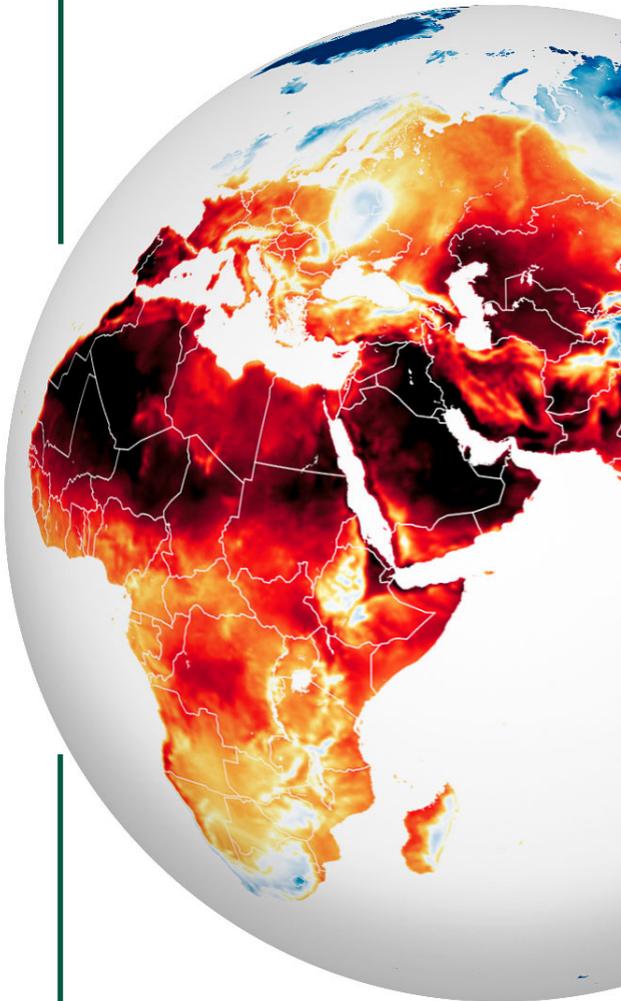


Issue 5

December 2022

FEPE

Magazine



INDUSTRY OUTLOOK

Jean de Couëspel, FEPE
President: "From Volume
to Value"

FEPE MARKETING REPORT

Ecommerce: Opportunities
for envelope manufacturers

SUSTAINABILITY

Tackling climate change

SUSTAINABILITY

Recyclability is not enough!

WORLD ECONOMY

Turbulent times

BUSINESS STRATEGY

Change what the world
'feels like'



A magazine about the envelope, light packaging
and ecommerce packaging industries

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SUSTAINABILITY

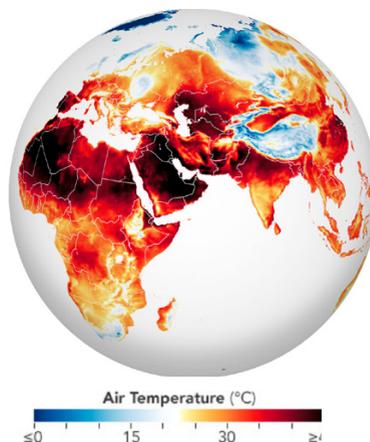
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This issue's cover image (eurasia_geos5_2022194_lrg.jpg, courtesy of NASA Earth Observatory) shows air temperatures on July 13, 2022. In Western Europe, which was already experiencing severe drought, the heatwave fueled raging fires. In Portugal, temperatures reached 45°C on July 13 in Leiria, where more than 3,000 hectares were burned.

Editorial

Dear reader,

Autumn 2022 has been turbulent. We have a high inflation rate, the war in Ukraine continues and energy prices are high. There's no sign that any of these issues will be significantly resolved over the coming winter.

In the midst of these difficult times, we wanted to bring speakers to our Annual Congress to help us all understand what's happening, how we got here and the possible scenarios ahead of us. In this magazine, we've summarised some of the presentations to offer the same overview to you, FEPE members, and stakeholders.

Despite everything, the main takeaway from the FEPE Congress was that we (FEPE) have been in the industry since 1957, we've seen many ups and downs, and we're confident that we will emerge from these crises stronger than we were.

The role of FEPE is to provide information to our members to support their decision-making processes in their companies regarding upcoming EU regulations or the general economic situation and market trends in Europe. To fulfil our part, we are already building the agenda for the next Marketing Committee meeting in February 2023 and the Annual Congress in September 2023. We'll keep you informed in future issues.

