

Post-Coronavirus Industrial Strategy A Green Industrial Growth Strategy for the UK



Introduction and Summary

Too many international manufacturing companies see the UK as a place where they import products to sell, and not enough companies see it as a place to invest in manufacturing capacity for both the UK and export markets.

For the sake of the future of many millions of people in the UK, this has to stop. Government industrial strategy has to take ownership of the structure of the UK economy. The failing of previous industrial strategies is that they have always been about the playing field and not about who plays. We cannot build economic sovereignty in the UK without having world-class UK players across the economy, and Government needs to accept its responsibility for these outcomes as well as the processes of policy. These policies need to make sure that investment in UK manufacturing is always a competitive and viable option to manufacturing elsewhere and exporting to the UK.

During the pandemic, the UK's Paper-based Industries have been at the forefront of delivering products and services to the NHS, business, and the general public. They have done so safely and have helped to support communities across the UK during this most difficult time.

The UK's Paper-based Industries will also have a key role to play in the UK's post-Coronavirus economic recovery. The industry employs some 62,000 people and supports a further 100,000 jobs. These jobs are largely located outside London and in parts of the UK that need resilient employment opportunities.

The following paper sets the scene for this industry and describes a number of precise policy measures that we consider essential.

Background

The coronavirus pandemic marks a reset point in the global economy. Over many years, the UK has relied on long and complicated supply chains for goods,

often stretching over many countries. The response of countries in the pandemic period has been to close borders and keep essential goods for their own people, which calls into question the viability of the supply infrastructure that globalisation has created. CPI has often called for the Government to enhance the conditions for investment in the UK's Paper-based Industries, and for the UK to be the place where value is added. This new drive to improve the reliability of the UK's supply chains should finally be the catalyst for real action. Less complicated and more resilient supply chains need greater UK manufacturing.

In the context of the UK's Paper-based Industries, the UK has for too long been an exporter of low value materials (recovered papers for recycling into new papers and boards) to manufacturing economies and an importer of high value papers and boards from those countries. This is the opportunity to build the economic sovereignty of the UK and to add more value within the UK.

As well as improving the balance of payments and reducing the trade deficit in goods, an increase in manufacturing employment will reduce benefits claims and increase personal and corporation tax receipts. Manufacturing must grow as a proportion of the UK economy. We see no reason why the manufacturing of paper and board could not increase by at least 50%, the equivalent of two large mills making paper for packaging purposes. For example, the UK currently does not produce recycled carton board. Such investment would cut the UK's exports of low value materials by 50% and reduce the UK's imports of high value materials by one third.

Paper: The Great Material

An infinitely renewable, recyclable, and sustainable material, cellulose fibre is the material of the 21st century. The UK's Paper-based Industries are crucial to unlocking the opportunities presented by an increasingly circular economy, meeting the UK's climate commitments, and tackling economic challenges.

The UK's Paper-based Industries employ 62,000 people, support the employment of a further 100,000 and have a turnover of £12bn per annum. However, for the sector to prosper and grow there needs to be a supportive regulatory and economic environment in place. This document sets out our key policy priorities and the support from Government that we need to accelerate the pace of change.

Our Policies

Brexit

- The UK and EU should agree a mutually beneficial Free Trade Agreement as quickly as possible.
- The UK needs to use the opportunity of Brexit to review regulations and policies that affect business and take advantage of new freedoms offered to support UK businesses.
- The UK needs to reform its subsidy and competition law regimes to ensure that they are congruent with the overarching target of industrial growth. Policy must be rebalanced to have wider objectives than just the short-term lowest price to the consumer. This approach has hastened the demise of UK manufacturing and precipitated today's supply chain crises. A policy mix that supports the long-term interests of both consumers and producers must be developed.

Climate and Energy

- The UK's Paper-based Industries accept the challenge of Net Zero emissions by 2050. However, we urge the Government to recognise that support will be needed for energy intensive industries to meet this target. We need a Green Industrial Growth Strategy here in the UK.
- We urge the Government to reform the mandate of the Committee on Climate Change to ensure that it is balanced and considers carbon emissions embedded in imported products in the same way as carbon emissions from UK production. This will remove an incentive for the offshoring of industry and its emissions outside the UK.
- The UK must match the ambition of EU policy makers in their Green New Deal. If not, then investment will flow to EU27 countries, which will then export goods to the UK, ruining UK economic sovereignty. The EU expects a total fund of €1.1

trillion for decarbonisation, and €750 million for coronavirus recovery made up of public and leveraged private funds. The UK funding level should be about 20% of this in total and should provide a stable funding basis to 2050. A key part of this challenge is about providing realistic and competitive, zero carbon alternatives to natural gas for manufacturing.

