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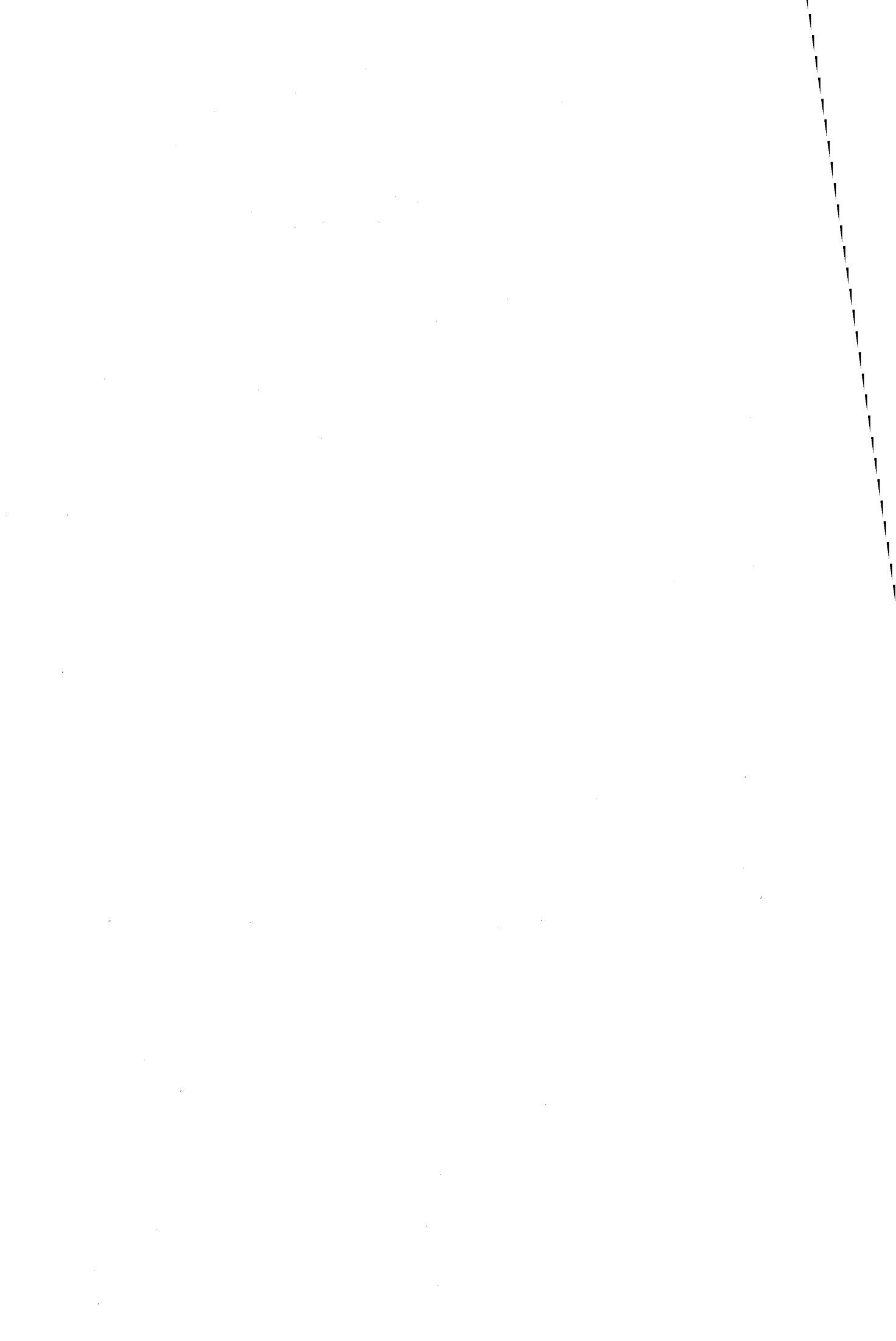
### FIRST REPORT

drawn up on behalf of the Committee on Economic and Monetary Affairs

on the communication from the Commission of the European Communities to the Council (Doc. 48/74) on the problems of the pulp, paper and paperboard industry

Rapporteur: Mr Ivar NORGAARD

PE 37.847/fin.



By letter of 11 April 1974 the President of the Council of the European Communities requested the European Parliament to deliver an opinion on the communication from the Commission of the European Communities to the Council on the problems of the pulp, paper and paperboard industry.

On 22 April 1974 the European Parliament referred this communication to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Public Health and the Environment, the Committee on Social Affairs and Employment and the Committee on External Economic Relations for their opinions.

On 14 May 1974 the Committee on Economic and Monetary Affairs appointed Mr NØRGAARD rapporteur. The committee dealt with the communication at its meetings of 6/7 June, 20/21 June, 23 September and 3/4 October 1974.

At its meeting of 4 October 1974 it unanimously adopted the motion for a resolution and the accompanying explanatory statement.

The following were present: Mr Lange, Chairman and deputizing for the rapporteur, Mr Artzinger, Mr Bersani, Mr Bousch, Mr Cifarelli, Mr De Keersmacker (deputizing for Mr Mitterdorfer), Mr Hougardy, Mr Krall, Mr Leenhardt, Lord Reay and Mr Scholten.

