

Cost Crisis Facing the UK's Paper-based Industries – Briefing for Policymakers



The Confederation of Paper Industries (CPI) represents the paper supply chain in the UK, including Paper & Tissue Mills, Convertors (packaging manufacturers), and Recyclers.

Background information

In 2023, the UK paper sector turnover was in excess of £13 billion with the sector supporting 115,000 jobs in industrial communities throughout the UK, with around 10,000 of these jobs in the corrugated sector. Mills in the UK manufactured 3.6m tonnes of paper; (around 40% of UK consumption) with around 73% made from recycled fibre.

In 2025, the UK Paper Industry is facing continued cost pressures from several angles. This includes increased energy costs, rising raw material prices, growing international trade tensions, labour challenges, transport costs, and new government regulations.

Paper is a crucial material used every day, from packaging for food and goods to office supplies, toilet tissue, and packaging materials. It's also a 100% renewable, biodegradable and highly recyclable resource.

The centrality of paper-based products to UK consumers was highlighted during COVID-19, when a perceived lack of hygiene and tissue products led to panic buying, while packaging materials proved to be critical in keeping supply chains operating. Food production requires a consistent and guaranteed supply of materials to ship foodstuffs to distribution depots and shops.

A challenging business environment

With an economy fully open to imports, UK paper mills and packaging manufacturing sites have always needed to operate efficiently and effectively to remain competitive. These sites continue to face a hugely difficult market, with sustained increases in the cost of input materials and operating costs. Global supply chains remain strained following COVID-19 disruption and wars in Ukraine and the Middle East; raw material supplies remain in short supply; energy markets remain volatile; while post-Brexit trade complications together with the likely trade wars driven by US policies all serve to drive up costs.

This combination of factors combine to result in an extremely challenging business market. Many of these issues are common to manufacturing, others are particular to the UK and the Paper Industry. This briefing sets out the key areas that remain under intense cost pressures. Some of these areas impact on certain aspects of the paper supply chain harder than others, but all combine to produce a perfect storm.

The cost of energy.

Notwithstanding huge progress in efficiency (each tonne of UK manufactured paper made today takes only half of the energy needed in 1990) making paper and tissue products remains energy intensive. Energy prices have wildly fluctuated in recent years, but on average have doubled in the UK in the last five years and are now around five times higher than those in the US. In 2024, UK industrial electricity prices were the highest in any major manufacturing nation averaging 28p-31p per kilowatt hour – compared to around 18p in Germany and about 13p in France.

Energy security.

There's a growing concern that with an increasing UK reliance on the international gas market and limited domestic storage together with a policy drive to reject Russian production, then at some stage, constrained gas supplies and high international demand could lead to actual shortages of energy. And with gas-generated electricity still setting prices in the electricity market, then high gas prices directly result in high electricity prices.

The price of carbon.

While the sector has a route map to deliver Net Zero, none of the main energy alternatives are currently either technically available or cost comparable with existing technology. Natural gas is currently the main source of heat in the industry, with mills required to participate in the UK Emissions Trading Scheme. ETS imposes carbon costs on the sector, with major volatility in prices and substantial changes to the scheme expected in 2027 likely to add additional costs. Even allowing for the current level of free allocations, an ETS price of £50 per tonne means an additional cost for UK paper mills in excess of £30,000,000 pa - with these costs passing through the supply chain. The cost of carbon in the UK and the EU has widely varied in recent years, with the UK price currently lower than in the EU. If the current

proposals to re-link the two schemes are progressed, then equalised cost would substantially increase the cost of energy in the UK.

The cost of fibre.

UK papermakers use both recycled and virgin fibres. Virgin fibre shipments remain hugely influenced by Chinese buying and levels of production in north and south America, with prices currently increasing back towards the all-time highs seen during 2024. Additionally, sterling has fallen in value against the US dollar over recent years, so increasing the cost of these goods when purchased for use in the UK. With pulp (and indeed a number of other input costs) being priced in dollars this continued weakness in sterling is yet another driver increasing operating costs.

Other raw materials.

