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The impacts of the financial crisis on pulp and paper industry: Italy

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Outline

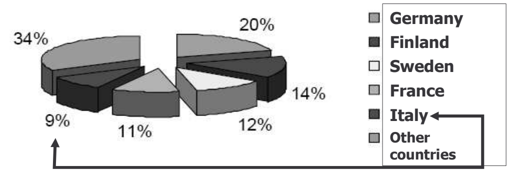
1. Introduction
2. Italian pulp & paper sector: at the end of the recession?
3. Adaptation strategy in a period of turmoil:
   - Energy costs reduction
   - PR activities: → public support
   - Further greening of the industry
   - Increasing the domestic supply of raw material
4. Conclusions

1. Introduction (pre-crisis condition)

Italy in Europe: 4th paper largest producer (after G, FIN, S), 5th considering also pulpwood

- 1st in tissue paper production
- 4th in packaging paper
- 5th in printing paper (with some specialization in high value products)

European production of pulp and paper



Industrial structure
(Source: Assocarta)

year	Companies no	Plants no	Employees no	Employees var%
1998	171	207	25300	-1.2
1999	166	202	25100	-0.8
2000	164	201	25000	-0.4
2001	162	200	24800	-0.8
2002	156	200	24500	-1.2
2003	152	196	24000	-2.0
2004	151	194	23700	-1.3
2005	147	191	23400	-1.3
2006	145	189	23000	-1.7
2007	143	186	22700	-1.3

year	1000 50 00 ton	5 001 10 000 ton	10 001 25 000 ton	25 001 50 000 ton	5 0001 100.000 ton	> 100 000 ton	TOTAL
1998	32	43	51	34	25	22	207
1999	31	37	50	33	29	22	202
2000	30	[illegible]	[illegible]	[illegible]	[illegible]	23	201
2001	30	[illegible]	[illegible]	[illegible]	[illegible]	23	200
2002	32	37	48	34	25	24	200
2003	32	36	49	31	23	25	196
2004	33	37	50	27	22	25	194
2005	34	31	40	35	26	25	191
2006	34	29	42	34	24	26	189
2007	34	28	44	32	22	26	186

Closing down of smaller, inefficient plants

Trade (quantity and value – M€) and consumption (Source: Assocarta)

year	Production		Import		Export		Consumption		Exp / Production	Imp / Consumption
	1000 T	Var%	1000 ton	Var%	1000 ton	Var%	1000 ton	Var%	%	%
1998	8390.4	2.7	3934.9	2.0	2250.7	-0.1	10074.7	3.1	26.8	39.1
1999	8685.6	3.5	4173.5	6.1	2436.9	8.3	10422.2	3.4	28.1	40.0
2000	9131.4	5.1	4543.8	8.9	2599.2	6.7	11076.0	6.3	28.5	41.0
2001	8956.4	-1.9	4464.4	-1.7	2618.0	0.7	10802.8	-2.5	29.2	41.3
2002	9356.2	4.5	4663.7	4.5	2841.6	8.5	11178.4	3.5	30.4	41.7
2003	9491.0	1.4	4677.3	0.3	2916.2	2.6	11252.1	0.7	30.7	41.6
2004	9667.1	1.9	5046.9	7.9	3248.5	11.4	11465.5	1.9	33.6	44.0
2005	9999.4	3.4	5192.3	2.9	3459.1	6.5	11732.5	2.3	34.6	43.2
2006	10008.4	0.1	5262.3	1.3	3502.2	1.2	11768.4	0.3	35.0	44.7
2007	10112.0	1.0	5296.5	0.7	3514.1	0.3	11894.4	1.1	34.8	44.5

year	Production value		Export		Import		balance
		Var%		Var%		Var%	
1998	6216	5.0	2164	5.3	2620	7.7	-456
1999	6324	1.7	2167	0.1	2680	2.3	-513
2000	7600	[illegible]	[illegible]	[illegible]	3419	27.6	-732
2001	7625	[illegible]	[illegible]	[illegible]	3382	-1.1	-618
2002	7175	-1.2	2774	0.3	3296	-2.5	-522
2003	6905	-3.8	2727	-1.7	3164	-4.0	-437
2004	6915	0.1	2844	4.3	3248	2.7	-404
2005	7065	2.2	2990	5.1	3314	2.0	-324
2006	7660	2.6	30	3.6	3459	4.4	-365
2007	7660	5.7	3207	3.6	3572	3.3	-365