The opinions of the Committee on Public Health and the Environment, the Committee on Social Affairs and Employment and the Committee on External Economic Relations are attached.

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the Communication from the Commission of the European Communities to the Council on the problems of the pulp, paper and paperboard industry.

The European Parliament,

- having regard to the communication from the Commission of the European Communities to the Council (SEC(74) 1215 final);
  - having been optionally consulted by the Council (Doc. 48/74);
  - having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Social Affairs and Employment, the Committee on Public Health and the Environment and the Committee on External Economic Relations (Doc. 291/74);
1. Considers that the paper sector is one in which there appear to be good possibilities for achieving results through a Community industrial policy;
  2. Considers, however, that communications are an inappropriate means of solving economic problems, when they neither contain nor are accompanied by specific proposals;
  3. Urges the Commission to give priority, in its industrial policy towards the paper sector, to ensuring future supplies of raw materials;
  4. Recommends the conclusion, for instance with EFTA countries, of agreements on future supplies of paper pulp and paper products together with provisions concerning pollution control, investment aid and other aspects affecting competition in the paper sector;
  5. Points out that shortage of raw materials will become an increasingly widespread problem and so correspondingly greater consideration must be given to reducing wastage of resources;

6. Recommends that the problem of recycling waste paper and the utilization of other raw materials should be given the same importance as afforestation measures in efforts to ensure raw material supplies, and asks the Commission to submit precise proposals on this as soon as possible;
7. Requests the Commission to submit proposals for the establishment of a special research fund for the paper and forestry sectors with a view to creating the necessary conditions as regards products and production for improved utilization of existing raw material resources and also to devise production methods which use less water and cause less water pollution;
8. Requests the Commission to prepare regular forecasts of developments in consumption, investment and production in the paper sector, taking in both raw materials and finished products;
9. Stresses the importance of taking measures as soon as possible to combat the serious water pollution caused by the paper industry;
10. Considers that, even though the problems of structural reform and pollution are independent of each other within the paper sector, the solutions to current problems are closely connected, and therefore regrets that the Commission was unable, despite its promises, to submit proposals on pollution control in this sector by 1 July 1974<sup>1</sup>, and insists that such proposals be submitted as soon as possible;
11. Considers for these reasons that it cannot deliver a definitive opinion on the problems of structural reform in the paper sector;
12. Emphasizes that any necessary aid for structural reform should be allocated according to Community regulations and that aid should take the form of loans and not subsidies; and therefore requests the Commission to prepare possible regulations within the framework of a structural directive, and to ensure that Member States do not introduce new national financial aid measures in the interim;
13. Instructs its Committee on Economic and Monetary Affairs to submit any necessary reports as and when the precise proposals which are now lacking are eventually presented by the Commission;
14. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.

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<sup>1</sup> See the environmental action programme, OJ C 112, 20.12.1973

EXPLANATORY STATEMENT

1. The Commission proposal under consideration takes the form of a 'Communication to the Council'. It therefore consists, not in precisely formulated regulations submitted to the European Parliament for its opinion, but in an outline for a common policy in the following sectors :

raw material supplies, pollution, structural reform, research and commercial policy.

The communication begins with an analysis of the situation in the paper industry. The annexes give a more complete picture of the results of this analysis.

I. The current situation and future outlook

2. Consumption of paper and paperboard within the Community has been rising more steeply than production for many years. The overall balance of payments deficit for raw materials for paper production and paper products reached approximately 2,000 million u.a. in 1972. The Community paper sector has therefore been unable to take full advantage of the fast-growing market for its products, and consequently the dependence of the Community on imports has increased.

3. The general situation in the paper industry shows, according to the Commission, the following features :

- (1) rising demand,
- (2) worldwide shortage of wood by the 1980's and
- (3) producing countries increasingly wishing to process paper pulp on their own account.

In addition, the Community paper industry shows certain particular weaknesses :

- (1) shortage and inefficient use of indigenous raw materials;
- (2) the existence in the pulp sector of production units which are too small or out of date;
- (3) lack of vertical integration.

It is particularly apparent from the Commission's analysis of the paper sector that, on the whole, undertakings are far smaller in the Community than, for example, in Sweden, Finland and Canada, and this applies

both to the pulp industry and the paper and paper-board industry<sup>1</sup>. This obviously affects competitiveness. It is calculated that a sulphate plant with an annual production of 250,000 metric tons of pulp only needs 10-15% more employees than a factory with an annual production of 100,000 metric tons.<sup>2</sup>

This problem of size shows signs of growing steadily more serious, since the paper sector is the branch which is scheduled to be the first affected by the Community's environmental protection measures.<sup>3</sup> The attendant costs will be especially great for small and outdated undertakings. The intensification of anti-pollution measures will therefore further decrease the international competitiveness of pulp producers within the Community.

4. The Committee on Economic and Monetary Affairs agrees that the situation within the Community paper sector itself presents certain problems. These problems, however, are more particularly connected with the pulp industry, and similar problems (shortage of raw materials, unsuitable production structures, costly environmental protection measures and an extremely delicate conjunctural situation) affect a number of other branches of Community industry.

The committee notes that the Commission does not find the prospects too bleak. The annex to the communication states (page 11) that 'the chances of survival of the small factories will not be seriously threatened ... but they would suffer seriously from the application of strict anti-pollution regulations and from increasing pulpwood prices'.

