Actual Environmental Challenges facing the European Pulp and Paper Industry

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CONTENT

0. What is CEPI?

1. Is environment still an issue?

2. A global industry – global competition

3. EU policies and strategies – focus on the environment and sustainability

4. Some examples of achievements and challenges:
   - Production processes
   - Energy and climate-related issues
   - Eco-label
   - Recycling

5. Hot issue: Renewable Energy Sources (RES)

6. Conclusions

0. **What is CEPI?**

First a few words about CEPI, the Confederation of European Paper Industries. We are the Voice of the European Paper Industries towards the European Institutions, based in Brussels. We have 19 national associations as members (15 full members and 4 associated members) and indirectly represent 1000 companies, 1300 mills and 80 billion EUR of turnover. We create jobs for 275.000 people. In the wood and forest cluster, with woodworking, paper production and converting, printing, publishing and furniture as well as suppliers added to this chain we speak of about 400 billion EUR turnover and 3,7 million jobs.

This sector faces a lot of challenges as well as opportunities and I will concentrate on some of the achievements and challenges in the environmental field.

1. Is environment still an issue?

The European institutions are very focused on environment and sustainability. But is the general public's concern on environmental matters fading? Some attitude surveys at national level indicate that young people tend to be more concerned about the economy and employment nowadays.

However a qualitative perception study conducted by the Commission in the 15 EU countries last year shows that the paper industry has a rather bad image and the main reason is its perceived bad environmental performance.

You can see here some of the general conclusions from the survey :

- Products = well known, but not the industry behind them
- Economic importance = very important, though no one knew any of the companies involved
- Industry = innovative in processes, not products
- Environment = considered very harmful; negative image due to deforestation (wood needs for papermaking), water & air pollution
- Professional appeal = low. Seen as heavy industry, monotonous tasks, bad working environment

Environment, and the more demanding concept of sustainability - which includes both the economic and social aspects of an industry or product and not only its environmental performance - is here to stay for a long while to come.

2. A global industry – global competition

When we speak about what the industry is facing in the environmental field in Europe, we should not forget that the paper industry is a global industry, faced with global competition on a daily basis. The European market is the second largest in the world and the enlargement (+10 countries in 2004) will increase it by 75 million consumers, 5 million tonnes of paper and an enormous future potential for demand of paper products. However the European producers are not alone in this market. Other suppliers from other regions are entering this market in increasing numbers. We need to secure that the European producer's competitive edge is not jeopardised by unfair and possibly unnecessary environmental legislation.

3. EU policies and strategies – focus on the environment and sustainability

To know more about the challenges ahead for the pulp and paper industry in Europe generated by current or planned EU legislation, CEPI examined and analysed a number of medium to long-term EU environmental policy documents. These documents help identify the general future direction for industry as well as the opportunities and potential threats it will face :

- EU Sustainable Development Strategy
- 6th Environmental Action Programme
- World Summit on Sustainable Development in 2002 RIO + 10
- Climate Change: Kyoto, Emissions Trading
- Renewable Energy Sources (RES)
- Integrated Product Policy (IPP)
- Commission's Communication of the Precautionary Principle
- Public Procurement
- Guidelines on Green State Aid
- White Paper on Environmental Liability
- EU Chemicals Policy
- Commission proposal for the 6th Research Programme
- Access to Environmental Information/Public Participation
- Community Environmental Agreements

A number of key words emerged from these policy documents:

- <u>Prevention:</u> to avoid environmental pressure and misuse of resources, sometimes interpreted as less consumption
- <u>Integration</u> of the environment into all future policy.
- <u>Reduction</u> for example in emissions and the amount of waste going to landfill.
- <u>Information</u>: industry will become responsible for supplying more and more information to a far wider audience than has so far been the case.
- <u>Stakeholder participation</u> - involving co-operation and partnerships between industry and regulators.
- <u>Life Cycle</u>: the need for industry to improve its environmental performance throughout the whole product life cycle and also for life cycle analysis to be used as a tool to determine the real cost of products by comparing environmental performance.

The policy documents are guided by several principles :

- Polluter pays: is well known.
- Precautionary principle: if one is not sure of the environmental consequences of a certain action, then the action should not be taken.
- Liability and producer responsibility mean more burden falls on producers.
- Environmental and cost-effectiveness: there must be a fair balance between the environmental benefits and the costs to achieve them.

It is also clear that there will be an increased use of market mechanisms. There will be incentives for responsible companies and industries, and tougher penalties for those that do not improve their environmental work.

Targets will be set for a range of environmental performances. But there will be opportunities to negotiate and flexibility in the way the targets are achieved.

There has been a considerable change in the Commission's way of working in recent years. Different stakeholders are invited to the Commission at an early stage to participate in discussions on planned legislation.

