EXECUTIVE SUMMARY

Following the Paper Trail

Overcoming Market Barriers to Environmentally Preferable Paper

WRITTEN BY: Emily McNair **SENIOR RESEARCHER:** Alistair MacDonald

SENIOR PROJECT ADVISORS: Delores Broten and Gil Yaron

EXTERNAL REVIEWER: Professor Patricia Marchak

LAYOUT AND DESIGN: Hands On Publications **PRINTING:** Marine Printers

ISBN: 0-9680431-3-5 (Reach for Unbleached! Foundation); 0-9730467-1-6 (Aurora Institute)

This report was made possible through the generous support of the Government of Canada through Industry Canada's Office of Consumer Affairs.

The executive summary to this report is printed exclusively on environmentally preferable paper (EPP).
Cover: New Leaf Reincarnation Matte 80 lb. (100 per cent recycled, processed chlorine-free).
Inside: New Life Opaque 60 lb. (30 per cent recycled, processed chlorine-free).

Copies of the executive summary and full report are available in PDF format at www.aurora.ca and www.rfu.org

Following the Paper Trail

THE PULP AND PAPER INDUSTRY PLAYS AN INTEGRAL ROLE IN BOTH THE global and Canadian economies. While the majority of printing and writing papers are produced in the United States, these paper products are the highest value-added sector and fastest growing segment of the Canadian industry, increasing by 11.4 per cent in sales in 2000. Similarly, global demand for office papers continues unabated.

In contrast, the pulp and paper sector as a whole has seen a steady decline in profits. Current industry practices are neither economically nor environmentally sustainable. The pulp and paper industry has been hit hard by economic downturns, price fluctuations in the global market, industry consolidation, overcapacity, increasing international competition, and aging infrastructure. For the last two decades, the industry has been increasingly dominated by transnational corporations, and competition has grown fierce as new countries have entered the market. Canada has lost its price advantage in the export of softwood kraft market pulps for printing and writing papers to hardwood kraft market pulps from southern latitudes. Aging mill infrastructure leaves Canada as an exporter of relatively low grade commodity products that have lower market value and are more vulnerable to global price fluctuations. Rather than innovating toward an environmentally and financially sustainable model, industry has retrenched, cutting production and jobs.

While Canada does have examples of innovation within the pulp and paper industry, most of the technologies used to produce pulp and paper remain conventional and have changed little in recent years. Even with investment of $6 billion on environmental upgrading, combined with efforts to improve mill capacity for utilizing recycled content, Canadian industry continues to utilize environmentally damaging processes and produce primarily low-grade papers with low market value and low post-consumer recycled content.

Pulp and paper also remains the third largest industrial polluting sector in Canada. Furthermore, conventional paper production practices are condoned by lax regulatory enforcement that continues to allow industry to externalize the environmental costs of production.

The market for environmentally preferable paper (EPP) represents an opportunity for Canada to create a unique niche in the global paper market while achieving environmental objectives. However, some stakeholders continue to support approaches that entrench the status quo. EPP remains a niche market in North America, claiming only 5 to 7 per cent of market share. Paper producers and suppliers provide a number of explanations for poor consumer demand, including price, quality and convenience. Yet, evidence indicates that a significant segment of consumers are willing to pay a premium for EPPs and industry acknowledges that many of the quality issues surrounding recycled, totally chlorine-free papers have been resolved. These observations suggest that other factors within the pulp and paper market may be distorting supply and demand of EPPs.

Within this context, *Following the Paper Trail: Overcoming Market Barriers to Environmentally Preferable Paper* undertakes a structural analysis of the office paper industry in Canada through sourcing for production and consumption, and identifying barriers to expanded market share for EPP. The study identifies 19 barriers and 23 recommendations for action to help stimulate growth in sales of EPPs.

The study's central finding is that the development of a healthy and sustainable pulp and paper sector focused on EPP production requires producers, distributors, government and consumers to shift toward a position of support for change.