Rising production and added value

Raw materials (Source: Assocarta)

Waste paper

The European industry uses 42% of recycled fibres

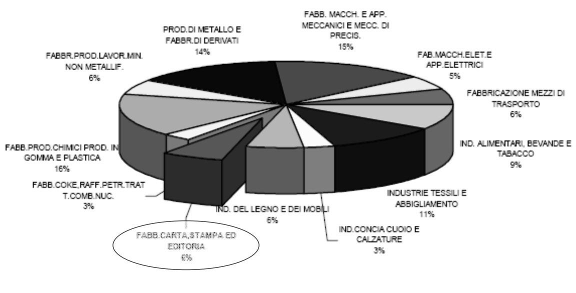
year	Internal supply		Import		Export		Consumption		Rate of use of waste paper	Recycling rate
	1000 T	Var%	1000 T	Var%	1000 T	Var%	1000 T	Var%	%	%
1998	3749.3	6.9	853.6	-7.8	41.8	-20.8	4561.1	4.1	54.4	45.3
1999	4084.1	8.9	706.2	-17.3	127.7	205.8	4662.6	2.2	53.7	44.7
2000	4565.5	11.8	741.4	5.0	217.9	70.6	5089.1	9.1	55.7	45.9
2001	4730.1	3.6	674.1	-9.1	257.7	18.3	5146.5	1.1	57.5	47.6
2002	5010.7	5.9	680.8	1.0	418.7	62.5	5272.9	2.5	56.4	47.2
2003	5227.0	4.3	589.1	-13.5	528.4	26.2	5287.7	0.3	55.7	47.0
2004	5592.5	7.0	500.5	-15.0	618.7	17.1	5474.2	3.5	56.6	47.7
2005	5791.8	3.6	445.4	-11.0	749.0	21.1	5488.2	0.3	54.9	47.6
2006	6000.5	3.7	466.8	4.4	894.5	19.0	5577.6	1.6	55.7	47.4
2007	6166.5	2.7	493.1	5.6	1079.1	20.6	5580.5	0.1	55.2	46.9

Pulpwood

year	Production		Import		Export		Consumption		Exp/Production	Imp/Consumption
	1000T	Var%	1000T	Var%	1000T	Var%	1000T	Var%	%	%
1998	455.7	-1.8	3075.7	1.5	12.9	7.9	3518.6	1.0	2.8	87.4
1999	440.4	-3.4	3118.2	1.4	15.4	20.0	3543.2	0.7	3.5	88.0
2000	433.5	-1.6	2975.6	-4.6	19.2	24.5	3389.9	-4.3	4.4	87.8
2001	414.5	-4.4	3095.4	4.0	21.1	9.7	3488.8	2.9	5.1	88.7
2002	450.2	8.6	3241.2	4.7	17.0	-19.4	3674.3	5.3	3.8	88.2
2003	477.9	6.2	3392.2	4.7	23.8	39.8	3846.4	4.7	5.0	88.2
2004	491.4	2.8	3285.9	-3.1	18.0	-24.3	3759.2	-2.3	3.7	87.4
2005	515.6	4.9	3510.9	6.8	30.3	68.5	3996.2	6.3	5.9	87.9
2006	502.1	-2.6	3474.3	-1.3	26.5	-12.8	3949.9	-1.9	5.3	88
2007	498.3	-08	3495.5	0.6	40.8	54.0	3953.0	0.1	8.2	88.4

