

UTIPULP GENERAL MEETING
Barcelona – September 16th, 2016

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	2015 (6 months)	2016 (6 months)	Δ%
Pulp production	880	1050	16,1%
Paper and board production	2510	2470	-1,7%
- Graphic papers	1390	1350	-2,7%
- Packaging grades	965	960	-0,7%
- Specialties	155	160	1,8%

KEY POINTS OF THE PULP AND PAPER INDUSTRY

Comment

- Generally speaking the paper situation in Austria is weak, but with some growth in specialty papers.
- Pulp production is increasing, catching up with production halts from the previous year.
- The largest investment currently running in Austria is a new H&P generator in Frohnleiten. Mayr-Melnhof announced the 50m € project.
- The next major rebuild on line will be the conversion of the PM 10 in Laakirchen. Heinzel announced a capacity increase and will then change from SC to RCCM paper.
- The competition for wood continues, with pulp mills (cascade) on the one side, and energy (direct combustion) on the other. Austropapier is calling loud for a redesigned Austrian Eco energy act, which regulates funding for biomass burners.
Last week Austropapier had a press conference and presented a new study from IIO institute (StPölten) that calculated the economic benefits/losses from different uses of the cascade.

COUNTRY: BELGIQUE

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 Belgium:

Key figures

	2015 (6 months) (in KT)	2016 (6 months) (in KT)	Δ%
Pulp production			
Paper and board production	1.051.000	1.015.000	-3,4%
- Graphic papers	745.000	723.000	-3,0%
- Packaging grades			
- Hygiene + others			

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

	2015 (6 months) (in KT)	2016 (6 months) (in KT)	Δ%
Pulp production	839,1	868,1	+3,4
Paper and board production	4 053,0	4 095,3	+1,0
- Graphic papers	1 211,8	1 181,1	-2,5
- Packaging grades	2 216,9	2 267,6	+2,3
- Hygiene	407,9	425,1	+4,2

Comments:

- The European Emission Trading Scheme directive authorizes Member States to compensate for the indirect costs of the emissions paid by power generators and passed onto some electro-intensive industries. The recipients of such a State aid must belong to a list of sectors, deemed to be exposed to a significant risk of carbon leakage. This list includes the paper and board manufacturing sector and the mechanical pulps subsector. As any other State aid, the European Commission defined a strict framework for its implementation.

In 2015, France decided to implement this option which will protect the competitiveness of most French paper mills. In August 2016, a decree was published which will allow the first payments to be received in 2015. According to the formula set up by the French government, this measure could reduce their electricity bill by 3 €/MWh (in broad terms : -5 to -10 % on the invoice). Other countries already benefit from such a scheme, among which Germany, the UK and Slovakia.

- A ban on plastic carrier bags has come into force in July in France. It only concerned single-use plastic carrier bags thinner than 50 microns, whether they are free or not.

As of January 2017, the ban will extend to single-use, non-compostable plastic bags thinner than 50 microns used for the packing of goods as well as non-biodegradable, non-compostable blister packs. Non-compostable, non-biodegradable disposable plastic tableware will be banned by 2020

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

	2015 (6 months) (in KT)	2016 (6 months) (in KT)	Δ%
Pulp production	1256	1269	1,0
Paper and board production	11203	11329	1,1
- Graphic papers	4258	4171	-2,0
- Packaging grades	5553	5702	2,7
- Hygiene	717	743	3,6

The German pulp and paper industry started in the first 6 month of 2016 with a higher production as last year. The volume of production raised up by 126,000 tons (+1,1 %) to a total production of 11.3 Mio. tons from January to June 2016. The total volume of sales raised up by 0.5 %. The development of the domestic sales (+3.0 %) and the export (-2,4 %) was different.

The development in the different category groups goes on. On the one hand the positive development in the packaging sector (5.7 million tons, +1.8 %), Technical paper and specialties (0,7 million tons, +4,4 %) and hygiene paper (0,8 million tons, +3,2 %) continued. On the other hand the graphic sector declined by -2.3 % to 4.1 million tons.

The turnover of the German pulp and paper industry raised up by +0.9 % to an overall turnover of 7.2 billion Euro.

In near future the capacities will develop as follows: in the packaging grades there are new capacities of about 480.000 tons in 2016 and additional 120.000 tons in 2017. For other grades there are no changes announced.