Meanwhile, I hope you'll enjoy reading FEPE Magazine #5!

Matti Rantanen

Matti Rantanen
FEPE Managing Director



“From Volume to Value”

FEPE’s new President, Jean de Couëspel, outlines his view of where the industry is today and what lies ahead.



Jean de Couëspel, Director General GPV France and Executive Vice President Operations Mayer-Kuvert-network and General Manager GPV France

Dear Friends,

It’s of course an understatement to end this year saying it has been challenging!

Like most European converting industries, we have suffered raw material price increases, paper shortages, soaring energy costs, staff recruitment challenges and general global instability.

We’ve had no choice but, again and again, to adapt ourselves to the situation, motivate our teams, convince our customers and find alternatives. We have worked hard to come through each storm and prepare for the future.

But you could say that we’re already well trained to face a challenge! We’ve been managing a declining market in a low margin industry for more than 15 years! We brought our ‘sporting’ attitude to these recent challenges and faced them too. We did it.

And even though we are all tired after a long year of struggle, there’s hope for the future.

The changes happening are forcing our industry to adapt. We are accelerating the move from Volume to Value!

When the time comes that we look back on the past, after the 2020–21 Covid years, 2022 will also no doubt be remembered as a keystone year for FEPE members.

There is still uncertainty in front of us but none of us now thinks of our products in the same way as we did in the past.

We have already successfully made the transition from thinking largely in terms of volume to thinking in terms of the value we bring to our customers and stakeholders.

We are all capitalising on the opportunities, innovating, accelerating our transformations and continually creating more value. And so I’m convinced that 2023 will be a great year for our industry.

As we embark on this new year, my very best wishes to all FEPE stakeholders!!

EVENTS

SAVE THE DATE:

ROME, 13–17 SEPTEMBER 2023

FEPE will hold its General Assembly and Annual Congress in Rome, Italy, next September. See our Summer 2023 issue for the programme and social activities schedule.

FEPE WEBSITE

NEW FEPE.ORG MEMBERS AREA

In the past, the FEPE Annual Report included articles on the presentations delivered during the Annual Congress. As these articles are now covered in the FEPE magazine, a shorter Annual Report is now published on our website, in a new, confidential ‘Members Area’. Currently, the Members Area section contains:

- a report on *The European E-commerce Envelopes Market to 2027*, produced by Smithers for FEPE
- FEPE Annual Report 2022 (web version)
- FEPE Annual Report 2021 (PDF download).

To access the section now, use the password: *fepe-brussels22*

The password is changed regularly. For the latest password, please send a request to secretariat@fepe.org.

Ecommerce: Opportunities for envelope manufacturers

FEPE Marketing Committee's overview of the envelope market based on data from IPC. Results show parcels, notably ecommerce deliveries, are key to securing the future of the postal sector.



Russell Croisdale, Former MD, Encore Envelopes and Packaging Solutions, and Chairman, FEPE Marketing Committee

IMPACT OF COVID-19

Covid-19 has altered the envelope manufacturing sector dramatically. In 2020–2022, plants were downsized. Workforces were reduced, with all companies experiencing employee shortages. A small amount of new equipment was added. Paper was, and continues to be, in short supply.

Mail's share of the total postal industry revenues is 29.1 percent.

The epidemic has aggravated the part of the postal sector that was already suffering, in most countries, due to digitalisation. Since 2010, aggregate mail volume has fallen by close to one third in advanced economies and has declined

by three quarters in some postal services. The number of mail items per capita has fallen steeply.

Revenue and margins are falling, costs increasing.

However, overall postal revenue is stable or increasing in more than two-thirds of the countries tracked, with most citing parcels as the key reason.

GROWTH IN ECOMMERCE

Covid-19 also resulted in the rapid growth of ecommerce, which had already been steadily increasing over the past two decades. While consumers have gone back to shopping in-store, ecommerce has become more familiar to consumers. Every postal service is now battling to 'take control of the doorstep' to ensure that their service is the preferred delivery option for consumers and companies.

There are extensive opportunities for envelope manufacturers to take a strong place in this market. There is no doubt that parcel volume will continue to grow. As ecommerce spreads

and grows, logistics companies and parcel integrators are also continually finding new ways to improve their operating margins.