This multi-stakeholder approach is welcomed by industry which has wanted a dialogue for a long time. However it puts a lot of pressure on the different sectors to be prepared to offer alternative solutions to planned legislation. Voluntary industry initiatives are a possibility in the environmental field – but only if industry is credible, has done its homework and can show, through a transparent monitoring programme, that it can live up to commitments made.

This alternative approach will disappear or lose its credibility if industry fails to deliver.

The Commission and other European institutions are keeping the pressure on for industry to perform. We must continue to live up to that challenge. As an industry which is based on renewable materials, we have a certain advantage.

4. Some examples of achievements

Let's take a look at some examples of what the European pulp and paper industry has achieved over the last decade:

Taking a snapshot of the period spanning 1991 to 2001, we see that the production of woodpulp has increased by 14%, and the production of paper has risen by a notable 35%. Our dynamic industry had an annual turnover in 2001 of approximately €76 billion, a 93% increase over the turnover reported ten years earlier.

But let's look further. The industry is as much concerned with preserving our environment as with generating profits. Our use of recovered paper has jumped 64% within the past decade. The recycling rate has increased from 41.4% to 52.1%. This means we are well on our way to achieving the European Declaration on Paper Recovery target of 56% by 2005. I will come back to this.

Average capacity of the paper machine is up by 64%. Production and turnover are up as well. This alone is something to be proud of. However, our industry has accomplished an even greater feat. While production increases, emissions into air and water decrease. As production increases, specific CO^2 emissions decrease. As production increases, discharge of COD decreases. As production increases, discharge of BOD decreases. As the European paper industry grows and becomes more global, it does so while practicing responsible manufacturing - keeping in mind the conservation of our land, water and air. But this is not enough – we need to continue to reduce our impact.

Production Processes

The production process has been highly regulated for many years through directives addressing air pollution, water effluents, chemicals, etc. Besides meeting quite demanding requirements, the pulp and paper industry is acting on a voluntary basis to improve the management of its production process continuously. The industry has long been convinced of the value of eco-management schemes, EMAS or ISO 14001, which provide useful tools with which to improve environmental performance and to assess the progress made by focusing on areas requiring further attention. Achieving accreditation is not easy, nor are all objectives achieved within one year, but they do show targeted improvements.

The paper industry is very proud of the fact that currently some 60% of the pulp and paper produced in Europe comes from certified mills in one of the eco-management schemes. We need to increase this figure even more in the future.

The industry's impact on air, soil and water has significantly improved over the last decades either through regulatory requirements or a voluntary basis. CEPI is following key issues such as water pricing, waste handling and air emissions as these are very serious challenges for the industry.

Energy and climate-related issues

Achievements :

The climate change issue has been high on the agenda for many years and is likely to remain there.

The European paper industry, unlike most other industries, has a special profile thanks to its unique assets:

- Paper is based on a renewable raw material, wood;
- Paper is recyclable: on average ca. 50% of paper is made from recycled fibres
- Paper contains carbon: 1 Tonnes of paper contains the equivalent of 1.4 Tonnes of CO_2;
- Paper is produced with more than 50% of renewable energies on average;
- Paper is part of an integrated eco-cycle: once consumed and collected separately, most paper products start a new life either as recovered fibres or as biofuel.

The European paper industry is energy intensive – energy can represent up to 25% of its production cost – which has led the industry to continuously strive towards energy efficiency as the following indicators show:

- The industry's specific primary energy consumption decreased by 16% (1990/2001);
- Specific carbon dioxide emissions from fossil fuels decreased by 25% (1990/2001); as earlier mentioned
- The industry is the largest user and producer of renewable energy sources: on average over 50% of the industry's energy comes from fuels that are carbon dioxide neutral;
- The industry has heavily invested in combined heat and power, a technology that allows some 30-35% energy saving compared to conventional technology. Some 90% of the electricity produced on pulp and paper mill sites is produced through CHP technology.

Challenges :

The very ambitious Greenhouse Gas (GHG) emissions reductions target adopted by the European Union imply that the industry will face very challenging situations over the coming years, with potentially significant impacts on its competitiveness.

The European paper industry is subject to harsh international competition, whilst:

- The EU industry is likely to be requested a higher level of commitment than some of its key competitors as their government will not ratify the Kyoto Protocol;
- Compared to its competitors, the European paper industry has to face higher wood costs, higher energy costs, higher labour costs and higher taxes.
- Paper is a commodity which price is set in the global market place so that increases in the cost of production can generally not be passed on to customers, depending on market conditions (contrary to energy suppliers).
- EU and national energy and climate related measures will especially hit energy intensive industries, that will on the one hand, face increased production costs to reduce their emissions and/or buy allowances on the market and/or pay taxes and on the other hand will face increased prices of energy.

CEPI is actively working on the issue to ensure that the Kyoto-related measures, including emissions trading are not hitting the industry too strongly, or in other words to ensure that the assets of the industry are recognised.

