# MPs Newsletter

cpi confederation of paper industries

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

Issue 2 July 2009

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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## PARLIAMENTARY RECEPTION FOR CORRUGATED (CARDBOARD) PACKAGING

**CPI would like to offer Members the opportunity to discuss the environmental, business and social benefits of corrugated packaging with industry representatives operating within their constituencies. A Reception will take place in Dining Room A on 4th November, 12.30pm – 3pm.**

Hosted by Jo Swinson MP and organised by CPI and the Sheet Plant Association, this event brings together the UK corrugated industry with one voice to discuss the environmental, business and social benefits of corrugated packaging.

Packaging has come under the spotlight in recent years, and the paper packaging industry welcomes this important opportunity to build a constructive relationship between MPs and the Corrugated plants in their Constituencies.

If you would like more information on the event, including details of the Corrugated plants that operate within your constituency, please contact Andrew Barnetson, Corrugated Sector Manager, on 07775 771662 or email abarnetson@paper.org.uk

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## CARBON REDUCTION COMMITMENT

**The Department of Energy and Climate Change (DECC) continues to develop the Carbon Reduction Commitment (CRC), intended to encourage energy efficiency measures in the commercial and public sectors. CPI would ask Members to consider the scheme's impact on cash-flow given the current economic situation, as well as the additional regulatory burden being imposed on an industry already focused on energy efficiency.**

The scheme works by making obligated companies record energy use throughout the organisation and purchase government allowances to cover the carbon dioxide equivalent emissions. Scheme participants will be ranked in a national league table dependent on their performance compared to previous years. Revenue raised through the sale of emission allowances is recycled back to scheme participants dependant on their position in the league table. CPI argues that paper sector companies have long focused on energy efficiency and the cost of fuel is the key driver to retain this focus. For the paper sector, CRC is simply not needed and, while some member companies will be able to claim an exemption through their holding a Climate Change Agreement (with an embodied energy efficiency improvement plan), all obligated CPI member companies will have a new administrative burden.

Whilst CPI has serious reservations about the likely impact of the scheme and the administrative burden being added to UK businesses, two aspects of CRC are of particular concern and MPs are urged to consider the impact if they remain unchanged:

Start date: as the administrative rules for the scheme have developed, so the complexity has multiplied - the most recent consultation was over 200 pages long. With such a wide variety of organisations required to take part, the consultation period has been extended and now registration, data collection and the first compliance year all start in April 2010 rather than being consecutive, as was originally envisaged. This could be simply resolved by delaying the start of the first compliance period by one year. This would mean registration and baseline year data collection could start in April 2010 as planned with the scheme to actually start in April 2011.

Impact on cash flow: one of the most common problems identified by business is cash flow, and therefore it seems perverse that a new government initiative such as CRC should be deliberately designed to take money out of business for a number of months (through the advance purchase of allowances) before the money is proportionately recycled back to scheme participants dependant on their ranking in the national league table. If the concept of the league table is retained, this issue could be resolved by changing the scheme rules so that trading in emission permits is only required at the margins - additional allowances would need to be purchased if the ranking in the league table falls, while permits could be awarded for sale if the ranking in the league table improves. Of course the scheme could be simplified if the concept of the league table was to be removed and trading was only to be required for the marginal performance in relation to the actual emission performance compared to the baseline year.

To discuss this issue further, please contact Steve Freeman, Energy and Environment Manager, on 01793 889625 or email sfreeman@paper.org.uk.

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## FAR EAST MARKETS FOR RECOVERED PAPER PICK UP BUT RISKS REMAIN

**Could a repeat of the 2008 recyclable market crash be just around the corner? CPI asks government to examine the UK's low level of domestic capacity, and consider why it remains unattractive for global investment.**

After a particularly difficult end to 2008 in terms of markets for recovered (waste) paper, there has been some relief in the form of increased Far East buying activity through the start of 2009. However, with further UK paper mill closures in 2009 reducing the capacity for the UK to recycle this material domestically, our exposure to the volatile Far East markets has increased.

Panic appeared to set in through the end of 2008 when Far East buyers of recovered (waste) paper, particularly the Chinese, left the market en-masse. This led to significant price declines for the material, and left many Local Authorities and Waste Management companies exposed. The press had a field day and called into question the future of UK recycling.