The committee considers that the extremely low investment rate in the European paper industry is due more to lack of capital than to unwillingness to invest.

<sup>1</sup> Proportion of overall production carried out in undertakings producing more than 100,000 metric tons per annum :

	pulp	paper and paperboard
EEC	29%	18%
Sweden	64%	53%
Finland	85%	78%
Canada	93%	80%

<sup>2</sup> See 'A Study of the pulp and paper industry', Mats Forsgren and Nils Kinch, Uppsala 1970. Figures refer to 1964.

<sup>3</sup> According to the Council's environmental action programme, see OJ C 112, 20.12.73, the proposals concerning the paper industry are to be implemented before 1 July 1974. This has not yet been done, however.



The most recent OECD analyses<sup>1</sup> do not, then, indicate more unwillingness to invest in the Community pulp industry than in the Scandinavian<sup>2</sup>. The Scandinavian countries, however, will continue their vigorous development of the paper and paperboard industries<sup>3</sup>.

Thus in the view of the Economic and Monetary Affairs Committee, the extent to which special economic support should be given to structural reform in the pulp industry largely depends on a closer examination of two aspects :

- the increasing dependence of the Community on imports, and
- the need for more intensive environmental protection in a sector which is responsible for 20% of water pollution within the EEC.

## II. Dependence on imports

5. It emerges from the annex to the communication that most of the Community's paper consumption is based on imports of either processed products or raw materials, and that there is already a relatively high dependence on imported paper pulp and manufactured paper products.

7 million metric tons of the Community's overall consumption of 27 million metric tons of paper and paperboard in 1970 came from imports (4.7 million metric tons from Sweden, Norway and Finland and 1.8 million metric tons from the USA and Canada). Imports accounted for 8.5 million metric tons of the corresponding consumption of 15 million metric tons of paper pulp (5.5 million metric tons from Sweden, Norway and Finland and 2.5 million tons from the USA and Canada). The Commission expects that the production deficit for each category will increase to around 11 million metric tons by 1980.

The likely shortage of wood and the desire of the producing countries increasingly to process their own paper pulp probably means that this dependence will not decrease in the years to come. Even the Scandinavian countries will find it difficult to supply the Community with the required amounts of raw materials. The main problem in this situation is to ensure sufficient raw material supplies. Against this, the improvement of the profitability and competitiveness of the pulp industry by means of investment aid is a secondary matter.

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<sup>1</sup> 'The pulp and paper industry', OECD, Paris 1974

<sup>2</sup> Expected increase in production capacity between 1970 and 1977 approximately 30% and 29% respectively.

<sup>3</sup> Expected increase in production capacity between 1970 and 1977, 52% in Sweden and 44% in Finland against an average of 18% for the Member States of the EEC (with an increase of about 30% in Germany and France, but a drop in the United Kingdom).

6. The Committee on Economic and Monetary Affairs feels that these considerations must lead to action in commercial policy (see paragraph 21 below), but also warns against an exaggeration of the seriousness of dependence on imports in this sector. The Community should have a developed and competitive paper industry, but the EEC should also continue to remain open to the outside and follow the theory of the economic advantages to be gained from the international division of labour. The majority of the Community's supplies of paper pulp and paper products comes from countries with which the EEC already has association agreements. Agreements on future supplies, competition, anti-pollution measures etc. can form an integrated and constructive part of Community policy in the paper sector.

### III. Environmental protection

7. The section on the environment in the Commission's communication contains no precise rules for dealing with pollution in the paper industry, since anti-pollution proposals were to be made separately before 1 July 1974<sup>1</sup>.

The Commission's proposal that a framework directive should be drawn up (see paragraph 16 et seq.) establishing criteria for national aid for investments in the pulp industry is presumably inspired in particular by the extremely costly anti-pollution investments involved, which will be especially burdensome for the numerous small mills in the European pulp industry. The committee does not deny that the real choice lies between establishing large-scale modern undertakings in the pulp industry or increasing subsidies to the existing small undertakings to help them to meet the new environmental requirements.

8. The Committee on Economic and Monetary Affairs has not received any information to justify an exception being made to the general rule of 'the polluter pays' in the case of the paper sector. The committee regrets in this respect that the proposal concerning environmental protection in the paper sector has not yet been tabled. A detailed knowledge of this proposal is required before a position can be taken on whether - and if so, how - special rules should be laid down within the framework of industrial policy to promote structural reorganization in the pulp industry.

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<sup>1</sup> See footnote 3, page 10

#### IV. Raw material supplies

9. The Committee on Economic and Monetary Affairs considers it to be of decisive importance to ensure raw material supplies if the future of the pulp industry is to be safeguarded.

This problem can and must be tackled from various angles, as the Commission's communication points out :

- (a) improved utilization of existing wood resources;
- (b) afforestation;
- (c) improvements in recycling waste paper;
- (d) increased utilization of raw materials other than wood and waste paper;
- (e) action in the field of commercial policy.

10. According to the information given by the Commission, the existing forests could be used far more effectively than is at present the case. This alone would make it possible to double the production of pulpwood, and indeed to double the amount of waste recovered from saw mills.

