



MP Newsletter

Issue 1 January 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>.

Climate Change Agreements

CPI believes that CCAs have been a success for energy-intensive industries

In early September, the National Audit Office reported to Parliament's Environmental Audit Committee (EAC) that Climate Change Agreements (CCAs) were set to deliver fewer carbon emissions reductions than anticipated by 2010. As a result, the EAC announced an enquiry into CCAs and the Climate Change Levy.

The CPI believes that CCAs have been a success for energy-intensive industries, and have delivered larger emissions reductions than would otherwise have been the case. We believe that a modified CCA scheme should be developed and introduced post-2010 to help industry continue to increase its energy and carbon efficiency. We have submitted written evidence to the EAC accordingly.

In the Chancellor's pre-budget report delivered in November, an announcement was made that CCAs will continue through until 2017. CPI will be closely involved with all relevant Government departments and agencies when the negotiations take place on the form of the scheme post-2010.

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

Carbon Footprinting

Customers are increasingly asking for carbon footprint figures for our products, and it is essential that such numbers are calculated on a consistent basis.

The Paper Industry has been deliberating over the issue of calculation and reporting of carbon footprints for paper products for some time. Our industry is sustainable: carbon is sequestered in managed forests and in forest products; recycling paper reduces landfill emissions, and our paper recycling performance is key to helping Government meet its recycling targets. It is important that these facts are recognised when reporting carbon footprint figures for our industry.

We have now, through our European trade association CEPI, published a comprehensive set of framework documents to allow paper companies to calculate the carbon footprint of their products on a consistent basis. We are also engaging with Defra, BSI and the Carbon Trust over the development of a UK carbon footprinting specification and have contributed to the first consultation on the proposed PAS 2050 carbon measurement standard.

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



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Carbon Reduction Commitment

We believe it is important that sectors other than energy-intensive industry play their part in delivering carbon reductions to meet UK Government targets and we welcome Defra's proposal to introduce the CRC.

Paper mills will be excluded from the scope of the Carbon Reduction Commitment (CRC) as they are already included in Climate Change Agreements (CCAs) and the EU Emissions Trading Scheme (EU ETS), however some paper converting facilities may be eligible. The final effect on our industry will depend on the definition of "organisation" which is eventually adopted in the scheme. We have responded to Defra's consultation appropriately.

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EU Emissions Trading Scheme

CPI has been heavily involved with the 54 paper mills who are entering the EU Emissions Trading Scheme (EU ETS) for the first time in January 2008.

The CPI has been working closely with Defra, the Environment Agency and SEPA over preparations for Phase II of EU ETS (2008-12). We have advised mills on the steps needed to comply with the Environment Agency's rigorous application procedures, and have engaged BSI as verifiers for all mills throughout the five years of Phase II.

We have continued our lobbying and dialogue with Government 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, due to start in 2013.

Defra published a consultant's report in June, which claimed to show that the paper industry would suffer little adverse competitive economic effect if allowances were auctioned rather than issued for free. However, this report was clearly based on incorrect data, and nobody in our industry had been consulted prior to the release of the final draft. We therefore commissioned a report from a respected UK consultant on this issue, and his conclusion was that the industry would be affected to a much greater extent than Defra officials had supposed.

A one-to-one meeting with key Defra and dBERR officials has been held, and the report has been submitted to Defra for its consideration. Recent presentations by Defra officials indicate that our message has started to get through, as the paper industry is one sector which is referred to as needing further study on the effects of high levels of auctioning.

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Corrugated Recycles

While packaging remains a hot topic, Corrugated continues to impress with its excellent environmental credentials

The days of plain brown corrugated boxes are fading fast: with the birth of Retail Ready Packaging, manufacturers are printing increasing quantities of high-coloured, visually enticing boxes designed for front-of-store use.

Furthermore, corrugated cardboard boasts an exceptional environmental record: the material is made from a renewable resource, and its recycling rate is second to none. In fact, its 84% recycling rate means that an area the size of Greater London is saved from landfill every four months, with much of the material collected going on to create new corrugated packaging.

CPI continues to spread this positive message through a variety of educational materials, such as fact sheets and posters, through the media, and through contact with Westminster. In 2007, the industry also saw the UK launch an innovative new scheme incorporating the on-pack 'Corrugated Recycles' logo, already in use in the USA and Far East.

For further information on corrugated, please contact Andrew Barnetson, Corrugated Sector Manager, on 07775 771662 or email abarnetson@paper.org.uk.

What is the end game for paper in the Packaging Waste Regulations?

The paper packaging industry will declare a recycling rate of around 80% in 2007, against a European Directive target of 60% by 2008.

Similarly, an internal business recycling rate of 86% is likely to be declared against a UK target of just 67%.

With 2007 showing further growth in recycling levels for paper packaging waste, it is clear that the paper industry is showing just what can be achieved in terms of recycling efficiency. It is with this in mind that the industry is now questioning why paper packaging should remain in the packaging waste regulatory system, and asking for clarity on what Government expects for the future.

