

# Cost Crisis Facing the UK Paper Industry



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

## Background information

The UK paper-sector turned over £12 billion last year, delivering 56,000 direct jobs. In 2021, mills in the UK manufactured 3.7m tonnes of paper; (around 40% of UK consumption) with about 70% made from recycled fibre.

While paper has strong environmental credentials (being bio-based and recyclable), papermaking is intrinsically energy intensive notwithstanding substantial progress in energy efficiency and decarbonisation.

## Paper-based products underpin critical supply chains

COVID-19 reinforced the importance of paper-based products to UK consumers; a perceived lack of hygiene and tissue products led to panic buying; while packaging materials are critical to keep 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 and tissue mills have always needed to operate efficiently and effectively to remain competitive. However paper and tissue mills continue to face a hugely difficult market, with sustained increases in the cost of input materials and operating costs.

The global post-COVID bounce-back massively strained global supply chains; raw material supplies remain in short supply; energy markets are in turmoil due to the Russian invasion of Ukraine; while post-Brexit trade complications 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 UK manufacturing, others are particular to the paper industry.

Companies continue to deliver increased operational efficiency and absorb some of these costs. However such is the magnitude of the cost increases that higher prices throughout the supply chain are inevitable if companies are to stay in business.

For papermaking, costs fall into three broad areas – energy; raw materials; operational costs.

All three of these areas are under intense cost pressure.

- **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.

With a welcome price cap on industrial energy costs, Energy Intensive Sites (and indeed all other commercial users) are partially protected from huge cost volatility this winter. But even the capped prices are hugely higher than historic norms and there's no long-term support promised.

While the Government supported price (£211 MWh electricity and £75 MWh gas for 6-months from 1 October) are welcome, these prices are still more than 10x higher than those seen a recently as Spring 2021.

- **Energy security.** There's increasing concern that with constrained gas supplies and high international demand, there could be actual shortages of energy this coming winter. Papermaking is generally 24/7 production, with interruptions to production leading to production losses and higher energy consumption.

Mills are now contingency planning in case of actual energy shortages this winter.

CPI is working with National Grid to better understand the potential impacts on the sector and explore the possibilities for UK mills to flex their production schedules and support the grid.

- **The price of carbon.** While the sector has an ambitious plan to transition to Net Zero, none of the main alternatives are 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 ETS scheme. ETS prices have rocketed in recent years, peaking at almost £100 per tonne in the UK – and remaining substantially higher than costs in the EU.

Even allowing for free allocations, an ETS price of £75 per tonne means an additional cost for UK paper mills well in excess of £41,000,000 next April.

- **The cost of fibre.** UK papermakers use both recycled and virgin fibres. Working from home has reduced the availability (and increased the cost) of the recycled white grades required by tissue makers, while increased home shopping has added to the challenge of recovering corrugated packaging for recycling.

Virgin fibre remains in global short supply, with supply chains still stressed and adjusting to changed global demand.

The price of pulp has increased from around £930 per tonne in December to £1,225 in July. With pulp (and indeed a number of other input costs) being priced in dollars the 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 previously discussed – the increased border paperwork, different UK regulatory framework and delays 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 priced in US Dollars. In recent months Sterling has fallen in value against the US dollar by a quarter, so increasing the cost of these goods when purchased for use in the UK.

Companies have reported increased transit times for chemical shipments and that a number of suppliers no longer supply to the UK. The latest 6-month contracts for starch are around 30% more expensive than existing contracts.

- **Logistics.** Shipping costs remain substantially above historic levels as global supply chains continue to struggle with COVID lockdowns, a 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 has become more difficult to deliver on time and much more expensive.

As an example, UK/China shipping rate went from around £2,000 per container prior to COVID, to a peak of around £15,000, with current rates at around £8,000 per container.

- **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. Labour market participation has fallen by nearly 1 million in the UK, as a result of Brexit and the "Great Resignation".

Members report increasing difficulty in retaining staff and recruiting those with specialist skills. Current wage negotiations against a background of high inflation are likely to add to the cost burden.

- **Government policy costs and a lack of action.** All of these areas need urgent Government action and we hope to see substantial actions as part of the promised supply-side reforms intended to drive economic growth. The intent of these measures is to remove barriers to growth.

In that context we'd urge a re-examination of carbon policy (currently spiralling out of control to levels that drive demand destruction and not investment); and a review of the proposed introduction of Extended Producer Responsibility for packaging waste. Without a parallel introduction of separate recycling collections of papers and boards, this policy threatens to add close to £2 billion per year to the costs of recycling, without establishing the structures necessary to improve quality.

All of these issues combine to present UK paper and tissue manufacturers with a perfect storm of increasing costs and challenged 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.

### Further Information

Further information is available from Steve Freeman, CPI Director of Environmental and Energy Affairs, email [sfreeman@paper.org.uk](mailto:sfreeman@paper.org.uk) or Andrew Large, CPI Director General, email [alarge@paper.org.uk](mailto:alarge@paper.org.uk).

### Notes

#### Energy Usage in UK Papermaking

In 2021, the UK industry made 3.7 Mt of paper and to do so it used the following energy sources:

- 8.2 TWh of natural gas
- 2.8 TWh of renewables (mainly solid sustainably-sourced biomass)
- 0.1 TWh of other fossil fuels (oils & waste)
- 1.5 TWh of grid supplied electricity

The industry generates a large part of its electricity needs through high efficiency on-site Combined Heat & Power Plant. In 2021 this amounted to 1.7 TWh (for internal use) and 0.26 TWh (for export to support the national grid).

Emissions from papermaking represent 0.36% of the provisional 2021 UK figure of 424.5 MtCO<sub>2</sub>e.

### Confederation of Paper Industries

- The Confederation of Paper Industries (CPI) is the leading trade association representing the UK's Paper-based Industries, comprising recovered paper merchants, paper and board manufacturers and converters, corrugated packaging producers, and makers of soft tissue papers.
- CPI represents an industry with an aggregate annual turnover of £12 billion, 56,000 employees, which supports a further 93,000 jobs in the wider economy.
- For facts on the UK's Paper-based Industries please visit: [www.paper.org.uk](http://www.paper.org.uk)

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