs or retaliatory measures
- Risk of trade deviations as a threat to European markets but opportunities on foreign markets?

US 'arm wrestling' strategy

Tariffs on P&B, pulp, recovered paper and machines

Date	Country imposing measures	Targeted countries	Pulp (HS4701-06)	P&B (HS48)	Converted P&B products (HS48)	RP (HS4707)	Machines (HS84)
23/03	US	All with exceptions	25% tariff on all steel imports and a 10% tariff on all aluminium imports				
02/04	China	US	-	-	-	-	-
22/06	EU	US	-	25% on a few lines	25% on a few lines	-	-
06/07	US	China	-	-	-	-	25% on most lines
06/07	China	US	-	-	-	-	-
23/08	US	China	-	-	-	-	-
23/08	China	US	-	-	-	25% on all lines	-
24/09	US	China	10% on all lines	10% on all lines	10% on all lines	10% on all lines	5&10% on other lines
24/09	China	US	5% on all lines	5&10% on many lines	5&10% on many lines	-	5&10% on many lines
01/03 (TBC)	US	China	25% on all lines	25% on all lines	25% on all lines	25% on all lines	25% on other lines

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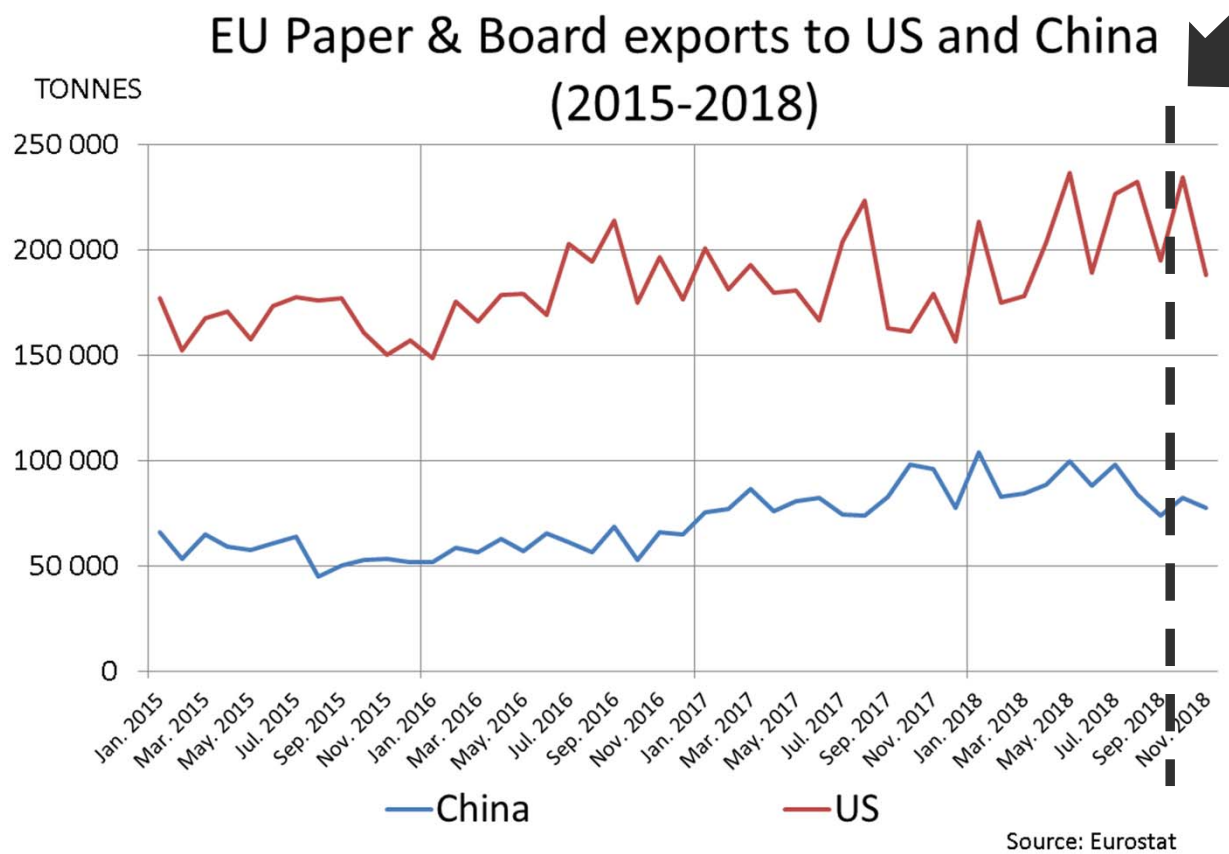
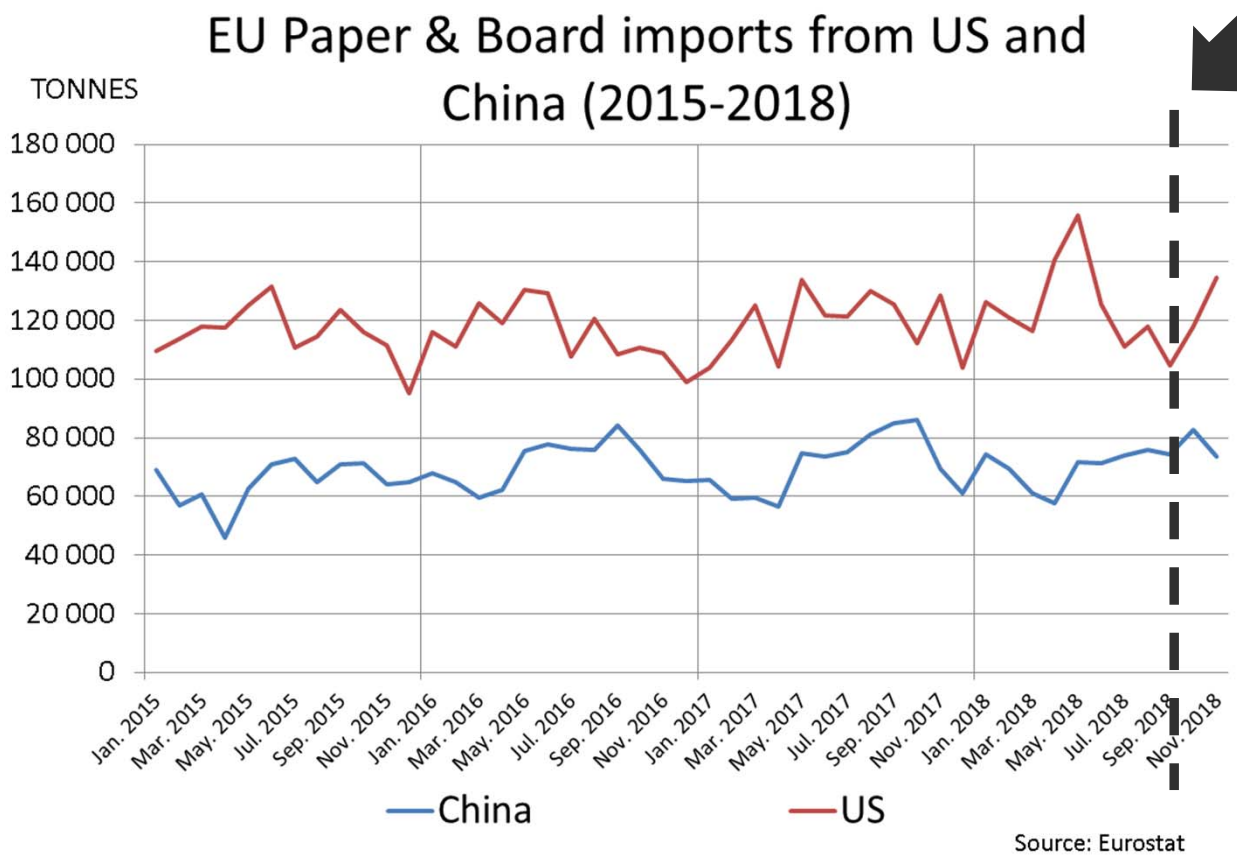
US 'arm wrestling' strategy
Still limited impact on EU Paper & Board exports