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	2015	2016	2016/2015 %
Pulp Production - 6 months	201	198	-1,8
Paper and Board Production - 6 months	4.587	4.633	1,0
-Graphic papers	1.380	1.353	-2,0
-Packaging grades	2.213	2.287	3,3
-Hygiene	764	768	0,6
-Others	230	225	-2,2
Paper and Board Export - 5 months	1.633	1.641	0,5
Paper and Board Import - 5 months	2.114	2.205	4,3
Paper and Board Consumption - 5 months	4.284	4.428	3,4

National Institute of Statistics (ISTAT) official figures processed by Assocarta

Turnover 2016-Jan-June: +2.4% respect to Jan-June 2015

Paper markets and Costs

- **P&W** -overall good market situation during 1st half of the year. Some slowdown in more recent months;
- **Specialty papers** – good situation on Italian and European markets, less well Asian ones. For some qualities the summer restart was a bit below expectations;
- **Tissue** - growing offer due to recent new machine start-ups, with growing pressures on prices both for reels and finished products. Economic situation is still good but overcapacity could create problems;
- As for **pulp costs**, recent HW trends remain particularly favorable;
- On **energy costs** side, prices remain in favor of users: electricity and gas prices are quite stable, except for summer peaks, below the 2015 levels. In any way Italian electricity prices are 60% higher than Nord EU ones; lower but still significant the difference for gas price (10%).

and main issues that the Industry is dealing with

- **MES to China** – Great attention of Assocarta and her members at this crucial matter and the strategy of European Commission
- **Coated Fine Paper** -anti-dumping/anti-subsidy duties against import from China – European request of expiry review was accepted by EU Commission on last May, so measures will remain in force until next August 2016. Assocarta is strongly supporting this case at Italian and European Authorities level
- **Energy** – Parafiscal charges on electricity are still very high and in Italy we are still waiting for the compliance of Italian legislation on energy intensive industries with EU state aid rules. During last months there was also a strong increase of balancing cost for electricity in Italy (in September the cost was three times higher than January). This is mainly due to speculative behaviors of electricity producer in the balancing market. An inquiry was opened at national level to investigate those behaviors.

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

	2015 (6 months) (in KT)	2016 (6 months) (in KT)	Δ%
Pulp production			
Paper and board production	1322	1355	1%
- Graphic papers	366	383	5%
- Packaging grades	900	895	-1%
- Hygiene	56	57	2%

COUNTRY : PORTUGAL

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 Portugal:

Key figures

Total	2015 (6 months) (in KT)	2016 (6 months) (in KT)	var
Pulp production	1,376	1,435	+4,3%
Paper and board production	1,041	1,092	+4,9%
- Graphic papers	773	795	+2,8%
- Packaging grades	237	247	+4,2%
- Hygiene	31	50	+61,3%

Source: CELPA

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

	2015 (6 months) (in KT)	2016 (6 months) (in KT)	Δ%
Pulp production	792,2	823,0	3,9
Paper and board production	3101,0	3165,8	2,1
- Graphic papers	691,4	713,9	3,3
- Packaging grades	1807,1	1830,6	1,3
- Hygiene	369,0	370,0	0,3

Economic outlook

Latest forecast for 2016 estimate a GDP growth of + 3,1%, with a slow down up to +2,3% foreseen for 2017. Public deficit at the end of 2016 will be reduced to 4,4% of GDP. Unemployment, although at its lowest level since 2010, is still on 19,8%.

Industry news

Several conversion from graphic papers to containerboard, either planed or underway:

- IP purchase of Holmen newsprint mill completed. Conversion to containerboard planned mid 2017. Old and new PM on recycled fibre.
- Hinojosa conversion to recycled containerboard the old Torraspapel non-integrated virgin graphic coated mill in Sarria de Ter.

Public affairs

- Following a second General elections on 26 June, negotiations to constitute Government are taking place as none of the parties got enough majority. Difficult to anticipate the outcome. If not successful, third elections will take place on Christmas.
- Overwhelming Consumer Agency report declares illegal current practices of telecom and utilities companies imposing electronic invoicing

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

	2015 (6 months) (in KT)	2016 (6 months) (in KT)	Δ%
Pulp production	n/a	n/a	
Paper and board production	2,000.5	1,833.5	-8.3
- Graphic papers	558.2	462.8	-17.1
- Packaging grades	926.7	880.9	-4.9
- Hygiene	385.4	361.5	-6.2

For the UK pulp & paper industry the first half of the year has been relatively quiet, with no announcements of major closures or investments. The poor set of figures reflect the large number of closures in 2015 as reported during the meeting in Amsterdam. (Graphics linked to Aylesford, Tullis Russell and UPM Shotton machine closures; Packaging to Iggesund rebuild (to increase capacity), Tullis and Wansborough closures; Tissue temporary closures following flooding late in 2015 plus the closure of two small machines).

Legally the UK remains a full member of the EU until the Government formally begins the exit process, which then runs for over two years before any agreement is finalised.

The UK referendum result continues to dominate political debate, though there is no clarity on the detail of the policy the Government will follow as it acts on Brexit. Continued access to the single market is seen as a key issue, though proposed restrictions to the free movement of labour would seem to preclude simple continued single market access. The result of this discussion could have an impact on the trading of pulp and possibly the pattern of imports to minimise the impact of any new tariff barriers.

Strategically it would seem likely that any major investment decisions will be deferred until the likely outcome of Brexit becomes clearer.