Eco-label

The paper industry has always been reluctant to use **the EU Eco-label scheme**, although it naturally supports its objectives, i.e. to promote products with a reduced environmental impact and better information to consumers. It is however convinced that the EU Eco-label scheme as implemented so far is not the appropriate tool to reach these objectives. The main reasons for this are that the scheme

- was designed to label products, not processes;
- does not encourage non-labelled companies to improve their environmental behaviour;
- is elitist in nature, which implies that the label impact on the environment is extremely limited;
- fails to educate consumers/customers.

The **Eco-management schemes are in the industry's view much more appropriate to promote the continuous improvement** of the production processes of manufacturing industries.

The paper industry has increasingly provided information on its environmental impact in a transparent way: almost all companies now have extensive environmental reports.

Although the **EMAS or ISO logo** cannot be used on the products, they can serve as a basis to communicate with customers. And the European Commission is at the moment revising the limitations set on the use of the EMAS logo. Hopefully, industry's views will be heard.

Some large companies have recently developed the **"Paper Profile",** an environmental product declaration, which provides quantitative environmental information to customers alongside a User's Manual explaining the way the information is collected.

Recycling

In 2000, the European paper industry, together with ERPA, the Waste Paper Merchants, launched an industry initiative to recycle 56% of all paper and board products until 2005. The European Declaration additionally contains commitments related to recovered paper quality, collection, R&D and consumer awareness, among others, all of which support the achievement of the set target. In 2001, FEFCO, corrugated board manufacturers, also signed the declaration. This European Declaration on Paper Recovery is entirely based on a voluntary approach, with transparency in monitoring of progress in relation to meeting the targets. So far the Declaration has prevented new legislation in this field, such as mandatory recycled content.

The so-called EU "Thematic Strategy on Recycling" is now being developed. It will indicate long-term goals for the recycling in Europe. Another strategy called "Thematic Strategy on Sustainable Resources" is also in the pipeline. The effects on the paper industry is too early to tell.

5. New challenge: Renewable Energy Sources (RES)

Renewable Energy Sources (RES) are placed high on the political agenda, mainly to combat climate change, to increase the EU's energy self-sufficiency and to promote socio-economic aspects such as rural development.

In 1997, the European Commission (EC) presented its White Paper "Energy for the future: RES" which aims to doubling the share of RES to gross EU energy production to 12% by 2010. Therein **biomass** used for energy generation (including wood and used paper), is targeted to triple its contribution. An extra amount of 163 million m^3 of roundwood would be needed to fulfil this target. This would have a significant effect on the price and the availability of wood for industrial uses.

The RES-E Directive foresees that 22.1% of the electricity consumed in the Community would be generated via RES by the year 2010. The Commission also proposed a new energy action programme called "Intelligent Energy for Europe" (2003-2006), which proposes a much higher level of European support for promoting renewable energies. Furthermore, the promotion of forest sinks and the issue of forest conservation (biodiversity) are likely to add to the existing pressure on the future wood availability for our industry.

This means that the electricity generated through burning of paper can even be subsidised. A directive on renewable energy sources for heat generation is also planned. Subsidising energy use will, of course, have a strong effect on the competitiveness of recycling. This effect could be even worse if standardisation supported the burning of paper instead of recycling it. Therefore, separately collected paper that is intended for recycling should not be part of fuel standardisation, and specifically the current CEN standardisation on Solid Recovered Fuels (CEN/TC/343). We are happy to recognise that just last week, this clarification was made and separately collected paper as defined in an other European standard, the one defining recovered paper grades to be recycled, are clearly excluded from the solid recovered fuels standardisation.

The worst case scenario would be that we do nothing and suddenly are confronted with ambitious targets. The intermediate solution would be that we use more RES by buying amongst others green electricity, but this has its price. However, the minimum pain scenario is to produce more

RES for our own consumption and distribution into the market, whilst securing our wood procurement.

To further contribute to the RES and RES-E targets put forward by the Community whilst maintaining the sustainability of the forest eco-system, the European pulp and paper industry wants to respect the hierarchy :

- use wood-based materials first as raw materials for products and only afterwards as renewable energy sources;
- this brings major environmental benefits combined with highest value added and maximal employment.

6. Conclusions

The European pulp and paper industry has an extraordinary good story to tell. All speakers will have touched upon the necessity to work according to all three sustainability pillars: the environmental, the economic and the social. The European Institutions very often concentrate on the environmental part and therefore the paper industry needs to respond to these challenges.

We believe that :	The economic pillar – not only environmental or social – is vital for the competitiveness of the pulp and paper industry.
We believe that :	In a global market with global competition the companies need a fair level playing field.
We believe that :	Voluntary solutions are preferred to legislation and industry is prepared to live up to agreed commitments.
We believe that :	The raw material for the paper industry should be used in the paper eco-cycle for as long as possible before it is burnt with energy recovery.

This is a sector with a bright future and an active partner of dialogue for the European Institutions.

Thank you for your attention.