6% of industrial production

(quite a lot for a country with no raw material)



2. Italian pulp & paper sector: at the end of the recession?

- P&P production: 94 M ton (-6.4% comparing to 2007 level; -8.5% in FIN; -4.7% in UK; -4.5% in Fr and Sp; -2.0% in G; -1.7% in Sw)
- P&P production value: 71 billion € (-6.7% comparing to 2007 level)
- Huge decreases in profit
- The lowest level of profit since 1995

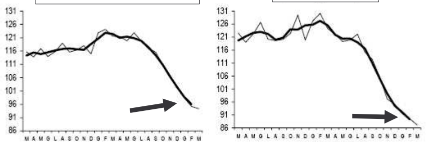
2009:
- Negative short term trends (production in the first 3 months of 2009 is decreasing at the same rate)
- One important positive market signal: in Q1-2009 orders for packaging papers are increasing

2009: indicators of general industrial supply

Probably we are getting close to the lowest level, but at a rate that is decreasing

Industrial turnover

New orders



March 2009

Indices of industrial turnover and orders in manufacturing

Indices	Index number (2005=100)	Percentage changes	
	March 2009	March 2009 compared to March 2008	Jan. – Mar. 2009 compared to Jan. – Mar. 2008
Total turnover	102.0	-17.5	-22.4
Domestic turnover	99.7	-16.5	-21.3
Non domestic turnover	107.9	-19.9	-25.1
Total orders	99.4	-26.0	-30.6
Domestic orders	100.2	-22.0	-29.2
Non domestic orders	97.8	-33.0	-33.1

Source: ISTAT

Industrial turnover in March 2009
(2005 =100)

	Mar 09 / Mar 08	Gen-Mar 09 / Gen-Mar 08
B Estrazione di minerali da cave e miniere	-2,2	-3,1
C Attività manifatturiere	-22,8	-22,6
CA Industrie alimentari, bevande e tabacco	-2,7	-4,4
CB Industrie tessili, abbigliamento, pelli e accessori	-18,7	-13,1
CC Industria del legno, carta e stampa	-20,3	-19,0
CD Fabbricazione di coke e prodotti petroliferi raffinati	-29,4	-30,2
CE Fabbricazioni di prodotti chimici	-28,9	-29,4
CF Produzione di prodotti farmaceutici di base e preparati farmaceutici	-6,3	-3,8
CG Fabbricazione di articoli in gomma e materie plastiche, altri prodotti della lavorazione di minerali non metalliferi	-20,7	-23,4
CH Metallurgia e fabbricazione di prodotti in metallo (esclusi macchine e impianti)	-35,2	-35,2
CI Fabbricazione di computer, prodotti di elettronica e ottica, apparecchi elettromedicali, apparecchi di misurazione e orologi	-11,2	-9,3
CJ Fabbricazione di apparecchiature elettriche e apparecchiature per uso domestico non elettriche	-30,2	-28,3
CK Fabbricazione di macchinari e attrezzature n.c.a.	-22,7	-23,3
CL Fabbricazione di mezzi di trasporto	-36,4	-35,1
CM Altre industrie manifatturiere, riparazione e installazione di macchine ed apparecchiature	-11,2	-10,3

New orders in March 2009
(2005 =100)

	Mar 09 / Mar 08	Gen-Mar 09 / Gen-Mar 08
Industrie tessili, abbigliamento, pelli e accessori	-16,4	-18,4
Industria del legno, carta e stampa (a)	-13,4	-22,3
Fabbricazioni di prodotti chimici	-26,4	-30,1
Produzione di prodotti farmaceutici di base e preparati farmaceutici	-3,0	-2,8
Metallurgia e fabbricazione di prodotti in metallo (esclusi macchine e impianti)	-36,4	-38,9
Fabbricazione di computer, prodotti di elettronica e ottica, apparecchi elettromedicali, apparecchi di misurazione e orologi	-28,3	-25,1
Fabbricazione di apparecchiature elettriche e apparecchiature per uso domestico non elettriche	-28,3	-28,5
Fabbricazione di macchinari e attrezzature n.c.a.	-27,2	-31,9
Fabbricazione di mezzi di trasporto	-30,0	-43,3

