Chapter 8
Consumption climbs in central and eastern countries, stagnates in the west: Markets for paper, paperboard and woodpulp, 2003-2004[53]

Highlights

- Annual paper and paperboard output climbed by 2.2% in the EU/EFTA subregion in 2003, a record year for European papermakers, while the subregion's woodpulp output climbed by 2.8%.
- Higher paper and paperboard exports from the EU/EFTA subregion to non-UNECE countries, and a 16% increase in net exports in 2003, propelled expansion of output.
- Paper and paperboard consumption in central and eastern Europe was boosted by stronger regional economic growth in 2003, but the region also experienced a large increase in imports.
- Consumption of paper and paperboard in the Russian Federation increased by 12.1% in 2003, while production increased by 6.2%.
- Although Russian paper and paperboard exports greatly exceed imports in tonnage, the trade balance in product value continued to deteriorate in 2003, with increasing higher valued imports.
- Annual paper and paperboard output in North America receded by 1.2% in 2003, but output climbed in the second half of the year and the first half of 2004.
- With the exception of shipments to China and other countries in Asia, excluding Japan, total Canadian pulp, paper and paperboard product shipments to all major destinations declined.
- Paper and paperboard tariffs were set to disappear by the year 2004 and are at zero according to GATT (Uruguay Round of 1994), but punitive tariffs and an array of non-tariff barriers still exist, sometimes arising from trade disputes with a scope wider than the sector itself.
- Central and eastern European countries' exports of paper and paperboard grew more than in the other UNECE subregions, boosted by successful preparations for EU accession and investments in capacity by global pulp and paper industries.

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Secretariat introduction

The secretariat of the UNECE/FAO Timber Branch wishes to thank Dr. Peter Ince,[54] Research Forester, US Forest Service, for once again coordinating the production of this chapter with his co-authors. Professor Eduard Akim,[55] of the Saint Petersburg State Technological University of Plant Polymers and The All-Russian Research Institute of Pulp and Paper Industry produced the analysis of the Russian pulp and paper sector. Mr. Bernard Lombard,[56] Trade and Competitiveness Director, Confederation of European Paper Industries (CEPI), analysed the EU/EFTA subregion, and Mr. Tomás Parik,[57] Director, Wood and Paper, A.S., wrote about the developments in central and eastern Europe. We thank all of these authors for again providing a thorough analysis of paper, paperboard and woodpulp developments across the UNECE region.

8.1 Global and regional trends

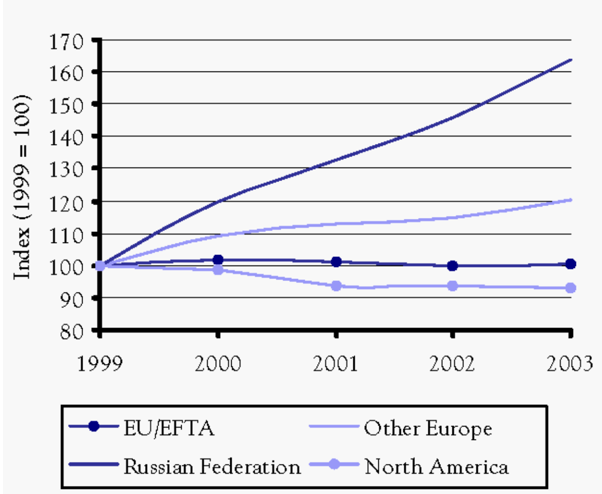
Global pulp, paper and paperboard markets generally improved in 2003, as indicated by higher prices for woodpulp than in 2002, but prices for many paper and paperboard commodities remained weak in 2003 and did not improve substantially until the first half of 2004 (Pulp &PaperWeek). Recovered paper prices also increased in 2003, with higher demand for fibre in Asia, particularly in China, although shipping costs to Asian markets went up because of a large increase in ocean freight rates.