- Where government provides existing compensation and exemptions for the high energy costs, CPI is calling for these schemes to be extended to bolster the global competitiveness of UK manufacturing. Businesses can no longer bear a disproportionate burden of the costs of decarbonisation. Public borrowing, general taxation and consumer prices must also be engaged. A large, sustainable UK manufacturing sector is a matter of national economic sovereignty. UK industrial electricity prices for large users are the highest in Europe, and they must come down if investment in the UK is to be stimulated.
- The UK must also reform Ofgem. The Regulator has signally failed in its duty to protect the interests of intensive electricity users in the UK. Successive regulatory failures have damaged confidence in both the stability and predictability of UK regulations and the competitiveness of UK energy prices for large industrial sites. Without reform, industrial investment will continue to leach away.
- Brexit affords the UK an opportunity to take a step forward in developing the bio-based circular economy. Current agricultural subsidies for marginal land could, if repurposed, be used to build an indigenous forest-based supply chain. Based on sustainable forest management principles, new UK forestry could supply downstream industries, support UK recycling, biodiversity, and carbon sequestration, and become a source of sustainable energy.

Investment and Productivity

- Given that most of the sector's key players are not headquartered in the UK, the Government will need to create the right conditions for continued inward investment. To achieve this, the policy landscape for energy intensive industries should be consistent, predictable, and benchmarked against competitor nations. Where policies are found to be unnecessarily burdensome for the objectives to be

attained, then they should be reformed so as to demonstrably achieve the same societal benefit with lower costs to business.

- The role of the British Business Bank should be expanded. It should be positioned to act as a UK manufacturing investment bank, with a mandate to support the growth of UK manufacturing, backed by tax incentives to invest in plant and equipment in the UK and to use such equipment to grow the UK's economic sovereignty. This should include digital connectivity to enable manufacturing sites to take advantage of the opportunities offered by the 4th Industrial Revolution.
- The Government should abolish the "factory tax" and allow full expensing of investment in machinery and industrial premises. There should also be a "scrapage scheme" to reward businesses that scrap inefficient equipment and replace it with brand new machinery for UK production.
- The current Apprenticeship Levy has not driven the expected increase in future skills development. While CPI welcomes recent announcements of cash bonuses for the recruitment of trainees, this is no substitute for a long-term thought-out strategy to create the high-skilled, high productivity workforce of the future.

Recycling and Sustainability

- Paper is a uniquely renewable and recyclable material and these qualities make it the sustainable choice for a wide range of applications. However, CPI's research shows that over 60% of paper for recycling is recovered by co-mingled collection, where paper is reclaimed alongside glass, plastics, and metals. This leads to the paper being contaminated, which makes it harder to recycle.
- CPI is calling on the Government to adopt a policy of separate collection of paper and board from homes. This would increase UK recycling rates and improve the quality of paper for recycling for all potential customers. We also urge the introduction of policies that in the context of Extended Producer Responsibility, funnel funding to UK operators who recycle hard to recover fibre-based materials.

Trade

- As the UK leaves the European Union, trade policy for the UK becomes a UK competence again. It will be UK institutions and expertise that decide if trade remedies should be applied to products imported into the UK.
- We urge the Government to ensure that it implements the policies proposed by the Manufacturers' Trade Remedies Alliance to ensure that UK businesses can defend themselves against unfair trade practices. UK trade remedies must be benchmarked against those of major markets to ensure that the UK does not become a haven for dumped imported products that will erode UK economic sovereignty. It is crucial that UK trade policy does not undermine the promotion of the UK as a profitable place to invest in manufacturing capacity. The Government needs to engage in the strategic outcomes of trade policy and not just in the creation of a process.
- The UK Government also needs to develop policies to prevent "carbon dumping" on the UK market in the absence of a global price for carbon emissions.

Packaging

- We urge the Government to recognise that packaging plays an important part in sustainability by preventing waste, spoilage and damage to goods being shipped.
- This recognition should be followed by policies that support sustainable packaging, and not 'knee-jerk' reactions against packaging per se.
- Future UK packaging regulations should support the development of easily recycled fibre-based packaging solutions and ensure that the marine plastic pollution challenges so eloquently highlighted by the Blue Planet II programme are met.

Further Information

Further information is available from Andrew Large, Director General, on 01793 889601 or email alarge@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.

OUR ASSETS	
<p>3.8 MILLION TONNES OF PAPER PRODUCED IN THE UK IN 2019</p> 	<p>CO2 EMISSIONS CUT BY 4.4 MILLION TONNES OR 66% SINCE 1990</p> 
<p>£1.2 BILLION OF INVESTMENT PER YEAR</p> 	<p>£3.4 BILLION PER YEAR CONTRIBUTION TO UK GVA</p> 
<p>62,000 DIRECT JOBS A FURTHER 100,000 JOBS SUPPORTED IN OTHER INDUSTRIES</p> 	<p>£12 BILLION ANNUAL TURNOVER</p> 
<p>1,417 COMPANIES</p> 	<p>68 % OF ALL RAW MATERIALS USED IN UK PAPERMAKING ARE RECOVERED FIBRE</p> 
<p>PRODUCTIVITY</p> <p>SINCE 2000, PRODUCTIVITY IN THE PAPER INDUSTRY HAS INCREASED FROM 230 TONNES PER EMPLOYEE TO 491 PER EMPLOYEE IN 2017</p> 	

REVISED: JULY 2020