Strenghts and weakness

High energy costs

High energy costs

Relative small plants

High level of recycling use of waste paper

Product specialization

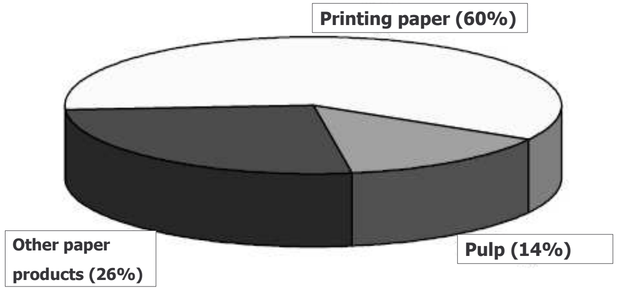
Weak government action

Industrial districts

Weakness ***Strenghts***

Strong product specialization

No large production of paper products for mass production, but strong specialization in high Added Value products: tissue and sanitary paper, coated papers and other special printing papers



Industrial districts

- In the North-East (3 Regions): 31% of national production of printing paper
- Considering other 2 regions (almost 60% of national production)
- Tuscany: 20% paperboard production (→ packaging)

The hot issue of biomass procurement

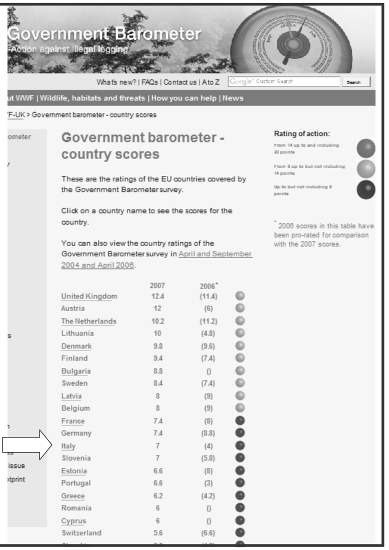
- Italy: large internal production of wood biomass + 1st world importer of fuelwood and 2nd of chips and wood residues
- Competition in the use of (subsidized) wood biomass. CEPI report: the use of wood biomass for P&P production and recycling is creating 6 times more employment opportunities and 4 time more Added Value than biomass combustion for energy

FLEGT, ENA-FLEG and new EU regulation on due diligence

- Italy: the 2nd larger importer of wood products in Europe
- UK: 80% of imported wood FSC or PEFC certified; no information available about Italy; no clear public procurement policies implemented → probably the largest European importer of illegal wood
- No effective interest and action by the State authorities (lack of Inter-Ministerial coordination)

- No initiative related to VPA under the FLEGT Regulation
- 14th country in the WWF FLEGT barometer

http://barometerwwforguk/barometerasp



Government Barometer
Action against illegal logging

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'F-UK > Government barometer - country scores

Government barometer - country scores

These are the ratings of the EU countries covered by the Government Barometer survey.

Click on a country name to see the scores for the country.

You can also view the country ratings of the Government Barometer survey in April and September 2004 and April 2006.