We have now seen the actual numbers associated with this period and the drop in demand appeared to be only around 120,000 tonnes, around 1% of annual collection, yet it was enough to floor the price of recovered (waste) paper in the market.

Far East demand has picked up significantly up to April 2009 and the prices for the material have started to rise as the demand and supply economics starts to favour the supplier again. However, the end of 2008 should be a wake up call to everyone: we are so dependent on the Far East markets, particularly China, to provide markets for our recyclables collected from our homes, supermarkets and offices that this crash phenomenon could be just around the corner again. So far this year, Far East markets have taken 47% of the waste paper we have recovered from the UK waste stream, up from 43% through the whole of 2008, showing our exposure is increasing - as are the risks.

Domestically, the UK only has the capacity to recycle 45% of the paper and board we collect from the waste stream and, although there is a new recycled newsprint mill due to come on-stream later this year in Kings Lynn, its recycling capacity is likely to be balanced by the closure of other recycling mills in the UK.

There is no easy answer to this problem as paper recycling mills are huge investments and in the current climate there is little capital available for such projects. However we must, over the longer term, determine why the UK is such a bad investment for paper recycling, particularly when we import vast quantities of paper and board for use at home and in our places of work.

Things are ticking along at the moment but the risks of a recycling meltdown continue to plague the industry and do not harbour an environment further significant investment in recovery infrastructure.

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

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## QUALITY STILL COUNTS

**During the difficulties of 2008 when Far East buyers left the market for recovered (waste) paper, quality paper still sold.**

UK domestic mills continued to buy good quality recovered paper for recycling into new paper products and CPI data suggests there were no problems in moving quality material onto the export market. It is good to see that the Waste and Resource Action Programme (WRAP) now concurs with our findings that quality counts.

When calls were coming thick and fast at the end of 2008 from the press to abandon recycling in the UK because Far East export markets had collapsed, it was evident that the issues were confined to a very small portion of waste paper being recovered from the UK waste stream. The vast majority of high-quality material was still attracting good demand from both the domestic and export markets, evidenced by the fact that the reduction in Far East buying over the difficult period was only around 120,000 tonnes, just over 1% of annual UK collections.

Quality recovered (waste) paper will always sell due to its significant global demand. It is good to see that this has been fully recognised by WRAP in its new report, *"Choosing the Right Recycling Collection System"*, and it is now starting to recommend ways of improving quality within the household as well as business sectors.

CPI would like to take this chance to explain what exactly quality recovered (waste) paper is:

Quality recovered paper is used paper that has been extracted from the waste stream for recycling in a way that minimises its exposure to contamination. Contamination comes in many forms, but is mainly associated with materials that cannot be recycled through the papermaking process or causes harm to the papermaking process. Obvious examples are things like metal, plastic, wood, or string that will simply be rejected in the first stage of the papermaking process. Glass causes particular issues as it can break up into a fine dust during the collection phase and is not rejected during the first stage of the process. This fine dust, like sand and small gravel, is very abrasive and causes papermaking machinery to wear away far more rapidly than normal.

Less obvious examples of contamination are things like water, grease, fat and even some types of ink. If the recovered paper is wet or contaminated with food, the fibres in the paper start to decompose and, additionally, fuel is wasted carrying the extra water all the way from collection to the paper mill for recycling.

Finally (and this is the hardest thing to convey to the public), some paper products are not desirable for all papermaking processes and are deemed as a contaminant by certain paper mills. An example of this is new newsprint, which cannot be made from old cardboard boxes. The newsprint paper mills can take a small amount of cardboard, but over a certain level the brown fibres start to become visible in the white newspaper, and this is not desirable when you are making a paper to be printed on and read by the public. This is one reason why there are differences in what some Local Authorities will accept in their kerbside collection systems.

Quality recovered paper is very important to the paper making industry for a number of reasons:

- paper mills have to pay for the disposal of contaminants at the first stage of the papermaking process, and this has an impact on their profitability;
- contaminants have been carried from the front door of the producer of the used paper all the way through the collection and sorting process to the paper mill, and this has a monetary as well as environmental cost;
- rejected contaminants have not been recycled and should not be counted towards recycling targets.
- If the contaminants were recyclable through other processes, such as iron or glass, this is a lost opportunity for recycling;
- if glass is carried through to the papermaking process then the wear and tear on papermaking machinery increases and makes the paper mill less competitive;
- if the new paper does not meet the quality specification of the customer, it will have to be made again with a huge financial and environmental cost.

