MP Newsletter

Issue 1 January 2007

As the voice of the industry, the Confederation of Paper Industries (CPI) represents papermakers, tissue manufacturers, corrugated packaging producers, and recovered paper merchants.

This newsletter informs MPs about the range of issues currently affecting the competitiveness of CPI Members. For further details about CPI or its activities, please visit http://www.paper.org.uk.

Early Day Motion 405 supports Packaging

We wish to bring to your attention EDM 405 'Support for UK Packaging Industry', which has been laid down by Eric Illsley MP.

EDM 405 counters the previous EDM 123 which criticises retailers and producers for excessive packaging. The tabling of EDM 405 is an important step in raising awareness of the fundamental and extremely positive role that packaging plays in modern society.

Eric Illsley MP has also made a request to the Speaker for a 1.5 hour Westminster Hall Adjournment Debate in support of this EDM, and we would appreciate your support for this request. If this is acceptable, then we would ask that you liaise with Eric Illsley's office for further details.

UK extends its reliance on Exports for paper recycling options

It is with continued concern that CPI brings to your attention the incredible reliance that the UK Waste Management Industry has on overseas markets for waste paper recycling.

CPI supports the use of global markets for paper recycling and, given the huge decline in UK paper reprocessing over the last couple of years, is glad that such a market exists. The UK now exports over 50% of the recovered paper it collects, a volume likely to exceed 4 million tonnes in 2006. This may appear an export success story but unlike other commodities, where production can be cut back for lack of demand, recovered paper extraction from the waste stream will have to continue in order to meet EU and UK regulatory targets. If there is any collapse in the export market, where the UK sees increasing price pressures from other global suppliers as they try to decrease the environmental impact of landfill and incineration, the UK will quickly become swamped with material which has no home.

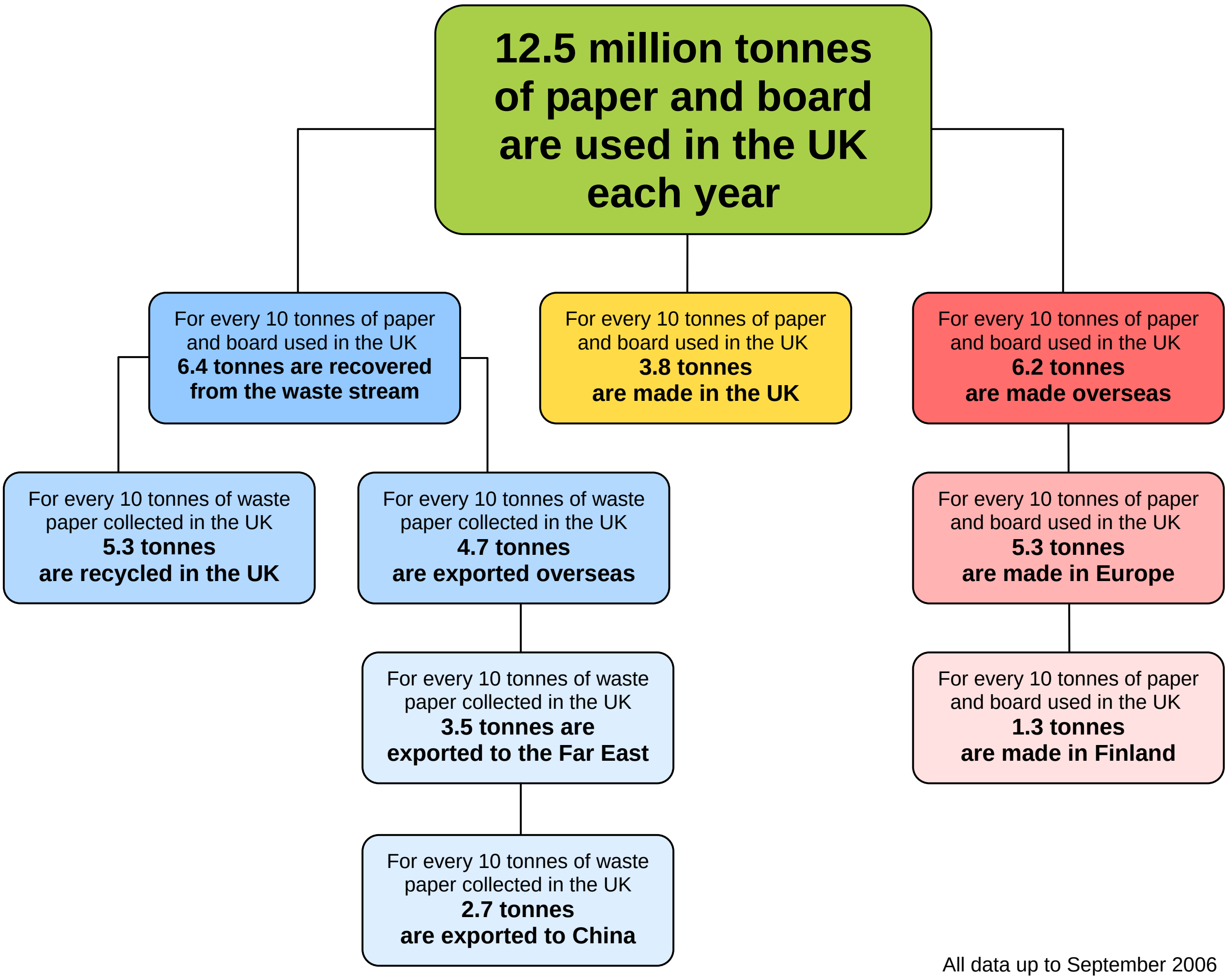
Worst case scenario is that the UK landfills the material, and the public starts to reject recycling as an option. Other recyclable material collections then drop as paper is the base material for all other collection economics, and the invested infrastructure in the UK becomes abandoned as there is no financial viability in the industry.

