



France

Emerging issues facing the pulp and paper industry in France

Issues specifically connected to the French political agenda influential on the pulp and paper industry are:

- **Environmental regulation:** the multi-stakeholders discussions on environment (Grenelle de l'environnement), has delivered two pieces of regulation during 2008, not yet formally adopted (one is on the verge of being approved by the MPs, the other will be discussed by the parliamentarians during the spring). Some provisions of these regulations will have a direct impact on the pulp and paper industry: increased targets for the use of biomass (higher competition with the fibre resource used by the industry), risk of taxation of some papers (those considered as generating too many wastes), kilometric tax on trucks, mandatory decrease of the paper consumption in the State offices, environmental labelling of consumer products,....
- **Terms of payment.** A piece of regulation adopted in August sets up a maximum duration for the payment (60 days as of the release of the invoice). This modifies how payments are undertaken between suppliers and customers.
- **Regarding the electricity market,** energy-intensive sectors have welcomed the approval by the European Commission of the consortium set up by a pool of electricity purchasers (among them are p&p companies, but also, steel, aluminium, and chemical companies). This pool (Exeltium) has nevertheless not started yet to be operational. Regarding the organisation of the electricity market, all industry associations are waiting for the outcome of a Commission set up by the government with the objective to propose a market organisation taking into account the existing system of fixed prices and an open EU electricity market.
- **Changes of some aspects of the tax system.** French business associations criticise for many years a tax based on the material assets of a company. This tax ("Taxe Professionnelle"), all the more important that the tax paying company is capital intensive, deters investments and is acknowledged by many politicians as "silly". The long announced reform of this tax is now on a good track, but many uncertainties remain on the future mechanism that will be implemented (carbon tax? Tax based on value added?).

Some issues derived from EU policies are also of paramount importance, but will not be presented any further in this report:

- Adoption of the "energy-climate" package by the EU institutions in December 2008 (with two main directives, one on the trading of CO₂ allowances, and the other on the development of Renewable Energy Sources);
- On going discussions on the FLEGT regulation;
- Check-up of the Common Agricultural Policy (with consequences on the "starch restitution" regime).



Most important business development

Like the world economy, France has been struck by the economic crisis and the p&p industry as of course been severely affected by the deterioration of the situation during the second half of 2008. French GDP growth should be close to 0.7% in 2008, but following a severe contraction in GDP in Q4 2008, a major setback is still expected 2009, given the historically low levels hit by the majority of business climate indicators and the continued fall of industrial production. Economic forecasts institutes envisage that the contraction in GDP will continue at least until the middle of the year before a fledgling and fragile recovery. The upturn will be favoured by a combination of factors: consolidation of international trade, measures to boost the economy and stock effects. However, it will remain hostage to a number of unpredictable events – notably the time needed to shore up the balance sheets of banks in countries where the financial crisis is extremely harsh. Growth is expected to emerge at -1.4% in 2009, which represents by far the deepest recession since the end of the Second World War.

In this dull context, regarding the business profile of the pulp and paper industry in 2008, noticeable features are:

- Decreased consumption of paper and board (+ 4.0%) down to 10.68 million tons.
- Decreased production (- 4.2%) amounting to a bit less than 9.5 million tons, as a consequence of 7 mills having shut down and a reduced production particularly during the 4th quarter of the year. The closure of these mills represents a capacity of 6% of the production capacity.
- Decreased imports (- 2.2%) and exports (- 2.2%).
- A decrease of the price index of the different grades. This index (100 = average for 2000) has reached the value of 96.6 at the end of 2008. Between January and December 2008, the index has decreased of more than 5% (but the various paper grades have different price evolutions).

Regarding investments, opportunities will be given to four mills that have been selected in 2008 by the government as producers of biomass-based electricity producers.

Socio-economic contribution the pulp and paper industry

It is obvious that the pulp and paper industry, as any other industries, generates many indirect jobs. Its specificity is certainly that both these direct and indirect jobs are to a large extent in rural or remote areas. No comprehensive or pulp and paper specific study on this issue exist in France. Nonetheless, in the context of mills closure, the number of employees in the industry is on a decreasing trend.

Corporate Social Responsibility policies are more and more frequent, especially in international companies implementing in each mill a policy decided at corporate level.