Within the UNECE region, a distinct divergence in market trends has emerged in recent years, and became more apparent in 2003, as shown by indices of paper and paperboard consumption (graph 8.1.1). Over the past five years, growth in consumption moderated in Europe and in North America (where consumption has actually declined in recent years) while consumption increased substantially in the Russian Federation and other European countries (chiefly central and eastern Europe). It can be noted, however, that consumption in Russia has yet to reach the previous peak levels of the 1988-89 period.

However, trade flows expanded even more, particularly EU/EFTA exports, notably to Asia (+48% since 2001) and both EU/EFTA's exports and imports to Other Europe and CIS.

GRAPH 8.1.1

Consumption of paper and paperboard in the UNECE region, 1999-2003



Notes: The Timber Committee's forecast trend for 2003 to 2004, made at the October 2003 session, was applied to the 2003 figure.

Sources: UNECE/FAO TIMBER database, 2004.

In Europe, a stronger euro and weaker dollar limited European price appreciation for pulp and paper commodities in 2003. Nevertheless, paper and paperboard output climbed by 2.2% in the overall EU/EFTA region, and by 2.1% for member countries of the Confederation of European Paper Industries (CEPI countries[58]), and thus 2003 was a record year for European papermakers.

North America, and the United States in particular, experienced an improvement in pulp and paper market conditions, particularly towards the second half of 2003 and continuing into 2004. The improvement in dollar-denominated prices for pulp and paper commodities was in part a reflection of the downturn in the exchange value of the dollar in 2003. Although paper and paperboard production began to increase in North America in 2003, particularly in the latter half of the year, US output in 2003 was lower than in 2002 (by 1.3%), and was 8.9% lower than the record output of 1999. North American output of paper and paperboard,

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[58] CEPI is a non-profit organisation representing the paper industries of 19 countries, including Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Norway, Poland, Portugal, Slovak Republic (associate member), Spain, Sweden, Switzerland, The Netherlands, and the United Kingdom. See www.cepi.org.

including both the US and Canada, was down by 1.2% in 2003 relative to 2002, and 7.4% below the 1999 level of production.

The global upturn and improvement in pulp, paper and paperboard markets was expected to continue into the second half of 2004 and 2005.

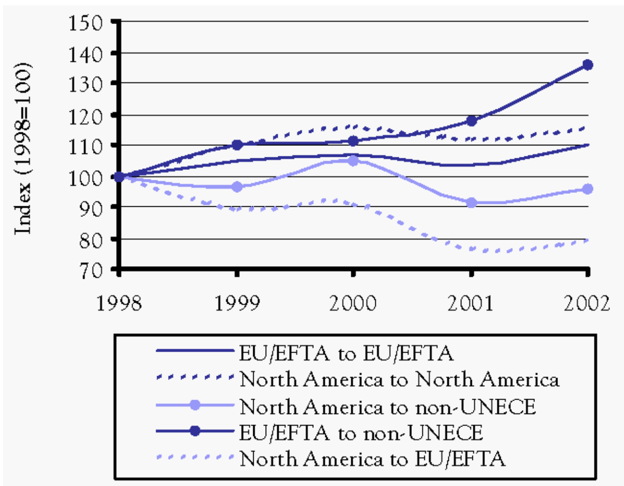
8.2 EU/EFTA subregion

For the EU/EFTA subregion, a 16% increase in net exports of paper and paperboard in 2003 helped propel expansion of paper and paperboard output. Also, in spite of a strong appreciation of the euro in 2003, export of paper and paperboard from the EU/EFTA region to non-UNECE countries increased.

The paper industry of the EU/EFTA region saw increased production and demand for paper and paperboard during 2003 compared with the previous year, albeit at different rates. Deliveries of paper to non-EU/EFTA countries rose substantially, while imports edged higher as well (graph 8.2.1). EU/EFTA exports to non-UNECE countries showed the largest index gains.

GRAPH 8.2.1

Paper and paperboard trade flows in the UNECE region, 1998-2002



Note: Full trade flow table in the electronic annex.
Source: UNCOMTRADE/EFI, 2004.