Postal services are expanding by acquiring businesses that complement their own core business, while some postal organisations are divesting their mail and information services.

ENVELOPE MARKET 2023

Global demand for envelopes is expected to fall slightly, by 3–6% depending on the country. Paper will continue to be in short supply. Technologies that will have an impact on physical mail include artificial intelligence, new vehicles and more integration between postal plants and other postal organisations.

Postal organisations are not expected to fail. Governments will continue to fund a national service, but the level of subsidies will start to come down.

Overall, the universal trend away from mail and towards parcels and packages will continue.

POSTAL SECTOR EUROPE 2021



CITPA: Shared interests

CITPA is the International Confederation of Paper and Board Converters in Europe. Established in 1961, CITPA represents the interests of the European paper and board converting industry, from small local firms to large multinationals.

CITPA is one of FEPE's closest partners. Many FEPE members and regular readers of FEPE magazine will be familiar with the organisation, and with CITPA Director Krassimira Kazashka' insightful reports to FEPE Congresses on legislation issues.

- European legislation: food packaging
- Environment: waste management policy
- Standardisation
- Social political exchange of views and trends

For more information, see www.citpa.org.

While FEPE members' products may not be the same as CITPA members', the companies are directly or indirectly affected by many of the same legislative changes.

CITPA activities, including research, lobbying and publications, cover topics that many FEPE members share an interest in.

- Information coordination and exchange
- EU policy developments



Tackling climate change

Ella Vilèn addressed the FEPE Congress with a detailed look at the impact of climate change and at how businesses can act responsibly to mitigate their impact and adapt to new market demands.



Ella Vilèn, Manager, Sustainability, UPM Communication Papers

CLIMATE CHANGE IS HERE. AND IT'S DEVASTATING*

Sustainability Manager Ella Vilèn said that global greenhouse gas (GHG) emissions are increasing and we are not doing enough about it.

Referring to the IPCC 2021 report, she noted that "In 2020, we had 400 Gt of CO₂ left in the carbon budget to limit global warming to 1.5 degrees. With current annual emissions, the carbon budget will be exceeded in 7 years.

* Data in this article is from Ella Vilèn's presentation and from the IPCC report: *Climate Change 2021, The Physical Science Basis, Working Group I Contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change, October 2021.*

The IPCC report tells us that:

"It is unequivocal that human influence has warmed the atmosphere, ocean and land. Widespread and rapid changes in the atmosphere, ocean, cryosphere and biosphere have occurred.

"[...] The likely range of total human-caused global surface temperature increase from 1850–1900 to 2010–2019 is 0.8°C to 1.3°C, with a best estimate of 1.07°C.

"[...] With every increment of global warming, changes get larger in regional mean temperature, precipitation and soil moisture."

Fig. 1 - Selected significant climate anomalies and events, June 2022



GLOBAL AVERAGE TEMPERATURE

June 2022 average global surface temperature was the sixth highest for June since global records began in 1880.

ARCTIC SEA ICE EXTENT

The Arctic had its 10th-smallest June sea ice extent in the 44-year record.

CONTIGUOUS U.S.

Heavy rain and melting snowpack resulted in severe flooding in parts of southern Montana on June 13, forcing the evacuation and temporary closure of Yellowstone National Park and surrounding towns.

NORWAY

Tromsø, Norway's largest city above the Arctic Circle, set a new temperature record for June, beating the previous record set in 1974.

ASIA

Asia had its second-hottest June on record.

JAPAN

A heat wave scorched Japan in the middle of its rainy season. This June marked the worst documented streak of hot weather in June since 1875.

EUROPE

Europe had its second-hottest June on record.

TROPICAL STORM ALEX

Alex was the Atlantic's first named storm of the season. Before becoming a named storm, it caused flash flooding in western Cuba and southern Florida.

MEXICO

Monterrey, Mexico, suffered a weeks-long water shortage due to persistent drought and high rates of surface water evaporation. Region has been in a state of emergency since February.

AFRICA

Africa had its 10th-warmest June (tied with 1999) on record.

CHINA

Severe flooding forced thousands to evacuate parts of southern China. Some locations were hit by the heaviest downpours in 60 years.

SOUTH AMERICA

Much of South America experienced near- to cooler-than-average June temperatures. As a whole, it had its coolest June since 2016.

GLOBAL CYCLONE ACTIVITY

Globally, five named storms formed, which is near-average June cyclone activity. Only one storm (Blas) reached tropical cyclone strength.

