

**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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## Keep Recycling

**Coverage in the national media has raised concerns about the apparent build-up of recovered paper. CPI would like to point out that this problem only arises with a small percentage of poor quality paper.**

Paper recycling continues to be a major success story in the UK. Demand for good quality paper remains high and CPI urges the Public to keep recycling through this temporary economic downturn. There are clear environmental benefits in recycling waste paper into new paper products rather than disposing of it through landfill and incineration.

In the UK there is a highly efficient paper manufacturing industry that consumes over 4 million tonnes per year of all types of waste paper. This amount will increase in the coming years as a number of investments in new paper manufacturing are made and an additional 1.2 million tonnes of domestic paper recycling capacity is expected to come online.

Although many people are now focused on the impending recession, CPI would like to point to the fact that for several decades, British manufacturing industry has been hollowed out. We need more support from Government and investment in UK manufacturing. A stronger manufacturing base would not only make us more self-sufficient in goods, it would make us self-sufficient in recycling as we could absorb more of the UK's recovered paper stream.

CPI asks Government to recognise that reliance on exports for waste means the UK is not in control of its own recycling destiny. What's more, CPI believes that Government should be creating a national strategy for household recycling. This strategy should engage best practice in every region to maximise the quality of recovered paper, rather than the confusing mix of local government policies which is exacerbating current problems with recycling.

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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## UK reliance on the Export markets for paper recycling exposed

**Low domestic paper recycling capacity left the UK particularly exposed to the recent turmoil in global recycling markets, resulting in prices for recovered paper slumping, if the material could be sold at all.**

CPI has on previous occasions brought to your attention the continued reliance that the UK has on overseas markets for waste paper recycling and the potential problems this could incur. In October 2008 there was a large exodus of overseas buyers from the UK market for recovered paper which led to a serious price collapse and short-term problems in the economics of collection. Although overseas buyers are now back in the market, they are

much more focused on quality and prices remain low in comparison to where they were mid-2008. This means that the economics of the UK collection system must move back to the producer in order to ensure recycling remains viable for the future.

In 2007, the UK exceeded the European average for paper and cardboard recycling - a major success. However, unlike the rest of Europe, we had to rely massively on the Far East markets to achieve this. The UK has a very low level of paper and cardboard production and this means that, despite being a European leader in using waste paper and cardboard as a raw material in our domestic paper production, we can only recycle 45% of what we collect with the rest needing to be exported in order to be recycled, the vast majority to the Far East. This has left us particularly exposed to the recent turmoil in the recycling markets with the Far East buyers leaving the market in October and November and meant UK prices for recovered paper slumped, if the material could be sold at all.

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 markets exist. However, there are significant risks to this position. For the first 10 months of 2008, the UK exported over 55% of the recovered paper it collected for recycling, a volume of 4.1 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 continue to rise in order to meet EU and UK regulatory targets. This means that the UK suffers through export market problems far more than our European neighbours.

The global market has been working to support UK recycling up to now, but the problems of the last three months have shown the fragility of the system. CPI would ask MPs to continue to raise this issue with the Government and to form a Committee to look at the potential impacts of a continued global market slow down on the UK economics of waste management, and determine a plan of action for the future. We are pleased to see that the Waste and Resource Action Programme (WRAP) is now working closely with Defra and the regulators on this issue and hope that MPs take a serious interest in it, as this issue could have severe repercussions for recycling performances in their own constituencies.

Negative press activity in the area of recycling exports continues to give rise to grave concerns for the industry, and 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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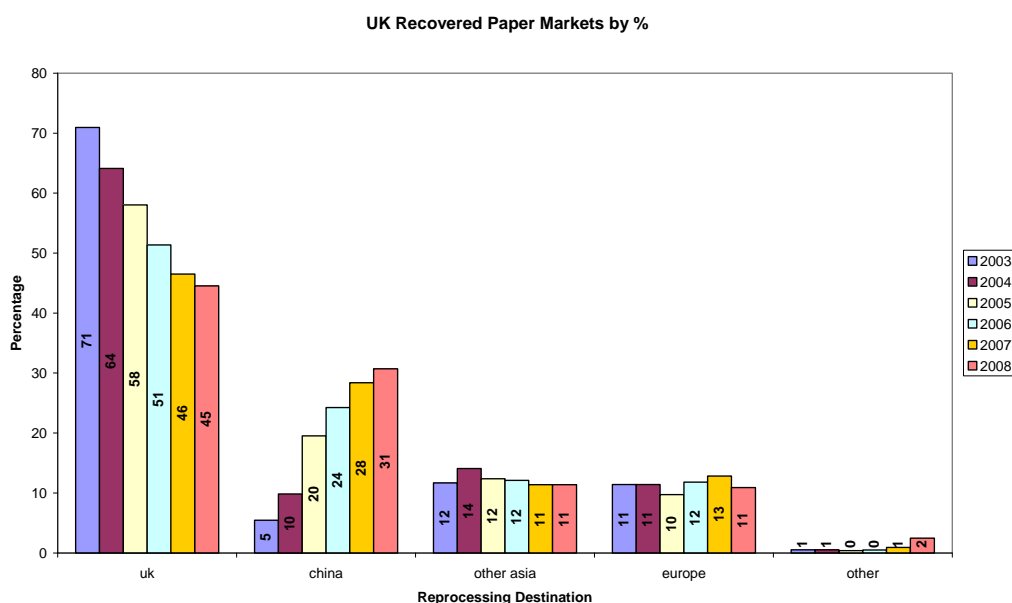
## UK Paper and Cardboard Waste Recovery Continues

