



# MP Newsletter

Issue 3, October 2008

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>.

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## Corrugated Industry Parliamentary Reception

Hosted by Jo Swinson MP, the Corrugated Industry Parliamentary Reception will take place on 18<sup>th</sup> November, 12.30pm – 3.30pm in Dining Room A.

Packaging in the UK sometimes receives bad press, despite the fact that good packing saves food waste and minimises the carbon footprint of our society. Corrugated packaging is clean and green, with an 84% recycling rate. It protects its contents, is versatile in design and has an environmental record second to none.

The Confederation of Paper Industries (CPI) and the Sheet Plant Association (SPA) have organised a Parliamentary Reception on behalf of the UK Corrugated Packaging Industry. Jo Swinson MP is kindly hosting the event which will take place on 18<sup>th</sup> November from 12.30 – 3.30 pm in Dining Room A.

There will be an opportunity to meet representatives from the industry, some of whom may be substantial employers within your Constituency. We therefore welcome this opportunity to brief you on issues affecting our industry and update you with some facts on why we believe we have an unsurpassed environmental record and are significant contributors to the UK economy.

We would be grateful if you could indicate your intention to attend by emailing Andy Barnetson, Corrugated Sector Manager, on [abarnetson@paper.org.uk](mailto:abarnetson@paper.org.uk) or phoning 01793 889602.

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## Paper Packaging Smashing the Targets

**Packaging waste and recycling continues to dominate the political and public landscape through its appearance in many press articles and questions and debates in the House. However, little recognition appears to be given to packaging materials that have shown real success in weight reduction, sustainability and recycling.**

The paper packaging industry continues to outstrip the targets for recycling within the UK Packaging Waste Regulations, reporting an overall recycling rate of over 78% in 2007 against a target of 60% within the EU Packaging Waste Directive. This shows the excellent environmental credentials of paper packaging and confirms its suitability as a future packaging medium within a “recycling society”, as envisaged by the European Union.

Indeed, due to this excellent performance, the packaging waste recovery note (the financial mechanism designed to stimulate investment within the recycling sector) is basically worthless for paper. As such, the current UK Regulations have become an administrative burden rather than anything else. It is with this in mind that CPI would



