

The Recovered Paper Market

**General Market Analysis** by Andy Hudson



The fourth quarter of 2013 has seen the conclusion of the third phase of the Chinese government's 'Green Fence' initiative – codenamed 'Earth Goddess – Phase III' which began on October 7 targeting the smuggling of hazardous waste from Europe and North America. The Green Fence had a dramatic effect in the first 2 months after being introduced (on mixed paper in particular). Mainly providers of lower quality material and small exporters got caught out and subsequently did not ship material to China. Within 3 months the Green Fence had no impact on the volume of Recovered Paper exported to China whatsoever. What has changed is the quality of material and attitudes to what is acceptable as export material to China and what is not.

As the quarter came to a finish mixed paper prices moved closer to OCC prices as several major Chinese converters and one UK converter switched to using more mixed paper. According to CPI data the fourth quarter has seen a quarter on quarter increase in collection volumes, especially from supermarkets, but still remains lower than the same period in 2012. On the other hand exports have been consistent with slightly higher export figures in November (but again lower than in 2012). The cold winter in the US and the fear of losing out on material could have led Chinese buyers to source more material from the UK.

**t2e Technical Analysis**

The fourth quarter of 2013 has seen less overall activity on t2e than the preceding quarters. A major influence is the Christmas period during which offer and bid volume historically drops. Also as in preceding years Chinese mills, brokers and smaller exporters, facing import licence renewals in China, stop buying in the UK as the quarter progresses.

Once the last shipments with arrival time before licence renewal have left the UK, established Chinese paper mills (certain of their import licence renewal) target the material for a lower price and with competition amongst buyers low sellers are more willing to accept the first bid from a buyer rather than wait for a better bid from elsewhere.

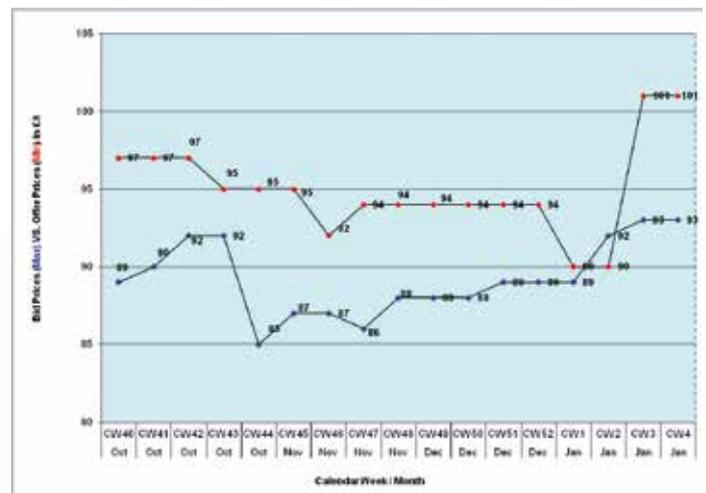
With this in mind t2e should be the preferred place to offer surplus material to discover if a better price can be achieved or an unexpected buyer found. Yet in the fourth quarter we have seen a slight increase in bid volume but a decrease in offer volume. Sellers appear cautious about leaving too much volume on t2e fearing that, if displayed, prices could decrease even more.

As a marketplace t2e reflects the prices of the wider market. So if offer prices on t2e are lower than prices off t2e, buyers will buy RP through t2e until the wider market prices adjust downwards to the t2e price whereas if they are higher then buyers will buy it away from t2e until the prices on t2e drop to those away from t2e. Volume in itself does not affect price it solely indicates potential availability through t2e. The more tonnage available the more efficient t2e becomes at meeting the needs of both the buyer and the seller. The price indicated therefore is key.

As an anonymous market nobody knows who the seller of the material is, although they might guess, until the transaction has occurred. As a solution we would suggest using our forward markets to discover if any potential surplus can be sold for a known price in advance. The material is still available for the spot market so long as it has not transacted. While if it has transacted you know that you have traded at a known price for a known volume to be collected at a known date in the future.

Buying prices in Greater London, the South East and the East Midlands in the fourth quarter were between £2 and £10 below the selling prices for these regions. The lowest selling price of £85 occurred in Wales. Historically bids and offers in Wales and Scotland can be as much as £20 lower to those in the south of England and for indexing purposes are not included in the graph.