A number of raw materials (such as specialist chemicals and starches) are imported to the UK. Additional to the general logistics problems (discussed below), increased border paperwork, different UK regulatory framework, and delays for drivers have all served to reduce the number of companies prepared to supply to the UK, and increased costs for the remaining suppliers. Additionally, many of these raw materials are internationally traded and also priced in US dollars.

Logistics.

Shipping costs remain substantially above historic levels as global supply chains continue to struggle with route disruption caused by ongoing military conflicts, a general lack of shipping, and containers in the wrong place. And of course, the cost of marine fuel is much higher than previously. Add to this road transport cost increases – caused by both driver shortages and the cost of road fuel – and transport services have become more difficult to secure and much more expensive.

Skills shortages.

It remains difficult for UK companies to recruit and retain appropriately skilled staff. The industry also relies on overseas contractors to maintain equipment. The cost and difficulty of getting these staff into the UK has increased substantially since Brexit. Members report increasing difficulty in retaining staff and recruiting those with specialist skills. Current wage negotiations against a background of governmental policies driving up the cost of employing staff, together with high inflation add to the cost burden.

Government policy costs and a lack of action.

All of these areas need urgent government intervention and substantial actions as part of the promised supply-side reforms intended to drive economic growth - now one of the key policy drivers for the Government.

However, a pre-requisite is access to internationally competitively priced energy, and we see huge risks in the drive for Net Zero in the UK economy without similar policies in other major nations. In that context we would urge a re-examination of carbon policies (with costs already driving demand destruction and not manufacturing investment).

The Autumn 2024 Budget also exacerbated cost pressures with rising employment costs through the increase in employer National Insurance contributions and the National Living Wage. In addition, the overall tax burden is increasing, including Corporation Tax, now increased to 25%. This year is especially significant because Extended Producer Responsibility (EPR) is being introduced, set to increase costs by around £1.5bn a year from companies that handle packaging, with the funding being passed to local authorities to fund the collection of household packaging waste. Businesses in the packaging supply chain (including packaging manufacturers and their customers) are obligated to report packaging data and pay EPR fees in addition to existing PRN costs. For paper/card packaging the currently proposed EPR cost is unexpectedly high at £215 per tonne. This policy will have direct cost implications for the whole of the packaging supply chain both through EPR fees and indirect administrative costs on businesses.

All of these issues combine to present UK manufacturing companies with a perfect storm of increasing costs and challenges outside their control. While industry can address some of these issues, it requires government intervention in all of these areas to support UK industry through the present crisis.

CPI's Key Policy Asks

CPI recently wrote to the Chancellor urging her to address the following key policy themes as part of the Government's upcoming Spending Review:

Green Industrial Strategy: A comprehensive Green Industrial Strategy is needed to attract and retain manufacturing in the UK. This includes a decarbonisation investment strategy, business rate rebalancing, targeted corporation tax and investment incentives, skills development, a strengthened apprenticeship system, and industry input into an efficient and effective EPR scheme.

Competitive Energy Costs: UK manufacturers need internationally competitive energy prices. This requires extending carbon price support, ensuring affordable electricity for electro-intensive industries, reforming energy markets to decouple gas and electricity prices,

supporting the gas transition and electrification, and reforming Ofgem to better represent industrial users. Reliable and affordable dispatchable power is crucial.

Green Economy Transition: A successful transition to a green economy demands long-term support for industry. This includes allocating ETS revenue, carefully implementing carbon borders, ensuring viable decarbonisation options, refinancing the Industrial Energy Transformation Fund, supporting sustaannual turnover of £13 billion, 56,000 employees, which supports a further 59,000 jobs in the wider economy.

Further Information

Further information is available from is available from Phil Fenton, CPI Director of Packaging, (pfenton@paper.org.uk), or Steve Freeman, CPI Executive Director – Energy and Climate Climate Change (sfreeman@paper.org.uk).

Confederation of Paper Industries

- The Confederation of Paper Industries (CPI) is the leading trade association representing the UK's Paper-based Industries, comprising paper and board manufacturers and converters, corrugated packaging producers, makers of soft tissue papers, and collectors of paper for recycling.
- CPI represents an industry with an aggregate annual turnover of £13 billion, with 56,000 direct and a further 59,000 indirect employees.
- For facts on the UK's Paper-based Industries please visit: www.paper.org.uk.