**The collection of recovered paper and board makes good progress while exports of material continue to outstrip domestic demand, demonstrating the huge reliance the UK has on a global, but sometimes tumultuous, market.**

The UK's performance in increasing the collection of recovered paper and board from the UK waste stream again made good progress through the first ten months of 2008. Base data showed that collection increased by 3.9% in comparison to the same period in 2007. In real terms, this represents an increase in collection of over 275,000 tonnes over the ten month period.

Exports of the collected material continued to increase in 2008 with the expectation that around 5 million tonnes left the UK, an increase of around 350,000 tonnes on 2007. Domestic consumption was just over 4.0 million tonnes, around the same as in 2007. This means that the UK used far less recovered paper domestically in 2008 than was exported (see graph below).

The graph demonstrates clearly that the UK is heavily 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 31% of recycling for UK recovered paper. This represents a staggering 2.8 million tonnes or around 233,000 tonnes per month. This clearly demonstrates why the UK had such serious problems when the Chinese buyers left the market in October and November, and this exposure is unlikely to change in the medium term, meaning similar issues are likely to occur again.

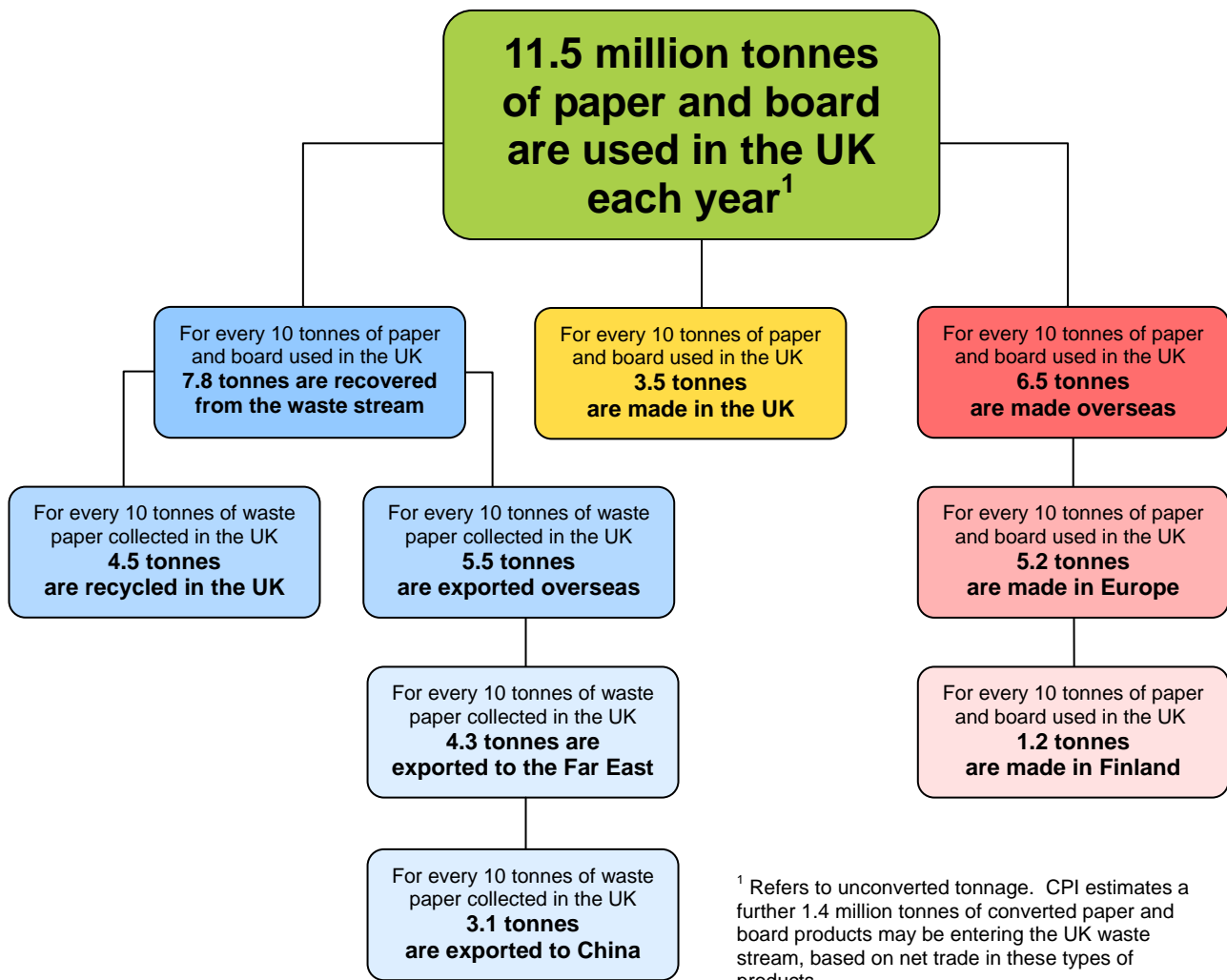


CPI is concerned that current UK waste management practices will continue to create longer-term problems for the UK in maintaining its EU commitments and providing public confidence in recycling. Concerns include:

- current global demand for recovered paper should continue in the medium to long-term, but we have clearly seen the impact that occurs from any disruption to the export markets. Indeed, the growth in Chinese demand for recovered paper has dropped to 7% over the first 10 months of 2008 in comparison to 15% growth in 2007 and 2006: a sure sign that market demand is falling and turbulent times are ahead;
- overseas markets have and will introduce their own environmental legislation and increase domestic collection levels to displace imports of lower quality recovered paper. 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. For example, 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;
- excess demand had been driving global buyers to focus on quantity-buying, however this has changed to quality-buying as excess supply is now available. CPI has concerns that UK quality will be below other global standards as we continue to invest in higher risk single-stream 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, may force European Mills to stop taking recovered paper from higher-risk single-stream collections;
- legislation on the Transshipment of Waste will make it more difficult for exporters to ship lower-quality contaminated recovered paper. 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, the economics of these markets may no longer add up, leaving the UK in a very exposed position.

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).

**Paper & Board - Facts and Figures**



<sup>1</sup> Refers to unconverted tonnage. CPI estimates a further 1.4 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-September 2008

