

**Opinion of the European Economic and Social Committee on ‘Towards an EU policy to rationalise the web offset and rotogravure printing industry in Europe’ (own-initiative opinion)**

(2011/C 44/16)

Rapporteur: **Mr GENDRE**

Co-rapporteur: **Mr KONSTANTINOU**

On 16 July 2009 the European Economic and Social Committee, acting under Rule 29(2) of its Rules of Procedure, decided to draw up an own-initiative opinion entitled

*Towards an EU policy to rationalise the web offset and rotogravure printing industry in Europe.*

The Consultative Commission on Industrial Change, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 1 July 2010.

At its 464th plenary session, held on 14 and 15 July 2010 (meeting of 14 July 2010), the European Economic and Social Committee adopted the following opinion by 145 votes to two with seven abstentions.

## 1. Conclusions and recommendations

1.1 The European printing industry is having to tackle a huge set of challenges due to the rise of the Internet as a source of information and advertising, the drop in the number of people reading newspapers and magazines, and fierce global competition, which is affecting certain products in the sector.

1.2 The web offset and rotogravure sector is experiencing a particularly difficult situation because of significant overcapacity in production, which some commentators have estimated at 25 % to 30 %. The IFO Konjunkturtest report on the German printing industry stated that levels of investment in the industry were down since 2008, in line with market trends. 2006 and 2007 were reasonably good years for the printing industry<sup>(1)</sup>. Since 2008, however, investment cycles have been kept at much lower levels, mainly in order to rationalise and improve production flow.

1.3 The printing market is running at overcapacity. Other significant factors are influencing competition, such as the attractiveness of new media, low cost imports from producing countries, and decreasing demand. This difficult economic climate has resulted in a drop in prices and is having a negative effect on employees' standard of living.

1.4 The current economic crisis has made it more difficult to access credit. As is the case in many other sectors, these negative trends have increased the need to reduce production costs. This situation has had an impact on recent pay negotiations. In these difficult circumstances there is concern that some printing companies, particularly those working in the more vulnerable segments of the market, are facing large-scale restructuring and mass redundancies.

1.5 In 2007 the European Commission published the results of a study on the factors affecting the competitiveness of the sector. This research led to proposals endorsing an action plan for the printing industry. The EESC supports these proposals, which businesses are starting to implement and which remain relevant. The Committee welcomes the achievements which have already been made but considers that the problems in the sector – which have been greatly exacerbated by the crisis and the recession which has affected all EU Member States – require new initiatives to meet short- and long-term challenges.

1.6 The EESC has been informed about a new year-long project involving trade unions and employers in the sector. The aim is for the social partners to draw up guidelines for restructuring businesses in a socially responsible way. The project was launched in 2009 and allows employers and trade unions to examine the problems in the sector together and discuss the issues to try and reach a joint solution. The focus is on drawing up an action plan to reduce overcapacity in the sector.

1.7 This plan could be part of a longer-term industrial policy which would include examining new models for the printing industry. This work should be followed up by a high-level group made up of representatives from the industry, trade unions and experts, which would be formed under the auspices of the European Commission. The group would be responsible for looking at how the industry might evolve in the future and identifying tools which could be employed to deal with these changes, using a transparent system for gathering information.

1.8 Currently, formal social dialogue between employers and trade unions only exists at company level and at national level. The EESC calls on the Commission to set up a European social dialogue committee for the sector as a whole.

<sup>(1)</sup> Ifo, Investitionstest, München, Frühjahrsgutachten 2008 (investment survey, Munich, Spring 2008).

1.9 The agenda for formal, structured European social dialogue could include:

- 1) discussing different measures which would maintain employment: training and redistributing tasks coupled with the reduction and better organisation of working time, use of short-term working, and encouraging career change both inside and outside the company or the profession.
- 2) examining the work required to ensure that production capacity can be adapted to market demands, without having a negative impact on working conditions.
- 3) a joint recommendation from employer and worker representatives on guidelines for long-term investment, which recognises that new investment needs and the scope of these requirements can only be fully assessed by individual businesses. Setting out the elements required for an appropriate investment strategy should ensure that machines can be acquired to act as replacements or to meet market needs, thereby ensuring that businesses have the equipment they require to work effectively in their current or future specialist areas.
- 4) the need to analyse the financial situation in the sector by bringing together and consolidating published data, while at the same time ensuring that businesses' strategies remain confidential. This is a top priority to ensure that current room for manoeuvre in the sector can be assessed more accurately.
- 5) identifying best practice in terms of working conditions, training and re-skilling, while ensuring that the standards of the European social model are respected and that collective agreements are also complied with where they exist.