US and China tariffs on 24/09/2018

EU exports to	China	US
2016/2015	6.3%	9.0%
2017/2016	35.9%	0.5%
2018/2017	6.1%	11.1%

US 'arm wrestling' strategy
Still limited impact on EU Paper & Board imports



US and China tariffs on 24/09/2018

EU imports from	China	US
2016/2015	9.8%	0.0%
2017/2016	-0.5%	2.7%
2018/2017	0.0%	3.6%

CEPI Trade Strategy Review

Achievements – Market access priorities

- Successfully handled multiplication of market access / restriction files incl.
- Foreign anti-dumping / safeguard investigations on European exports:
  - China and dissolving wood pulp (2015) - €300m
  - Turkey and UWF (2016) - €150m
  - Gulf countries and containerboard (2017) - €60m
  - India and coated P&B (2018) - €100m
- EC's complaint to WTO on coated paper & cartonboard exports to Russia (2016) - €230m
- Trade Barrier Regulation complaint to EC on UWF paper exports to Turkey (2017) - €150m
- Serbia and recovered paper import ban (2018) - €8m
- EC consultation with Ukraine on wood export ban (2019) - €35m
- Free-Trade Agreement negotiations (US, Mercosur, India, Australia…)
- Multilateral negotiations on environmental goods

CEPI Trade Strategy Review

A radically changing environment

- The **post-Doha trade environment**:
  - Failure of the Doha WTO round and multilateralism and growing number of bilateral Free-Trade Agreement negotiations
  - EU FTAs becoming broader, more politically sensitive and more complex yet EC monitoring and implementation drive lagging - relying more on specific industry sectors to monitor and raise implementation issues
  - EU/UK future trade negotiations will further add to this resourcing challenge
- From **Trade tension to Trade (cold) War:**
  - Global trade growth slowing <-> protectionist developments -> increased use of Non-Tariff Barriers and anti-dumping process
  - Trade turned by the US as a containment strategy against China or to impose its terms to traditional partners
  - Future of the WTO (dispute settlement) is now at stake
  - New EU trade defence regulatory framework

CEPI Trade Strategy Review
Priority objectives and areas of developments

Priority objectives set in 2014 remain valid but **3 areas of developments** are proposed regarding

1) **Market development**: improve products and market knowledge
2) **Internal capabilities**: raising awareness, know-how and information channel
3) **Advocacy**: provide clearer guidance on CEPI's involvement

Proposal to adjust CEPI current practice by:

1) **Clarifying the relevance criteria and the nature of engagement of CEPI**
2) **Defining clearer rules for member's companies' financial and legal role**
3) **Enhancing cooperation between CEPI, nat. associations and companies**

3.

