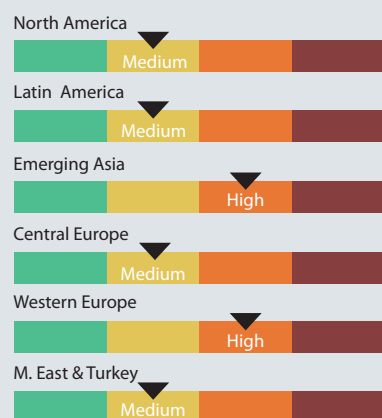


PAPER

COFACE REGIONAL SECTOR RISK ASSESSMENT



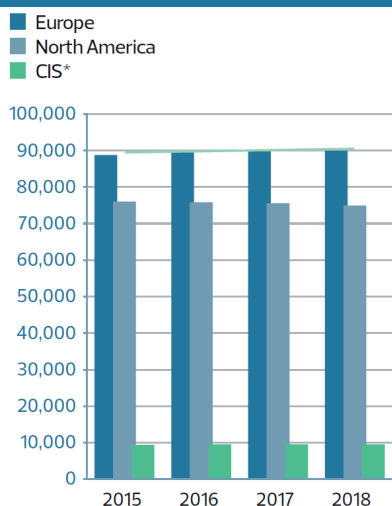
+ STRENGTHS

- Positive outlook linked to the strong demand for cardboard packaging and e-commerce booming activity
- Demand driven by Asia (despite China economy on-going rebalancing process).
- Paper is long-lasting and recyclable - an advantage during the energy transition in progress in the world's leading economies

- WEAKNESSES

- Upheaval in the traditional paper market due to technology
- Great elasticity in household demand for cardboard

APPARENT CONSUMPTION OF PAPER AND PAPERBOARD (in thousands of metric tonnes)



Source: UNECE 2017

*CIS = Commonwealth of Independent States

RISK ASSESSMENT

According to the Committee of Forests and the Forest Industry (COFFI), global paper and cardboard production could rise 0.8% in 2017 before falling 0.4% in 2018 in UNECE countries (the United Nations Economic Commission for Europe, regrouping Europe, North America and the Commonwealth of Independent States (CIS)). This increase in production is mainly due to a rise in household consumption. Paper and cardboard consumption trends vary worldwide, continuing to fall in North America since 2012 while rising slightly in Europe and Asia. The world market is also affected by tariff barriers: in 2016, 16% of paper and cardboard consumption in North America came from imports vs. 62% in Europe, thanks to the single market. This effect is confirmed by the 106% and 85% growth in paper and cardboard exports to Canada and Mexico, respectively, following the signing of the NAFTA agreement. South-East Asia continues to be the main market for American exports (27%).

The sector has undergone significant structural changes as digital technology becomes widespread, resulting in a stagnation in consumption (0.2% between 2015 and 2016) and in the production of coated and plain paper (down 0.1%) in Europe and in the CIS. In addition, the inclusion of ecological issues in production and consumption standards is reflected by a dynamic increase in the market share of recycled paper and by the need for innovation in production methods. Paper was the most recycled product worldwide in 2017: over 70% in Europe according to the Confederation of European Paper Industries (CEPI). This trend should benefit the sector in the long term, since paper can be used as an alternative to other materials, such as plastic. Cardboard packaging is considered more ecological and lighter, and enjoys tremendous innovation. Cardboard packaging also benefits from a dynamic e-commerce sector and the increasing packaging demand as a so-called "convenient" food supply.

DEMAND

Overall, the falling demand for paper's traditional uses is offset by the growth in paper demand for cardboard packaging and for household and sanitary use. In 2017, average consumption in the UNECE regions still rose, in step with the growth in consumption worldwide. Germany will be the main European market in 2018 thanks to the strength of the demand for industrial packaging. In North America, where digital technology has had the greatest impact, paper consumption has continued to fall (down 1.1% in 2017 vs 1% in 2016). The United States is still, however, the main consumer of paper and cardboard (71 metric tonnes in 2015), mainly from national and Canadian production. Overall, growth is largely buoyed by the demand for cardboard packaging, in step with the enormous growth in online sales.

SUPPLY

In Europe, paper and cardboard production rose 1.0% in 2017 and should increase by 0.5% in 2018. In the CIS, the growth in production should remain at 0.5% for these two years. However, in North America paper production, after rising by 0.5% in 2017, should fall by 1.6% in 2018. This is mainly due to a continuing trend of the sector's companies rationalising production capacity to adapt to the competition and changes in demand. In general, the worst performing pulp, paper and cardboard mills are closing their doors, whereas the production of low-cost pulp, with chemical processes, and of paper tissues and packaging is growing.

Pulp production in UNECE countries should also rise, so as to meet the growing demand for sanitary paper and cardboard, and especially in response to China's growth. In Europe, the sector is largely driven by external demand; as a result, European countries have a 20% trade surplus for paper products. In France, turnover for paper and cardboard manufacturers was stable in 2016 and should rise 3% in 2017 according to Eurostat. In the United States, paper and cardboard production continued to fall in 2016 (down 0.3%) and this downward trend is likely to continue in 2017 according to UNECE (down 1%). In the United States and Canada, evolutions in paper production and recycling should be matched by a growth in the market.