Paper producers in the EU/EFTA region sustained high levels of output throughout 2003, with an increase in regional production of 2.2% over the output in 2002 (table 8.2.1). Similarly, there was a 2.1% increase in output for CEPI countries, Production in 2003 reached 90.6 million m.t. in the EU/EFTA region, and just over 95 million m.t. in CEPI countries. This was a record level of production for the EU/EFTA region, for CEPI countries as a group, and thus for Europe as a whole. Over the long term, output of paper and paperboard in Europe has increased on average by 3.5% per annum since 1991.

TABLE 8.2.1

Pulp, paper and paperboard balance in EU/EFTA, 2002-2003 (1,000 m.t.)

	2002	2003	Change %
Paper and paperboard			
Production	88627	90558	2.2
Imports	44085	44721	1.4
Exports	54394	56678	4.2
Net trade	10309	11957	16.0
Apparent consumption	78 318	78 601	0.4
Woodpulp			
Production	37214	38250	2.8
Imports	16816	16872	0.3
Exports	10452	11041	5.6
Net trade	-6364	-5 831	...
Apparent consumption	43578	44081	1.2

Source: UNECE/FAO TIMBER database, 2004.

Output of graphics paper was up by 3.6% in the EU/EFTA region (and by 3.2% for CEPI countries). Just over a third of this increase was attributable to increased production of newsprint. There was virtually no change in the production of uncoated graphic grades, whilst output of coated grades increased sharply. Mechanical grades outperformed woodfree grades.

Production of packaging grades increased by 0.6% in the EU/EFTA region (and by 0.8% for CEPI countries). Case material production rose along with output of paperboard, but there were declines in production of both wrappings and all other packaging grades.

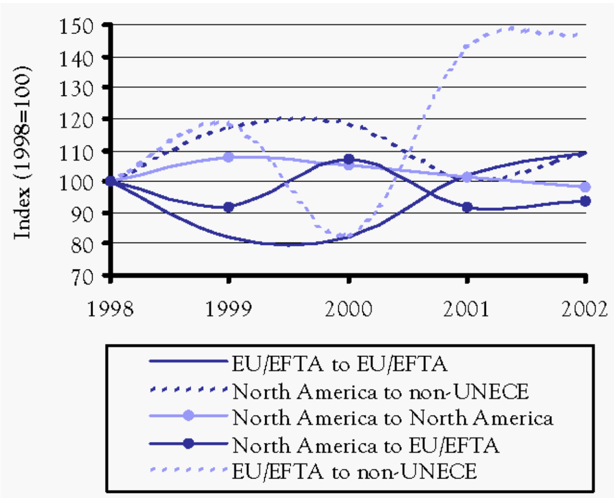
As in previous years, output of pulp rose very much in line with paper and paperboard production. Total output of both integrated and market pulp in the EU/EFTA region reached 38.3 million m.t. in 2003, an increase of 2.8% over 2002.

Overall consumption of paper and paperboard rose by 0.4% in the EU/EFTA region (and by 0.6% in CEPI countries), Consumption in 2003 totalled 78.6 million m.t. in the EU/EFTA region, and 86 million m.t. in CEPI countries, At the same time GDP contracted in the euro region during the first half of 2003, and proved to be not very dynamic, increasing by just 0.5% during the year.

The increase of paper and paperboard production in the EU/EFTA region was substantially more than the increase in consumption because of increased exports. Net exports of paper and paperboard from the EU/EFTA region increased by 16%, while exports of paper and paperboard from CEPI countries to markets outside of the CEPI region increased by 14.4% (reaching 13.2 million m.t.). Shipments from CEPI countries to Asian markets accounted for 38% of exports (4.9 million m.t.) and have increased by 48% since 2001. Exports to European countries outside of the CEPI area rose by 23%, and to North America by 12.6%. More than half of the increase in woodpulp output of the EU/EFTA region in 2003 was attributable to expansion in woodpulp exports. EU/EFTA woodpulp exports to non-UNECE countries registered the largest gains among regional indices of woodpulp trade flows in recent years (graph 8.2.2).

GRAPH 8.2.2

Woodpulp trade flows in the UNECE region, 1998-2002



Note: Full trade flow table in the electronic annex.
Source: UN COMTRADE/EFI, 2004.

