

Autumn Statement – CPI Submission to the Chancellor



The Confederation of Paper Industries (CPI) Director General, Andrew Large, has written to the Chancellor outlining the key issues facing the Paper Industry with recommendations for the forthcoming Autumn Statement, scheduled for 23 November 2016.

After giving a brief introduction to CPI and the Paper Industry, Mr Large wrote:

“CPI has made a number of previous submissions to successive Chancellors, largely concerned about the effect of UK energy taxation policy on the global competitiveness of the UK paper-based sector. The Paper Industry is truly global and international investors will compare the costs of operating in any potential location. Our aim has been to ensure that the UK paper-based sector can be internationally cost competitive and can operate on a level playing field with other European and Global paper producers.



Andrew Large, CPI Director General

We are very appreciative of measures that the Government has taken so far to cushion the UK's Energy Intensive Industries (EIs) from the costs of achieving our Climate Change goals. However, in reality, Government support has only covered part of the sector, and those parts covered are only receiving part-compensation for the increases in their energy bills; more needs to be done to assist the industry to grow while continuing to decarbonise. The industry looks to the development of an Industrial Strategy to ensure that such support mechanisms are designed into schemes from day one and not bolted on afterwards.

This submission continues to make the case for reforms to energy taxes, but also seeks Treasury support to build on the innovation and developments that are taking place within the industry.

Brexit

This year's Autumn Statement occurs in the context of Brexit. Businesses have raised many concerns that Brexit risks damaging the investment and trade that underpins UK competitiveness. CPI would welcome a commitment in the Autumn Statement that the Government will support EIs through this period of uncertainty, so that they can make their contribution to the future growth and development of the UK.

Innovation and Development

The UK Paper-based Industry is now well placed to drive further innovation and growth in the sector. The industry has significantly altered in the last 20 years, and current sites have benefitted from some capital investment, although much more is required. Demand for paper is strong in the UK, with some 11.6 million tonnes being placed on the market in 2015. UK production of paper is less than 4 million tonnes per annum, and greater volumes of recovered paper are exported for recycling than are recycled domestically. There is therefore a significant opportunity for investment and growth in papermaking to take advantage of growing sectors (such as packaging and hygiene) and ensure the UK benefits from new innovation in paper products and around the quickly growing bio-economy.

Key Policy Asks

Early repeal of the Carbon Price Floor (CPF)

The CPF was intended to hasten the removal of the most carbon intensive generation (largely coal) from the grid. This is now largely achieved and will be completed over the next few years. The end of coal fired electricity generation will result in reduced taxation revenue for Treasury, yet (assuming that marginal production remains dominated by fossil fuel) the impact on consumers will remain high with a continuing windfall for existing low

carbon generation. Accordingly, the time is right for the CPF and Carbon Price Support taxation to be abolished and not just frozen. This would be a strong signal to industry that the Government accepts that competitively priced energy is a must for the UK.

Establish a 2050 Roadmap energy efficiency fund

The UK Paper-based Industries have, together with other energy intensive sectors, been working closely with the Department for Business, Energy and Industrial Strategy (BEIS) to develop a 2050 Roadmap for the decarbonisation of the paper sector. The Roadmap is currently in final draft form and will be agreed in the coming weeks. During the development of the Roadmap, it has become very apparent that there are a number of innovative projects that would improve the energy efficiency of the UK paper sector, but which are not being approved because their returns do not quite meet the required hurdle rate for the investment to be green lit. You will see, in the context of European and Global level decision making, how vital it is that UK investment decisions can be supported to ensure that they are taking place on a level playing field.

We understand that in the run-up to your Autumn Statement, BEIS has made a submission for the establishment of a £100 million Energy Efficiency Fund linked to those sectors that are participating in the 2050 Roadmap process. That fund would play a key role in supporting the decarbonisation agenda of the UK Paper-based Industries and would unlock significant investment in energy efficient technologies that is currently not being made. We wholeheartedly support the establishment of this Energy Efficiency Fund and believe that it would be a key plank of a new industrial strategy that supports both the growth of UK manufacturing and its decarbonisation at the same time.

Continue the Energy Intensive Industries Compensation Package

The Government has instituted a number of measures to partially compensate and partially exempt EIs from the effect of the Government's renewable policies. These measures are critical to underpin competitiveness and CPI believes that they must continue as part of a package to support investment and growth in UK papermaking.

The current compensation to offset the cost impact of the RO and FiT policies on a limited number of electro-intensive installations is due to be replaced in April 2017 by a partial exemption of charges levied by supply companies. This change is subject to Commission approval, and if such approval is not granted, then the existing compensation scheme must be extended. The possibility of extending the scope of the compensation scheme should also be urgently progressed, as the move to partial exemption on payment provides an opportunity to broaden this relief, at no cost to HMT, by lowering the business test threshold from the existing 20%.

CPI also believes the compensation package will need to be extended to cover escalating Capacity Mechanism costs to ensure a level playing field for UK papermaking in terms of international electricity supply costs. The cost increases arise because of the Government's renewable policies and are set to cost users £7/MWh by 2017/18."

Mr Large concluded by stating that CPI would welcome the opportunity to discuss these issues with Treasury Ministers and we look forward to the Chancellor's Autumn Statement, and to seeing announcements that address these issues included within it.

ENDS

For additional information, please contact Emma Punchard, Director of Communications, tel: 01793 889609, email epunchard@paper.org.uk.

NOTES TO EDITORS

- 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 £6.5 billion, 25,000 direct and more than 100,000 indirect employees.
- For facts on the UK's Paper-based Industries please visit: www.paper.org.uk.