



The Wood, Pulp, Paper and Paperboard Sector in a Single Market

West Germany has 175 paper and board mills, producing 30% of total EC output. West Germany also constitutes a substantial market, accounting for some 27% of total consumption. It is also the third largest consumer of wastepaper in the world. To protect their interests as 1992 approaches, West German firms are seeking merger and acquisition opportunities in other European countries, particularly in Spain.

Prior to EC membership, Spanish mills were small and received little investment attention. Since 1985, foreign groups have undertaken a staggering number of joint ventures with Spanish firms. Energy costs are relatively low in Spain, chiefly as a result of natural gas agreements signed with North African countries. Manufacturers can also take advantage of the country's comparatively low raw materials and labour costs. Conversely, raw material prices are on the rise as demand for Spanish eucalyptus pulp grows.

France's pulp and paper industry seems to be more aware of the implications of 1992 than any of its EC counterparts. In 1976, 202 paper and board mills produced 4.61M tonnes/year. In 1987, there were only 147 such mills, producing 5.83M tonnes/year. Rationalization is also evident in pulp production. In 1976, there were 41 pulp mills producing 1.82M tonnes/year. In 1988, there were 21, producing 2.1M tonnes/year. This trend toward rationalization is expected to continue over the next few years to enable French companies to meet the challenge presented by non-EC imports in post-1992 markets. French producers are also looking for more cooperative ventures with papermakers both inside and outside the EC.

The EC wood industry is comprised of some 21,000 firms, many of which are SMEs. As this sector restructures to meet the new challenges of 1992, Canadian firms should consider acquisitions, mergers or joint ventures to capitalize on the many excellent opportunities it offers. Canadian exporters should also keep a close watch on the formulation of pan-European standards to ensure that their products meet new regulations.

Extensive restructuring is also expected in the EC's tissue industry. Several large groupings are expected to emerge, consequently, medium-sized companies will be squeezed out of all but local markets and small producers of lower-grade tissue will serve only very tiny local markets.

Deregulation of distribution

The EC Commission has increasingly directed Europe-wide policies on transportation. Deregulation of the distribution system for the industry will mean a reduction in haulage prices. Papermakers can expect, for example, Commission-led enthusiasm for distribution by train instead of truck, or combined transport. When a major trans-European canal link is completed in 1993, a move back to canal transport will be encouraged. The net result therefore should be greater choice of distribution networks and lower costs for papermakers.

Canadian Activity in the EC

Some Canadian firms feel that investing in, rather than exporting to, the EC will keep them in the market. For example, Cascades Inc. of Quebec has extended its reach in France by acquiring three box board plants, and has recently announced plans for a fourth acquisition in Belgium.