Scope and Methodology

Following the Paper Trail: Overcoming Market Barriers to Environmentally Preferable Paper was conducted by the Reach for Unbleached! Foundation and the Aurora Institute with the financial assistance of Industry Canada's Office of Consumer Affairs. Terms of reference for the study were:

1. To attempt to accurately assess the current production and market for recycled content and chlorine-free office papers in Canada (including the historical development of this sector);
2. To assess the obstacles to further market growth; and,
3. To make recommendations for enhancing consumer interests and demand in this area, as well as production capacity, with references to strategies and successes in other regions of the world.

Defining Environmentally Preferable Paper

The study adopts the definition of environmentally preferable paper (EPP) arrived at by environmental non-governmental organizations at a summit on paper in 2002. *A Common Vision,* a document produced by the summit, defines EPP as paper with at least two of the following three characteristics:

- Significant (at least 30 per cent) post-consumer recycled content;
- Bleaching technologies with no chlorinated substances (totally chlorine free); and
- Forest Stewardship Council-certified forest management on virgin fibre sources.

The study employed a range of methods to achieve its objectives and obtain a comprehensive picture of existing barriers. Study findings are based on:

- an extensive review of literature on the pulp and paper market;
- fifty-five interviews with representatives from key stakeholder groups;
- focus groups;
- an Aurora Institute/Ipsos Reid omnibus poll of 1,005 Canadians on their attitudes and paper purchasing habits; and
- an on-line survey of 137 members of the Purchasing Management Association of Canada, representing the most comprehensive institutional paper purchasing study in English-speaking Canada.

The peer-reviewed report was supported by an advisory committee of eleven experts representing all stakeholder groups, including pulp and paper companies, distributors, government, institutional consumers, and environmental organizations.

The report begins by providing the necessary background information about the pulp and paper industry on a technical level (how pulp and paper are produced) and a corporate level (who participates in the industry and how it is linked to a broad range of stakeholders) (chapter 2). It then contextualizes Canadian pulp and paper producers within the global industry with respect to ownership, economic competition and the production of environmentally preferable products (chapter 3). The following chapters look at each stage in the paper trail, including paper production (chapter 4), paper distribution (chapter 5), paper consumption (chapter 6), and paper recovery (chapter 7). Each chapter focuses on a discussion of barriers and recommendations for action to create a healthy paper sector.

PART ONE

Barriers to Change

THERE ARE MANY STAKEHOLDERS AND STAGES IN THE PAPER TRAIL. THROUGH a comprehensive investigation of these various elements, including producers, distributors and resellers, consumers, and recovery systems, the study identifies 19 barriers impeding the growth of EPP market share in Canada. A summary of these barriers follows; for a full analysis, please see the full report.

Producers

North American producers are subject to a broad range of competing pressures. The industry also has a distinct corporate culture that has evolved over the decades in response to the historic commodity-based dynamics of the sector. These forces have contributed to the reluctance of producers based in Canada to shift toward the production of EPPs.

With the exception of the southern United States, where fast growing fibre and modern, integrated mills remain highly competitive, the North American softwood pulp and paper industry has reacted defensively to the challenges of the contemporary market. Rather than exploring alternative means of improving their returns (including developing and exploiting the EPP niche), producers have typically blamed timber costs, taxation levels, labour and energy costs, and exchange rates.

Following the Paper Trail: Overcoming Market Barriers to Environmentally Preferable Paper identifies and examines six barriers at the producer level to EPP market growth:

BARRIER 1: Traditional structural relationships within the industries.

BARRIER 2: Capital intensiveness, shot-sighted capital investment strategies, and risk aversion.

BARRIER 3: Insufficient support for innovation.

BARRIER 4: Producer perceptions of consumer interests.

BARRIER 5: Globalization and consolidation.

BARRIER 6: Conversion to Elemental Chlorine-Free technology.