The recent Defra consultation on changes to the Packaging Waste Regulatory targets, which CPI has formally responded to, proposes new targets for paper packaging that are well below what is currently being achieved. A business target of 71.5% is proposed for paper packaging recycling in 2012 against a current achievement of 86%. How can this possibly make sense?

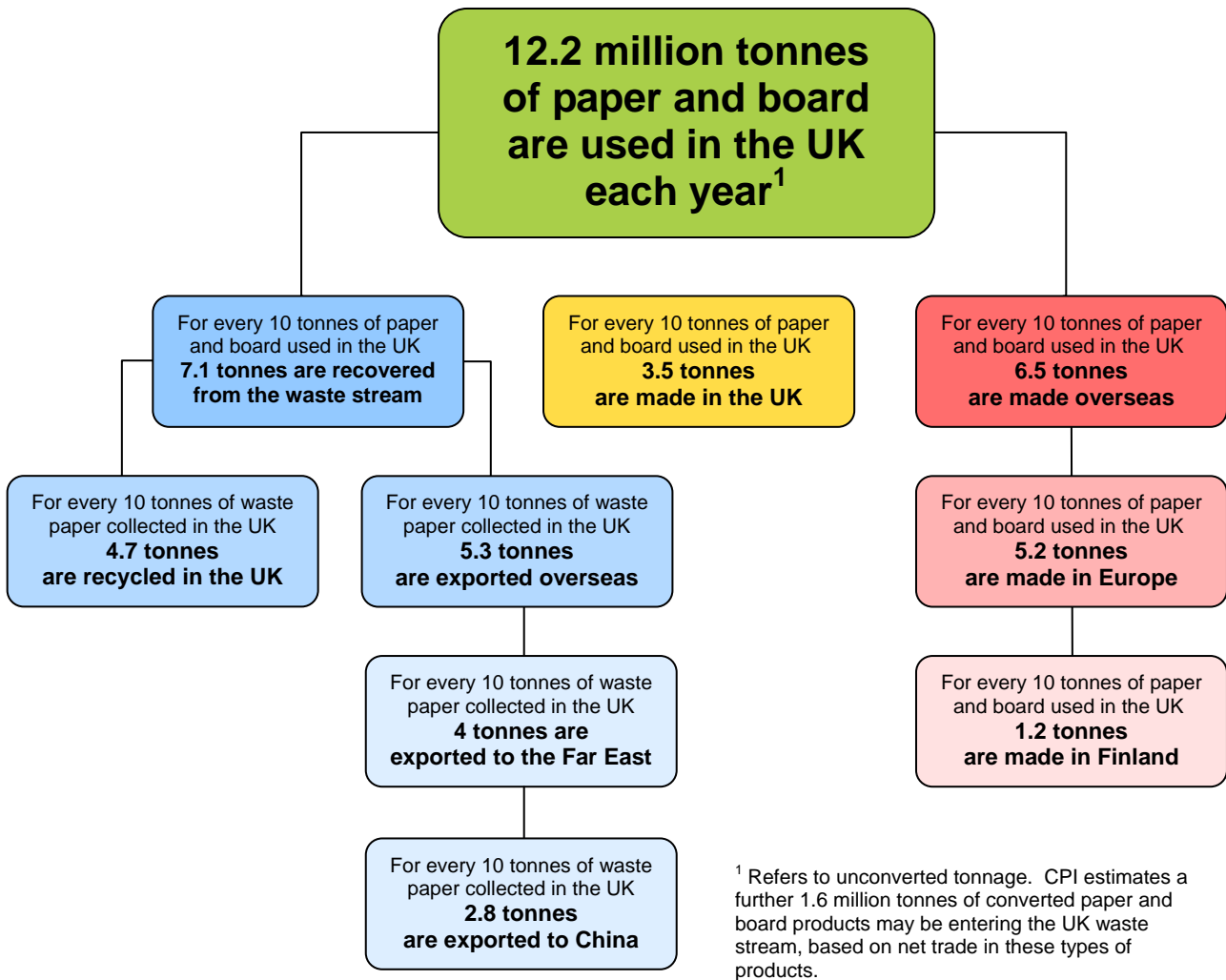
The Regulations require a large amount of administrative work for those with packaging obligations, as well as those who recover and recycle waste materials, not to mention the compliance schemes who work in the middle ground, and the UK regulators who police the system; all working hard to ensure the UK meets the targets set out in the European Directive. With paper packaging far exceeding the target requirements already, it feels like we are simply being regulated as a number crunching exercise, putting valuable resources into something that is no longer of benefit to the industry or the UK as a whole.

It has not been the Packaging Regulations that have driven such a dramatic rise in paper packaging recycling but global demand, and it is this demand that will ultimately ensure that paper packaging continues to be recycled in such large quantities. Paper packaging recycling will only fall if global demand declines or there is other regulatory interference in the export market, neither of which will be overly influenced by the UK Packaging Waste Regulations.

While other packaging materials are showing progress in recycling levels, there is still a degree of caution as to whether they will meet their 2008 European targets, and in this respect there appears a sensible need for them to be regulated. However, CPI feels that Government should review the inclusion of paper packaging within the Regulations and, ultimately, take a risk-based decision on whether there is a better, cheaper option for determining compliance than the complicated system introduced to drive up packaging recycling levels.