The Committee on Economic and Monetary Affairs would not deny that the existence of many small forestry undertakings makes it difficult for the Community's existing forestry resources to be utilized as efficiently and rationally as they should be. In this connection the Commission mentioned the possibility of an initiative to promote long-term contracts between small forestry undertakings and undertakings in the pulp industry. As to this, the committee would point out that the extremely long-term nature of investments in forestry and the special conditions of ownership in the Community forestry sector will tend to complicate the formulation of such a measure. The Commission should consider how it might give support at Community level to existing efforts to improve cooperation between the many branches of production and trade in the paper sector. A Community initiative of this sort should concentrate in the first place on improving cooperation between the forestry and timber industry on the one hand and the paper pulp and paper industry on the other.

11. In its proposal for a directive concerning forestry measures<sup>1</sup>, the Commission has drawn up rules for the granting of financial aid for afforestation. For reasons of principle, the Committee on Economic and Monetary Affairs would advise against changing the structure of one sector according to the requirements of another sector, thus in this case adapting forestry to meet the needs of the paper industry. This is not, of course, the case in the Commission's proposal. Furthermore, the project involved is essentially of a long-term nature, which means that it will not be able to increase wood supplies to the paper pulp industry within the next 30 years at least. This is therefore no solution to acute raw material problems.

<sup>1</sup> OJ No. C 44, 19 April 1974, p.14

12. Apart from afforestation, the Commission refers only to the recycling of waste paper in the chapter of its communication dealing with supply problems. It intends to put forward specific proposals on the subject once the possibilities of improving the organization and industrialization of the recovery sector have been analysed<sup>1</sup>.

The Committee on Economic and Monetary Affairs is aware that there is a limit to the extent to which waste paper can be recycled. The removal of dyestuffs from waste paper, for instance, involves considerable expenditure and creates pollution problems, and, with present-day techniques, waste paper can be used only as the raw material for certain types of paper and paperboard.

Nevertheless, there is proof that some possibilities have not been exploited. For instance, the figures show that, of all fibrous materials used in the production of paper and paperboard, the amount of waste paper used varies considerably from one country to another<sup>1</sup>. From the Commission's communication (page 8), it appears that 'recovery could rise from 27% to about 40% of paper and paperboard consumption'.

13. The proportion of other raw materials used by the paper industry, such as straw, has fallen in the past few years. In some cases, however, the opposite is true: from 1971 to 1972 the consumption of this category of raw material rose by 5% in the USA, by 18% in Spain and by 60% in Denmark. In its analytical study, the Commission does not examine this point in greater detail, but it does mention that the use of straw meets with both technical and economic difficulties (mechanization of harvesting, the need for a regular market, and high transport costs).

It is worth noting, however, that the English periodical 'The Ecologist' has stated that hemp can largely replace wood as the basic material in the production of paper and that the yield per unit area is four times greater than from afforestation.

14. The Committee on Economic and Monetary Affairs therefore recommends that, in any attempts to ensure supplies of raw materials, as much importance should be attached to the recycling of waste paper and the use of other materials as to afforestation.

<sup>1</sup> Denmark 48½%, Federal Republic of Germany 46%, United Kingdom 42½%, Netherlands 38%, France 35%, Italy 33%, and Belgium and Luxembourg 18½%. The large paperboard-producing countries are further down the scale: USA 22%, Sweden and Norway 7%, Canada 6% and Finland 3%. All figures are for 1972. To illustrate the possibilities, it should also be mentioned that from 1971 to 1972 the recycling of waste paper alone rose by 73% in Denmark, 60% in Spain, and 13% in Sweden and Austria, the two timber-rich countries. A system of cooperation has been established in Sweden between the Government, local authorities and the paper industry with a view to doubling the use of waste paper in the production of paper and paperboard over a period of 10 years. (Source: 'The pulp and paper industry', OECD, Paris 1974).

This will call for technological developments as regards both production processes and finished products. Consideration should also be given to the possibility of standardizing the market in recovered paper, which has been characterized by marked speculative short-term price swings (three to five times greater than for wood pulp). The committee calls on the Commission to put forward specific proposals for this sector since collectors will obviously not invest unless they have a fairly reliable market for their products.

V. Structural reform

15. In its communication, the Commission outlines three different types of aid for a structural reform of the pulp industry: financing through the European Investment Bank, training grants through the European Social Fund and a call on the Member States to grant aid for investment.

The committee has taken note of the Commission's request to the European Investment Bank to give particular consideration to the need for investments in the structural reform of the pulp industry, and there is no objection in principle to the idea that aid from the European Social Fund should be granted under Article 4, which is an auxiliary instrument for implementing special measures taken as part of Community policy on the labour market.

16. The Commission also expresses its willingness to work out a framework for aid, if Member States feel that there should be national support for investment in the structural reform and modernization of the pulp industry. Such aid should preferably be restricted to investments and should be coordinated.

If the objective here was to place various national systems of aid under Community rules, such action would be particularly welcome. The Commission has however informed the committee that its primary objective is to call upon Member States to grant such aid.

Annex III to the Commission's communication shows that, partly because of the Commission's efforts during the past few years, there is at present no Member State that grants aid for the structural reform of the paper industry. The aid granted in Italy and France is partly for research and partly for pollution control.

