

BREXIT and the UK Paper Industry



PG Paper

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Introduction

This report looks at the potential impact of BREXIT on the UK paper industry. In June 2016, the UK as a whole voted by referendum to leave the EU by 52%. (By contrast, Scotland and Northern Ireland voted to 'Remain'). Accordingly, Article 50 of the Lisbon Treaty sets out how any member state may leave and that any member state may decide to withdraw from the Union in accordance with its own constitutional requirements. In view of the referendum result, the UK and EU have an initial two year period to finalise a withdrawal agreement. This could be extended by one year, by agreement of both parties. During this period, the UK remains a member of the EU, with all accompanying rights and obligations. The European Commission has appointed a task force, led by French politician Michel Barnier, to negotiate the terms of the UK's withdrawal on behalf of the EU. The European Council minus the UK (numbering 27 Heads of State), will agree the negotiating guidelines for the Commission.

Any final deal needs to be agreed by both the EU and UK. The UK government must accept it. The EU requires an 'enhanced qualified majority', meaning no single member state can veto it.

A snapshot of the UK paper industry

Paper-based companies are significant employers in the UK. They have a total direct workforce of 25,000 and support a further 100,000 jobs in their supply chains. The industry has a total annual turnover of circa £6.5 billion, and the sector is a leader in the development of a sustainable, low carbon manufacturing in the UK. Paper-based companies are spread widely throughout the UK, with some degree of concentration in the North West of England, Wales, Scotland and the far South East of England.

Key issues of BREXIT for the UK paper industry

Many UK sites in the industry are subsidiaries of companies that are headquartered in other EU countries or further afield and their scope of investment decision making is much wider than the UK.

For the UK's paper-based industries, there are a number of key issues in the Brexit negotiations that the UK Government can ensure are satisfactorily resolved in the negotiation process to protect this.

A key issue for paper-based industries is one of targeted funding for energy-efficiency and decarbonisation projects. The sector is appreciative of the ongoing work with BEIS (Department for Business, Energy & Industrial Strategy) to develop a 2050 Roadmap that will deliver long term carbon reductions, in conjunction with an Action Plan that sets out what UK Government, CPI (Confederation of Paper Industries) and the sector can do.

The Action Plans calls for-

- Greater access to finance for energy efficiency and decarbonisation-related investments. Identify and implement industrial heat recovery projects that realise benefits for the sector.
- Work on awareness programmes that are related to state-of-the-art energy efficiency technology. Provide training and support.
- Give support to greater use of sustainable biomass to deliver a lower carbon footprint.
- Identify and deliver innovation including demonstration projects
- Increase activity at R & D level relating to lowering carbon emissions and improving energy efficiency.
- Contribute UK pulp and paper expertise to bolster UK bio-refining initiatives and to develop the bio-economy.
- Provide and support leadership and strategy in the UK pulp and paper sector.
- Embedded renewable generation, demand side management and energy storage in the pulp and paper sector.
- Review the plan for further improvement in this sector

It will however be vital that Government policy follows through on the commitments made in that process. One key element of this strategy would be the creation of an Energy Efficiency Fund through which Government can support energy efficiency and decarbonisation projects that might not otherwise go ahead. This commitment to support company investment will further unlock potential for the sector to grow and decarbonise at the same time.

International trade

The issue of trade defence will also need to be an integral part of a successful UK Brexit. It will be pointless encouraging investment and innovation here in the UK, if dumped and subsidised products can disrupt the UK market on a whim, or UK exports can be banned for spurious reasons. There are currently five anti-dumping measures active against unfair imports to the EU (from China and South Korea) and a further 26 cases in which EU member-states are subject to trade actions from third countries. Post-Brexit, the UK will have to assume responsibility for both access to the UK market and UK market access overseas. BEIS, together with DIT will need to be resourced appropriately to ensure this happens.

The UK Paper Industry – pre- & post-Brexit

1) End the uncertainty- The first challenge for the UK Government is to end the uncertainty around the Brexit process. The UK's paper-based companies need the Government to set out the broad lines

of the settlement that it wishes to negotiate with the EU, and the timeframe for such negotiations. Business dislikes uncertainty, and if there is continued indecision about the UK's negotiating objectives, coupled with the potential for disagreement between Ministers, there could be a decelerating of much needed investment in UK businesses, with eventual losses of both jobs and capacity.

2) Enhance Competitiveness

The UK's paper-based industries are highly-innovative in adding value and meeting their customers' needs. The sector has worked hard to develop innovative product ranges and to improve efficiencies across their business model. Investments in recovery and recycling have also delivered impressive recycling rates of 85% in the UK for paper-based packaging. These innovations have been the result of sustained investment in improving the quality of production here in the UK. This considerable investment in innovation, efficiencies and recycling should not be overlooked during the Brexit settlement for the UK. The UK Government could support efforts to ensure that the investment climate in the paper-based industries remains positive, so that global businesses are incentivised to establish and maintain their UK sites.