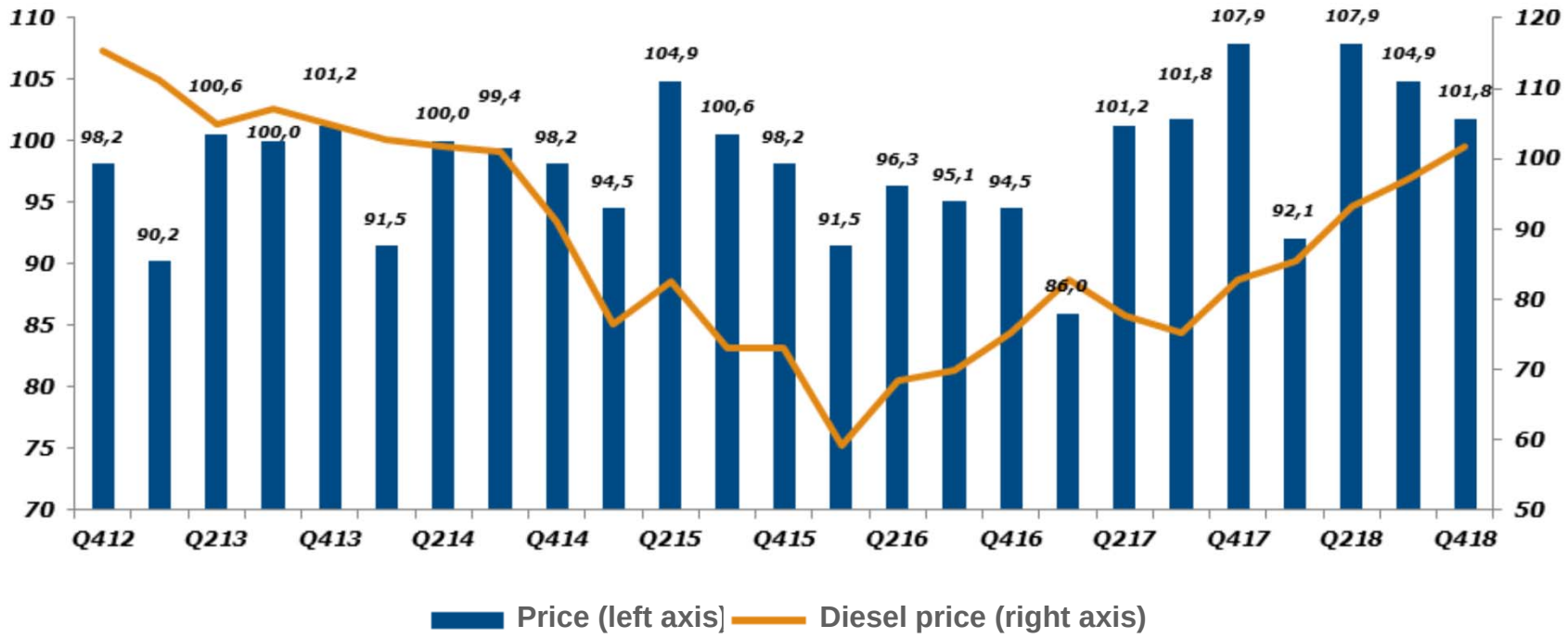
Transport: cost impact of higher sustainability requirements

Transport
The challenges ahead

- Transport still **depends on oil** for 96% of its needs
- **Congestion** costs Europe about 1% of gross domestic product (GDP) each year
- Freight transport traffic is projected to **increase by around 40%** in 2030 and over 80% by 2050 compared to 2005
- Transport is responsible for ¼ **of total CO_2 emissions**; emissions have increased by 7 % since 1990
- **Infrastructure** is unequally developed in different parts of the EU. Future cost related to infrastructure maintenance and further development
- **Security** (refugee crisis, terrorism) and related costs

Transport costs
Road: transport price in Europe

Transport price and diesel (index)



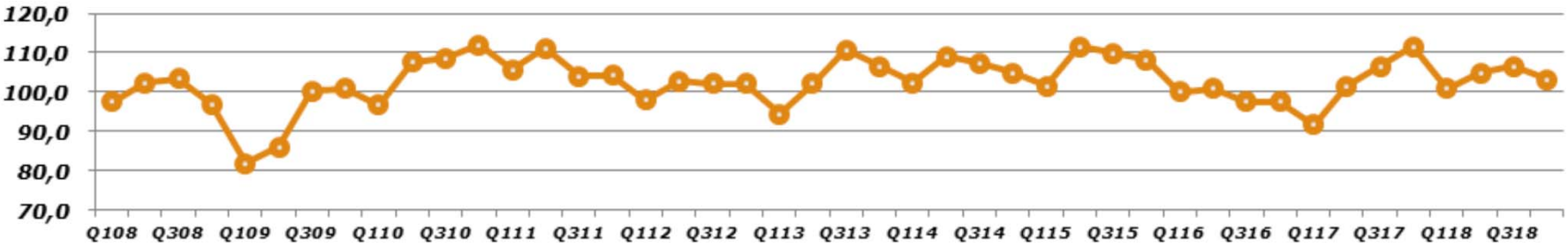
The price index is calculated by comparing the average price per kilometre over time.