17. The Committee on Economic and Monetary Affairs is aware of the fact that there is considerable pressure on the national governments to produce aid measures to overcome the difficulties of the paper sector. If a Community framework for such measures is not drawn up very soon, the Community is likely to be confronted with the development - as was the case quite recently in the horticultural and agricultural sectors - of a proliferation of isolated national measures.

It should be stressed that, even though structural reform and pollution policies in the pulp industry are independent of each other, in the present case the solutions to these problems are closely connected. A structural reform policy cannot be formulated without taking account of anti-pollution measures in the paper sector. The Committee on Economic and Monetary Affairs therefore urgently requests the Commission to submit as soon as possible the promised proposals for measures to combat pollution.

The committee expects the Commission to ensure that, until such time as Community measures exist, individual Member States do not introduce isolated national aid measures.

18. The Committee on Economic and Monetary Affairs has previously had the opportunity to discuss the conditions to which official aid forming part of a Community industrial policy should be subject.

First, there must be genuine Community rules binding on the Member States which stipulate when, how and to what extent investment aid may be granted. Investment aid should be granted as credit, not in the form of subsidies.

Second, the grant of such aid must receive sufficient publicity. Aid for new, large investment projects in the pulp industry, for example, will - even if it has to be approved by the Commission - affect the investment basis of other undertakings. In other words, insufficient information would aggravate any resulting distortion of competition.

19. It is to be regretted that the Commission does not propose in its communication any continuing research into or forecasts of developments in the consumption or production of either raw materials or finished goods, since that is one of the most important prerequisites for the coordination of new investments which the Commission hopes to achieve - irrespective of whether such coordination is to be effected through the Commission's approval of investment aid projects or on the basis of normal economic considerations. The paper industry seems to satisfy the Commission's own criteria for determining cases in which it can agree to the establishment of 'an improved system for exchanging forecasts of market trends and developments in production capacity'<sup>1</sup>.

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<sup>1</sup> See 'Third Report on Competition Policy', paragraph 21.

## VI. Research

20. The Commission's analysis of supplies of raw materials and of the structure of the industry reveals a considerable waste of resources in this sector. If existing timber forests were exploited more efficiently, the production of woodpulp could, as previously mentioned, be doubled - as could the amount of waste recovered from sawmills - and it should be possible to increase the recovery of waste paper by 50%. There is also a great deal of waste in the production process. It should be possible, for example, to develop dry processes that reduce water consumption and allow a certain amount of recycling of waste products.

All this shows the clear need for research into production methods, product development and so on, in order to increase the amount of suitable domestic raw materials and improve the competitive position of the European paper sector. The Commission gives a list of important research topics, but it merely proposes that research in the Member States should be coordinated and 'reserves the right' to put forward proposals for this sector under the overall joint research programme.

However, the need for research is urgent. If the Commission waits until an overall research programme and corresponding financial framework are adopted, it could be a very long time before a necessary and active programme for the paper sector sees the light of day. The Committee on Economic and Monetary Affairs therefore urges the Commission to submit proposals for the establishment of a special research fund in the paper and forestry sector.

## VII. Commercial policy

21. The Committee on Economic and Monetary Affairs entirely agrees with the opinion of the Committee on External Economic Relations, which indicates a number of ways of safeguarding the interests of the European paper industry as regards both reasonable terms of competition and assured supplies of raw materials.

The Commission itself discusses the possibilities of the Community's entering into commercial and technical cooperation, based on reciprocal advantages, with certain countries which supply pulp 'when the time comes', and stresses the possibility of financing projects through the European Development Fund (EDF) among others.

The Committee on Economic and Monetary Affairs would like to underline the positive prospects of securing future supplies of paper pulp for the

European paper industry through agreements with the associated Scandinavian and African countries and Canada.<sup>1</sup> Knowledge of future conditions and potential in this sector will provide a more solid basis for the modernization and possible expansion of the European paper industry.

#### VIII. Conclusion

22. The paper industry seems to be a sector in which there are good prospects for achieving positive results by means of an intelligent industrial policy. The Committee on Economic and Monetary Affairs would stress, however, that regional, industrial and environmental policies, and to a certain extent also commercial policy, must be seen as part of a greater whole. Unless these policies are adequately coordinated, Member States might well end up granting aid to the same undertaking on the basis of regional, sectorial and environmental policy criteria.

The Community policy for the paper industry should lay the greatest stress on securing future supplies of raw material. There are many ways of doing this, but an active commercial policy and a rapidly implemented research and development policy will in all probability be the best way of supplementing the longer-term proposals for aid for afforestation. The committee urges the Commission to submit the precise proposals necessary in respect of these sectors as soon as possible.

The committee observes with regret that the proposals on pollution control measures in the paper sector have still not been submitted. Because of the close relationship between this question and structural reform, the committee has decided at this juncture only to submit a partial report, in which emphasis is laid on the other proposals in the Commission's communication. The committee urges the Commission to expedite its work on the formulation of proposals on measures to combat pollution in the paper sector.

The committee wishes to return to the matter once the Commission has drawn up precise proposals.

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<sup>1</sup> See paragraph 6 of the Commission's report on the proposed industrial and technological policy (SEC(73) 1090 fin.), which states inter alia: that 'the aim of the Community's industrial policy should be to contribute to the liberalization of world trade and to the industrialization of developing countries; it should thus try, not to maintain existing structures, but to facilitate the inevitable changes'.



