

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

**Issue: June 2011**

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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## PAPER INDUSTRY RECOVERY IN JEOPARDY

Paper and board production figures for 2010 indicate that the year on year decline in our sector since 2000 has at least been halted.

Other good news comes in the form of a significant increase in investment, the most eye catching project being the forthcoming commissioning of a brand new mill on the outskirts of Manchester. This is the second new mill to be built in the UK in as many years. Another CPI Member has also announced an investment package of £110m, largely aimed at further improving its environmental credentials.

In total, these investments run into several £bns and represent a vote of confidence in the UK by overseas as well as UK owned paper and board companies. However, it's not all good news and the likely closure of a long established board mill elsewhere in the north west shows the continuing pressure faced by our members.

Our industry continues to provide the key outlet for material collected for recycling in the UK, with over 8m tonnes of paper recovered from the waste stream in 2010 and millions of pounds paid to local authorities and other collectors. Paper and board continues to be the most recycled of all materials by far.

Our industry continues to improve its energy efficiency; a further 2% in 2010 bringing the overall improvement since 2000 up to 42%. Further improvements can be expected over the coming years as the industry invests in new energy equipment, with particular savings in carbon emissions thanks to greater use of biomass CHP. However, it needs to be recognised that papermaking is intrinsically energy intensive and that while further improvements can be expected, Government targets must be realistic, achievable and affordable.

The Paper and Board Industries may not grab the headlines, or excite the senses of politicians and civil servants in the same way as the aerospace, pharmaceutical or motor industries do, but it does offer potential for significant growth. We still only produce about half of the paper here in the UK that we consume – and consumption figures, especially for corrugated and board, are on the rise again. Think of what a doubling of paper production and converting would do for the UK economy if we could attract enough investment to make us self sufficient!!!

To make that a reality, however, will require a substantial shift in policy especially with regard to the Energy Intensive Industries (EIs), of which paper is one.

Whilst CPI welcomes some of the measures that this government has taken to alleviate the burden of environmental and energy policy, it needs to go much further if it is to give confidence to potential investors either to upgrade existing plants or to build more new ones.

Our concerns centre on the combined effect of a Carbon Floor Price and the much more punitive phase three of the EU's Emissions Trading Scheme (which comes into effect in 2013) together with the direct and indirect costs of achieving our renewables targets.

The Carbon Reduction Commitment is yet another “environmental tax” which will hit all of those companies not covered by a Climate Change Agreement or not in EU ETS.

The Paper Industry also faces significant tightening of its limits to pollute under the environmental permitting regime, and significant increases in the cost of water – and our industry “borrows” a lot of water.

The incentives on offer to produce energy from waste and from biomass could also have significant repercussions for our industry as raw material prices could sky rocket. We need to ensure that recyclable fibres are recycled, and that sustainability criteria are set for the production of energy from biomass.

We understand that there is a joint DECC/BIS working party engaged in assessing the cumulative impact of all government measures as they affect the EITs, and that it is due to report in the Autumn.

It does seem to us that John Cridland, Director General of the CBI, made a very good point when he suggested recently that to be one step ahead of the rest of the world in energy and environmental policy was one thing, but to be three steps ahead was courting disaster for those industries most affected.

### **What specifically does the Paper Industry wish to see?**

Firstly, a reliable cumulative impact assessment on government energy, environmental and tax measures.

Secondly, we do not believe that DECC should be exempted from the review currently being undertaken on red tape. Much of the legislation that we are currently dealing with is exceptionally complex and overlapping with other measures. The Carbon Reduction Commitment is a case in point.

Thirdly, in recognition of the environmental benefits from cogeneration, industrial CHP should be exempted from the Carbon Floor Price, and for those industries deemed to be at risk of “carbon leakage” (as is the manufacture of Pulp & Paper) there should be a rebate of the additional costs added to purchased electricity. This could be implemented in a similar way to that which operates under the current Climate Change Agreements – or even combined.

Fourthly, a policy for energy generation which delivers security of supply at internationally competitive prices and not one simply geared towards meeting renewables targets.

If we are to grow the UK economy through increasing manufacturing output, we must ensure that government policy itself does not contribute to its decline by introducing measures that impede its ability to compete on the world stage.

In turn, if this can be achieved we will continue to be able to report good news stories about investment in the future of paper and board manufacturing in the UK.

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