1.10 The EESC calls on the Commission to work towards implementing a European-level observatory or sector council for skills and jobs which would measure the sector's current and future needs and help to ensure that the training on offer is in line with demand. The observatory would encourage permanent professional training, career change within the sector, and re-skilling.

1.11 As an immediate step, the EESC suggests that the relevant European associations hold a conference for all stakeholders to establish the current state of affairs in order to work out short-term action and to fund an independent study on the medium and long-term future of the sector. The European Commission should give the associations financial and logistical support to carry this out and should itself attend the conference. The social partners could be asked to suggest what action needs to be taken as a matter of priority to put the market on a sustainable footing and look at how the industry might evolve in future.

1.12 The activity of brokers could be analysed to measure the impact this is having on pricing. The potential use of

specialisation agreements could also be examined by businesses to help ensure that production capacity can be better utilised through economies of scale and by improving production techniques.

1.13 The EESC calls on the EU and national governments to facilitate access to public funding for the sector, especially that available via the European Social Fund, the European Regional Development Fund (ERDF) and the European Globalisation Adjustment Fund, for the purpose of promoting training and re-skilling and giving workers in the printing industry the support they need to embark on a career change within the sector. The Committee calls on businesses to examine the ways in which the European Investment Bank (EIB) could help to fund the process of acquiring new technologies for new activities.

## 2. Background

2.1 Changes in the European printing industry are closely linked to changes experienced by paper, ink and printing press suppliers, as well as their clients, who have their own problems to deal with and are working out the best way forward, which for some will mean a process of concentration.

2.2 These problems are the result of structural changes in the media which have been exacerbated by the financial crisis: the development of the Internet is gradually changing the face of the market. It is making waves throughout the value chain as advertising budgets are cut, taking vital advertising revenue away from the print media – an irreversible trend in part – and having a negative impact on the range of information available.

2.3 New transport and communications opportunities have meant that businesses working with products that do not have to come out on the market so quickly (this applies especially to books of various kinds) are now competing with printing companies operating in India or China. It also appears that brokers who are looking to secure the lowest prices are tending to place orders with Asian firms, causing a deflationary trend which is having a negative effect on investment. And with the growing trend to publish catalogues online rather than on paper, these changes are having a very negative impact on the rotogravure and web offset printing sector in Europe.

2.4 According to the latest figures published by Eurostat, the European printing industry is made up of 132 571 companies and employs more than 853 672 people<sup>(2)</sup>. Seven countries – the UK, Germany, France, Italy, Belgium, the Netherlands and Spain – employ 80 % of the total number of people working in the sector across the EU-25. More than 95 % of European printing companies employ fewer than 50 people, accounting for around 60 % of total employment, and less than 1 % have more than 250 staff, accounting for around 13 % of total employment. More detailed figures – which are currently not available – would be required to gain a broader, more precise picture of the sector.

<sup>(2)</sup> The competitiveness of the European printing industry, European Commission (2007).

2.5 This opinion will focus on web offset and rotogravure printing, which involves large numbers of print runs or publications. Newspapers and packaging will not be covered in depth as these sectors are considered to be different markets altogether. In fact, many newspapers have their own printing presses and therefore only have a minor impact on this specific market. The web offset and rotogravure sector is made up of printing companies producing large quantities of products. Web offset and rotogravure are different printing processes and require different types of machinery. Offset is used by large web offset companies and small sheet-fed offset businesses. Taken together, the European offset and rotogravure printing sectors make up 56 % of the traditional printing market in Europe <sup>(3)</sup>, producing books, directories, catalogues and magazines, which tend to be printed in very large quantities, usually between 10 000 and 300 000 copies.

2.6 Magazines account for roughly half of production, with the other half mainly consisting of catalogues, promotional leaflets and books. Overall, 5 million tonnes of paper are used in the production process. Most magazines in Europe are printed using a rotogravure printing press, as are many different types of packaging materials. Total annual capacity in the European rotogravure sector is more than 5 million tonnes, with 80 % of this capacity in just five countries. In total there are 222 rotary printing presses in Europe.