Letter from The Chairman of the Committee on Social Affairs and Employment to Mr LANGE, Chairman of the Committee on Economic and Monetary Affairs.

Brussels, 31 May 1974

At its meeting of 31 May 1974, the Committee on Social Affairs and Employment discussed those parts of the Communication from the Commission of the European Communities to the Council on the problems of the pulp, paper and paperboard industry falling within its terms of reference, namely the last part of paragraph 2c of Doc. 48/74.

The Committee made the following points:-

Partly on the basis of the documentation provided by the Commission, the Committee on Social Affairs and Employment is aware of the problems currently besetting the paper industry. It therefore approves the proposal that aid be sought from the European Social Fund to cope with the present situation, particularly in view of the number of people employed in this sector (230,000).

Although the Committee on Social Affairs and Employment appreciates that it is difficult for the Commission to state definitely at this stage whether aid from the Fund should be given under Article 4 or under Article 5 of Council Decision No. 71/66/EEC, it would here point out that the choice of the legal basis is not without importance. Not only for the sake of conforming with the Decision in question but also in view of the resources currently available, the Committee on Social Affairs and Employment would prefer such aid to be based on Article 4.

Yours sincerely,

A. BERTRAND

The following were present: Mr Bertrand, chairman and ex officio draftsman of the opinion; Mr Albertsen, Mr Bermani, Mr Delmotte (deputizing for Mr Pianta), Mr Härzschel, Mr De Koning (deputizing for Mr Van der Gun), Sir John Peel, Mr Pêtre, Mr Schwabe and Mr Wieldraaijer.

OPINION OF THE COMMITTEE ON PUBLIC HEALTH AND THE ENVIRONMENT

Draftsman : Mr PETERSEN

The Committee on Public Health and the Environment appointed Mr Petersen draftsman of the opinion on 9 May 1974.

It considered the draft opinion at its meeting of 1 July 1974 and adopted it unanimously.

The following were present: Mr Della Briotta, chairman; Mr Petersen, draftsman of the opinion; Mr Albertsen, Mrs Caretoni Romagnoli, Mr Eisma, Mr Gibbons, Mr Glesener (deputizing for Mr Springorum), Mr Martens, Mr Noè, Mrs Orth, Mr Premoli and Lord St. Oswald.

## Introduction

1. With its communication to the Council on the problems of the pulp, paper and paperboard industry (Doc. 48/74) the Commission of the European Community has met its undertaking to submit guidelines for this sector to the Council by 1 April 1974.

An analytical study of the pulp and paper industry in the Community is appended to the communication.

2. The Council requested the European Parliament to give an opinion on this document. Parliament appointed the Committee on Economic and Monetary Affairs as the committee responsible, the Committees on Public Health and the Environment, Social Affairs and Employment, and External Economic Relations being asked for their opinions.

## Discussion

3. The analysis of the situation shows that 42% of the Community paper and paperboard consumption is produced in the Community from indigenous raw materials (18% from wood and other plant fibres and 24% from recycling waste paper), and 58% from imported raw, semi-manufactured and finished materials (3% wood, 29% wood pulp, 1% waste paper and 25% paper and paperboard).

4. In addition to the already very heavy dependence for pulp and finished products we note that demand is still continuously increasing at around 5% per year, that a relative shortage of wood pulp will probably arise in the 80's and that third countries are showing an inclination towards supplying increasingly more finished products

5. It must be pointed out that the paper industry has a central position in modern society. A shortage of paper could lead to a very problematic state of affairs. The increase in paper consumption without effective measures to ensure an increase in raw material supplies, with the emphasis on recycling waste paper and on using other raw materials, for instance straw, more intensively, may do considerable damage to the Community's forests.

The question of the development of forestry was dealt with in the proposal of 20 February 1974 from the Commission to the Council for a directive concerning forestry measures (Doc. 6/74), which provides for measures for the afforestation of agricultural land and of uncultivated land and for the improvement of existing woodlands, with a particular view to the production of wood for industry. Your committee also urges more extensive research in the area of fire hazard prevention.

6. The introduction of anti-pollution measures, as envisaged in the European Community's action programme on the environment adopted on 22 November 1973, is urgently necessary in view of the extent of pollution caused by the paper industry, which is the source of around 20% of total water pollution. The Commission has undertaken to submit proposals on this matter to the Council before 1 July 1974 (OJ No C112, 20.12.1973 p 21 and Doc. 48/74, p.4). It should, however, be pointed out that it is not only the production of paper which pollutes the environment. The breakdown of dyestuffs in waste paper may also be expected to have negative effects on the environment.

7. The 'polluter pays' principle, which should also be applicable to the paper industry, is however difficult to maintain as such. The proposal from the Commission to the Council regarding cost allocation and action by public authorities on environmental matters (Doc.17/74), envisages certain exceptions to this principle, which could be justified for example by real difficulties of adapting to environmental quality standards, particularly for economic, technical or social reasons:

- economic reasons: the costs of anti-pollution techniques are particularly high for small and medium size enterprises, so that the profitability of these enterprises is reduced still further;
- social reasons: if all enterprises without exception were to be obliged to take anti-pollution measures in the relatively short term, this could mean that many smaller enterprises would have to wind up their activities. Although your committee realizes the importance of the economic and pollution aspects, it is of the opinion that the social consequences for the workers in these enterprises must also be taken into account.