ANTARCTIC SEA ICE EXTENT

Sea ice extent in Antarctica hit a record low for the month of June.

Extreme precipitation

Droughts

Water availability

Temperature extremes

Ocean impacts

Impacts on humans and the economy

Biodiversity and ecosystem impacts

Sources:
Map: NOAA State of the Climate Reports, www.ncei.noaa.gov/access/monitoring/monthly-report/global/202206.
Labels [orange]: UPM Communication Papers

Reductions in emissions have not reduced overall emissions because human activities that generate emissions have been increasing. The latest science is warning us that we are heading for not 1.5° or 2° of global warming, but as high as 3°.

And the results are already proving catastrophic. Fig. 1 (previous page) shows just a few examples of extreme weather conditions in just one month, in June 2022. “This summer we all experienced extreme weather conditions,

destroying forests, forcing people out of their homes and even causing thousands of deaths.”

Heatwaves are becoming more widespread and intense, as are fires and both extreme rainfall and droughts. If global warming increases by 2°, more than 60% of the world’s population will be exposed to severe drought, leading to unprecedented human displacement, conflict and socio-political upheaval. Entire ecosystems will be transformed with significant impact on the human and animal food chain.

EVERY TONNE OF CO₂ EMISSIONS ADDS TO GLOBAL WARMING

There is a near-linear relationship between cumulative CO₂ emissions and the increase in global surface temperature.

“The list of impacts is really neverending,” Ella continued. “And there are only two directions for what we can do about it: mitigate it or adapt.”

Mitigation consists of reducing, removing or avoiding GHGs, across the full value chain, looking at the full picture. “UPM, for example, is moving from thinking in terms of ‘footprint’ to ‘handprint,’” Ella explained.

Footprints are the environmental and social impacts of the processes that sustain us. Handprints are changes to environmental and social impacts that we cause outside of our footprints — the positive and tangible climate impacts of a process, service or product.

It’s about going beyond emissions reductions to consider what can be done to mitigate the emissions still occurring, for example through supporting emissions compensation projects.

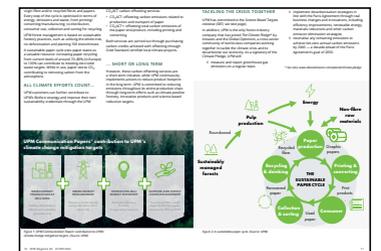
Adaptation is about preparing for and adjusting to both the current and the predicted effects of climate change. This can be very challenging for organisations and for society, but also offer opportunities to envision new processes, products and business strategies.

- ◇ Climate laws and regulations are proliferating, leading to business challenges but also to innovations that can result in lower production costs as well as reduced emissions.
- ◇ Markets demands are changing, as more and more consumers demand sustainable products.
- ◇ Financial markets are changing to reflect growing sustainability-focused investment.
- ◇ New business opportunities and partnerships are evolving as we transition to a lower-carbon economy.

To conclude, Ella advised that as we face the climate challenges, we cannot afford to wait. Businesses need to account for all risks and be ready to search for and seize opportunities to transform their business. “Ultimately”, she concluded, “climate resilience will result in business value creation.”

Fig 2 (left) - UPM Communication Papers’ selection of climate- and weather-related news headlines, summer 2022.

UPM’s sustainability strategy and actions are detailed in the article A future beyond fossils in FEPE Magazine #4, March 2022. See: www.fepe.org/publications