Source: Cap Gemini Consulting and Transporeon, January 2019

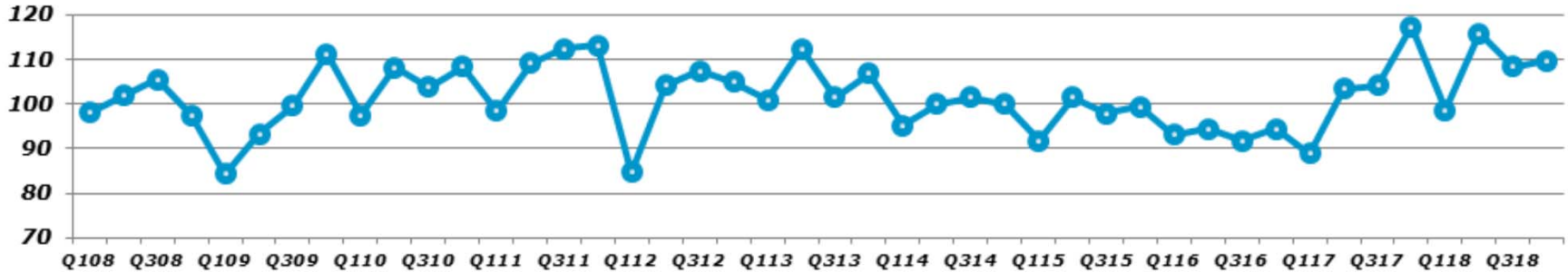
Transport costs
Road: transport price in Europe – wood and paper

Price index – Wood industry

Price developments over the industry-related baseline (Q1 2008)