3) Promote investment in the circular economy and bio-economy based businesses

The UK's paper-based industries are innovative and growing. They wish to see a post-Brexit industrial strategy that reflects their aspirations to provide good quality manufacturing jobs here in the UK. They are at the vanguard of the drive towards a new bio-economy model. CPI (Confederation of Paper Industries) has welcomed the establishment of a government department with a clear remit to devise and implement an industrial strategy. The UK could be on the cusp of an industrial renaissance, where the combination of a positive Brexit negotiation and a renewed focus on industrial strategy, could create the conditions for greater investment in the UK's foundation industries (producers of materials such as steel and basic chemicals used by other manufacturers). This will not happen by chance. Government policy initiatives will need to dovetail with the needs of business to ensure that this opportunity is not missed. The current negative balance of UK trade in finished paper products reveals the scale of the opportunity.

4) Affordable and sustainable energy supplies- The UK energy market is intrinsically linked with that of the remaining EU countries, both through the Interconnector network and the Single Energy Market. The UK Paper Industry is working closely in partnership with BEIS officials on its 2050 Roadmap for long term decarbonisation of the production process. However, this work will not have

the chance to come to fruition if the short-term effects of energy prices dissuade investments in Energy Intensive Industries (EII) in the UK. Further investment in new gas powered electricity generating capacity would also be beneficial, to alleviate concerns around the security of supply. Across UK manufacturing industries, the potential of industrial generation as a support to the overall power network should be developed.

5) Balance of Regulatory Equivalence and Flexibility- The bulk of the regulation that covers the UK's paper-based industries is European in origin, and by definition is not specifically tailored to the needs of the UK. Moreover, in transposing from EU to UK regulation, other challenges and issues will be introduced.

It is important that the industry lets its voice be heard and that it works towards building upon existing relationships with government officials. This will ensure that the UK regulatory landscape supports the needs of industry, and society more widely. Furthermore, with much of the UK paper-based industry being headquartered outside the UK, any UK regulation needs to ensure that the level playing field across all regulations is visible from the point of view of European parent companies, as well as from the perspective of the UK.

6- European Supply Chains – Trade and Labour- The UK Paper Industry is extensively entwined with the EU and the Customs Union, and cannot easily be separated without the potential to damage competitiveness on both sides. To illustrate, pulp and paper are shipped throughout Europe for further processing and conversion into products close to their target marketplace. Paper-based businesses often operate with Europe-wide technical and innovation teams, so it is imperative that any post-Brexit settlement will support the ease of movement of skilled employees from one European country to another, to allow businesses to manage the complex equipment used to produce today's high quality paper-based products.

Post-Brexit, whether or not the UK is a member of the Single Market, any loss of the ability to move people and products in and out of the UK to meet the demands of the business and its customers, will quickly chill the investment climate.

Conclusion

Brexit uncertainty has the potential to encourage the sale of UK assets and, in turn, put downward pressure on the Pound. One consequence of a weakened £ Sterling, is that it could have the potential to create a paper shortage in the UK. Another could be that higher import costs, could lead to further

inflation. The degree to which the rise in inflation is passed to consumers could also impact negatively on consumption patterns, and the degree to which profit margins would be squeezed could result in some degree of job losses within the UK.

Also, the UK Government currently subsidises energy produced from biomass in order to comply with EU's legislated renewable energy targets set out for 2020 and 2030. As a result, the UK has emerged as one of the world's largest consumers of wood pellets, with over 5 million m³ consumed in 2014. Ninety-three percent of these wood pellets come from outside the UK, primarily from North America. The extent to which the UK will continue to commit to strong subsidies for bioenergy is unknown, and reducing its commitment has the potential to disrupt international wood product markets. The ability of the UK to negotiate suitable trade deals with important trading partners will be a key influencer on the scale of the economic effect of Brexit. There are many possible scenarios for the UK's future position, ranging from preserving its existing trade relationship with the EU to a failure to reach agreements and a reversion to World Trade Organisation tariffs.

Appendix

Glossary of terms

Action	An activity that will be delivered through a series of separate tasks. Short-term to 2020 – long-term post 2020.
BEIS	Department for Business, Energy & Industrial Strategy.
Barrier	Barrier A factor that needs to be overcome for an action to be achieved.
Bio-refinery	A facility that integrates biomass conversion processes and equipment that can produce fuels, power, heat, and value-added chemicals from biomass.
CPI	Confederation of Paper Industries
Dependency	How one action might influence another action, for example a shorter-term action may be linked to longer term actions or ambitions.
Impact	A qualitative or quantitative description of the impact on carbon, financial or competitiveness as a result of successfully implementing the action.
Objective	The impact on strategic outcome of the action (e.g. increased energy efficiency in a sector).
OEM	Original Equipment Manufacturer.
Output	Result achieved by the action being undertaken (e.g. better awareness amongst industry managers of opportunities).
Resources	Staff or funding required to deliver a specific task.
Task	A specific piece of work to deliver an action.
Value chain collaboration	Working closely with value chain partners and other key stakeholders to develop optimal solutions across the value chain.

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