Allocation of environment protection costs may place us here before the choice of setting up sufficiently large modern pulp factories with relatively lower environment protection costs, or else maintaining the existing smaller enterprises, which would have to receive support in order to be able to meet environmental standards.

8. An effective anti-pollution policy can only be introduced if, as the Commission rightly proposes (Doc. 48/74, p.2), the measures are financed, at any rate for small or older enterprises, at least partly from public funds.

9. Structurally, the pulp industry is characterized by a high percentage of small enterprises (only 30% have a production capacity of 100,000 tons/year), inconvenient geographical locations of the factories, a low degree of integration of paper production with pulp production (43% in the Community, compared with 81% in Finland and 91% in Sweden) and equipment often insufficiently modern to be able to produce at competitive prices.

The inadequate cooperation between owners and operators of forests and the paper industry is also pointed out.

The Commission proposes the working out of a framework establishing criteria for aid to investment which furthers the restructuring and modernizing of the pulp sector.

10. Research in the wood and paper industry aimed at reducing the danger of shortage, limiting environmental hazards and improving competitiveness in this sector is already going on fairly intensively.

The Commission considers that it should stimulate and coordinate research programmes in the various Member States, especially as regards research in forest management, the use of new species of timber, the recycling of waste paper, and the production process.

Your committee agrees with this and considers that special attention should be paid to research into the re-use of waste paper after recycling, both by collecting waste paper and by recovering it from household refuse (at present a total of only 27%).

Similarly, the effect of the breakdown of dyestuffs in paper on the environment and the use of other raw materials such as straw, despite the great difficulties involved in both the collection and the processing of these raw materials, should be investigated.

11. Attention should be devoted to the problem of commercial policy to avoid possible difficulties. Studies should be made to determine how cooperation with certain countries supplying paper materials can be taken into consideration.

Ways in which the EDF can help to finance projects of common interest should also be investigated.

12. The significance of the difficulties in the paper sector can be clearly seen from the increasing deficit in this sector (6,215,000 tons in 1970, 10,660,000 tons in 1980). Measures must therefore urgently be taken to increase production within the Community while also bearing in mind environment protection.

### Conclusions

13. The Committee on Public Health and the Environment:

1. agrees with the proposed anti-pollution measures described in the communication from the Commission to the Council on the problems of the pulp, paper and paperboard industry, at least insofar as they are to form the object of measures to be taken in the short term;

2. considers that urgent measures should be taken against pollution of the environment by the pulp and paper industry, especially in view of the high degree of pollution from this sector, and calls for the proposals on pollution in this sector promised by 1 July 1974 to be put forward as soon as possible and submitted to the European Parliament for discussion;
3. insists that the Commission take account, in proposals for applying exceptions to the 'polluter pays' principle, of the economic and social consequences which may arise from measures in this area, especially for small enterprises;
4. urges strongly that in addition to measures aimed at reforestation, which contribute to improving the environment, adequate attention should also be paid to recycling waste paper and to using other raw materials. This results in reduced pollution from waste paper disposal or straw burning in the field, and may also help to reduce the shortage of raw materials for paper;
5. likewise urges investigation of the possibility of limiting paper consumption, especially of coloured paper, which frequently contains toxic substances difficult to break down, starting with, for instance, public bodies and industry but also, with a view to increasing awareness of the environment, the general public of the Community;
6. further urges investigation into ways of limiting water consumption in paper manufacture by the introduction of different production methods, especially with a view to reducing water pollution;
7. requests the Commission to provide as soon as possible further details of the ways in which the financing of structural reform in the pulp and paper sector by the EIB and the European Social Fund can be effected, especially in view of the effect of this structural reform on environment pollution;
8. trusts that the Commission will undertake further studies on the basis of this communication, and make proposals helping to solve the problems connected with the pulp, paper and paperboard industry in the Community, and reserves the right closely to follow future Community actions in the field of environment protection and to report thereon to the European Parliament;
9. requests the Committee on Economic and Monetary Affairs, as the committee responsible, to take account of the above points in its motion for a resolution.

OPINION OF THE COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

Draftsman: Mr P.-B. COUSTÉ

The Committee on External Economic Relations appointed Mr P.-B. Cousté draftsman of an opinion on 30 April 1974.

It considered the draft opinion at its meeting of 1 October 1974 and adopted it unanimously.

Present: Mr de la Malène, chairman; Mr Thomsen, vice-chairman; Mr D'Angelosante, Sir Douglas Dodds-Parker, Mr Girardin, Mr Jahn, Mr Klepsch, Mr de Koning, Mr Lange, Mr Maigaard, Lord St. Oswald, Mr Rivierez and Mr Vandewiele.

1. The enlarged Community's paper industry is the second largest in the world. According to the figures supplied by the Commission in its Communication on the problems of the pulp, paper and paperboard industry it comprises some 1400 undertakings and employs about 230,000 persons.

Paper and paperboard consumption is growing rapidly in the Community as in all the industrially developed countries. Its rate of growth is on average 5% per annum.

2. 42% of the Community's needs are supplied by the Community itself from local raw materials, the remaining 58% from raw materials or finished products imported from third countries.