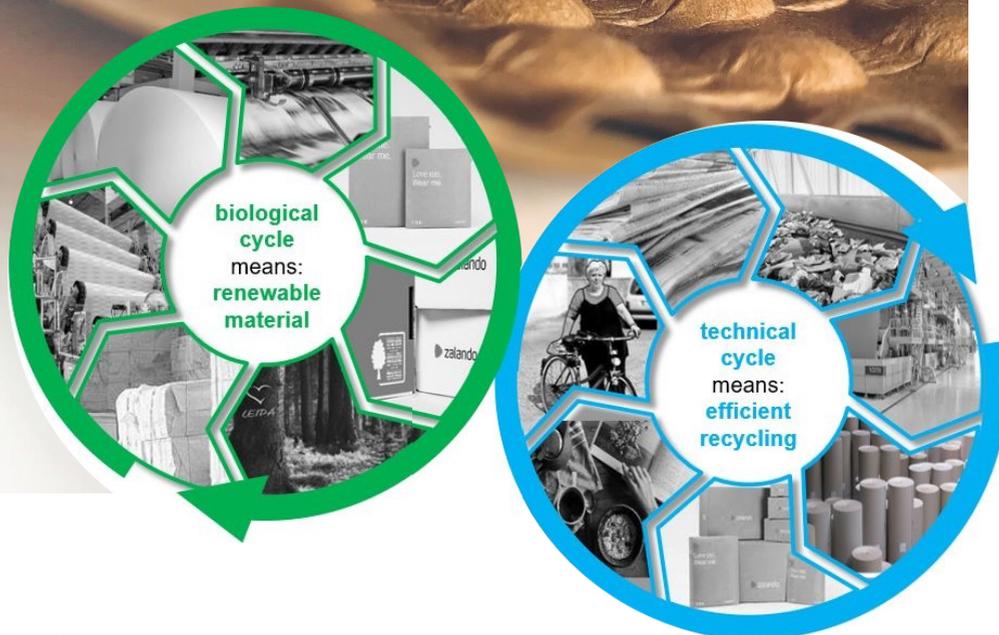


Recyclability is not enough!

How designing for circularity is key to success in the paper market.



Sarah Lesting, Head of Sustainable Solutions Consulting, LEIPA Group and Managing Director, LEIPA UK Ltd



SUSTAINABILITY DOESN'T END WITH RECYCLABILITY *

Millenials, said Sarah Lesting, have a powerful attachment to paper and cannot imagine their lives without it. At the same time, they are more concerned about paper consumption's impact on the environment (65%) than they are about technology's impact on the environment (59%). Almost two-thirds are making an effort to reduce paper consumption, while over half say that paper consumption is not harmful if you recycle.

Sarah also referred to a Two Sides study that found that when it comes to important documents such as bills and financial statements, many consumers still want paper versions by post. 69% of consumers say that these offer better record keeping and nearly half say they are easier to read. However, 63% believe that e-billing has a lower environmental impact.

Sarah continued that brands have the ultimate responsibility for the whole life cycle of their products. That responsibility doesn't end with making the product recyclable. **"Someone has got to recycle that product; someone has got to use the recycled material."**

Sarah outlined the megatrends in sustainability. Some twenty years ago, there was a strong focus on lightweighting, using less raw materials per product and reducing waste. The focus then turned to ensuring that waste is recyclable. "Today," she said, "more and more brands are looking at how to put recycled content back into the chain, in a closed loop."

CLOSED LOOP IN ACTION

Sarah described a Leipa programme with the brand Lush, a producer of handmade cosmetics, in association with a partner recycling company, Drekopf. "The challenge," she said, "is that zero packaging is not possible, and certainly not for ecommerce." Yet Lush wanted a closed loop. The solution was a 'swap deal' with a recycling partner, to ensure that paper and packaging would be recycled confidently and measurably.

It's just one example of how the paper industry is becoming a circular economy, with recycled paper producers closing the loop. It makes the 60 million tons of waste paper collected in Europe a valuable resource — not a problem.

She described that LEIPA uses post-consumer waste paper for their graphic and packaging papers. By using the latest techniques and having implemented state-of-the-art processes, they are able to recycle multiple times.

"By using only waste paper as the basis for our products," Sarah said, "the direct forest footprint is reduced to zero."

But there is scope for much higher rates of recycling than today, Sarah suggested. "There are approximately 39 billion envelopes in circulation today, yet only approximately 6.3 billion are recycled," she concluded. "Given that we're using a material that can be recycled around 10 times... can we yet say that the envelope industry is truly circular?"

** Data in this article is from Sarah Lesting's presentation including data from a TNS Research Global report on the paper usage and attitudes of millenials, and a Two Sides survey into digitalisation.*