2.7 The web offset and rotogravure sector in Europe does have some large businesses, and this applies both to web offset printing (around 30 companies) and rotogravure printing (around 25 companies). These companies are competing to increase their market share, while overall demand is decreasing. Over the past few years, rotogravure printing has started to face stronger competition from web offset printing. Businesses are under increasing pressure and the social partners are having to negotiate restructuring processes while at the same time attempting as far as possible to maintain employment, working conditions and pay.

### 3. Reasons

3.1 The problems facing the European printing industry in general are particularly severe for the web offset and rotogravure sector, which has been hit hard by structural and cyclical challenges: sweeping changes in the media sector, with the growth of the Internet reducing the market for printed products providing information; overcapacity and over-investment, and concentration.

#### 3.2 General developments in the media sector

3.2.1 The decline in the volume production of the heavy printing industry looks set to continue over the next few

years because of the rise in online publishing, advertising on the Internet and resulting changes in reader behaviour.

The production of directories and catalogues has been decreasing over the past five years. The production of these items is essential for the European web offset and rotogravure printing industry, however, and if the trend continues, there will be more restructuring, more mergers, more site closures and additional job losses.

3.2.2 The magazines sector in Europe has been experiencing a downward trend over the past ten years, with a drop in sales and decreasing prices <sup>(4)</sup>. According to Intergraf, four out of the six main magazine publishing countries experienced a drop in sales between 2001 and 2004, while there was a slight increase in Spain and Italy. More recent figures show that the Italian and Spanish markets are now shrinking. In 2009, there was a 28.7 % drop in investment for advertising in periodicals in Italy (Nielsen), and magazine production dropped by 10.5 % in terms of weight (Istat). This trend is still in evidence and, as long as there is overcapacity in the sector, it looks set to continue. Companies are targeting more specialised markets to increase sales, so that orders are involving shorter print runs, which is having a negative effect on the web offset and rotogravure sector, where savings in production costs can only be made through large print runs.

3.2.3 Newspaper publishers have reduced the number of their daily titles because of declining readership. In the UK, for example, no fewer than 53 titles (mainly free weekly newspapers) were closed down in 2008. Some of these groups have been rolling out dual paper/online subscription offers, as they try to make these two ways of circulating information and advertising material work together. This could help to stall decline in the sector and could help some employees to find new jobs – although it is difficult to judge the effects with any certainty at this stage.

3.2.4 Paper accounts for more than half of printing costs in Europe and given that companies tend to buy paper on an individual basis, they are finding it difficult to compete with the group purchases made in South-East Asia. In a recent report by the Stationers' and Newspaper Makers' Company, it was estimated that the demand for newsprint would drop by half (56 %) by 2020. The same report also suggested that demand for magazines would shrink by around a third because of more material being published online and the effect this would have on advertising – and this was without taking into account the impact of digital media on the business magazines sector <sup>(5)</sup>.

<sup>(3)</sup> Ibid.

<sup>(4)</sup> Ibid.

<sup>(5)</sup> The Future of Paper and Print in Europe, Stationers' and Newspaper Makers' Company (2009).

3.2.5 Traditionally, large publishers did all their own printing. Over the past ten years, however, many publishers have been selling off their printing presses to focus on their core business, and publishers with their own printing capacity are now few and far between. Publishers are also giving printing jobs to the lowest bidder – and sometimes using brokers' services – which is having an additional effect on printers, exacerbating difficulties in an already weak sector. Overcapacity is allowing these large, powerful publishers to force companies to cut their prices, squeezing printing companies' margins and driving down staff pay.

3.2.6 Publishers of catalogues and periodicals are also exerting a similar type of pressure on the cost of manufacturing their products. Given the strong competition for every contract, most printing companies are attempting to cut their costs by squeezing wages, which is having a negative impact on working conditions.

3.2.7 The financial crisis is having dire consequences for printing companies' access to credit, and the sector does not have a good reputation with the banks, which sets companies at a further disadvantage. The crisis has also led to cuts in advertising budgets, which has a negative impact on the volume of work available for printing companies.

3.2.8 Although diversifying might be desirable, it is difficult for graphic companies to do so because most of them are not currently in a position to invest. This is especially the case for prepress processes due to a shortage of funds and lack of available premises.