Consumption of recovered paper continued to increase among CEPI countries, reflecting the combined influence of government pro-recycling policies, expanded technological capabilities within the industry and favourable market conditions. Utilisation was up by 1.6%. Apparent collection also increased by 2.5%.

8.3 Other Europe subregion

Paper and paperboard consumption in central and eastern Europe was boosted by stronger regional economic growth. With GDP in central and eastern European countries (CEECs) growing by 3.8% in 2003, the Other Europe subregion experienced a 5.1% increase in paper and paperboard consumption (table 8.3.1). However, the subregion also experienced a 14.1% increase in imports and a decline in net exports.

Since May of 2004 most of the CEECs are members of the EU. Several years of preparation for entering the EU significantly influenced the economies and markets for products as well as raw materials in the CEECs. Most changes were experienced during the years of preparation, and therefore entering the EU in 2004 was a culmination of gradual change throughout most of the region. The most significant changes were the higher speed of transport of goods and lower market barriers between CEECs and other EU countries.

TABLE 8.3.1

Pulp, paper and paperboard balance in Other Europe, 2002-2003
(1,000 m.t.)

	2002	2003	Change %
Paper and paperboard			
Production	8436	8367	-0.8
Imports	5608	6398	14.1
Exports	3687	3877	5.2
Net trade	-1922	-2521	...
Apparent consumption	10357	10888	5.1
Woodpulp			
Production	3263	3246	-0.5
Imports	1520	1652	8.7
Exports	651	681	4.6
Net trade	-869	-971	...
Apparent consumption	4132	4217	2.1

Source: UNECE/FAO TIMBER database, 2004.

Global enterprises control most of the pulp and paper industry in the Other Europe subregion, and production is focused on export. These countries' markets have great potential for economic growth and increased consumption. Increasing consumption is being met by significantly higher imports. In the CEECs there are still some production gaps in more sophisticated paper grades. The region is a net importer of both pulp and paper: the net imports of the latter group expanded by half a million m.t. in 2003, contradicting the popular vision of this region as a low-cost exporter "flooding western markets.

Most of the CEEC producers are already complying with world standards of environmental protection, including forest management certification in many countries. There is concern about illegal logging in the CEECs, but the extent and causes of the phenomenon are not well known or understood. The topic will be examined by a UNECE/FAO workshop in September 2004 and the joint UNECE Timber Committee and FAO European Forestry Commission session in October 2004.

Bioenergy is one of the key issues in the Other Europe subregion that is seen both as a threat and as an opportunity. Local governments are preparing strategies for bioenergy production. Wood supply to the timber industry virtually everywhere can be influenced by demand for biofuels. However, so far the difficulties with wood supply, which have appeared to be in Poland and Hungary, cannot be regarded solely as a result of bioenergy policy. Future development in the area of bioenergy is not certain, but it may influence future wood availability and, in fact, the entire timber industry.

The CEECs now have an economic environment similar to that of other EU countries. Problematic issues emerge sometimes due to less experience or to the shorter time in which society has developed under new economic conditions. However, paper and paperboard markets, as well as production in the Other Europe subregion, in all respects has been of world-class quality, although still partly considered as a lower price market with lower price products. Further dynamic development of the economy can be expected, correlated with a growing pulp and paper market in the CEECs.

8.4 CIS subregion

In 2003 and the first half of 2004, Russia and other CIS countries continued to experience an economic upturn. With aggregate real GDP growth in the CIS of 7.6% in 2003, and GDP growth of 7.3% in the Russian Federation, it was not surprising that production and apparent consumption of paper and paperboard increased within the region.

Consumption of paper and paperboard in the Russian Federation, for example, increased by 12.1% in 2003, while annual production increased by 6.2% or less (4.3% according to data reported by Goscomstat of the Russian Federation, and PPB-express) (table 8.4.1). The tonnage of paper and paperboard imports increased by 21.6% in 2003, as did the value of imports.

