MP Newsletter

Issue 2 June 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.

Corrugated Recycles

At 84%, corrugated cardboard has the highest recycling rate of any type of packaging in the UK. As a direct result, every four months an area the size of Greater London is saved from landfill[1].

This is the message that the Confederation of Paper Industries (CPI) and the Sheet Plant Association (SPA) have united to spread through their latest campaign, "Corrugated Recycles".

The campaign adopts an internationally recognised logo, already widely used throughout the USA, Canada, Latin America, Japan and the Far East. Its objective is simple: to have the "Corrugated Recycles" logo printed in a clearly visible position on every printed corrugated container produced in the UK, thereby raising awareness of corrugated packaging's exceptional, but often under appreciated, environmental record.

"We've noticed that consumers are becoming increasingly eco-conscious," commented Graham Sutherland, Chairman of the SPA, "demanding that packaging, which is necessary to protect their products, has minimal impact on the environment. Corrugated packaging delivers on this demand."

For further information, please contact Andrew Barnetson, CPI Corrugated Sector Manager, on 07775 771662 or email abarnetson@paper.org.uk. Alternatively, please visit http://www.paper.org.uk/CorrugatedRecycles.htm.

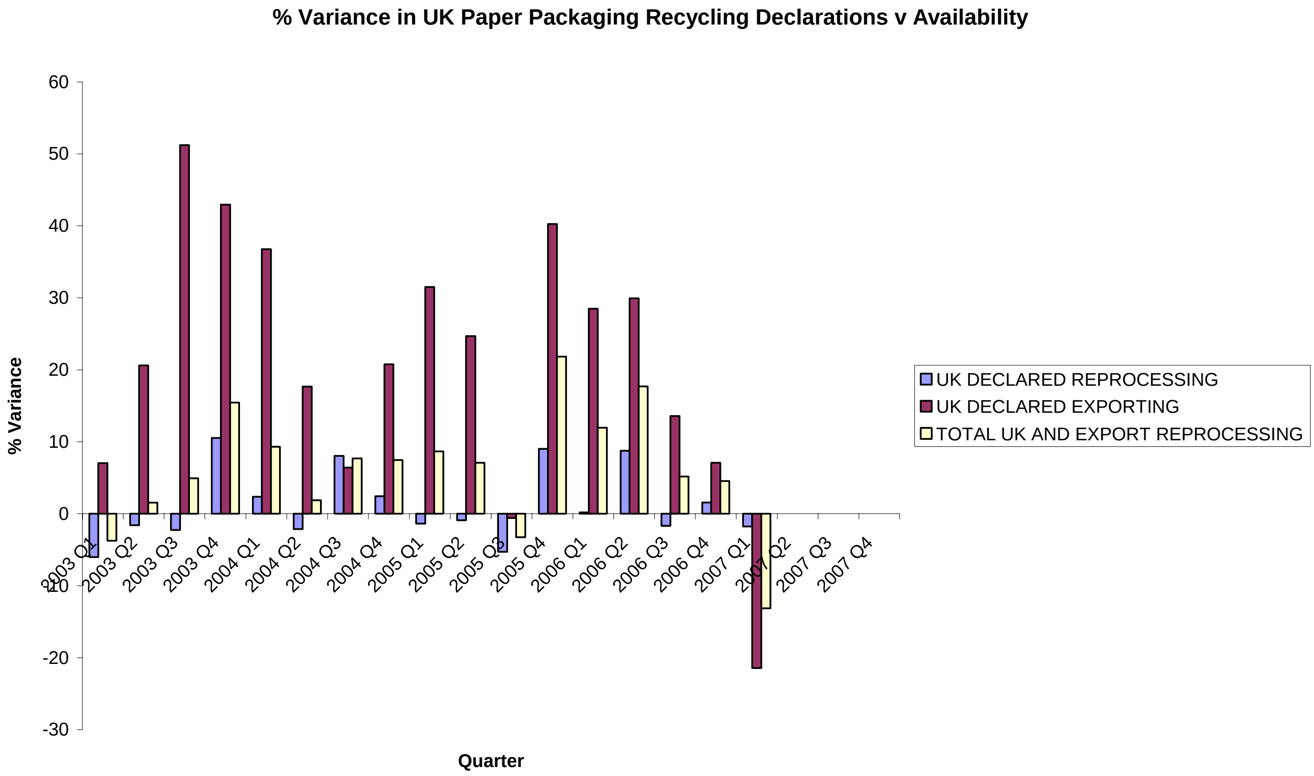
[1] Confederation of Paper Industries, 2005

