MPs Newsletter

cpi confederation of paper industries

Issue: October 2011

As the voice and face of the UK's Paper and Paper-Related Industries, the Confederation of Paper Industries (CPI) represents recovered paper merchants, paper and board manufacturers and converters, corrugated packaging producers and tissue makers.

This newsletter informs MPs about the range of issues currently affecting the competitiveness of CPI Members based within many of their constituencies. For further details about CPI or its activities, please visit www.paper.org.uk.

CUMULATIVE IMPACT OF LEGISLATION – NEED FOR A RETHINK

The burning question on the minds of many who work in manufacturing – particularly those operating in Energy Intensive Industries (EIIs) – is whether they are about to be sacrificed on the altars of carbon abatement, renewable energy and environmental compliance schemes.

Paper is a sustainable and uniquely renewable material manufactured either from recycled waste or from pulp derived from trees harvested from managed, certified plantations. The industry has reduced the amount of energy required to make one tonne of paper by about 40% over the last ten years, largely through huge investment in on site Combined Heat and Power (CHP) plants. A similar figure applies to the carbon emissions. The industry has already played a major part in achieving Climate Change goals and will positively continue to do so in the years to come.

What is alarming the industry though, is the prospect of further punitive measures being imposed by government both here in the UK and in Brussels. It is the cumulative effects and the unforeseen consequences of these measures that have the potential to seriously damage the competitiveness of not only the paper industry, but all EIIs.

At the head of our list of concerns is the next phase of the European Union's Emissions Trading Scheme (EUETS) which comes into force in 2013. Up until now, carbon allowances have been issued free of charge to the pulp and paper industries based on historical energy use. In just over a year's time, all of this changes with free allowances only being given for heat use and then only against a benchmark of the most efficient 10% of E.U. sites. This means that 95% of plants will be short of allowances for heat, but 100% short of allowances for their electricity use or that which is generated on site. This is because free allowances are being withdrawn altogether for all electricity generation, including CHP generated power.

For the paper industry this is a triple whammy. Firstly, there is the direct cost of purchasing allowances. Secondly, CHP plants (even those on site) will be required to purchase 100% of allowances associated with energy generation. Thirdly, we face additional "pass through" costs in our energy bills from the electricity generators.

If this was not enough, the UK government is going it alone and imposing a Carbon Floor Price which means that UK industry will pay even more for carbon than any other E.U. state and, of course, much more than our competitor nations outside of the E.U. (most of them will not pay any direct tax on the carbon that they emit).

The government has also announced that Climate Change Agreements (CCAs) are to continue, but with the regulation of these agreements passing from trade associations to the Environment Agency (EA). The EA is not in a position to manage these agreements as effectively as trade associations have in the past. Without the micro management required to ensure that targets are met, we face the additional threat that mills will be required to pay an additional cost to cover any shortfall in meeting their CCA target. Failure to meet targets would be disastrous for our industry and result in the purchase of allowances, or the possible forfeiture of the Climate Change Levy (CCL) discount (currently 65% - rising to 80% in 2013).

For those sites not covered by either the EUETS or a CCA, there will be the Carbon Reduction Commitment (CRC) which is, in effect, a carbon tax.

The UK's 2020 Renewable Obligation (RO) target is the most ambitious in Europe – and the most expensive at around £200 billion. Who is going to pay for this and the Feed In Tariff (FIT) subsidies? Our over reliance on unreliable and extremely expensive energy generation from wind leaves us concerned that energy security will become an issue, unless huge back up capacity is also built (at further cost!!!).

The rush to build subsidised biomass energy generation plants (using wood as a fuel) is already having a knock on effect on pulp availability and cost.

One has to pose several questions. Where is this fuel to come from in future? What adverse effects will it have on global land use? What damage could it ultimately do to the carefully cultivated plantation management systems that we have developed in Europe?