Distributors and Resellers

Distributors and resellers are the "middle men" – navigating between the producer and the consumer. The study identifies three barriers emanating from these relationships and the contextual corporate culture.

BARRIER 7: Ties between distributors and resellers and producers.

BARRIER 8: A focus on marketing traditional office papers.

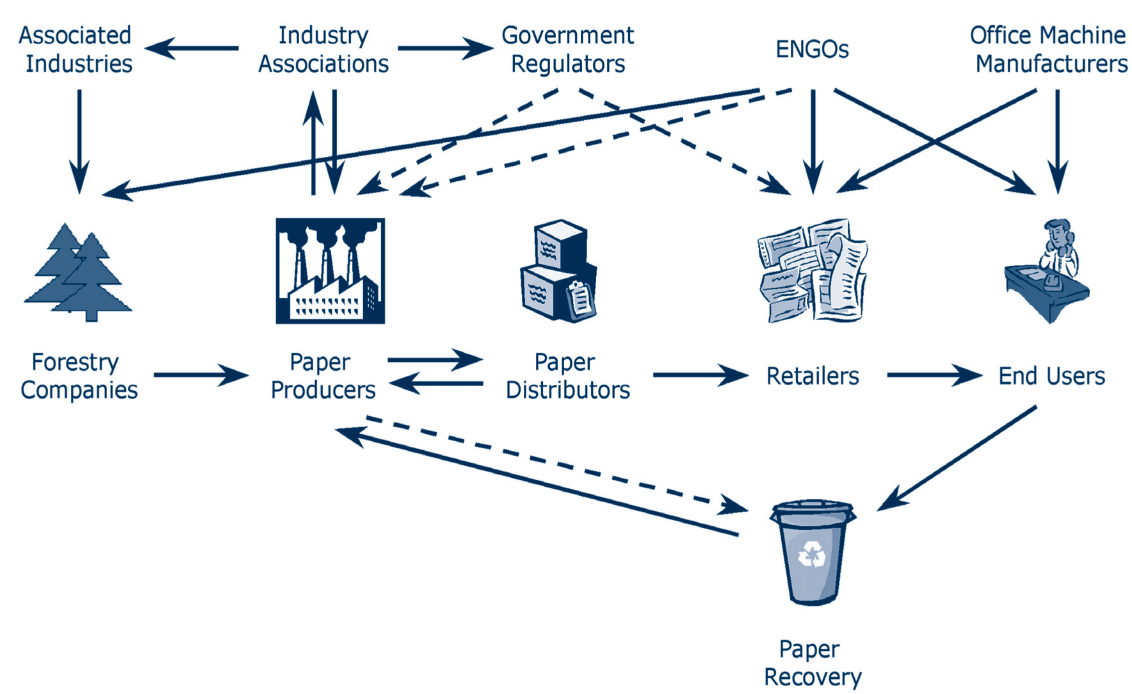
BARRIER 9: Pricing, economies of scale, and consumer demand.

Consumers

While a growing number of consumers, such as printers and publishers, are utilizing EPP, these efforts have not reached the critical mass required to create a fundamental shift in the market. Myths about quality and availability combine with a lack of consumer education, marketing, and clear labelling to compromise the market for EPP.

Survey results indicate that approximately 44 per cent of both institutional and individual consumers view price as the primary consideration in making paper selections. In contrast, 30 per cent of institutional consumers and 34 per cent of retail buyers indicate a willingness to pay at least a 5 per cent premium for EPP, suggesting a sizeable untapped market in Canada.

THE PAPER TRAIL



In exploring the apparent divide between consumer attitudes and purchasing habits, the study identifies four barriers to increased consumer demand for EPP:

BARRIER 10: Price premiums for environmentally preferable papers.

BARRIER 11: Lack of education about environmentally preferable papers.

BARRIER 12: Insufficient labelling and product information.

BARRIER 13: Limited use of procurement policies.