During 2003, total output of woodpulp (both pulp for paper or paperboard and market pulp) increased by approximately 2.4%. Since 1998, following a significant revaluation of Russia's currency, there has been a continuous increase in output of pulp, paper and paperboard, although output has yet to reach the previous record output levels of the 1988-1989 pre-transition period.

There was only modest growth in Russian exports of pulp and paper products in 2003, with the tonnage of paper and paperboard exports increasing by 0.2% or more, and market pulp exports increasing by 1.1% or more (graphs 8.4.1 and 8.4.2).

TABLE 8.4.1

Pulp, paper and paperboard balance in the Russian Federation, 2002-2003

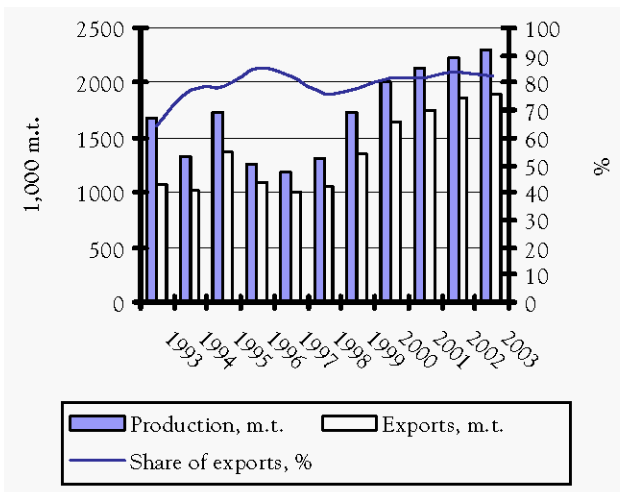
(*1,000* m.t.)

	2002	*2003*	*Change %*
Paper and paperboard			
Production	5978	6349	6.2
Imports	638	776	21.6
Exports	2458	2464	0.2
Net trade	1820	1688	-7.3
Apparent consumption	4 158	4 661	12.1
Woodpulp			
Production	6512	6671	2.4
Imports	47	48	2.1
Exports	1885	1905	1.1
Net trade	1838	1857	1.0
Apparent consumption	4 674	4 814	3.0

Source: UNECE/FAO TIMBER database, 2004.

GRAPH 8.4.1

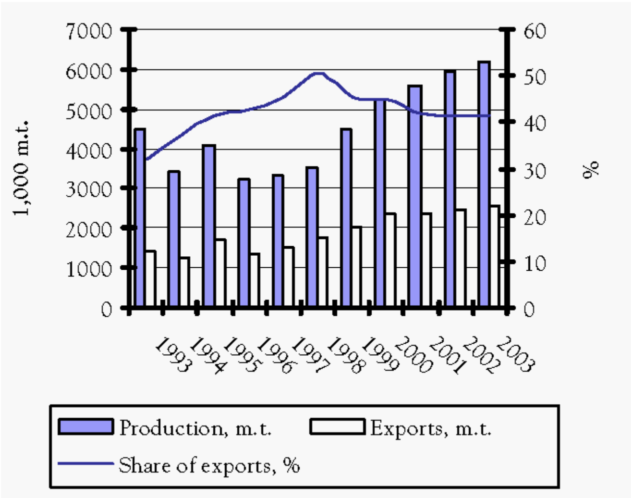
Exports of market pulp in Russia. 1993-2003



Sources: Goscomstat of the Russian Federation, PPB Exports and the author's data interpretation, 2004.

GRAPH 8.4.2

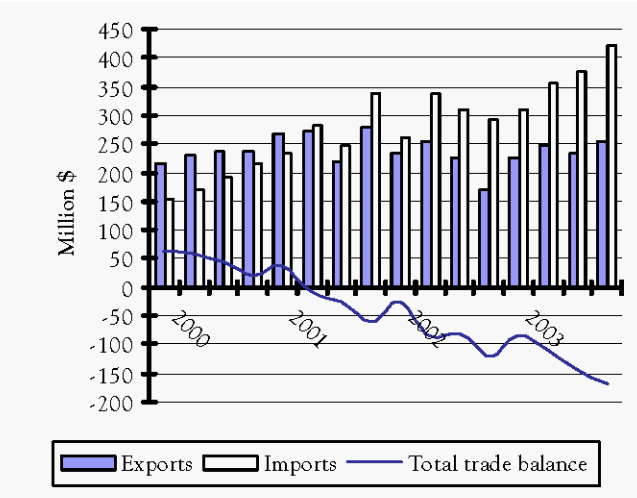
Exports of paper and paperboard in Russia, 1993-2003



Sources: Goscomstat of the Russian Federation, PPB Exports and the author's data interpretation, 2004.