The rush to commission (again subsidised) Energy from Waste (EfW) plants is a threat to the continued availability and cost of the paper industry's other main raw material – waste paper and board. These plants are expensive to construct and are hungry for material. With comingled waste collection systems operating widely in the UK, it is inevitable that an increasing amount of recyclable fibre will go towards energy generation, rather than into new paper products. The cost of recovered paper is already at an all time high.

No paper company can operate without an environmental permit, with limits on a whole range of emissions being set in Europe. The document that sets these targets (known as a BREF) is being revamped for the paper industry and will lead to a significant tightening of these targets. This will undoubtedly require further investment in abatement equipment in order for plants to continue to operate - at a time when investment capital is in short supply.

EU authorities have recently agreed to enforce a very significant reduction in the sulphur content of marine fuel for shipping operating in the waters around the UK. This will result in an increase in transport costs for the paper industry as we import most of our pulp from Europe. It may even lead to a switch to road transport.

Additionally, we are promised a Water Bill in the very near future that will increase the cost of using water. For the paper industry this is potentially a major cost increase, in spite of the fact that we only "borrow" water, often returning it to streams and rivers in a much cleaner state than when it was extracted.

Even in good times, the cumulative cost of all of these measures – many £100 millions – would be difficult to absorb. In the current economic climate they will lead to the demise of many businesses, and not just in the paper sector. Every EII is faced with similar cost pressures, all forced upon them by government. Indeed, we need to question whether climate change/environmental goals are compatible with the overriding economic goal of growth, through increasing the percentage of GDP derived from the manufacturing sectors.

At the very least, we need government to recognise that the economic downturn means that it cannot pursue environmental goals as if nothing had happened. We are operating in a very different world now, and both DECC and DG Environment need to recognise that "business as usual" is no longer an option.

BIS needs to develop a meaningful strategy for manufacturing as a whole and not one simply for a few favoured sectors and SMEs. How about adopting a new target – manufacturing to be 20% of GDP by 2020?

Specifically we need government to consider:

- An exemption from the additional costs of the Carbon Floor Price – to apply to all industries officially recognised as being "at risk of carbon leakage"
- Exemption from the "pass through" costs of renewable energy generation – as in Germany
- Continuation of free allocation of EUETS allowances for on site CHP electricity generation

- CCA management to stay with trade associations and the Levy discount to be increased to the maximum allowed under E.U. law

- Deferment of any changes to environmental operating permits to at least 2025

- Agreement on global sustainability criteria for biomass

- An emergency independent review of the costs of the renewable energy programme before it is too late (we do not have any faith in DECC figures)

- A derogation from the Large Combustion Plant Directive to 2020 so that all of our power stations can continue to operate – assuming that they haven't come to the end of their lives.

- A resource efficiency strategy for waste that ensures that paper and board is recovered for recycling and not for Energy from Waste. Only genuinely unrecyclable fibres should be allowed to go for EfW generation.

- Recognition in the forthcoming Water Bill that the paper industry only borrows water – it does not consume it on the same scale as it extracts it.

- Simplification of the CRC regime.

With the above measures in place we may pull out of the current financial and economic crisis with a paper industry (and other EIIs) in a fit state to invest for the future, to create jobs and wealth and to help reverse the trend of recent years which has seen manufacturing decline as a percentage of GDP. If government does not heed our warnings, there are 1 million jobs in the UK which must seriously be considered as being "at risk", as would any prospect of economic growth from the manufacturing sector.

There are clear signs that Ministers understand our predicament and it is to be hoped that the Chancellor's Autumn Statement will contain proposals to mitigate some of the additional costs as outlined in the measures suggested above.

CPI seeks your support for these measures, and further invites you to attend the **CPI Corrugated Industry Parliamentary Reception** in Dining Room A in the House of Commons on **Wednesday 26 October 2011** from 12.15 until 15.00. Please let us know if you will be able to join us at this important event. Further details are available at www.paper.org.uk/mps_reception

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