Confederation of Paper Industries Ltd

1, Rivenhall Road, Swindon, Wiltshire, SN5 7BD

Telephone 01793 889600 Fax 01793 878700

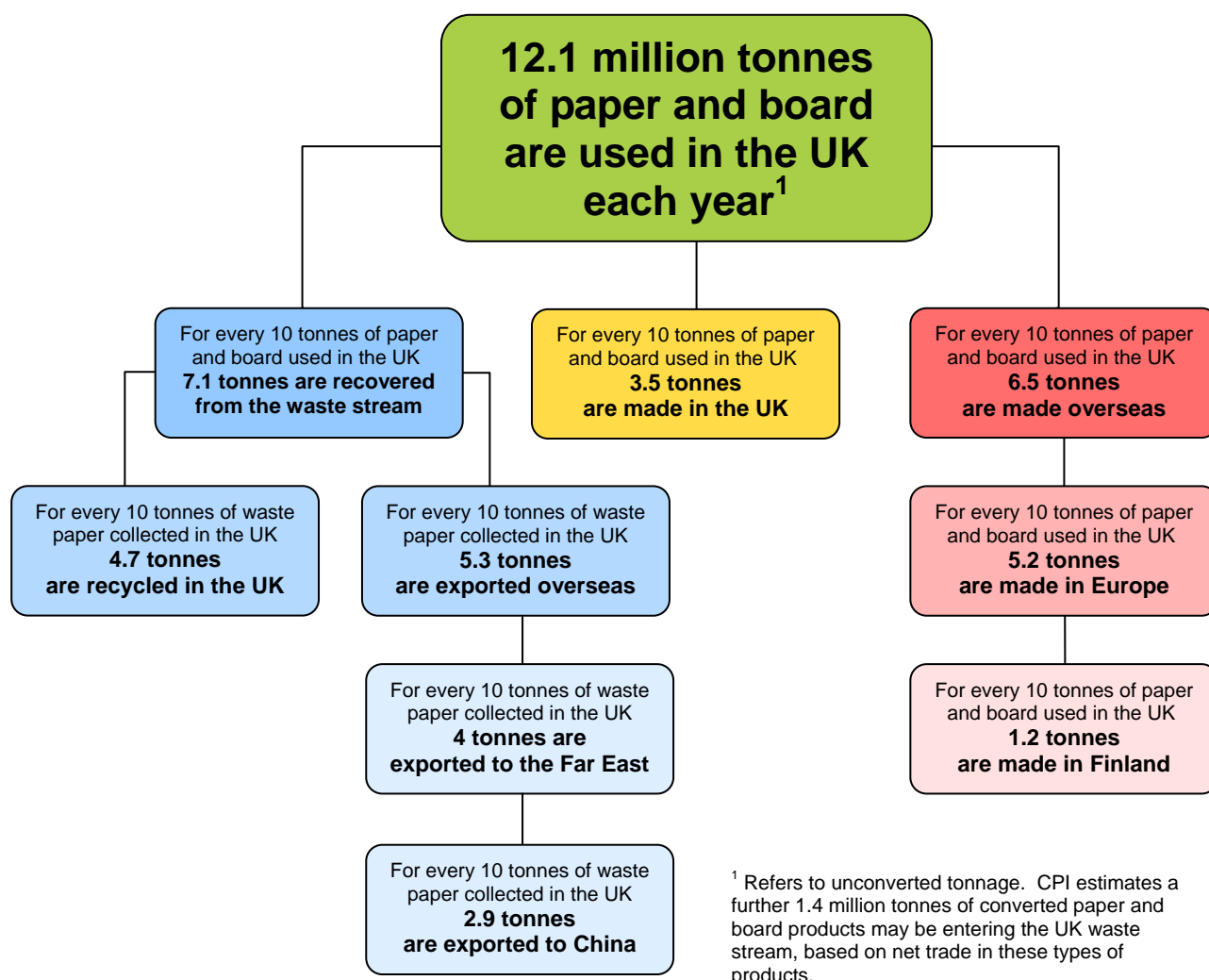
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encourage MPs to lobby Defra to consider removing paper packaging from the Regulations as a reward for achieving recycling levels way beyond that which was asked of it. The Regulations are now just a stick to the industry with no carrot dangled at the end, yet we are the packaging industry that has achieved what government wanted by smashing its targets. Those exceeding compliance with Regulations should have that achievement rewarded and CPI now calls on government to give due consideration to this exceptional performance.

Simpler methods of determining paper packaging recycling rates are available without resorting to a Regulatory system that now has costs for paper packaging related businesses and the regulators that exceed any apparent benefits.

CPI would be happy to discuss this issue in more detail. For further information please contact Peter Seggie, Recovered Paper Sector Manager, on 07887 641481 or email [pseggie@paper.org.uk](mailto:pseggie@paper.org.uk).



All data January-December 2007

## UK Paper and Cardboard Waste Recovery Continues at Pace

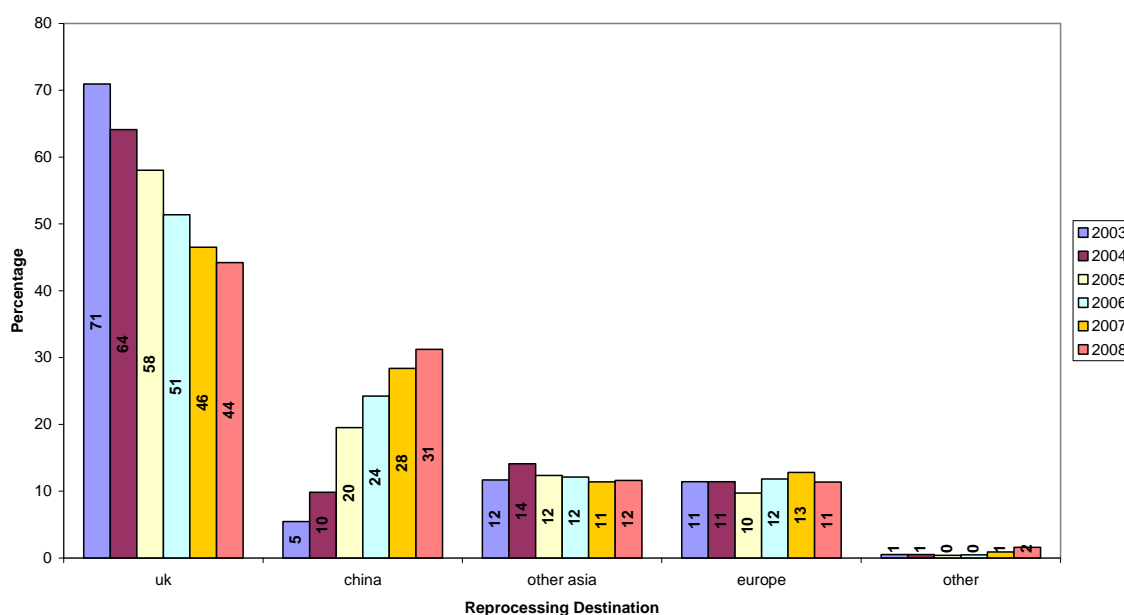
The UK's progress in increasing the collection of recovered paper from the UK waste stream has again made good progress through the first six months of 2008.