Recovery and Alternative Fibres

The use of recovered fibre has grown significantly as a result of regulatory requirements in other jurisdictions and improved effectiveness of recovery systems. In 2000, the recovery rate of waste paper and paperboard in Canada was estimated at 44 per cent (Natural Resources Canada 2003). Yet, recovered paper comprises only 5 to 7 per cent of printing and writing paper fibre content. Canada also remains a net importer of recovered fibre, leaving it vulnerable to price fluctuations and changes in the global marketplace where recovered fibre is now traded as a commodity.

A viable alternative for the supply of production inputs for Canadian-made EPPs is the cultivation and harvest of alternative fibres. Alternative fibres are currently underutilized, due in part to underinvestment by an industry that holds deep and long-standing ties between forestry corporations and pulp and paper corporations.

The study identifies six barriers to enhanced fibre recovery in Canada and wider acceptance of alternative fibres:

BARRIER 14: Limited recovery rates and recovered fibre quality.

BARRIER 15: Lack of policy/regulation addressing reuse.

BARRIER 16: Perceptions of post-consumer fibre as “waste”.

BARRIER 17: Import dependency and price fluctuations.

BARRIER 18: Alternative fibres are not viewed as a viable alternative.

BARRIER 19: Alternative fibres require investment and time to become competitive.

Recommendations for Action

FOLLOWING THE PAPER TRAIL: OVERCOMING MARKET BARRIERS TO ENVIRONMENTALLY Preferable Paper sets out 23 recommendations for action to address barriers to EPP market development in Canada. For ease of reference, recommendations are grouped in the report under the same categories of production, distribution, consumption, and recovery and alternative fibres.

Recommendations Regarding Producers

RECOMMENDATION 1: Decrease vulnerability in the global market through product diversification and niche product development.

The production of low value paper products that lack in distinguishing characteristics will not provide the Canadian pulp and paper industry with long term viability. Investment in product diversification is necessary; meeting (and developing) the North American demand for EPP will contribute to the long term health of the industry.

RECOMMENDATION 2: Improve the economies of scale for environmentally preferable paper office papers so they are competitive with virgin and chlorine bleached products.

Producers must make a substantial shift in production to EPP for the costs of production to drop and for EPP to compete effectively in the marketplace.

RECOMMENDATION 3: Develop a strong research and development partnership (government/industry) with a focus on environmental technology.

The export of environmental technologies can be economically valuable in itself. Canada must reassert itself as an innovator in the pulp and paper industry by encouraging the development of environmental technologies that can be applied in the industry for cost savings. Technological innovation that focuses on incremental improvements of environmentally hazardous processes should not be fundable.

RECOMMENDATION 4: Increase customer knowledge about environmentally preferable papers and develop customer loyalty to identifiable products.

Industry and government must invest in developing a market for high quality "Made in Canada" paper products. Ensuring customer loyalty and knowledge about EPP requires consumer education and marketing. Investing in a marketing campaign that highlights how the Canadian industry is distinguishing itself and why EPPs are superior will generate consumer demand.

RECOMMENDATION 5: Integrate "alternative" fibres into "mainstream" production.

While recycled fibre is a partial solution to replacing unsustainable fibre sources (softwood timber), Canada lacks sufficient internal supply of recycled fibre. Heavy reliance on imported recycled fibre is not an economically sound solution (nor does it employ Canadians). A sound solution for producers is the increased use of Canadian grown environmentally preferable alternative fibres.

RECOMMENDATION 6: Develop strong incentives for producers to shift to environmentally preferable production.

Rather than focusing exclusively on regulating the negative impacts of industry pollution, incentive-based policies are required. Economic incentives (such as tax breaks, subsidies and rewards for innovation) encourage producers to make change because they see the dollar value in altering their processes.

RECOMMENDATION 7: Phase-in regulations that are based on maintaining whole ecosystem health; enforce these regulations.