The total bid volume for the period has increased from 54,680 tonnes of OCC to 63,280, of which 41,280 tonnes were Container HC (1,720 loads) and 22,000 tonnes (1,100 loads) were Container HC light. The total offer volume for the period was 3,772 tonnes of OCC, of which 1,104 tonnes were Container HC (46 loads), 552 tonnes Container Standard (24 loads), 1,058 tonnes Curtain Sided Trailer (46 loads) and 1,058 tonnes Walking Floor Trailer (46 loads).

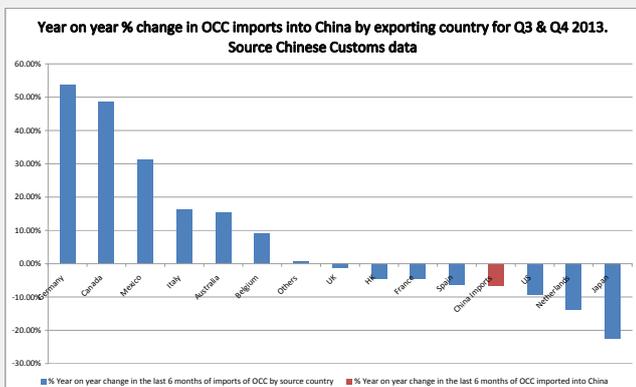


## Managing Director's Comments

While the UK paper industry reports collection and exports declining year on year, the Environment Agency reports that record levels of OCC have been collected within and exported from the UK with almost 570,000 tonnes exported in the third quarter and over 600,000 in the fourth quarter as China stockpiles supplies in anticipation of their New Year. Possibly unexpectedly in the face of this increased demand prices have softened as the quarter progressed.

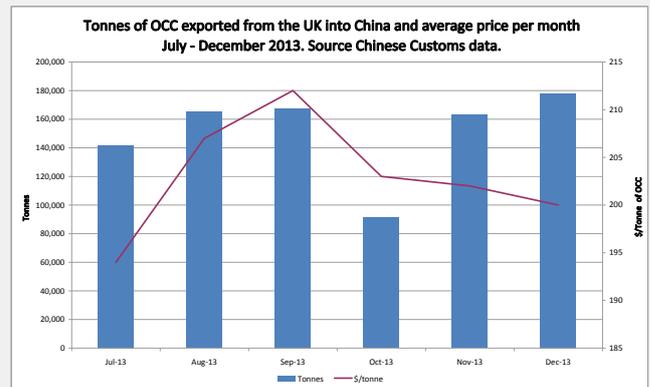
This has been achieved while OCC exports to China have dropped year on year by 1.3%. Indeed the UK has done better than other nations with overall Chinese buying reduced by 6.55% over the same period. The UK is now in second place behind the US and ahead of Japan as an overseas source of OCC for Chinese paper mills. However this could change swiftly as Italy, Belgium, Australia, Canada, Mexico and Germany have all expanded their supplies to China significantly in the last 6 months in comparison to 2012. It is this competition, combined with the domestic market still adjusting to the closure of Snodland that is driving prices downward with only Japan and the US resisting price erosion but losing volume as a consequence.

Nevertheless as OCC volumes to China decline the surplus is heading into Europe, Africa, the Americas, and other Asian countries, India in particular, as the UK once again displays its skills as a trading nation and the RP market proves how global it is. From an OCC perspective CEPI, the European representative organisation for the paper industry, reported that year on year production of packaging grades went up by around 1.8%, case materials increased production by around 2% and the output of carton board showed growth of more than 3 per cent making total production 41.77 million tonnes for the year. While US and Japanese production has stagnated, in South Korea and Canada production rose by more than 3% and Brazil, Russia, India and China saw growth of between 1.5 and 3.0%.