Paper reprocessors and exporters abandon the Packaging Waste Regulatory System

How much paper packaging recovery is actually taking place? That may be a key question in the run up to 2008, when the UK must declare its packaging recycling performance to the EU through the Packaging Waste Directive; so what is the answer?

Until 2007, most exporters of paper packaging waste had been registered and accredited within the UK Packaging Waste Regulations, and had declared their export quantities to the Regulators in the various UK administrations. This led to paper packaging recycling levels exceeding the EU and UK targets by a long way; 2006 saw 85% declared versus a UK business target of 66.5%, and 75% declared versus the EU target of 60%. Indeed, the declared numbers on the export side led CPI to question the validity of the declaration against what was available, however both figures gave huge excesses. These high recycling levels meant that obligated companies within the Regulation - those who had to buy recycling notes to show they had recycled a certain amount of the packaging they put on the market - had a very low cost of compliance, as excess paper packaging was recycled. However the low value of recycling notes in 2006 has led many exporters to question whether they should stay in the Regulatory system, as the costs associated with accreditation and compliance started to outweigh the value received from the recycling notes. The first three months of 2007 have shown a large scale swing from excess paper packaging being declared against what CPI believe to be available, to a massive under reporting. See graph 1 below.

Graph 1



As the UK Packaging Regulatory system is market driven, these developments should not cause undue worry. However, it means that the UK will not know what its actual paper packaging recycling levels will be in 2008. In this respect, the UK may only be able to report that is has reached its 60% target, and may be reporting a fall in recycling levels as we approach the deadline.

CPI now questions whether this is truly what Government intended from the outset, or are there potential problems with this development?

CPI would be happy to discuss this issue in more detail. To do so, please contact Peter Seggie, Recovered Paper Sector Manager, on 07887 641481 or email pseggie@paper.org.uk.

Energy Matters

Gas and electricity prices have reverted to levels in line with recent historical averages this year, with current prices much lower than those of Summer 2006.

This is a result of the commissioning of projects which have enhanced the UK's gas import infrastructure, including the Langeled pipeline from Norway and the BBL pipeline from the Netherlands. This return to a situation where UK energy prices are similar to those our continental competitors face is good news for our industry, as we are a highly energy-intensive sector and have been at a competitive disadvantage with the rest of the EU for the past two years. Energy consumption at mills per tonne of paper produced continues to reduce and, as a sector, our energy efficiency in 2006 was 36% better than that achieved in 1990.

Thus far in 2007, no paper mills have announced closure; seven ceased production in the UK during 2006, with all quoting high energy prices as a contributing factor in the closure decision. We saw one new tissue mill start up in 2006; plans for two new newsprint mills in the UK have been announced, and it is hoped that at least one of these will progress through to construction.

The Energy White Paper published 23rd May is, in general, well constructed and makes sensible proposals. CPI supports the approach taken on the future of nuclear power (leaving the way clear for the private sector to invest, subject to a formal consultation). CPI agrees with the underlying encouragement of the nuclear option in the document for obvious climate change and security of supply reasons. The White Paper also makes sensible statements about supporting the Commission's desire for effective and transparent EU energy markets by further liberalising continental European markets. The recently announced revisions to the planning regime and new proposals in the White Paper should make it easier for new gas import infrastructure to be constructed which will help the UK as its own production declines.