As industry and government begin to refocus the pulp and paper industry on economic sustainability, stronger regulation must be phased in to protect the health of Canadians and Canadian ecosystems. For regulations to serve their purpose, they must be enforced. These regulations, like the incentives, should have monetary consequences for producers, and should be substantial enough to encourage environmentally preferable behaviour along the production, distribution and consumption chain. Incentives and investment in the sustainable economic development of the industry should considerably reduce industry violation of regulations.

Recommendations Regarding Distributors and Resellers

RECOMMENDATION 8: Shift the marketing focus to the promotion of environmentally preferable papers.

This means providing EPPs with the benefits of good advertising, including generating educational and promotional materials about EPPs, ensuring that product placement is high profile, stocking products regularly (to guarantee supply) and directing customers, particularly corporate and institutional buyers, toward these products.

RECOMMENDATION 9: Educate management and staff of distributors about environmentally preferable papers so that, in turn, consumers may be educated.

As discussed in Chapter 6, education of consumers is fundamental to shifting the market for EPPs. Distributors can play an important role because they have direct contact with customers on a regular basis.

RECOMMENDATION 10: Encourage producers to provide quality papers with a basic minimum level of environmental attributes.

The only way to significantly alter the economies of scale of EPP producers is through the purchasing of sufficient volumes. Distributors that make a commitment to EPPs can provide a huge boost for production.

RECOMMENDATION 11: Stock papers from small and alternative paper producers.

While perhaps an unlikely option for those distributors that are linked through ownership to large pulp and paper companies, in order for small EPP producers to survive, they too require access to consumers. By selling these papers, distributors can raise awareness with consumers about the range of options available.

Recommendations Regarding Consumers

RECOMMENDATION 12: Establish standards for product labelling to ensure that consumers can easily ascertain environmental information about the paper they are purchasing.

Regulations for the labelling of paper would assist consumers in making informed decisions about paper products. Information about the type of fibre and bleaching processes used must be mandatory, including the amount of *post-consumer* recycled fibre. This information should be consistently formatted on paper packaging so it is easy to locate. In addition, the information should be provided with advertising and marketing for office papers.

RECOMMENDATION 13: Request environmentally preferable paper from suppliers and producers.

Consumers should communicate their preference for environmentally responsible papers. If the kind of paper consumers wish to purchase is not available (for example, chlorine free paper), it is important for suppliers and producers to know this. Concerns about the availability and affordability of EPPs can be expressed in positive terms – by describing what kind of paper would be preferable.

RECOMMENDATION 14: Adopt procurement policies that support environmentally preferable papers.

By implementing supportive procurement policies, bulk paper purchasers, particularly government and other public institutions (such as health and educational facilities), have the power to create a substantial shift in the economies of scale for EPP. These policies must be applied broadly to all departments, and should include targets (with accountability) that increase over time.

RECOMMENDATION 15: Strengthen Paper Trail partnerships and explore non-traditional approaches to promoting environmentally preferable papers.

A range of partnerships is necessary to ensure that EPPs gain a significant market share. Environmental non-governmental organizations (ENGOs) and citizen organizations must work together to provide consistent information for consumers and to focus consumer education. Partnerships across the Paper Trail, including government and industry, are necessary to create broad change. ENGO involvement in service provision and policy development would be a step in the right direction.

RECOMMENDATION 16: Develop and promote a legitimate and widely recognized certification system for environmentally preferable papers.

One of the possibilities for strong partnerships is through a third-party certification program for EPP. The Enviro-Choice label would be a legitimate option, but a renewed effort to develop acceptable guidelines for the certification of paper is required. The guidelines should include stringent requirements for recycled/alternative fibre content, bleaching processes, and sustainable sourcing for wood pulp. The certification system must be governed by an independent third party and well publicized so that consumers can recognize and purchase certified papers with confidence.

RECOMMENDATION 17: Link corporate social responsibility with the procurement of environmentally preferable paper.