Many are confused over the discussions taking place within Europe about the definitions of 'end of waste'. Additional confusion is created because Europe has

recently agreed official standards for Recovered Paper, EN643. The importance of 'end of waste' has occurred for two reasons firstly recovered paper has fallen within the European definition of waste and secondly restrictions are placed on the export of waste. While the paper collection industry argue that now a standard has been agreed for recovered paper this is a logical point for it to cease to be waste and become a commodity, the processing industry argue that recovered paper only becomes a commodity comparable to the primary raw material at the pulp stage and are concerned that they might lose control of a vital raw material. While there is divergence in stances both sides agree that the exact transition point is irrelevant if it cannot be measured and verified.



This is a challenge to all not only because at the moment there is no consistency between global regulators on the status of recovered paper but also there is no globally agreed mechanism for measuring and verifying standards. Regulators are less concerned about the exact specifications of the commodity, although it can create a bureaucratic issue, and more about whether the commodity is hazardous to human health and the environment. For waste the presumption is always one of guilt on this front until proven innocent. As a result buyers and sellers are faced with the risk that what is acceptable to one regulator will not be acceptable to another regulator either at the destination country or some intervening point creating significantly greater issues of cost and supply security than the historic commercial disputes over quality. The Chinese green fence operation is just one example.

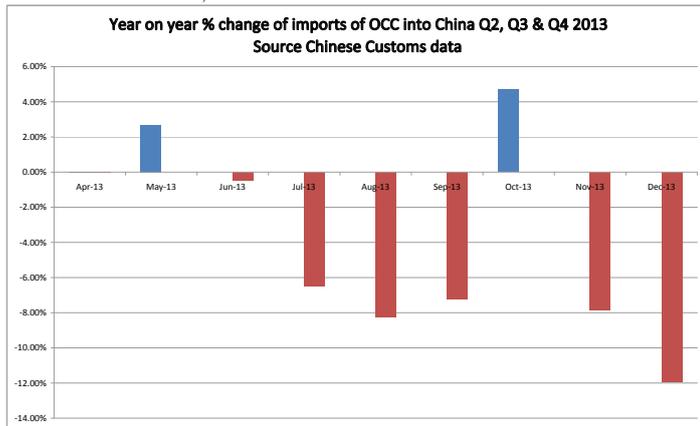
Thank you very much for your support of t2e. We look forward to you using us more. Thank you too to Simon Ellin and Pieter Borsje for their contributions.

Angus Macpherson  
Managing Director  
The Environment Exchange

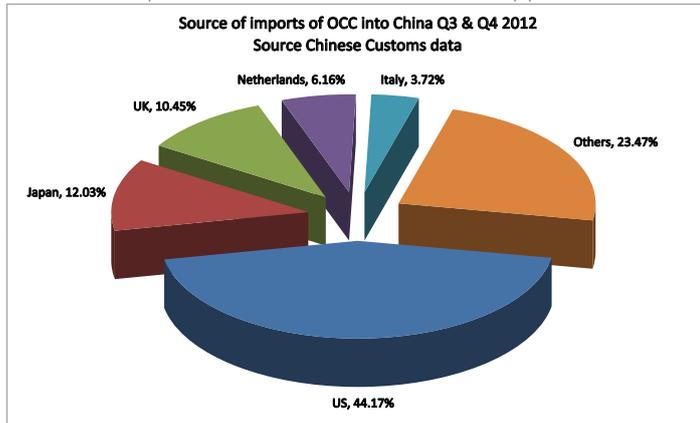
## Statistical Analysis

### China

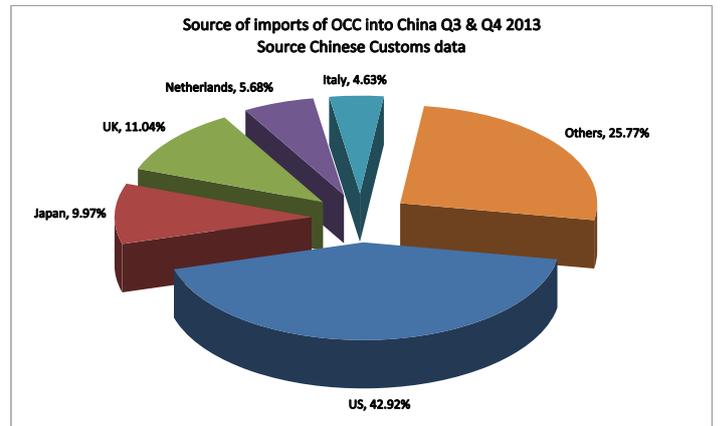
Global demand and prices for Recovered Paper and OCC in particular have for the last decade been driven by China. This may be changing with Chinese Customs data revealing that year on year imports of OCC into China are declining and in the last 6 months with the noticeable exception of October the decline has been accelerating. This can be attributed to three factors: the expansion of Chinese production is slowing down, this is being linked to the slowdown in global growth; an increase in domestic collection and possibly most relevant an increased accuracy of returns as a result of the Green Fence.