If you would like more information on this topic, please see our CPI factsheet "Quality Counts": http://www.paper.org.uk/information/factsheets/quality_counts.pdf

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

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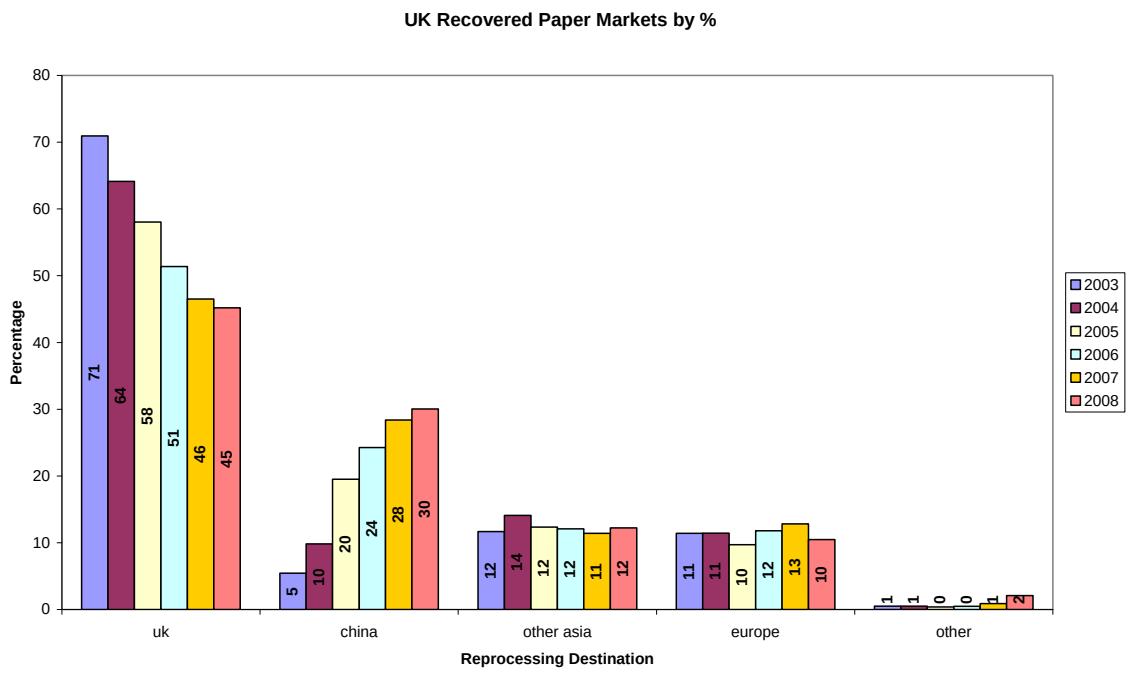
## UK PAPER AND CARDBOARD WASTE RECOVERY CONTINUES DESPITE PROBLEMS

**The collection of recovered paper and board continued to make good progress through 2008 despite the market issues of October and November, with collection up by almost 2%. Exports of material continues to outstrip domestic demand, demonstrating the huge reliance the UK has on a tumultuous global market.**

The UK's performance in increasing the collection of recovered paper and board from the UK waste stream again made good progress through 2008. Base data showed that collection increased by 1.8% in comparison to 2007. In real terms, this represents an increase in collection of over 150,000 tonnes over year. However, this is likely to slow through 2009, as the amount of paper and board flowing into the UK waste stream contracts due to the economic condition.

Exports of the collected material continued to increase through 2008 with 4.8 million tonnes leaving the UK for recycling, an increase of 190,000 tonnes on 2007. Domestic consumption was just under 4.0 million tonnes, around the same as in 2007. This means that the UK used far less recovered paper domestically in 2008 than is 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 accounted for over 30% of recycling for UK recovered paper. This represents a staggering 2.4 million tonnes or around 200,000 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 in maintaining its EU commitments and provide 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 dropped to 7% in 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 focus has changed to quality 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 collection methods from domestic sources to reduce perceived 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 Transhipment 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 and this is likely to continue. 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.

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