Base data showed that collection increased by 6.1% in comparison with the same period in 2007. In real terms, this represents an increase in collection of over 3,260,000 tonnes over the six month period.

Although the above figures look impressive, they mask what CPI believes to be a serious sustainability issue for the future of UK municipal paper recycling. The development of single stream (co-mingled) collections by Local Authorities has accelerated through 2008, and this will have serious implications for the sustainability of UK markets for recovered paper as domestic and export recovered paper quality standards tighten. Recent work by the Waste and Resources Action Programme (WRAP) has shown that quality recovered paper can be produced through this type of system, but suggests that this is currently an exception rather than the rule, and requires significant investment in new technology. In conjunction with a further WRAP report which suggests that source segregation at the kerbside is in fact cheaper than co-mingling and leads to similar yields, it is hard to understand Local Authority thinking in this area at present.

Exports of the collected material have continued to increase in 2008 with the expectation that around 5 million tonnes will leave the UK in 2008, an increase of around 450,000 tonnes on 2007. Domestic consumption will be just over 4.0 million tonnes, around the same as in 2007. This means that the UK will use far less recovered paper domestically in 2008 than is exported (see graph below).

UK Recovered Paper Markets by %



The graph demonstrates clearly that the UK is reliant on export markets to meet all European and UK recycling targets, including the crucial Landfill and Packaging Waste Directives. Of particular significance is the UK's reliance on China, as through 2008 it is likely to account for over 30% of recycling for UK recovered paper. This represents a staggering 2.9 million tonnes, or around 250,000 tonnes per month.

CPI is concerned that current UK waste management practices will lead to longer-term problems in maintaining its EU commitments and public confidence in recycling. Concerns include:

- current global demand for recovered paper should continue in the short to medium term but this will level off as the Far East economies mature. Indeed, the growth in Chinese demand for recovered paper has dropped to 4% over the first 6 months of 2008 in comparison with 15% growth through 2007 and 2006 – a sure sign that there are rough times ahead;
- 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. France and Italy have a long way to go to match the European average collection rates and have significant volumes of waste paper available for recovery;
- 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. This may also impact on 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 Transshipment of Waste will make it more difficult for exporters to ship lower quality contaminated recovered paper from single stream (co-mingled) collections. This has already been reported in the media with calls for Local Authorities to ensure they meet their duty of care requirements by ensuring illegal shipments and overseas dumping of waste are not occurring;
  - 2008 has seen significant pressure on back-shipping costs for waste materials to the Far East. If these costs cannot be absorbed by the collectors, shipping companies or Far East buyers, then the economics of these markets may no longer add up, leaving the UK in a very difficult situation.
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## **UK Reliance on the Export Markets for Paper Recycling Continues Upward Trend, Under Pressure from Unscrupulous Operators**

**CPI would like to bring to your attention the continued reliance that the UK has on overseas markets for waste paper recycling.**

The UK has now exceeded the European average for paper and cardboard recycling and this is a major success. However, unlike the rest of Europe we have a very low level of paper and cardboard production. This means that despite being a European leader in using waste paper and cardboard as a raw material in our paper production, we can only use 44% of what we collect with the rest needing to be exported in order to be recycled.