GRAPH 8.4.3

Russia's paper and paperboard exports and imports 2000-2003



Sources: State Custom Committee, PPB Magazine, PPB Exports, PPB Imports and the author's data interpretation, 2004.

Russian exports as a percentage of production have remained largely unchanged since 1996, with exports comprising about 80% of market pulp output, and around 40% of paper and paperboard (graphs 8.4.1 and 8.4.2). Major export destinations for these Russian products are China (market pulp, kraft linerboard), Ireland (market pulp, kraft linerboard), India (newsprint), and Turkey (newsprint).

Although the tonnage of Russian paper and paperboard exports greatly exceeds the tonnage of imports (2.46 million m.t. of exports versus 0.78 million m.t. of imports in 2003), the trade balance in value continued to deteriorate. The annual trade deficit in paper and paperboard has been negative since 2001 and it reached $498 million in 2003 (table 8.4.2 and graph 8.4.3).

TABLE 8.4.2

Value of Russian paper and paperboard trade, 2000-2003

(*Million $*)

	Exports	*Imports*	*Total trade balance*
2000	920	731	+189
2001	927	1012	-85
2002	887	1200	-313
2003	967	1465	-498

Sources: State Custom Committee, PPB Magazine, PPB Exports, PPB Imports and the author's data interpretation.

The higher value of imports of paper and paperboard as compared to their exports is mainly due to the fact that Russia is importing rather expensive products, such as high quality materials for container and packaging, clay-coated paper and tissue, whereas less expensive commodity products are being exported, including newsprint and kraft linerboard. It can also be noted that the exchange value of the Russian rouble has increased in recent years, affording increased imports of more expensive goods.

It should be noted that trends in Russia's economy and market, along with initiatives in political and industrial development, testify to an expanding future for Russia's pulp and paper sector, with expanding production and increasingly integrated utilisation of forest resources.

8.5 North America subregion

In the US, paper and paperboard output in 2003 was 1.3% lower than in 2002, but output began to increase with robust economic expansion in the second half of 2003 and continuing through the first half of 2004. A distinct upturn in US industrial output in the second half of 2003 and into 2004 stimulated increased domestic demand for paper and paperboard (in packaging and print advertising). The upturn in paper and paperboard output (as well as overall industrial output) was supported by depreciation in the exchange value of the dollar.

Higher orders and production volumes offset lower average prices for paper and paperboard in the first quarter of 2004, when prices bottomed out, followed in the second quarter by announced price increases for key pulp, paper and paperboard grades. Advertising expenditures and demand for packaging rebounded in the first half of the year. Export markets also improved as the weaker dollar afforded improved cost competitiveness for US producers.

Historically there has been a lag between shifts in the dollar exchange value and the US trade balance, so, not surprisingly, the overall trade deficit in goods continued to increase and reached record levels in 2004. Likewise, the tonnage of graphic paper imports increased by 7.0% in 2003. However, the tonnage of packaging paper and paperboard imports receded by 5.6% in 2003, and overall US pulp, paper and paperboard exports increased by 1.4% in 2003, with continued robust expansion of exports in 2004.

The strong appreciation of the Canadian dollar against the US dollar in 2003 depressed Canada's exports of pulp, paper and paperboard products, with a 1.0% drop in exports to the US (Pulp and Paper Products Council of Canada, 2004). Overall mill operating rates in Canada remained at 92% in 2003, the same level as in 2002.