	2007	2006*
United Kingdom	12.4	(11.4)
Austria	12	(6)
The Netherlands	10.2	(11.2)
Lithuania	10	(4.8)
Denmark	9.8	(9.6)
Finland	9.4	(7.4)
Bulgaria	8.8	()
Sweden	8.4	(7.4)
Latvia	8	(9)
Belgium	8	(9)
France	7.4	(8)
Germany	7.4	(8.8)
Italy	7	(4)
Slovenia	7	(5.8)
Estonia	6.6	(8)
Portugal	6.6	(3)
Greece	6.2	(4.2)
Romania	6	()
Cyprus	6	()
Switzerland	5.6	(6.6)

Rating of action:
From 14 up to and including 20 points
From 8 up to but not including 14 points
Up to but not including 8 points

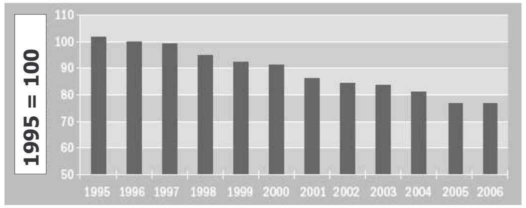
* 2006 scores in this table have been pro-rated for comparison with the 2007 scores.

3 Adaptation strategy in a period of turmoil

- Energy costs reduction
- PR activities: → public support
- Further greening of the industry
- Increasing the domestic supply of raw material

Energy consumption

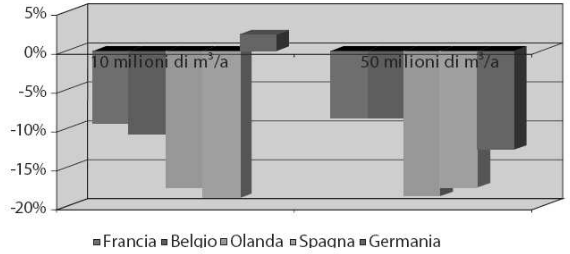
- The most relevant energy source: gas (25 billion cubic meters)
- P&P industry: more than 10% of the national industrial consumption (20 billion cubic meters): 55% for thermal energy production and 45% for power production
- Relevant decrease of energy consumption per unit of product. but still a very energy intensive sector



Source: Assocarta

- 2004-08: increased real prices and increased price differentials with other EU countries
- Still *de facto* control of prices by a monopolistic company (ENI): lack of intervention by State and EC authorities

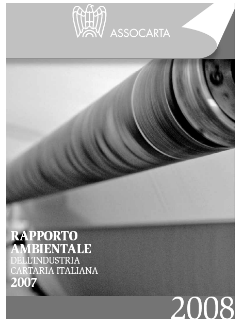
Gas price differentials with other EU countries (taxes excluded)



Source: Assocarta

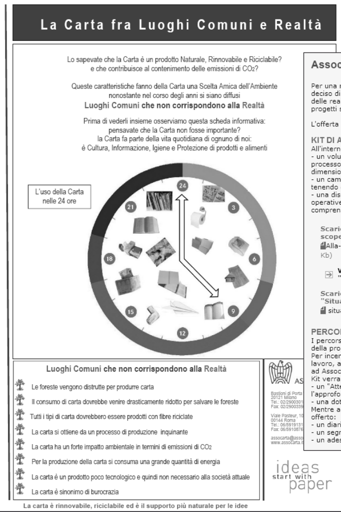
- To contrast this trend: an increasing lobbying organized by the Consortium (created in 2001) made up of 237 companies in the most energy intensive industrial sectors (5 billion cm gas) for promoting a common procurement policy

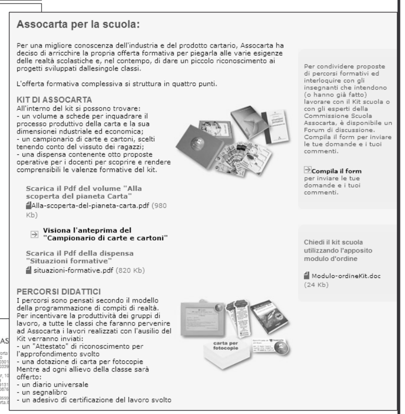
Further greening of the sector
Environmental performances