As part of educational initiatives, the setting of a good example is always helpful. Government and ENGOs can provide recognition for organizations and distributors committed to EPP as a practical way to promote good purchasing practices. Some within the industry believe that the Fortune 1000 companies will become the largest growth market for environmentally preferable products because these companies wish to be viewed as supporting corporate responsibility.

Recommendations Regarding Recovery and Alternative Fibres

RECOMMENDATION 18: Build partnerships and joint responsibility for increasing effective paper recovery.

For paper recovery systems in Canada to reach their maximum levels, the entire Paper Trail must share the responsibility. Public education is a pivotal part of increasing the amount of paper entering the recovery stream and reducing the degree of contamination. Industry and government must share the costs of implementing effective paper recycling programs. ENGOs may have an important role in implementation and education. Developing real partnerships, with sharing of information and resources and joint development of strategies among the various players, would help to increase effective paper recovery.

RECOMMENDATION 19: Implement policy and/or regulation with targets for the improvement of paper recovery; monitor progress.

All three levels of government can take steps to assist in the transition to more EPPs. Whether by adopting regulation, creating voluntary (but binding) agreements, or through the kind of shared cost approach being utilized in Ontario, it is time for the recovery of paper to be enshrined within policy and regulation that includes targets and is monitored for progress.

RECOMMENDATION 20: Educate the public about recovered and alternative fibres.

ENGOs, government and industry are all responsible for ensuring that the public understands the value of recovered paper and participates fully in recycling programs. Consumption of the final product (EPPs) is also a missing link in the recovery loop. Educational initiatives around the potential for alternative fibres would help to create a positive marketing environment.

RECOMMENDATION 21: Develop stability of supply and demand for recovered fibre within Canada.

Canadian paper producers need reliable sources of recovered fibre. Commitments between Canadian suppliers and processors of recovered paper are an important way for both to have some guarantees for stability. The paper recovered in Canada should stay within Canada to feed local mills and provide, at fair price, for both collectors and paper producers.

RECOMMENDATION 22: Fund research and development of alternative fibre production and pulping.

To develop a truly sustainable Canadian pulp and paper industry, homegrown alternative fibre sources must be utilized. Significant research and development is required in this area before a transition of fibre sources can be expected to occur. Research and development funds should be redirected from traditional wood pulping technologies to the area of alternative fibres. Government and industry need to contribute funds to these efforts, which should include pilot projects that allow for industrial application of research.

RECOMMENDATION 23: Recognize that there will be no single fibre source for environmentally preferable paper.

In the same way that nurturing the market for EPPs will require the collective effort of all stakeholders, so too will the development of truly environmentally responsible paper require a combination of inputs. Ultimately, Canadian EPPs may find their own unique combination of fibres, likely a combination of recovered fibre, agricultural residues or industrial crops and a small proportion of softwood pulp.

In Conclusion...

THE CURRENT LIMITATIONS of the production and marketability of EPPs in Canada are the joint responsibility of all stakeholders on the Paper Trail. For a number of years there has been an ongoing blame game, visible in the interviews conducted by the Aurora Institute for this report, and in the media generally.

Industry proponents defend the status quo and attribute lack of production to global pressures and lack of demand. Consumer groups argue that EPPs are difficult to locate or are too expensive. Government attempts to stay on the fence between industry and ENGOs, defending the role of the pulp and paper sector in the Canadian economy and attempting to regulate it – all the while avoiding the challenge of moving industry in a truly sustainable direction.

The importance of a collective effort where well worn positions take a back seat to the pursuit of the common goal – the creation of a sustainable (environmentally, socially and economically) pulp and paper industry – cannot be overestimated. It is perhaps daunting to think of the investment and commitment required to make such a transition. However, there are enough examples of success that it is conceivable to envision a future where Canada has a global reputation as a producer of high quality environmentally preferable office papers.

Copies of the full report are available in PDF format at www.aurora.ca *and* www.rfu.org