3.2.9 In contrast, small and medium-sized production units seem to be able to adapt more easily to structural changes and cyclical problems as their ways of working are more flexible and can cater for different client needs more easily. In future, these businesses could help with re-employing a certain proportion (as yet difficult to quantify) of the employees who have been made redundant from large companies.

### 3.3 *Overcapacity and overinvestment*

3.3.1 Increasing overcapacity<sup>(6)</sup> in the European market for web offset and rotogravure, as a result of decreasing demand in the European market and overinvestment, is having a negative effect on companies' slim margins. There is now a real risk that tougher cost-cutting measures will start to be introduced in a desperate attempt to maintain margins, or simply to survive. Many companies are having to accept a sales price which is lower than their overall production costs to try and minimise their losses.

<sup>(6)</sup> Gennard, J.: *The Impact of the financial crisis on the European graphical industry* (2009).

3.3.2 A study carried out by the printing arm of the trade union UNI Europa showed that, in 2008, production in the graphic sector was back at 2004 levels<sup>(7)</sup>. Despite this unfavourable situation, European rotogravure companies bought 28 new printing presses between 2005 and 2008. Of course, this investment was in part necessary to replace equipment, meet new market demands and provide additional capacity to ensure potential peaks in production could be dealt with more efficiently. These presses can produce printed material more efficiently, thereby increasing overcapacity in the sector, which even before the economic crisis was estimated at 15-20 %<sup>(8)</sup>. With the crisis in full swing, it now stands at around 25 to 30 %.

3.3.3 According to the German trade union Ver.di, increasing Europe's printing capacity has increased competitive pressure, which has become ruinous. Ver.di's analysis of the situation also states that investing in this way has merely increased the pressure to reduce costs and eliminate market competitors, which has already resulted in large-scale job cuts.

3.3.4 Overcapacity and overinvestment have already resulted in a number of spectacular corporate failures. For example, Quebecor World had been one of the main printing companies in Europe, employing more than 20 000 staff around the world. In 2008, it went into receivership, citing increased competition and the rise of digital printing. In 2009, the company repaid its debts and transferred the European part of the business to an investment vehicle called HHBV. The company is now known as World Color. While some companies failed, many others responded to the difficult climate by merging with other companies. This led to large-scale restructuring throughout the sector which, in turn, resulted in job cuts.

3.3.5 As has been the case in many other sectors, the economic crisis has had a severe impact on salary negotiations carried out in 2009. Even where no redundancies are required, the strong pressure on employees to reduce labour costs has a negative effect on working conditions and pay. In 2009, collective bargaining led to an average drop of 0.9 % in the purchasing power of staff in the European graphic industry<sup>(9)</sup>. The enlargement of the market has reinforced the downward spiral of prices and labour costs, exacerbating the competitive environment.

### 3.4 *Concentration*

3.4.1 The number of companies producing paper, ink and printing presses has decreased over the past few years, resulting in a higher degree of concentration and putting suppliers in a strong position, allowing them to impose their conditions more easily.

<sup>(7)</sup> European Gravure and Offset Printing Conference in Verona, Italy, 16-20 March 2009.

<sup>(8)</sup> Ibid.

<sup>(9)</sup> Gennard, J.: *Report on UNI Europa's collective agreements* (2009).

3.4.2 A recent study carried out by the European graphic sector found that excess capacity, overinvestment, weak demand, lower product prices, lower turnover and increasing product market competition had led to mergers and takeovers, and more bankruptcies<sup>(10)</sup>.

3.4.3 Mergers and acquisitions have produced larger companies that are more determined than ever to eliminate their competitors. In 2005, the graphic arms of the media groups Bertelsmann, Gruner + Jahr and Springer merged to form Prinovis, the largest rotogravure company in the European printing industry. The Schlott AG group became the second largest rotogravure company in Europe by acquiring REUS (Plzeň, Czech Republic), as well as folding and printing capacity (Biegelaar, the Netherlands) in 2006 and 2007. At the beginning of 2008, a Dutch investment group took over Quebecor's European graphic operations. The British group Polestar is on the look-out for partners in order to strengthen its market position.