Turbulent times in the global economy

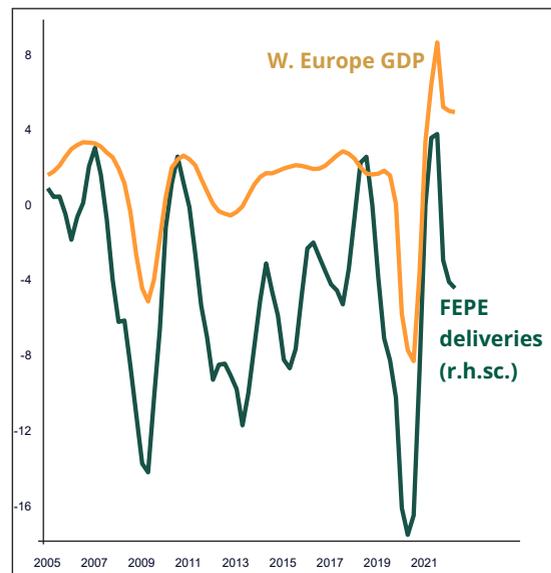
At the 2022 FEPE Annual Congress, Andreas Boltho spoke on the latest global economic and social trends, forecasting impacts on the world's economy and on FEPE members.



Andreas Boltho, Director, Oxford Economics

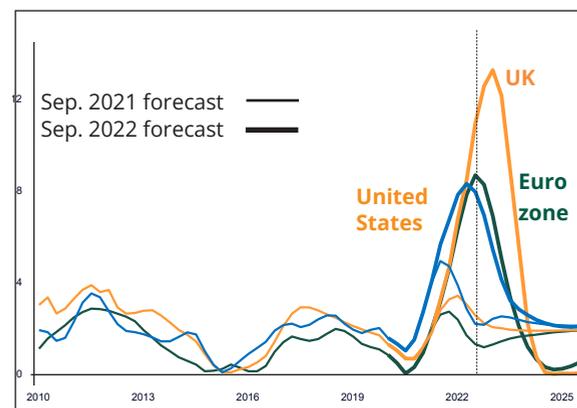
GROWTH OF W. EUR. GDP AND FEPE DELIVERIES

(% changes from previous year: 3-quarter moving average)



CONSUMER PRICE INFLATION

(% changes from previous year, 3-quarter moving average)



Figs. 1, 2: Source: Oxford Economics

ECONOMIC OVERVIEW

It's a year since economic expert Andreas Boltho last addressed the FEPE Congress. His conclusion then was cautiously optimistic: the economic situation was mainly being influenced by Covid-19 and might soon start to recede as Covid came under control. "This year, the picture looks different," he said. "The world is in turmoil and could get worse. We've been hit by three shocks simultaneously: Covid-19, inflation and war."

Covid-19 has had massive effects on the economy. GDP growth has dropped sharply, even plunged, across the world. "Covid was pretty catastrophic," he continued, "but then the economy generally seemed to be returning to levels similar to before Covid." With better treatments and widespread vaccination, in many if not all parts of the world, the number of deaths (as a share of cases) has fallen. But there may be renewed risks from new variants in the future – we simply don't know."

"Last year I thought the inflation spike might be transient – I was wrong," Andreas avowed, noting that inflation is reaching double digits in some countries, due to soaring energy prices and food prices, in particular, and steep increases in interest rates.

The third shock is the war in Ukraine. If the war is resolved relatively quickly, GDP growth should be stagnant. If it is extended, GDP growth will decline, and FEPE deliveries will fall in correlation. "We are flirting with a recession scenario." Nonetheless, four factors leave room for cautious optimism.

- ◊ Food commodity prices and metal prices surged in 2022 but have now begun to fall.

- ◊ Supply chains are improving; freight rates for commodity goods surged in 2020/21 but are coming back to normal levels.
- ◊ So far there hasn't been a wage spike. Nominal wage increases have been lower than the consumer price increases. If this continues, it could help inflation to settle down too.
- ◊ A faster resolution of the Ukraine war would take the pressure off energy prices and increase consumer confidence. The forecast is for stagnant GDP growth rate in this case, rather than falling GDP.

However, if wages don't go up, the result will be a belt-tightening scenario, with less demand and less economic growth.

GDP AND FEPE DELIVERIES

Over the past years, there has been a correlation between GDP and FEPE deliveries. While GDP is not of course the only influencing factor, it still remains likely that if GDP levels stagnate or fall further, so will FEPE deliveries. GDP is being influenced by macroeconomic trends and consumer confidence.

"We are facing energy and food shortages, or fear of further shortages, uncertainty about Europe's political future with the rise of populism, as well as flailing confidence in the European Union and tensions in the Euro zone. If any countries were to abandon the Euro, it could be disastrous," Andreas predicted, "Lehman brothers squared!"

"We are living in very difficult, turbulent times," he concluded. With war, inflation and tensions in Europe... we have not seen times like this since the second World War.

