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REPORT

of the Committee on External Economic Relations

on arrangements for importing newsprint into the European Union

Rapporteur: Mr Manuel PORTO

PART B: EXPLANTORY STATEMENT

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C O N T E N T S

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EXPLANATORY STATEMENT

I. THE ROLE OF THE PRESS IN PROMOTING EUROPEAN CULTURE

1. The publishing industry and, in particular, the written press, perform a role of primary importance in promoting European culture. There are statistics to support this assertion: the European Union's 345 million citizens buy 90 million newspapers every day. Taken as a whole, the European Union represents the largest and most varied market for the written press in the world since - not to no avail - it supplies 1300 different daily newspapers, almost 3000 information magazines, 6000 magazines providing general information and at least 18 000 magazines specializing in various fields. Moreover, it is to be hoped that these figures will increase considerably in the coming years in those countries of the European Union where readership figures are lower.

The new Treaty on European Union includes (Article 128) culture in European integration and gives the Union some responsibilities in this area. As with education, this does not involve a cultural policy for the Union but a common effort to contribute to the 'flowering of the cultures of the Member States, while respecting their national and regional diversity and at the same time bringing the common cultural heritage to the fore'. **The publishing industry and the written press provide the basic means of achieving these objectives not only within the Union but also by disseminating its cultures throughout the rest of the world.**

Moreover, in contrast to US domination of culture transmitted through the audiovisual media, the European publishing industry and written press make an outstanding contribution to the dissemination and promotion of European cultures throughout the world.

2. However, in the media market the written press faces dynamic audiovisual media and, in particular, ever increasing competition from television. In 1990 the Union's public and private television companies, which numbered more than 100, offered the European consumer almost 400 000 hours of programmes a year and in 1995 the number of programmes on offer will increase by a further 200 000 hours as a result of the liberalization of the industry in almost all European countries and because of liberalization in the reception of foreign channels via satellite or cable. In these circumstances, it is clear that the television industry represents a formidable competitor to the written press in terms of capturing consumer interest in the information and leisure market and securing company advertising expenditure.

3. As a result of the process of concentration in the different media and because of the formation of European or multinational multi-media groups, competition between the publishing industry and the written press, on the one hand, and television, on the other, is taking place between the media and not so much between sectors or companies. In fact, multi-media integration at national level is a company practice that is very common in the press and publishing sector and during the Eighties the phenomenon also extended to the audiovisual sector. Accordingly, 7 of the 10 major European communications companies have diversified their operations into television, the press and the publishing industry.

4. The rapporteur considers that a decisive way of enabling the citizen to exercise fully his rights to freedom of expression and information and his rights to have access to education and culture is through an increase in readership. In this respect, the written media have a special responsibility in the political and cultural life of countries. Accordingly, national and Union authorities ought to address the legitimate needs of the written media sector so as to provide it with a solid economic base and ensure cultural pluralism and the survival of small and medium-sized publishing companies.

The rapporteur proposes to analyse the possible liberalization of newsprint trade from this point of view, i.e. as a trade policy measure which could help improve competitive conditions - the price of the written media - and so secure a better balance between the media in the cultural and information market. Paper accounts for between 20% and 25% of the cost price of the written press. There follows a study of the situation of the newsprint production industry in the European Union and its level of competitiveness in the light of a possible liberalization of external trade.

II. CHARACTERISTICS AND DEVELOPMENT OF THIS SECTOR IN THE EUROPEAN UNION

5. Newsprint is a sub-sector of the paper industry. Newsprint is obtained from the pulp of machine-made paper and/or recycled paper. In 1992 3 146 000 tonnes of newsprint was produced in the European Union, i.e. 7.9% of the paper industry's total production (39.8 m tonnes)[1]. Since the apparent consumption of newsprint was 6 626 000 tonnes, the degree of self-sufficiency was only 47.5% and so net imports of 3 480 000 tonnes were needed. Seventy-five point eight per cent of imports came from the EFTA countries (Sweden, Finland and Norway, mainly) and entered free of customs duties under the 1973 industrial free trade agreement between the European Community and EFTA. The remainder of the imports came mainly from Canada (23%) and other non-member countries (1.2%). As a result of its expansion to include the United Kingdom, Ireland and Denmark, the European Community had to bind a quota under GATT with a nil duty tariff for Canada and other non-member countries.

6. The geographical distribution of newsprint production in the Union is as follows: four countries supply 90% of this kind of paper - Germany (36%), the United Kingdom (22.3%), France (21.3%) and the Netherlands (9.7%)- and three others supply the rest - Belgium (3.8%), Spain (3.8%) and Italy (3.2%).