Except for shipments to China and countries in Asia other than Japan, Canadian shipments of pulp, paper and paperboard products to all major destinations declined in 2003 (including shipments to markets within Canada, as well as shipments to Europe, Latin America, Japan and the US). Shipments to China, however, jumped by 39% to 1.5 million m.t. in 2003 (Pulp and Paper Products Council of Canada 2004). Thus, the significant increase in shipments from Canada to China was sufficient to provide Canada with a small gain in total shipments (0.4% in 2003). If the increase in shipments to China were deducted, Canada's overall shipments would register a decline of about 1%.

Overall North American production of paper and paperboard receded by 1.2% in 2003 (reflecting a decrease in US output, and a slight increase in Canadian output (table 8.5.1). Apparent consumption declined by 0.7%, but as noted previously, demand and prices have been improving in 2004. Production of woodpulp in North America increased by 0.1% in 2003, with a slight decrease in US woodpulp output and increase in Canadian woodpulp output.

8.6 Trade barriers still exist

One important economic and policy concern related to international markets for pulp, paper and paperboard commodities is the continued existence of trade barriers, including technical barriers such as anti-dumping measures and retaliatory tariffs, as well as uneven trade advantages that stem from divergent tax rules or environmental rules and labour standards (or lack thereof). According to the sectoral agreement from the GATT Uruguay Round of 1994, paper and paperboard tariffs were set to disappear by the year 2004 and are at zero, at least in trade between major industrial countries, but technical trade barriers still exist and have expanded in the past year, in some cases as a consequence of trade policy disputes with a much wider scope than the forest products sector.

TABLE 8.5.1

Pulp, paper and paperboard balance in North America, 2002-2003

(1,000 m.t.)

	2002	*2003*	*Change %*
Paper and paperboard			
Production	102 105	100 900	-1.2
Imports	18 768	19 513	4.0
Exports	23 480	23 743	1.1
Net trade	4712	4231	-10.2
Apparent consumption	97 393	96 669	-0.7
Woodpulp			
Production	79332	79386	0.1
Imports	6841	6526	-4.6
Exports	17 779	16806	-5.5
Net trade	10938	10280	-6.0
Apparent consumption	68 393	69 106	1.0

Source: UNECE/FAO TIMBER database. 2004.

A leading example is the punitive tariffs that were imposed recently by the European Union on more than 1,600 US export products, including more than 165 wood and paper items, in retaliation for US Foreign Sales Corporation and Extraterritorial Income (FSC-ETI) export tax provisions. The FSC-ETI provisions granted partial tax exemptions for income from foreign sales or extraterritorial income, but the World Trade Organization (WTO) deemed the provisions an illegal export subsidy. As a result, the EU imposed retaliatory tariffs on US products, including many wood and paper products, with tariffs scheduled to increase if FSC-ETI provisions were not repealed.

Both US President George W. Bush (White House press release, 1 March 2004) and the leading US pulp and paper trade association (AF&PA) expressed their support for repeal of the FSC-ETI tax provisions in order to avoid the punitive EU sanctions. As of June 2004, both the US House of Representatives and the Senate have passed bills to repeal the provisions. It is therefore likely that the FSC-ETI provisions will be repealed soon, and the EU sanctions will then be removed. However, the punitive tariffs on US exports were still in place as of mid-2004.

In the meantime, other punitive tariffs on paper products have arisen elsewhere. In 2004, for example, the Chinese Government extended anti-dumping duties on newsprint imports from the US, Canada and other countries for five years.

Non-tariff trade barriers or uneven economic advantages are also created by divergence in global acceptance and enforcement of environmental protection standards, worker protection and safety standards, health benefits and minimum wage standards (or the lack thereof). Along with state subsidies or loans for industrial development and fixing of currency exchange rates at artificially low levels by some countries, trade barriers or artificial trade advantages continue to exist, together with anti-dumping measures and retaliatory tariffs.

Thus, although paper tariffs were set to disappear under the agreement with GAT, retaliatory tariffs and other trade barriers still exist, which affect markets and trade in the pulp, paper and paperboard sector. The continued existence of trade barriers is of particular concern to the pulp, paper and paperboard industry, given the global nature of its business and the commodity structure of some markets within the sector.

8.7 References

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