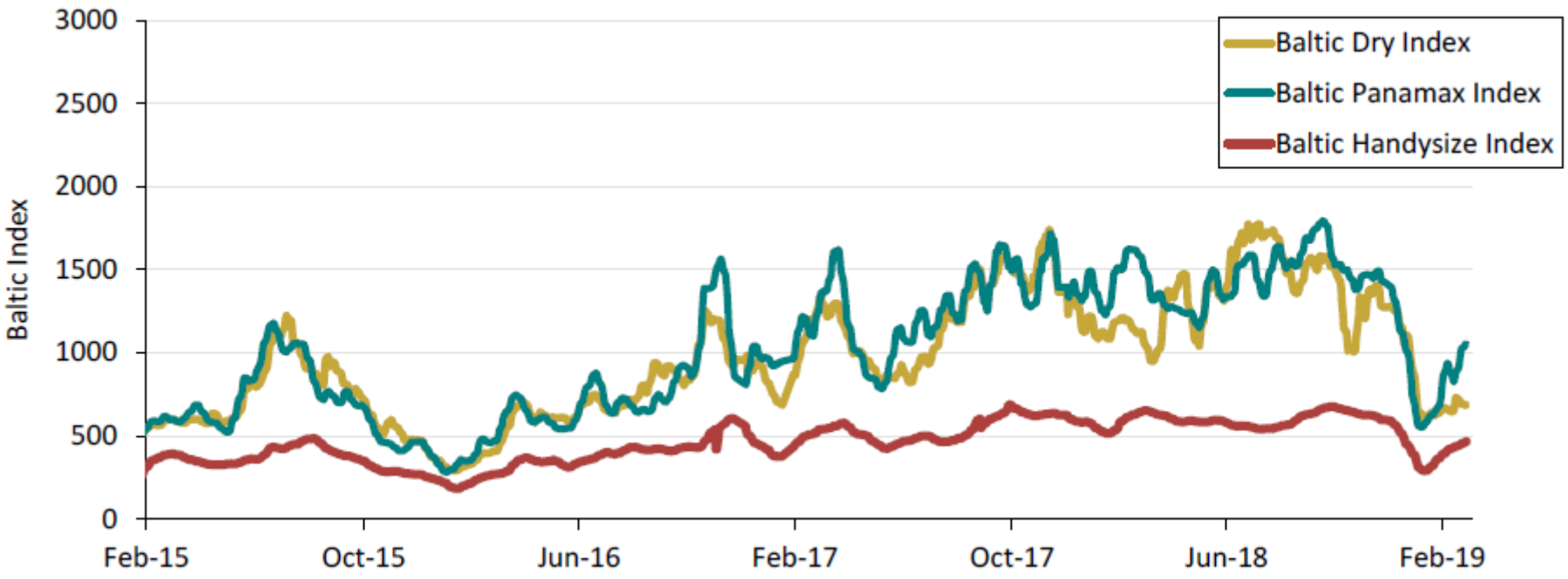
Price index – Paper industry



Source: Cap Gemini Consulting and Transporeon, January 2019

Transport costs
Sea: dry bulk shipping prices

Baltic Freight Indices



- The Baltic Dry Index (BDI) is a number issued daily by the London-based Baltic Exchange. Not restricted to Baltic Sea countries, the Index tracks worldwide international shipping prices of various dry bulk cargoes.
- The BDI officially measures short-term rates for shipping bulk raw materials, such as iron ore, coal and forest products, throughout the global commodities market. The Baltic index is also traditionally used as a key indicator of earnings for bulk carriers.