CPI welcomes the announcement of a Carbon Performance Commitment for large non-energy intensive users, as it is important that sectors of the economy other than energy-intensive industry get involved in improving energy efficiency. Government is keen to strengthen EU ETS (something with which we would all agree), but it is important that this is done on a harmonised EU basis to minimise competitive disadvantage to UK industry.

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

EU Emissions Trading Scheme

Defra/DTI published its final EU ETS Phase II National Allocation Plan (NAP) in March.

Following extensive lobbying of officials and Ministers by CPI, we consider the final allocations for the paper sector to be fair and in line with Government's originally stated policy on allocating to energy intensive sectors. We are now heavily involved in discussions with officials and experts from other industries and are participating in working groups to help the UK Government finalise its approach to Phase III of the scheme which starts in 2013.

The Energy White Paper emphasises the Government's desire to increase levels of allowance auctioning in EU ETS (which, without revenue recycling, will be a tax on industry), but does say that competitiveness issues should be taken into account (i.e. is there a potential for some recycling of costs for industrial sectors unable to pass on the cost of buying allowances as they compete in world markets?).

It is interesting to note the CPC is designed to recycle almost all of the revenues generated back to the participants; this is something that is not in Government's plans for EU ETS, where they have openly stated that any revenue arising is for the Treasury and is not to be recycled. CPI believes it is manifestly unfair that energy intensive industry might have to bear the full costs of allowance purchasing in EU ETS, whereas retail companies, government offices et cetera, will end up with 90% or more of their participation costs in the CPC being refunded.

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UK extends its reliance on Exports for paper recycling options

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

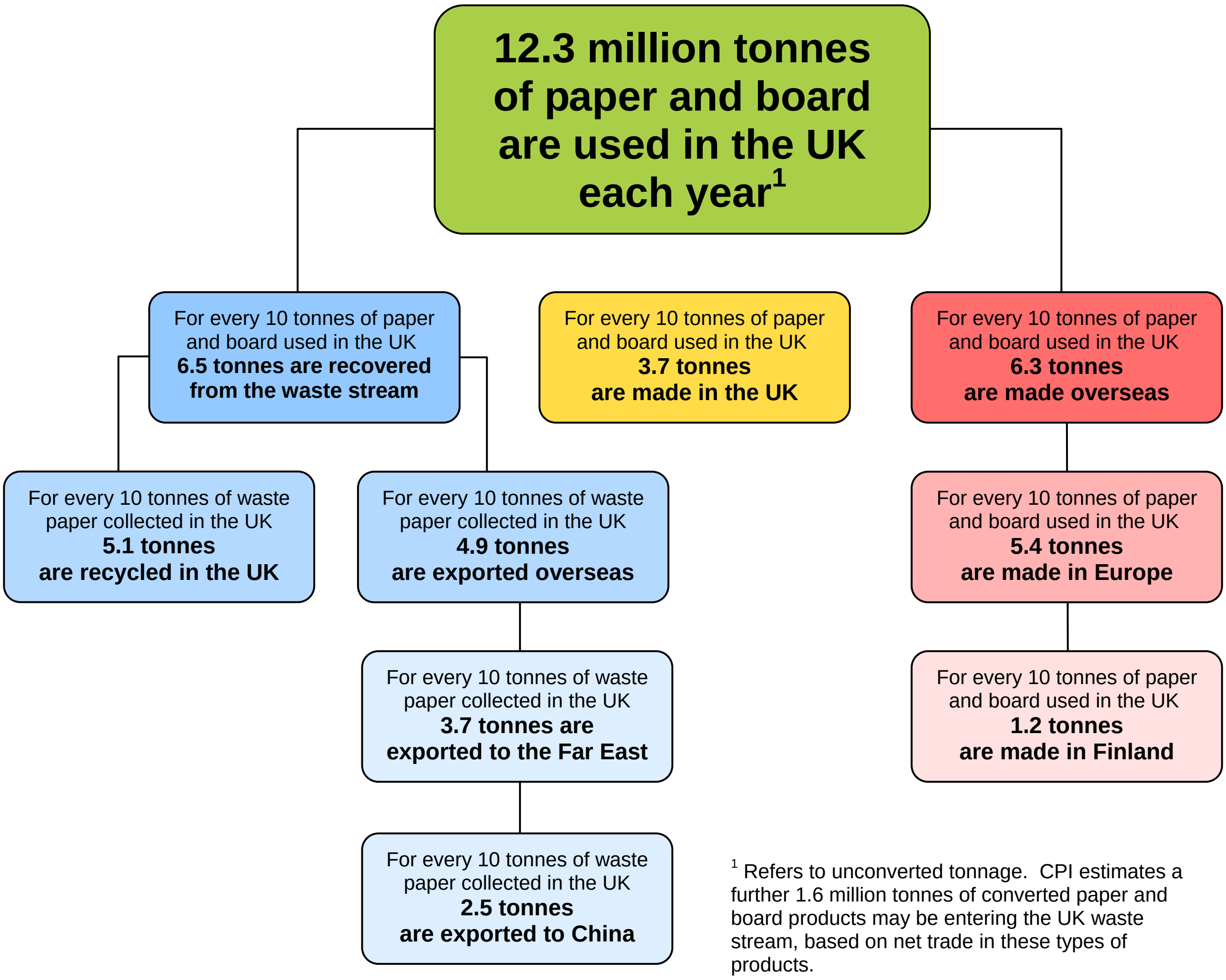
CPI supports the use of global markets for paper recycling and, given the huge decline in UK paper reprocessing over the last few years, is glad that such a market exists. The UK now exports over 50% of the recovered paper it collects for reprocessing; a volume of 4 million tonnes in 2006. This may appear 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 will see increasing price pressures from other global suppliers as they try to decrease the environmental impact of landfill and incineration, then the UK will quickly become swamped with recyclable material with 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 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 Britain commitment to reduce climate change?