In this declining total market the UK has expanded its market share, although reduced its export volume, as has Italy whereas both Japan and the US have seen year on year declines in share and volume but have retained value in the last quarter while OCC prices from elsewhere have dropped.

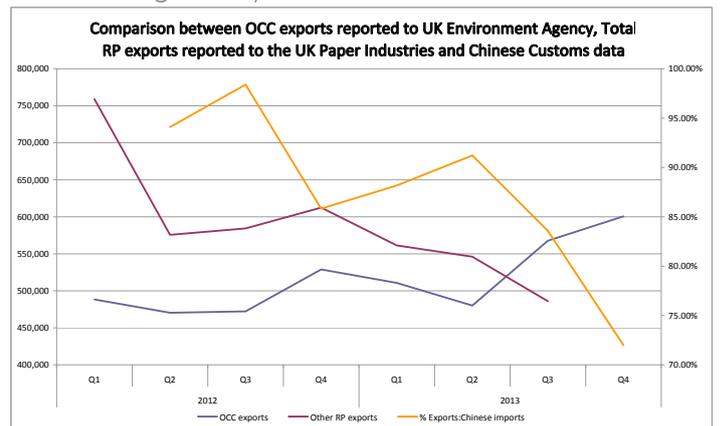


The anomaly of growth in October can be partially attributed to a very substantial drop in OCC imports from the preceding month, 20%, in October 2012 whereas imports in October 2013 only dropped by 9.5% and partially because while imports from all other nations declined, imports from Japan in October 2013 increased by 28.2% on the preceding month and 11.7% on the annual average. This would seem to confirm rumours that buyers who had delayed making import decisions over concerns about what the final phase of the Green Fence might entail turned to the short shipping distances from Japan to fill order books once the situation became clearer. This was matched by a peak in the average delivered price (\$214.00) from Japan which has been retained subsequently.

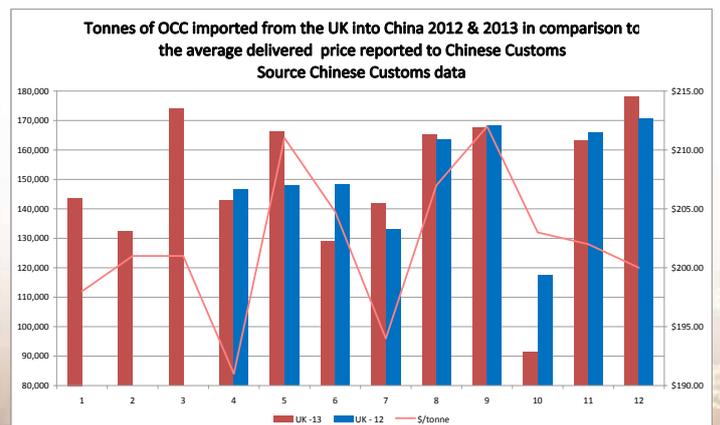


### UK

In contrast UK OCC prices which peaked in September (\$212.00) have fallen away in December to an average of \$200.00 a tonne under aggressive price competition from Australia, Belgium, Italy and the Netherlands.



UK Paper Industry data shows that collection and export volumes are declining year on year. However UK Environment Agency data shows that the proportion of exports that are OCC is increasing with this growth accelerating since Q2 2013. Although due to timings differences it is difficult to make an exact comparison, Chinese import data shows that less and less of this is arriving in China with a peak of almost 100% in Q3 2012 declining to just over 70% in Q4 2013, anecdotally India and Europe are the major beneficiaries of these exports.