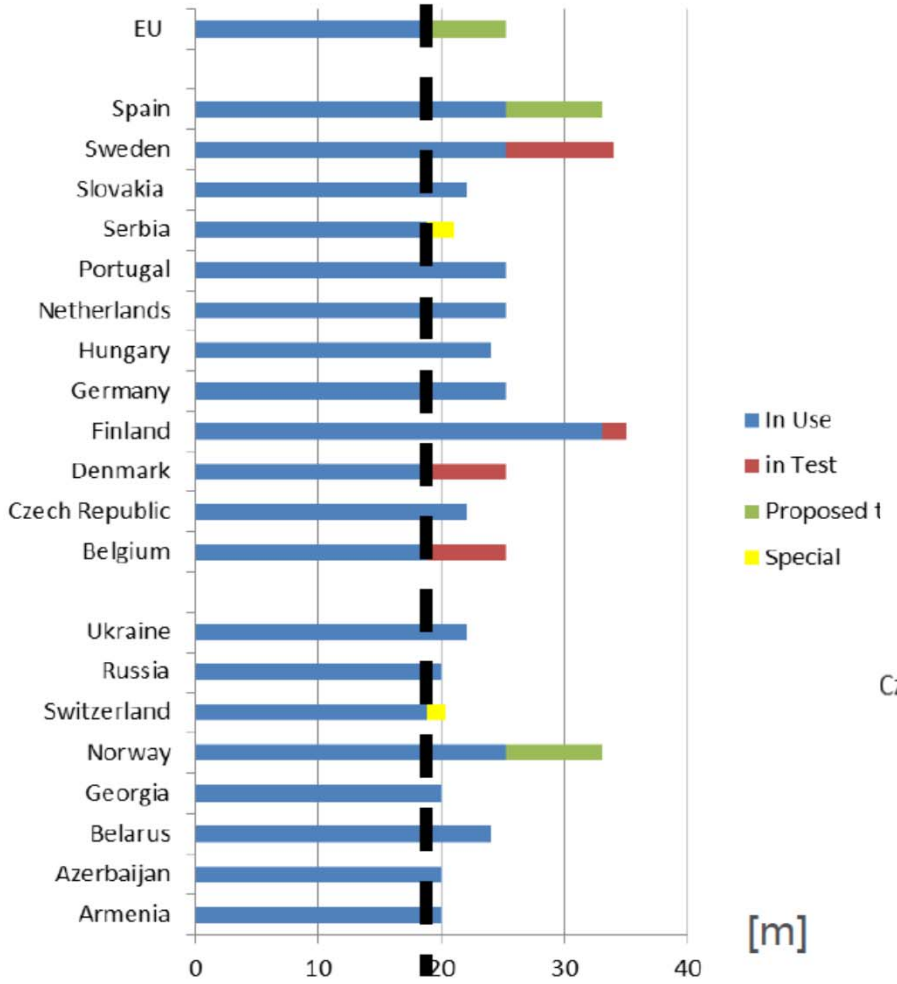
Source: Hawkins Wright, March 2019

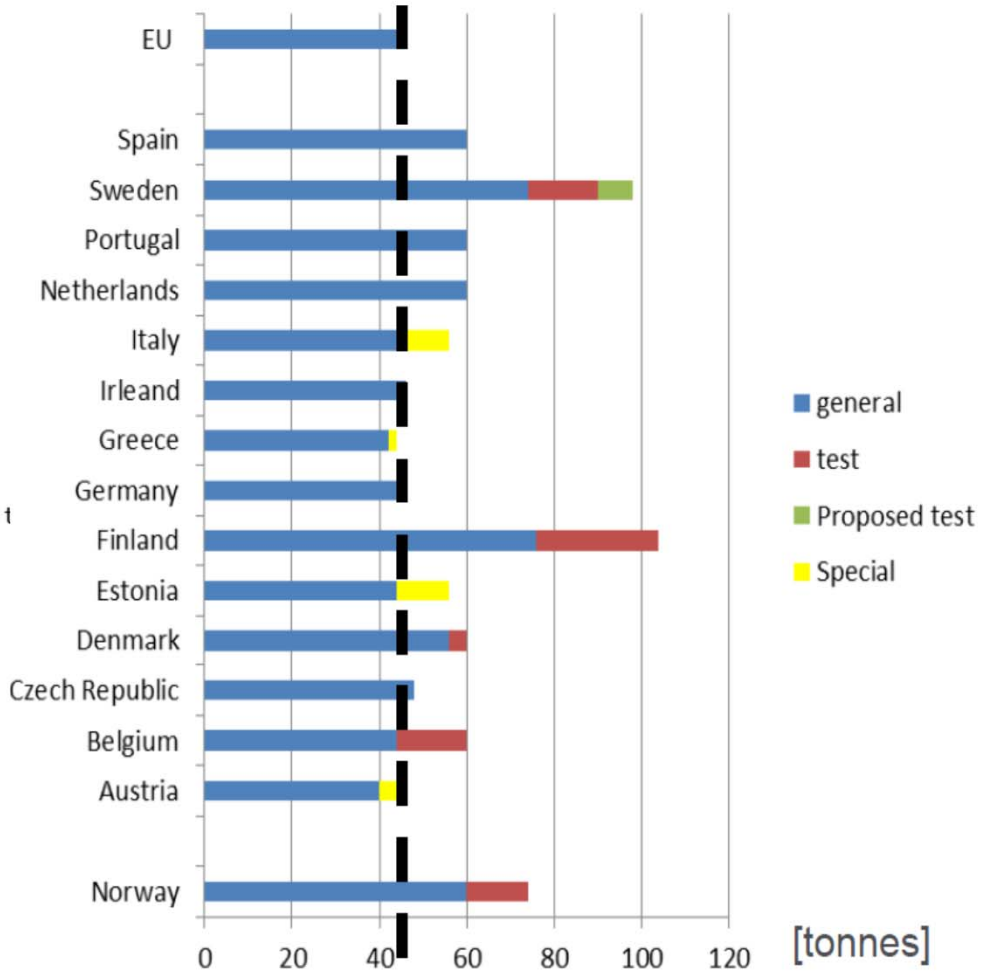
Transport
On CEPI's agenda

- Trucks weight & dimensions
- Road charging
- Shortage of drivers
- EU Mobility package
- Truck and load safety
- European Modular System developments
- Decarbonising of transport and logistics

About cost and overall sustainability!