During the 1980s the newsprint industry in the European Union developed very fast as regards both the rate of growth and the structure of production. Strongly influenced by advertising expenditure, newsprint consumption grew annually by about 5% between 1984 and 1990. The expansion of off-set and flexographic printing and the continually increasing use of colour in newspapers stimulated the supply of newspaper advertising and the demand for it by the public. Only in 1991 were the effects of the current deep economic recession felt on company advertising expenditure, the demand for newspapers and consequently the consumption of newsprint.

As is shown in Table 1, newsprint production in the period under consideration grew more quickly than consumption (at an annual rate of 8.4%) so that the

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[1] All the figures used in the report come from the annual CEPI (Confederation of European Paper Industries) reports.

annual production of newsprint doubled in a decade. This spectacular growth contrasts with the moderate growth in this sector in the EFTA countries, where domestic production grew by only 22% over the same period.

7. The growth in production capacity was concentrated mainly in four countries: the United Kingdom, Germany, France and the Netherlands. Production in the United Kingdom increased from 80 000 tonnes in 1983 to 700 000 tonnes in 1992 - almost a ninefold increase in its supply of newsprint. Germany increased its production by 500 000 tonnes, an increase of 78%, and France increased its supply by 450 000 tonnes, a threefold increase in production. Finally, the Netherlands increased its production by 130 000 tonnes. By contrast, Italy reduced its supply of newsprint by 50%.

Among the EFTA countries, Sweden (with 776 000 extra tonnes), Norway (with 223 000 tonnes) and Austria (with 219 000 tonnes) increased their supply of newsprint. The above figures show that a number of completely new paper factories were built in the European Union during the eighties. Moreover, there are not many producer companies in this sector as the average size of factory is relatively large. In addition, the lack of tariff barriers between the EU and EFTA has not only contributed to the establishment of a genuine European market but also to a considerable integration of the Scandinavian paper industry with that of the Community through direct investment and/or share purchase. It will still be necessary to analyse to what extent the paper industry in EFTA countries receives state aid.

8. The European paper industry in general and the newsprint industry in particular are characterized by the following features: diversity and growth, capital intensiveness, relative fragmentation and impact on the environment.

Paper is one of the oldest materials still in use. It was one of the first materials to benefit from the industrial revolution and the recent communications revolution. There is no material which has so wide a range of forms and final uses (more than a million varieties). Moreover, the demand for paper does not depend on one factor alone, such as building, military expenditure or government procurement, but on a wide variety of factors including consumer expenditure by families, advertising, wholesale and retail trades, office work, personal habits and leisure. Moreover, the paper industry is one of the industrial sectors whose production processes are very capital-intensive. With technical progress, this aspect has become even more pronounced and the industry has become less labour-intensive. Equipment is becoming bigger and bigger, faster, more sophisticated and specialized, and hence dearer. In fact, paper production requires considerable fixed capital investment. Thus, modern equipment producing between 200 000 and 300 000 tonnes and employing 200 to 300 people requires investment of between $ 500 m and 1000 m. Naturally, these large units co-exist with small operations, which results in an unusual combination of capital intensity and industrial fragmentation.

Currently there are 900 paper companies throughout Europe on 1100 sites. In comparison with the chemical industry, the paper industry is more capital-intensive but much less concentrated.

9. These characteristics determine the cost structure of the sector and influence the growth of its competitiveness internationally. With the productivity increases obtained during the last decade thanks to the modernization of equipment, the proportion of cost price represented by raw materials (wood) has fallen, while the share of capital costs and wages has

increased. In contrast to other industrial sectors, which are currently affected by the relocation of production to developing countries with lower labour costs, this phenomenon is not seen in the paper industry.

In reality, since this is an industry which is intensive in raw materials, capital and technology, it is with the Scandinavian countries, Canada and the United States that the European Union has to compete internationally. The Community's paper industry has increased its productivity spectacularly as a result of investment in new machinery, with a resulting increase in its productive capacity. While average productivity in the industry in the countries of the EEA is 340 tonnes per worker, the latest generation of equipment may bring this to 1000 tonnes per worker. Hence, according to the sector's leaders, the European Union's paper industry is fully competitive internationally as far as physical productivity is concerned. The main problem facing the sector during the last two years has been unstable exchange rates and competitive currency devaluations by its main competitors. Thus, the recent devaluation of the Finnish mark has stymied Union companies which, while fully competitive in terms of physical productivity, have not been able to cope with the price competition caused by the artificial reduction in the price of Finnish exports as a result of the devaluation. Hence the collapse of a company like 'Céllulose des Ardennes' in Belgium, which had a satisfactory cost structure.