The global market system is working in the short term to support recycling but 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.



[1] Refers to unconverted tonnage. CPI estimates a further 1.6 million tonnes of converted paper and board products may be entering the UK waste stream, based on net trade in these types of products.

All data January-December 2006

Recovered paper exports continue upward trend, but hope for new domestic capacity

The UK's progress in increasing the collection of recovered paper from the UK waste stream appears to have picked up after a poor performance in 2006.

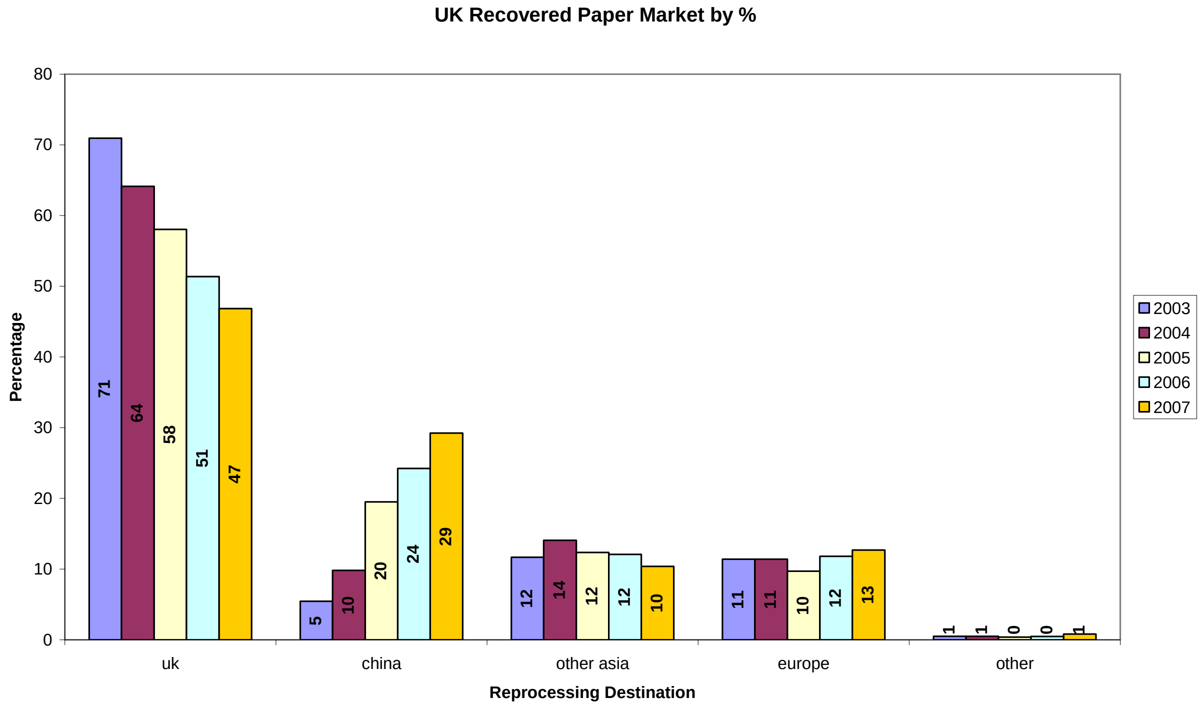
Base data shows that collection only increased by 3.4% through the whole of 2006 (261,000 tonnes), in comparison to the same period in 2005. This compared poorly to an 11.2% rise (581,000 tonnes) in 2005 over 2004. However, the first three months of 2007 have yielded an 11% increase over the same period in 2006 (206,000 tonnes), and represents almost 80% of the entire 2006 growth in just three months.

Taking into consideration that there was an increase of over 165,000 tonnes of recovered paper through the Packaging Waste Regulatory System in 2006, the above figure suggests that there was only an increase in typical household papers such as newspapers and magazines, and office papers such as letters and copying paper, of around 96,000 tonnes. The healthy Quarter 1 2007 figures suggest a similar pattern to that of 2006, with CPI recording a 220,000 tonne growth in packaging collection; meaning a negative performance on other paper collections. CPI will continue to monitor this closely.

The above figures confirm CPI's belief that new capital expenditure through Local Authority PFI projects is being primarily aimed at the recovery of other recyclable materials, to the detriment of recovered paper quality. Indeed, the announcement through 2006 of the completion of a number of PFI contracts implementing 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 domestic and export recovered paper quality standards tighten. It is interesting to note that three companies are actively looking to construct newsprint mills within the UK, with feasibility linked to a number of factors including recovered paper quality. It would be a real shame is this investment was halted due to issues relating to the collection of their raw materials.

Exports of collected material continued to increase in line with further UK Mill closures in 2006, with just under 4 million tonnes leaving the UK; an increase of 665,000 tonnes on 2005. Domestic consumption was just under 4.2 million tonnes; a decrease of over 370,000 tonnes on 2005. The last three months of 2006 saw export volumes of recovered paper rise above domestic consumption, and this is likely to become the norm through 2007. Indeed, if the trend of Quarter 1 of 2007 continues, exports of recovered paper will be well above domestic usage (see graph 2).

Graph 2



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

- current global demand for recovered will continue in the short to medium term, but this will level off as the Far East economies mature. Currently these market account for almost 40% of UK collections;
- overseas markets will introduce their own environmental legislation and increase domestic collection levels. This is already being seen in the Chinese market;
- all European Member states, except those with very high current collection rates, will increase domestic collection in line with EU Directives and will 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 the quality of UK recovered paper will be below other global standards, as we continue to invest in single stream (co-mingled) collections from domestic sources to reduce collection costs for Local Authorities. This may also impact negatively upon the development of new papermaking capacity in the UK;
- 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) collections. The new Regulations will come into force in July 2007.

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