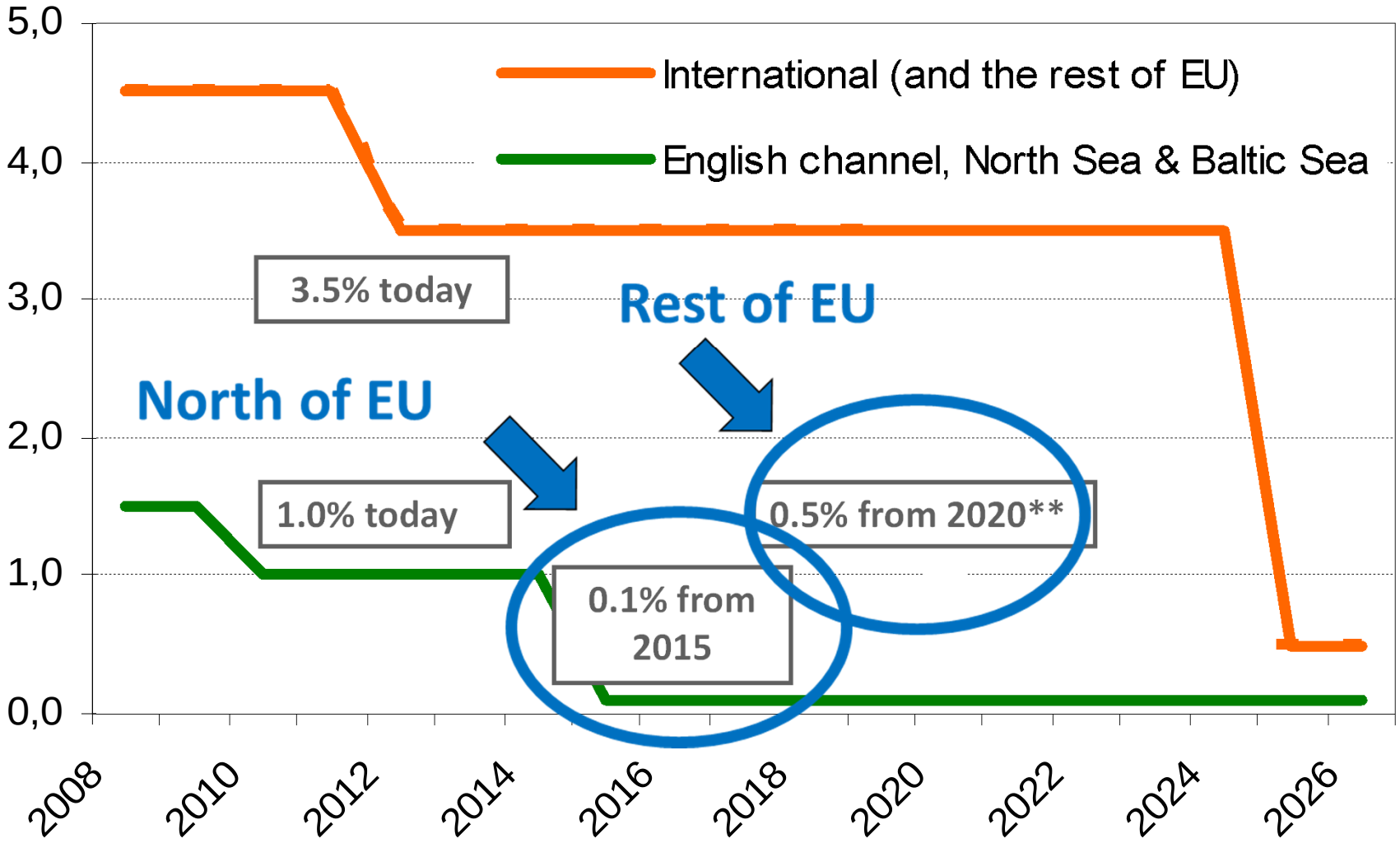
Road transport
Trucks: total length and weight - 2018





Maritime transport and emissions

Sulphur content of marine fuels



**MARPOL Annex VI SOx emission limits for all shipping

**Directive 2012/33/EU on Sulphur content of marine fuels

Maritime transport and competition
EU Consortia Block Exemption Regulation (BER) review

- EU law generally bans agreements between companies that restrict competition
- The maritime Consortia BER allows, under certain conditions, shipping lines with a combined market share of below 30% to enter into cooperation agreements to provide joint cargo transport services (known as "consortia").
- The current BER expires on the 25 April 2020 - EU Commission to produce an analysis of the current situation and propose next steps
- The College of Commissioners will decide whether to repeal, extend, or modify the liner block exemption regulation – a lengthy process!
- Any modifications will be put to another public consultation, most likely over the summer

Thank you!

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