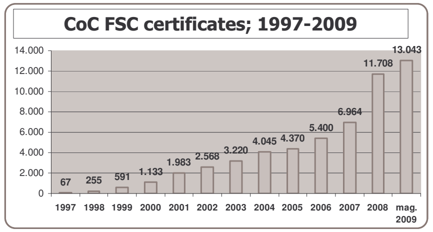
- Special attention to the small P&P plants: support by Assocarta to the ISO 14001 and EMAS Regulation implementation (Guidelines; Standard EMS Manual and standardized documentation)
- Creation of an Environmental Observatory → Annual Environmental Report of the P&P sector
- DB of env legislation relevant for the P&P sector (more than 800 national regulations) + link to the CEPI DB

PR activities

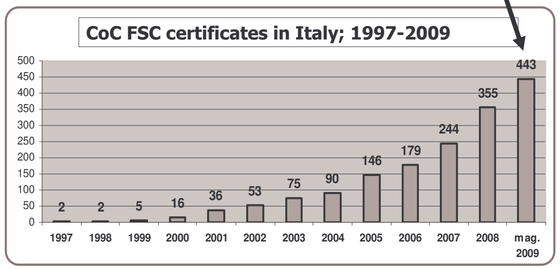




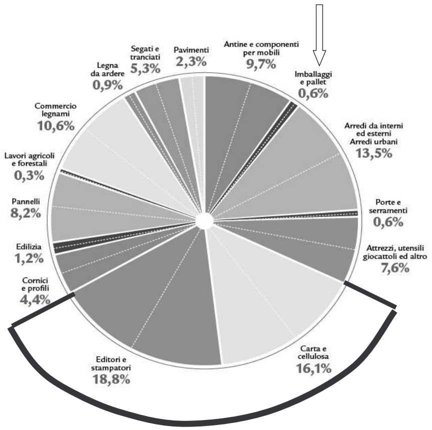
http://wwwassocartait/files/Luoghi_Comuni_2009pdf



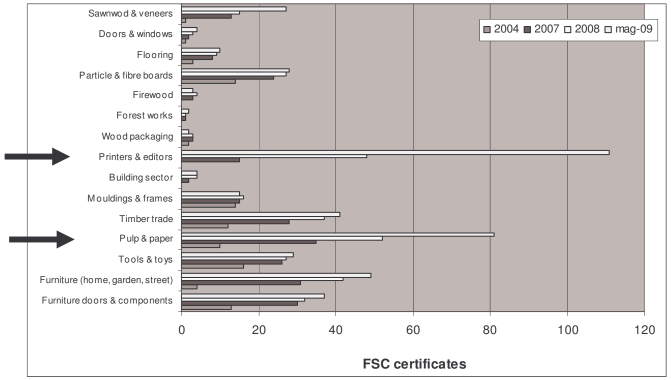
88 new in the first 5 months of 2009



- FSC CoC certificates (443; 35.5% in the P&P)



Similar trends with PEFC (183 CoC certificates)



Increasing the domestic supply of raw material

PRO-POPULUS project

4. Conclusions

- Severe impacts of economic crises on the P&P industry
- Negative trends are exacerbated by some special features of Italian P&P sector (export oriented production, weak internal demand, energy costs, lack of domestic production of raw material, …)
- Negative short term prospects, but with some weak signal of future demand increase

The road towards
a full recovery
is still long …

Main sources of information

- Assocarta Le attività di Assocarta nel 2007
  Edizione Tecniche Nuove
  http://wwwassocartait/it/assocarta/AttivitaAssocarta_2008pdf
- Assocarta 2008 Rapporto Ambientale 2008
  Edizione Tecniche Nuove
  http://wwwassocartait/it/assocarta/RapportoAmbientale_2008pdf
- IPI L'industria della carta e del cartone wwwridittit/documenti/Cartapdf
- Gruppo di Lavoro Nazionale APAT-ARPA Analisi ambientale per comparto

  produttivo; APAT. 2003 http://wwwapatgovit/site/_files/Industria_Cartariapdf