Second worst case scenario if the collected paper has no home: incineration. However, as the recent WRAP life cycle analysis report "Environmental Benefits of Recycling" clearly shows, this is a poorer option in terms of carbon savings than recycling. How can the UK hold its head up with the rest of Europe if we are burning or landfilling a valuable resource that has an established carbon saving value, whilst trying to persuade others of the seriousness of climate change?

UK paper and board reprocessors, skilled in using recovered paper as a raw material, are closing at a rate of knots that would, on current trends, see no industry left in the UK by 2015 with little sign of new investment. High energy prices and raw material costs are making the UK uncompetitive in the European and global markets. High raw material prices attached to the vast demand from the Far East where mills are willing and able to pay a higher price for recovered paper than the UK; but for how long? With no competition from domestic mills, the Far East may soon have the power to lower prices to a level that would mean the UK having a net cost to supply with no other options for the material other than the scenarios described above.

The global market system is working in the short term to support recycling, but it is building up significant problems for the longer term. CPI would ask MPs to raise this issue with the Government, and form a committee to look at the potential impacts of a global market crash on the UK economics of waste management.

For further information please contact Peter Seggie, Recovered Paper Sector Manager, on 07887 641481 or email pseggie@paper.org.uk.



All data up to September 2006

Recovered paper exports rise, but collection slows dramatically

The UK's progress in increasing the collection of recovered paper from the UK waste stream has decreased dramatically through 2006.

Base data shows that collection has only increased by 2.4% between January and September 2006 (141,000 tonnes) in comparison to the same period in 2005. This compares to an 11.2% rise (581,000 tonnes) in 2005 over 2004 for the same period, and a 9% rise (441,000 tonnes) in 2004 over 2003 for the same period.

Taking into consideration that there has been an increase of over 132,000 tonnes of paper recovered through the packaging waste regulatory system, the above figures suggest that the collection of typical household papers such as newspapers and magazines has risen by just 9,000 tonnes.

This figure confirms CPI's belief that new capital expenditure through PFI projects is being primarily aimed at the recovery of other recyclable materials, to the detriment of the quality of recovered paper. Indeed, the announcement through the end of 2006 of the completion of a number of PFI contracts which implement single stream (co-mingled) collections show the short sightedness of Local Authorities and Government in the sustainability aspect of waste services procurement. The development of single stream collections will have serious implications for the UK as the quality standards of domestic and export recovered paper tighten as excess recovered paper becomes available on the global markets.

Exports of collected material continued to increase in line with further UK mill closures with, up to September, over 2.8 million tonnes leaving the UK, an increase of almost 450,000 tonnes over the same period in 2005. Domestic consumption was just under 3.5 million tonnes, a decrease of over 280,000 tonnes on the same period in 2005. June and July were the first months that saw export volumes of recovered paper rise above domestic consumption. This is likely to become the norm through 2007, as further UK mill closures are completed and domestic demand decreases further.

CPI has a number of concerns that current UK waste practices will lead to longer term problems in maintaining its EU commitments and public confidence in recycling:

- current global demand for recovered paper will continue in the short to medium term, but this will level off as the Far East economies mature;
- overseas markets will introduce their own environmental legislation and increase domestic collection levels;
- all European Member states, except those with very high current collection rates, will increase domestic collection in line with EU Directives and become competitors to the UK on the global market;
- the USA is likely to introduce environmental legislation to increase collection activity which will again increase supply to the global market. They are well placed to supply Far East demand;
- currently excess demand is driving global buyers to focus on volumes but this will change to quality as excess supply is generated. CPI has concerns that UK quality will be below other Global standards, as we continue to invest in single stream (co-mingled) collections from domestic sources simply to reduce collection costs for Local Authorities;
- legislation on food contact material, particularly packaging, will force European mills to stop taking recovered paper from single stream (co-mingled) sources;
- legislation on the Transhipment of Waste will make it more difficult for exporters to ship lower quality contaminated recovered paper from single stream (co-mingled) collection.

For further information please contact Peter Seggie, Recovered Paper Sector Manager, on 07887 641481 or email pseggie@paper.org.uk.

EU Emissions Trading Scheme

CPI lobbied officials extensively prior to the publication of the EU ETS Phase II NAP in August, and the resulting allocations for the paper sector were not unrealistic.

We did, however, feel that the treatment of incumbent CHP plants was not designed to allow them to run at the expense of conventional boiler and generating plant, and provide the associated environmental benefits of CHP. We lobbied officials again in the Autumn and the final draft NAP released for consultation in mid-December offers an improved treatment of CHP plant with which we are broadly content.

For further information please contact David Morgan, Head of Regulatory Affairs, on 07900 828669 or email dmorgan@paper.org.uk.

Energy Matters

Gas and electricity prices have reverted to levels in line with historical winter averages over the past few months, and current prices are much lower than those of Winter 2005-6.

This is partly a result of lower crude prices, but mainly because of the introduction of various enhancements to the UK's gas import infrastructure projects, including the Langelad pipeline from Norway and the BBL pipeline from the Netherlands. Existing import infrastructure - the interconnector and the Grain LNG terminal - is also being utilised as expected to help supply gas to the UK. This fall in prices is of course excellent news for our industry as we are highly energy-intensive, and high fuel prices in the UK cause UK paper manufacturers to become uncompetitive compared to manufacturers in continental Europe and the world.

Seven paper mills ceased production in the UK during 2006, and all quoted high energy prices as a contributing factor in the closure decision. With luck, the pace of mill shutdowns will now decline to its long-term average of one to two per year, countered by new start-ups (of which we have seen one during 2006).

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