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. For the first 6 months of 2008 the UK exported over 56% of the recovered paper it collected for recycling, a volume of 2.5 million tonnes. This may appear to be 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 continue to rise in order to meet EU and UK regulatory targets. If there are any problems 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 may quickly become swamped with material with no home.

The global market system is working in the short term to support recycling but may be 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 and determine a plan of action should such problems arise. We are pleased to see that the Waste and Resource Action Programme (WRAP) is holding an event on this subject in October and hope that MPs take a real interest in this as it could have serious repercussions for recycling performances in their own constituencies.

Negative press activity in the area of recycling exports is also a major concern for the industry. CPI calls on government to focus efforts on operators who appear to be shipping poor quality recyclables overseas illegally and tarnishing the good reputation of recycling in general. Recycling our waste materials offers real carbon benefits both at home and abroad and it would be a travesty if the actions of a few eroded public confidence in what is a critical issue for the future of the planet.

For further information please contact Peter Seggie, Recovered Paper Sector Manager, on 07887 641481 or email [pseggie@paper.org.uk](mailto:pseggie@paper.org.uk).

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## EU Emissions Trading Scheme

**49 UK paper mills are participating in the EU Emissions Trading Scheme (EU ETS) and CPI has serious concerns over present Defra policy on the shape of Phase III, which will run from 2013 to 2020.**

CPI's biggest concern is the proposal to end the free allocation of emission allowances to energy-intensive manufacturing industries, due to be phased in over five years from 2013. UK paper manufacturers compete in world markets, and the imposition of having to buy all required allowances would cost our sector €90 million annually at today's allowance prices. This cost would be in addition to the increased power prices that electricity generators will pass on to us, the costs incurred by our suppliers, and the costs of complying with the administrative requirements of the scheme. We estimate the total incremental annual cost to the paper industry will be €140 million annually. Because we compete in world markets it will be impossible to pass this huge incremental cost on to our customers through increased prices without significantly losing market share. The result would be a transfer of paper production (and the associated CO<sub>2</sub> emissions) out of the UK and EU into less carbon-constrained economies, a process known as "carbon leakage" or "carbon migration".

This conclusion is supported by the fact that our industry is already suffering from high and volatile energy prices (both in absolute terms and in comparison with prices in continental Europe). Five mills have closed or announced closure in the last three months as a result of being unable to pass on these increased energy costs to customers.

The Directive allows the possibility of special treatment for such "carbon migration" sectors on an EU-wide basis, and Defra supports the idea of a rigorous analysis of which sectors might qualify. This analysis would take place after the Copenhagen Climate Conference in December 2009 where, if an international agreement is made (and carbon is priced into manufacturing industry production the world over), there would be no need for special treatment. CPI's worry is that it may be politically impossible not to make an "agreement" at Copenhagen, but that such an agreement may not be equitable across all countries and so we could still be disadvantaged with the loss of manufacturing industry and the migration of carbon emissions from the UK.

The current criteria proposed by the Commission (and supported by Defra on the basis of advice from the Carbon Trust) for establishing if a sector is exposed to the possibility of "carbon migration", and thus eligible for special treatment are based on evaluating the exposure of a sector to international competition and the effect of the costs of EU ETS on a company's "gross value added". This latter criterion is a nonsense and CPI has repeatedly asked that effect on profitability be the primary criterion for such a decision. Companies choosing whether to continue manufacturing paper in the UK or EU will make their decisions by studying the effect of increased costs on profitability or return on capital, and not on a notional "gross value added" figure.

To discuss this issue further please contact David Morgan, Head of Regulatory Affairs, on 07900 828669 or email [dmorgan@paper.org.uk](mailto:dmorgan@paper.org.uk).

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## Further information

For additional information on the UK paper industry, in the first instance please contact Catherine Waterfield, External Affairs Coordinator, on 01793 889612 or email [cwaterfield@paper.org.uk](mailto:cwaterfield@paper.org.uk).

Alternatively, please visit: <http://www.paper.org.uk>.

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