## A smaller world; a bigger market for recovered paper; so why does the world lack understanding? *by Pieter Borsje, Owner, Panda Recycling BV*



In our era of increased information knowledge and with all the technological tools available, the world we live in today seems to be getting smaller by the day. And yet it is a world with more information but more difficult to understand.

### What is the consequence or are the consequences?

In general markets are losing geographical boundaries and becoming globalised, especially commodities. This is what we see as well in our market for recovered paper which behaves as a commodity. What characterises a commodity? Firstly global availability and secondly something that is only distinguished by price as a consequence placing more emphasis on service.

The global annual production of paper and board is around 430 million tons of which more than 220 million tons is recovered some 40 million tons of this are globally traded. This shows that our market is already a commodity market.

The demand for environmental friendly products, produced with a low carbon footprint is increasing, as demonstrated by the end products of paper; light weight products produced as much as possible from secondary fibre which has resulted in an explosion of demand over the last 20 years and a globalised market. China, for example, has increased her production of paper and board by 200% over the last 15 years to more than 120 million tons capacity.

Although the RP market behaves as a commodity due to globalisation and increased technology, under the surface to understand the dynamics of the market, key as well as timely knowledge is vital. This reveals the concurrent challenge of our

market, more real in-depth knowledge of the grades of recovered paper and understanding the local context of geographical markets in a global market.

Traditionally RP companies were established as small family owned waste collectors, which passed from generation to generation, always clustered around where consumption took place. The old saying is "paper follows production but is collected where consumption is". As growth was organic the vital knowledge within the waste collectors was passed on from one generation to the next. During globalisation the industry has changed so rapidly there has not been time to either acquire this knowledge or pass it on.

As a result people with real knowledge and experience of Quality are exceptional and scarce. Our industry should invest more to increase the vital knowledge which is lacking in and about our industry. Due to this low level of knowledge, the image of our industry to the outside world still seems to be one of being inferior; with old values, where some form of bandit made/makes money. How can we hope that people outside our market can understand it if the ones working in it do not understand it in-depth? Is increased global information making people blind? Do we need a higher dimension like a revelation to understand it?

The market for recovered paper is complex to understand due to a lack of transparency. An in-depth knowledge is lacking on two vital parts as described. However both are strategically vital for the paper and consumer industry. What can substitute a cardboard packaging with the same characteristics and price? In today's world there is nothing. This should lead to stable margins and profitability for the RP market of the future. Vital ingredients to encourage outside investors to step in to help those with the best knowledge to exploit the market even more.

## Q4 Report *by Simon Ellin, Chief Executive, The Recycling Association*



Quarter 4, 2013 brought some welcome signs of recovery in the processing sector with most processing and brokering members of The Recycling Association reporting increased confidence and volumes, supported by good demand and generally stable prices.

### Brown/Bulk Grades

The fourth quarter has again seen fairly consistent Chinese demand for OCC, albeit some small price reductions of between £5 and £7 were experienced in late October and into November. This was driven by a variety of factors including high stock levels, a challenging market for finished product, renewal of export licenses and prohibitive exchange rates. There were signs at the end of 2013 though, that prices were beginning to bounce back and January is forecasted to be a heavy buying month with price levels expected to at least recover to those experienced at the end of quarter 3.

Commensurately, UK mill stock levels of Brown remain high and the mills are generally not buying spot tonnage. The continued temporary closure of the Smurfit Kappa Snodland mill is still

contributing to good availability of UK OCC.

A very similar pattern has been seen in the market for mixed fibres, although demand continues to be strong. Quality remains at the top of the agenda, but major buyers and exporters of mixed fibre have reported a definitive improvement in the qualities available, particularly in the MRF/Waste management sector, as the industry continues to react positively to stronger enforcement.

### Middle and High Grades

Low available volumes and high demand for de-ink grades has meant that prices have remained strong, with domestic and European shortages allied to strong Indian demand driving the prices upwards. – Continued pressure from the advent of technology and low pagination across the sector is expected to keep demand and prices fairly robust throughout 2014.

The fourth quarter experienced a significant price hike for newsprint grades with prices for News and PAM rising by £15 – £20 per tonne which was largely driven by niche European demand allied to a continued drop-off in generation.

Demand across all higher grades remains strong with robust prices.