10. Since the paper industry is directly bound up with two natural resources - forests and recycled material - on which its productive processes depends, its future appears to depend on the development of the Union's forestry resources and the efficiency of paper recycling in its many forms.

In fact, the paper industry, which consumes about 50% of the Union's wood production, ought to help conserve forestry resources through sound management of the clearings needed for a rational exploitation of the forests. In 1990 the European Union adopted a forestry action programme whose objectives complement each other with a view to preserving and developing the Union's forestry resources: financial support for the repopulation of agricultural land, development of forests in rural areas and the least developed regions and the processing and marketing of forestry products.

One of the special features of the paper industry - which is not always sufficiently recognized - is the fact that its half the total demand for fibrous raw material is met by recycled paper and cardboard products used previously. Hence, paper recycling has grown very quickly in the European Union and has attained one of the highest percentages in the world. According to the latest figures available, in 1992, 39.2% of paper consumed in the European Union was recovered and 53% of the paper produced came from paper which had been recovered and satisfactorily recycled. The leading Member States as far as recovery is concerned are: the Netherlands (with 55%) and Germany (50.3%). The following are the main countries which use recovered paper: Denmark (82.7%), the Netherlands (71%), Spain (65.9%), the United Kingdom (60.1%) and Germany (52.2%).

The recovery of used paper and its recycling has given rise to an intra-Community trade with a 1992 total volume of 9.2 million tonnes. The main exporters were: Germany (1.9 million tonnes), the Netherlands (almost 1 million tonnes), Belgium (0.6 million tonnes) and France (0.59 million tonnes). The main importers of recovered paper were: the Netherlands (1.3 million tonnes), France (1 million tonnes), Germany and Italy (0.7 million tonnes each).

The rapporteur considers that there is still ample room in the European Union for further recovery and recycling of used paper, particularly in urban areas. However, the paper industry ought to find a proper balance between wood and recycled material so as to conserve as much of Europe's forestry resources as possible.

III. ARRANGEMENTS FOR EXTERNAL TRADE IN NEWSPRINT IN THE EUROPEAN UNION

11. As already mentioned above, in 1973 the European Community bound a quota under GATT with a nil duty tariff in order to compensate non-Member countries (mainly Canada) for the preferential treatment it was giving to newsprint imports from EFTA countries. In addition, protocol 13 of the Act of Accession of the United Kingdom to the Community allowed an additional autonomous nil duty Community tariff quota to be opened when it had been established that 'all possibilities of supply on the internal market of the Community will be exhausted'.

Accordingly, since 1984 the Community has bound under GATT a new figure of 600 000 tonnes for Canada (this quota was increased by 5%, i.e. 30 000 tonnes more, at the request of the Member States in 1989, 1990 and 1991) and 50 000 for other non-Member countries. The conditions for opening the additional autonomous quota were only met in 1989 and 1990, a figure of 50 000 tonnes of newsprint being recorded for each of those years.

Similarly, in current conditions newsprint imports which exceed the bound quota and, if applicable, the additional autonomous quota are subject to a tariff duty of 9% if they come from a country that belongs to GATT or 18% if it is a country outside GATT. In the Uruguay Round negotiations, the European Union had offered to reduce the tariff duty imposed on newsprint imports (heading CN 48010090) by 28.9% (from 9% to 6.4%) and by 24.5% (from 4.9% to 3.7%) for heading 48010010 (paper with a waterline). In addition, the Union informed Canada - the non-Member country most involved in exporting this product - that if it made substantial improvements in the concessions it offered to the Union, the Union could consider the possibility of making further improvements to its concessions in this sector (such as, for example, an increase in the size of the bound quota).

12. Unfortunately, at the time of drafting this report, the rapporteur does not know what concessions the European Union and Canada granted each other in the Final Act of the Uruguay Round. In any case, it is clear that the current tariff arrangements for newsprint were established to allow for some competition between Community newsprint producers - who depend on the EU's very limited forestry resources - and Canadian producers, who benefit from the enormous natural resources available in Canada's forests.

Finally, the geographical origin of the European Union's newsprint imports reflects the tariff preference granted to the EFTA countries and the compensation agreed with Canada under GATT.