**EU Emissions Trading Scheme**

**The European Commission, Parliament and Council have agreed a final compromise text for the proposal to revise the EU Emissions Trading Scheme (EU ETS) from 2013.**

The final result is not as potentially disastrous for the papermaking industry as was the original Commission proposal. The beneficial changes seem to have been driven by other Member States such as Germany and France and not, sad to say, by the UK Government.

CPI's biggest concern was 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. The imposition of having to buy all required allowances would cost UK papermakers over €50 million annually even at today's depressed 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 could be €100 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 CO2 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; seven paper mills have closed or announced closure in the last three months, partly as a result of being unable to pass on these increased energy costs to customers.

The compromise text extends the phase-in period for industries to move to 100% purchasing by several years, allowing more time for industry to adapt to the financial challenges of buying more and more of its required allowances. The document also allows the possibility of temporary special treatment (i.e. 100% free allocation) for “carbon migration” sectors on an EU-wide basis, and the criteria agreed for establishing if a sector is exposed to the possibility of “carbon migration”, and thus eligible for special treatment seem reasonable and offers the European paper industry a good chance of qualifying. It should be noted that “100% free allocation” will not be “a free ride for industry”; the allocation will be based upon benchmarks calculated on the basis of European best practice - most UK mills will, on this basis, only get a percentage of the allowances they need.

CPI’s view is that the revised Directive offers a pragmatic solution which will allow the environmental objective (reducing CO2 emissions) to be met, whilst at the same time not penalising industry so extensively that companies question the viability of continuing operations in Europe.

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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## **Corrugated industry Parliamentary Reception – a great success**

**The Corrugated (cardboard) packaging industry was very pleased to have the opportunity to hold its first Parliamentary Reception in the House of Commons on Tuesday 18<sup>th</sup> November.**

The event was a joint initiative by CPI and Sheet Plant Association (SPA) and saw both associations come together for the first time to discuss the environmental, business and social benefits of corrugated packaging materials with MPs.

The Reception was hosted by Jo Swinson MP and attendance from MPs was particularly good, ensuring that the event was a resounding success. It is an important step forward and an opportunity to build a constructive relationship between MPs and the Corrugated plants in their Constituencies.

For further information please contact Andrew Barnetson, Corrugated Sector Manager, on 07775 771662 or email [abarnetson@paper.org.uk](mailto:abarnetson@paper.org.uk).

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