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.



All data January-October 2007

UK Reliance on the Export market for paper recycling continues to grow

CPI would like to bring to your attention the continued 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 dramatic decline in UK paper reprocessing over the last few years, is glad that such a market exists. For the first 9 months of 2007, the UK exported over 54% of the recovered paper it collected for reprocessing, a volume of 3.4 million tonnes. 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 need to continue in order to meet EU and UK regulatory targets. If there are any problems 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 may quickly become swamped with material with no home.

Worst case scenario is that the UK landfills the material and the public start to reject recycling as an option. Other recyclable material collections drop, as paper is the base material for all other collection economics. The invested infrastructure in the UK then 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 Waste and Resources Action Programme (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 while trying to persuade others of the seriousness of the UK's commitment to reduce climate change?

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

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

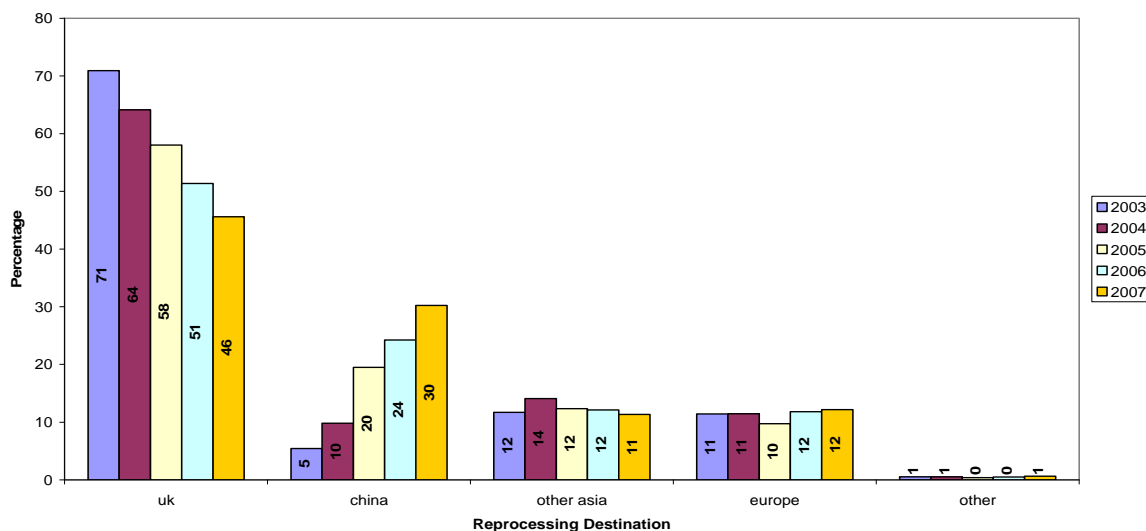
The UK's progress in increasing the collection of recovered paper from the UK waste stream has accelerated after a poor performance in 2006.

Base data showed 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 nine months of 2007 have yielded an 8% increase over the same period in 2006 (494,000 tonnes) and represents 189% of the entire 2006 growth in just nine months.

Although the above figures look impressive, they mask what CPI believe is a serious sustainability issue for the future of UK paper recycling. The development of single stream (co-mingled) collections by Local Authorities has accelerated through 2007, and this will have serious implications for the sustainability of UK markets for recovered paper as domestic and export recovered paper quality standards tighten. It is very interesting to note that three companies are actively looking to put down newsprint capacity in the UK, with feasibility linked to a number of factors, including recovered paper quality. It would be a crime for the UK if this investment was halted due to quality issues relating to the collection methods of potential UK raw materials.

Exports of the collected material have continued to increase in 2007 with just under 4.8 million tonnes expected to leave the UK in 2007, an increase of over 800,000 tonnes on 2006. Domestic consumption will be just over 4.0 million tonnes, a decrease of around 160,000 tonnes on 2006. This means that the UK will use less recovered paper domestically in 2007 than is exported (see graph below).

**UK Recovered Paper Markets by %
(2007 estimated on current growth rates)**



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 2007 it will account for around 30% of recycling for UK recovered paper. This represents a staggering 2.7 million tonnes or around 225,000 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. Our concerns include:

- current global demand for recovered paper will continue in the short to medium term, however this will level off as the Far East economies mature. Currently these markets account for over 41% 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 currently with very high 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. However, this will shift to quality as excess supply is generated. CPI is concerned that UK quality 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 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. The new Regulations came into force in July 2007, but there is still a degree of confusion over their enforcement;
- 2007 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, the economics of these markets may no longer add up, leaving the UK in a very difficult situation.

CPI would be happy to discuss this topic further. For further information please contact Peter Seggie, Recovered Paper Sector Manager, on 07887 641481 or email pseggie@paper.org.uk.

Further information

For additional information on the UK paper industry, in the first instance please contact Catherine Watson, External Affairs Coordinator, on 01793 889612 or email cwatson@paper.org.uk.

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