#### 4. Opportunities

4.1 Taken together, these difficulties have left the European web offset and rotogravure sectors in a precarious situation which will be damaging in the long term if urgent, coordinated action is not taken by decision-makers and other stakeholders. The social partners have concluded that the sector needs to be re-organised and re-structured if it is to develop sustainably over the long-term. It is likely that it will be further streamlined over the next ten years, with many redundancies. The social partners therefore believe that action should be taken now to ensure that the crisis in the sector is brought under control and managed in the best interests of employers and employees. The situation is so serious that the trade unions are currently examining the implications and trying to develop constructive strategies to protect jobs, plan for retraining, guard against deteriorating working conditions and maintain pay levels.

4.2 In 2007 the European Commission put forward a proposal, supported by the professional associations, for a six-point action plan for the graphic industry:

- 1) Supporting the European printing industry in a globalised marketplace
  - a) Partnerships and alliances
  - b) Managing production costs
- 2) Developing added-value services for clients
- 3) Improving training

4) Strengthening the European standard – standardisation and harmonisation

5) Improving research and innovation in a coordinated way

6) Improving the image of the printing industry.

The EESC on the whole supports this proposal, which is broadly speaking still up to date, and welcomes the progress that has already been made. The Committee considers, however, that some urgent measures should be taken to help the sector deal with short-term challenges, given that its problems have been exacerbated by the economic crisis and the recession in all EU Member States.

4.3 The financial crisis has also heightened the need for the social partners to take organised, coordinated action. Developing a proper European industrial policy by building on the Commission proposal is therefore more necessary than ever. Further industry concentration, beyond what is necessary, is undesirable, although a managed consolidation of the industry should be carried out by carefully handling change, even if this involves reducing working time. The aim would be to safeguard as many jobs as possible and plan for effective ways of redistributing tasks and encouraging career change, both inside and outside the company. In accordance with Regulation (EC) No 2658/2000, which is currently being revised, specialisation agreements could be investigated between companies which, taken together, do not make up more than 20 % of the market. These agreements would improve production techniques and bring about economies of scale, helping to ensure companies' survival in the longer term.

4.4 The activity of brokers could be analysed to measure the impact this is having on pricing. The principle of free and undistorted competition should apply, respecting decent labour standards and levels of pay, as well as collective agreements where these are in place in the EU.

4.5 A concerted effort should be made to reduce over-capacity in the sector. Social dialogue and collective bargaining should be rolled out at all levels in all countries to ensure that restructuring is managed in a socially acceptable way. Formal, structured social dialogue at European level is urgently required so that solutions can be developed to meet the challenges facing the industry. The EESC points out that social dialogue in the sector could result in the adoption of opinions, joint declarations, guidelines, codes of conduct, charters and agreements.

4.6 Financial and logistical support from the European Commission is essential to ensure the web offset and rotogravure industry in Europe can thrive in the future. The EESC calls on businesses to use the European subsidies which are available, especially through the European Social Fund, the ERDF, the European Globalisation Adjustment Fund and European funding for research and innovation. It would also make sense to look at the ways in which the EIB can offer

<sup>(10)</sup> Gennard, J. Annual Collective Bargaining Survey. UNI Europa (2008).

financial support to businesses for the process of adapting to new activities which require new technologies. The various support systems should be used solely to facilitate change and should not indirectly fund relocations.

4.7 The EESC suggests that the following four steps should be taken immediately:

4.7.1 Set up a high-level study group made up of employers, employees and researchers to work out how the printing industry needs to be organised in the medium-term and to make proposals on the new business model which needs to be established.

4.7.2 Hold a conference for all stakeholders to establish the current state of affairs and identify possible action in the short-term. The social partners could be asked to look at how the industry might evolve in future and suggest what action needs

to be taken as a priority to put the market on a sustainable footing.

4.7.3 Instigate an independent study, funded by the Commission and carried out using structured European social dialogue, to examine the medium- and long-term future of the sector. The study would involve considering new technology, changes in consumer behaviour, and the strategies of suppliers and buyers.

4.7.4 Set up a skills and jobs observatory/sector council to identify current and future job profiles. In order to develop appropriate training and re-skilling policies, it is essential to gain an in-depth knowledge of the skills needed.

4.8 In order to monitor developments in the industry effectively, the Commission should set up a system for gathering information and reliable data which stakeholders can access.

Brussels, 14 July 2010.

*The President*  
*of the European Economic and Social Committee*  
Mario SEPI

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