IV. PROSPECTS FOR THE NEWSPRINT INDUSTRY AS A RESULT OF ENLARGEMENT

13. The future of the Union's paper production industry appears to be strictly determined by two factors: the forthcoming enlargement of the Union to include four EFTA countries and the rate of growth in the recovery of used paper and its subsequent recycling, to which reference has already been made.

Expansion to include Sweden, Finland, Norway and Austria will confirm the European Union as one of the world's main newsprint producers and will alter the market's main characteristics.

On the basis of the 1992 figures, the enlarged Community would cease to be a net importer of newsprint (3 480 000 tonnes) and would become a net exporter (282 000 tonnes) as a result of a total production of 8 087 000 tonnes and apparent consumption of 7 805 000 tonnes.

14. Moreover, if account is taken of the sector's investment plans and therefore of the proposed increase in production capacity, the European Union will confirm its position as the world's second most important newsprint producer, not far behind Canada, and well-placed, competitively, for exporting to the world market and in particular to the promising market represented by the countries of Central and Eastern Europe. According to CEPI forecasts, in 1997 the current European Union of the Twelve will increase its productive capacity by 36.4% (1 290 000 tonnes more), while the Scandinavian countries will maintain their production at current levels.

In the enlarged EU the increase in capacity will not be distributed equally. Germany, with a 48% increase in production (632 000 tonnes more), will displace Finland as the Union's second largest newsprint producer, exceeded only by Sweden. Overall, the amount of newsprint produced by the EU of 16 in 1997 will be similar to that produced by Canada in 1997 (10 025 000 tonnes) and much greater than that produced by the United States (6 560 000 tonnes) or Japan (4 030 000 tonnes).

In the new situation of the future, it seems logical that the enlarged European Union, with 25% of the world's newsprint production, will be one of the major competitors on the world's newsprint market and hence will contribute to the gradual liberalization of trade in this sector. The rapporteur considers that the European Union ought to take a fundamental step in this direction by proposing a strategy for the liberalization of trade in the paper sector to its main competitors and, specifically, by proposing that the tariff protection granted to newsprint imports be dismantled in stages.

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TABLE 1

**CHANGES IN NEWSPRINT PRODUCTION IN
THE EUROPEAN UNION AND EFTA DURING THE PERIOD 1983-1992 (thousands of tonnes)**

COUNTRIES	1983	1985	1987	1989	1990	1991	1992	1992/1993(%)
BELGIUM	112	109	111	113	104	106,6	118,7	6,0
FRANCE	219	264	300	378	422	510,5	670,4	306,1
GERMANY	634	722	826	1 009	1 117	1 108,0	1 130,0	178,2
ITALY	194	178	243	253	233	196,0	101,3	- 47,8
NETHERLANDS	176	190	212	280	298	308,5	305,7	173,7
SPAIN	115	134	135	166	173	148,5	120,1	4,4
UK	80	352	496	572	697	671,8	699,8	874,8
EU	1 530	1 949	2 323	2 771	3 044	3 049,9	3 146,0	205,6
AUSTRIA	176	241	245	255	333	396,7	395,2	224,5
FINLAND	1 594	1 811	1 628	1 298	1 429	1 305,2	1 257,0	- 21,1
NORWAY	711	877	845	990	992	954,9	934,4	31,4
SWEDEN	1 349	1 623	1 975	2 164	2 273	2 063,4	2 124,5	57,5
SWITZERLAND	213	232	249	264	265	238,7	230,1	8,0
EFTA	4 043	4 784	4 942	4 971	5 292	4 958,7	4 941,2	22,2

Source: Confederation of European Paper Industries

ANNEX

MOTION FOR A RESOLUTION

pursuant to Rule 63 of the Rules of Procedure

by Mr STAVROU

on Community import arrangements for newsprint

The European Parliament,

A. having regard to the essential role played by the publishing industry and, in particular, by the press in the promotion of European culture,

B. whereas the press is facing growing competition from the audiovisual industry and from television in particular,

C. whereas newsprint accounts for between 20 and 25 per cent of the press's costs,

D. whereas imports of newsprint subject to zero duty from third countries other than the EFTA countries are restricted by a quota bound under the GATT rules,

E. whereas the application of Protocol No. 13 of the Act of Accession of the United Kingdom does not allow full use to be made of the most competitive sources of supply,

1. Considers it necessary for a study to be made of the possible consequences of the liberalization of the Community import arrangements for newsprint with a view to placing competition between the different media on a more equal footing;

2. Emphasizes that any such liberalization must take account of all the economic interests involved;

3. Instructs its committee whose remit includes matters relating to the international multilateral trade system to draw up a study on this subject.