Change what the world feels like for people

At the 2022 FEPE Annual Congress, speaker Petri Rajaniemi reflected on the drivers behind socio-political trends and how FEPE members can help steer positive change.



Petri RAJANIEMI, Thinker, writer, speaker, advisor, Ponder Nobs Oy

THE WORLD'S POLARISATION

Petri Rajaniemi opened by saying that had he been speaking a few years ago about important megatrends, he would have focused on globalisation, digitalisation, automation and robotisation. But today, however, “we are in the midst of war, climate change, democracies fading, inequality and a growing polarisation within society.”

“The internet, which many of us thought would become a source of reliable, self-correcting information, even truth, has become a realm of alternate worlds where everyone is free to create their own ‘truth’.”

Even companies have become infiltrated with this. And it is toxic, Petri continued. “We have moved from ideas that ‘we’re all just different tribes’ to ‘you will be successful by polarising people and thus finding your fiercely loyal fans’.”

- ◇ Division delivers identity: each side is convinced they are ‘right’.
- ◇ Identity delivers control: now you can carefully form your message and ensure that you are delivering it to the people that identify with you.
- ◇ Control delivers profit.

Feeding the flames of division and polarisation, he said, is a toxic competition in a battle of who is ‘right’ that ultimately only serves to deliver short-term profit at the expense of long-term value.

The world events that we are experiencing, and the increasing polarisation, create the same emotion in everyone: fear. “We all perceive that the world is bad, and getting worse, and it makes us afraid. Data about how life might actually be better than before has no impact. People don’t care. Because there is no longer any sense that ‘the powers that be’ are in control and taking care that there will be a good outcome.”

EMPATHY: A BUSINESS TREND

Petri Rajaniemi’s ‘human economy’ theory is in line with a new business trend focusing on empathy. For example, strategist and designer Michael Ventura’s book, *Applied Empathy*, describes empathy as a corporate leadership approach designed to drive internal cultural change, build better products, and connect businesses more deeply with their audiences.

A 2021 Forbes article, *The Economics Of Empathy: Three Ways To Drive Business Growth With Human-Centered Design*, notes that

‘businesses are realizing that understanding and caring about customers’ needs can not only positively impact their bottom line, but should be the North Star that guides their strategy and product road map.’

Petri takes this further, advising businesses to look not just at consumers’ needs, but at **people’s perceptions about the world they are living in and the feelings these perceptions generate.** And to build their business strategy and product development around the goal of *improving* those feelings.

In fact, he said, nobody is ‘in control’. “Even through the worst days of Covid-19, many people felt optimistic that this could be the start of a positive resetting of the world. That Covid would bring people together, bring governments together. Instead, we have a terrible war in Europe that is impacting the whole world and accelerating climate-related disasters.”

“People base their actions on their *perception* of the world, not on facts,” he continued. “If businesses want to help the world improve, they must change what the world ‘feels like’ for their employees, their managers, their customers.”

CHANGE WHAT LIFE ‘FEELS LIKE’

Petri argued for a ‘human economy’, where business leaders move away from thinking in terms of ‘control’ to building a business strategy based on empathising with how people are feeling.

ECOMMERCE — GIVING PEOPLE WHAT THEY’VE BEEN WAITING FOR

Petri uses the example of ecommerce packaging as a way to empathise with feelings. “We know that people look forward to and are excited to receive a personal letter in an envelope. Today, people order products. Regardless of age or gender, they look forward to receiving their delivery and are excited when it arrives. Your ecommerce packaging is the physical interface with the digital world. Where people’s abstract hopes and wishes become a reality. The excitement is the same for an ecommerce package as for an envelope with a letter they’ve been looking forward to.”

“We live in a *human* economy. And *people* are driven by emotion. The envelope/package business taps into human emotions: in a digital world, this industry offers something truly *touching*. By empathising with the emotion that comes with the experience of receiving a personal letter or a personal delivery, the industry can find new business opportunities.”



Did you know?... Retailers are increasingly using cheerful packaging designs (on gift cards, boxes and envelopes) to create a positive brand impression by tapping into people’s natural excitement when receiving an ecommerce delivery, like this one from Dutch retailer CoolBlue. (Translation: ‘GIFT. Tadaaaaa’)



FEDERATION FOR ENVELOPES AND FOR LIGHT
AND ECOMMERCE PACKAGING IN EUROPE

FIND OUT MORE

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