The Community's net self-sufficiency level has, however, been steadily falling during the last few years and the prospects are that the Community's production deficit will grow wider still in the next few years.

In 1972 the paper materials and products deficit already amounted to 2,000 million u.a.

3. In view of the prospects of constantly growing demand in this sector within the Community and the risk of a world-wide shortage of wood in the 1980's, the Commission considered it necessary to give special attention to the paper industry of the Nine within the framework of its Community programme for industrial and technological policy. For the reasons already mentioned and also because of the structural weakness of most Community undertakings compared with their Scandinavian or North American competitors, the Community's paper industry is faced with serious problems of profitability and adaptation which prevent it from benefiting from the heavy demand.

4. To avoid increasing the Community's dependence on foreign suppliers, to arrive at a better use of raw materials, to assign a greater role to the possibilities of recovering and recycling waste paper in view of the likely shortage in this sector, and to make Community undertakings more competitive - these are the principal objectives set out in the Commission's Communication submitted to us for our opinion.

5. The steps taken within the Community to achieve these objectives would, however, be insufficient in a sector which is so susceptible to external influences if they were not supplemented by guidelines on commercial and cooperation policy. This opinion is shared by the Commission, which proposes to draw up at a later date commercial policy guidelines in this sector.



6. At present the Community has to import over half (55.6% in 1970) of its pulp requirements. The gap between Community production and its total requirements has been steadily widening in the last few years. Moreover, the amount of paper and paperboard produced by the Community in 1973 covered only two-thirds of total needs (whereas in 1950 production matched demand). The Community's main suppliers of pulp are, in descending order, Sweden, Canada, Finland, Norway and the United States. The three Scandinavian countries are also the principal suppliers of the Nine in paper and paperboard (about two-thirds of imports), North America (the United States and Canada) making up the rest.

7. The CCT duty on pulp is fixed at 3%. However, this duty is applied only by Germany and provision for its future total suspension is made in Protocol No. 12 of the Accession Agreement. Until then, Member States may open zero-duty tariff quotas.

8. There is a 12% customs duty on paper and paperboard. The agreements signed between the EEC and certain EFTA countries (Sweden, Norway and Finland) provide for progressive reduction of this duty as from 1 January 1974 leading to a free trade arrangement by 1 January 1984. In negotiating these agreements the Community was obliged, for urgent economic and social reasons, to request special safeguards in this sector in the form of an extended period of customs tariff dismantling.

In addition a Community tariff quota, fixed for 1974 at 3,053,000t, has been introduced for newsprint so that all the Community's newsprint imports benefit from a zero tariff.

9. The Committee on External Economic Relations, aware that the EEC vitally needs a highly developed and competitive paper industry, approves the Commission's proposals as being calculated to help solve the real problems facing the industry and to preserve the existing relationship between Community production and imports. In this connection it hopes that the Commission will soon make known its commercial policy proposals for this sector (see para. 5 above).

10. In the meantime our committee wishes to draw attention to the threat to the Community's paper and paperboard industry posed by the tendency of producer States to reduce their pulp or newsprint exports and to export increasing quantities of more profitable paper (which require less wood for an equal surface area).

11. The Finnish companies, for instance, announced in March 1974 that delays in deliveries of pulp exports to their customers would occur in the first half of 1974 and that from the second half of 1974 some cuts would have to be made in 'reservation contracts' for the second half of 1974, but total deliveries for 1974 will only be about 10% down on 1973, a year which the Finns started with large unsold stocks left over from 1972 and during which they were thus able to deliver more than they produced.

According to the Director of Finnpap, an association of Finnish paper-mills, Finland also intends to cut its newsprint production by 5-10% from 1975 onwards. But the Finns have also said that they will not sell any newsprint to the U.S. from 1975 onwards, so the amount available for Europe should remain stable.

Similarly, the American administration has asked American pulp manufacturers to undertake not to export more than in 1973.

12. In conclusion, the committee stresses the need for the Community, within the framework of the joint committees set up under the agreements signed with the EFTA countries, to draw the attention of its partners to the implications for its paper and paperboard industry of a growing disproportion between deliveries of pulp and finished products, having regard to the greater productivity of Scandinavian factories. Furthermore, our committee emphasizes that any concession made by the Community must be linked to a commitment by its partners to refrain from any conduct liable to distort the rules of the market.

13. It also considers it advisable for the Community, invoking if necessary the 'future adjustments clause' included in most of these agreements, to establish commercial and technical cooperation with some of the countries supplying pulp. This situation is envisaged by the Commission (Communication, p.6) which provides for the possibility of projects of common interest being financed by financial organizations of the Community (notably the EDF). In view of Canada's reiterated wish to conclude a formal commercial cooperation agreement with the EEC, the committee suggests that the future agreement should make provision for cooperation between the two parties in the paper sector, Canada undertaking to regularly supply the Community with amounts of pulp to be determined by agreement for a specific period.

Subject to these observations, the Committee on External Economic Relations approves the Commission's Communication submitted to it for its opinion and hopes that this document will soon be supplemented by concrete proposals from the Commission on the basic topics to which it refers, namely, raw materials, waste paper recycling, the environment and the reduction of pollution, and research, as well as in the areas of commercial policy and cooperation.