

The Recovered Paper Market

General Market Analysis *by Andy Hudson*



The second Quarter of 2014 can be described as the return to a more balanced market. After initial problems with high freight rates and a shortage of shipping space availability at the end of Q1 and beginning of Q2 the situation has been reported as normal towards the end of Q2. The toughest month in 2014 so far was certainly April with buying prices reported as low as £68 per tonne OCC (Greater London). The poisonous cocktail of high freight rates, relatively low demand in China and a strong Pound to the Dollar saw prices falling. In response to relatively low demand from China, collection rates in the UK started dropping once Easter packaging was absorbed. All in all the fall in collection could be seen as the balancing factor to low demand which saw prices increasing by the end of April. The last three years have all shown the same pattern of a relatively good price in the first quarter falling towards the beginning of the second quarter. What has certainly emerged is that the continuous strengthening of the Pound against the Dollar since February/March of 2012 which has made the Import of Recovered Paper from the UK less desirable.

t2e Technical Analysis

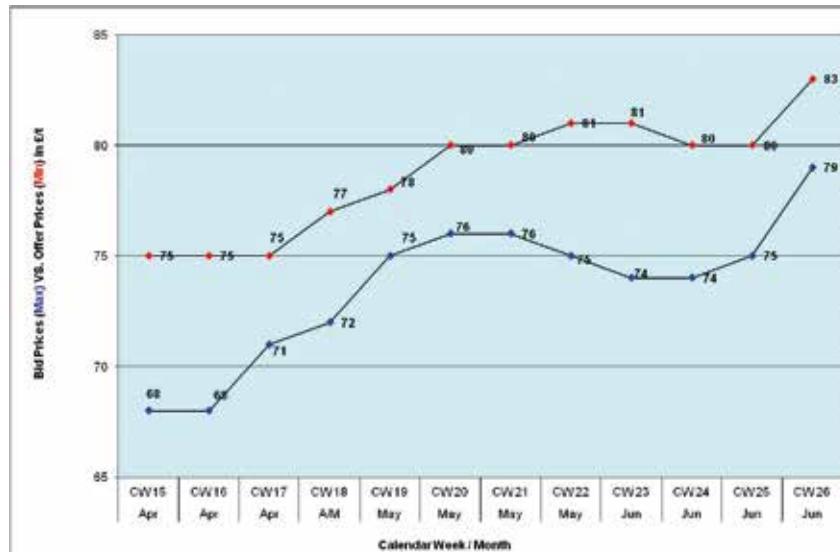
In comparison with Q2 2013, Q2 2014 has seen decreased activity in the RP market. The 2013 bid volume of 60,668 decreased to 52,544 while the offer volume increased from 3,002 tonnes to 4,000 tonnes. After we have reported an impressive overall performance for the beginning of 2014 in our last Quarterly, up to week 19 in May, tonnages on The Exchange have been influenced by the buying pattern of exporting members in the UK. Less buying orders from China and the preference of US material in comparison to UK material due to exchange rates could be suggested as a factor. So it appeared demand for material started to increase at the end of April.

Buying prices at its lowest this year with £68 placed in weeks CW15 and CW16 mid April started to increase after more container space was available and transport costs started to ease a bit. Week by week buyers at The Environment Exchange started to look for more material while bidding higher prices. By the mid of May we reached a peak in prices although demand was still weak from China but less availability of material in the UK.

Comparing 2014 with 2013 bid volume was greater in 2014 than 2013 in Q1 but lower in Q2, the quarters effectively balancing each other out. In numbers the first half of 2013 saw a demand of 106,484 tonnes of OCC on The Exchange in comparison 2014 is short by 2,516 tonnes (total 103,968).

Buying prices in Greater London, the South East and the East Midlands in the first quarter were between £3 and £7 below the selling prices for these regions. The lowest selling price of £70 occurred in Wales while buying prices fell as low as £68 for the Greater London area. 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 decreased from 53,940 tonnes of OCC last Quarter (Q1 2014) to 52,544, of which 28,944 tonnes were Container HC (1,206 loads) and 23,600 tonnes (1,180 loads) were Container HC light. The total offer volume for the period was 4,000 tonnes of OCC, of which 1,248 tonnes were Container HC (52 loads), 912 tonnes Container Standard (38 loads), 920 tonnes Curtain Sided Trailer (40 loads) and 920 tonnes Walking Floor Trailer (40 loads).



Managing Director's Comments



This quarter has seen the announcement of the much anticipated proposals on the EU's circular economy and exports of OCC from the UK to China reach record levels. Debate has also started about whether China is over-reliant on recovered fibre and the composition of recovered fibre from different regions of the world.

The EU's proposals for a circular economy have taken a long time to become public nevertheless when they arrived their ambitiousness has startled many. Key areas for the recovered fibre sector are the proposed revision of the packaging waste targets to 80% by 2030 and paper packaging, predominantly OCC, to 90% recycling by the same date. In addition there are proposals to ensure that the recycling/reuse rate for municipal waste is increased to 70% by the same date and there is a landfill ban on paper. While these targets have been broadly welcomed concerns have been expressed about the impact this will have on the quality of the resource produced. Inevitably quality has a wide range of variables for some fearful that this increase will have to come from the municipal waste stream within co-mingled collections the issue is the quantity of non-paper elements that will creep into bales of recovered paper; for others it is the wide variety of recovered fibre that will be included in single source material (e.g. OCC). Looking at the problems that have been encountered with the Chinese green fence it is the later issues that have been causing the greatest problems. This is in many ways a relief since it shows that fibre is being recovered and shipped rather than an overall increase in the level of contaminants and a trend towards a global trade in mixed waste streams, which is potentially open to significant abuse. It also says a great deal for the quality checking standards that are applied prior to loading.

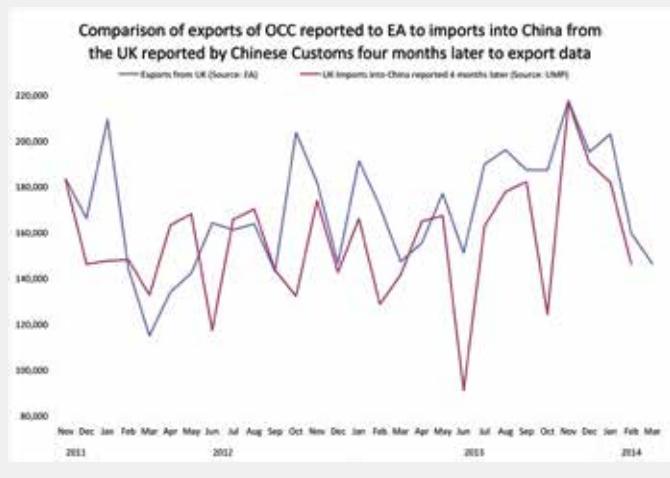
Concurrently a debate has opened about the definition of municipal waste and indeed whether it ought to have a separate definition at all. Many feel that this solely represents waste for which municipalities have responsibility to collect rather than any specific sub-category of waste which should be generic rather than dependent on the service provider that collects it. At the most extreme waste is hazardous regardless of who is responsible for its collection.

Within China the debate on quality has now expanded to three levels. The first of which is whether what is claimed on the paperwork to be one commodity is in fact another. The area of debate has been whether ONP is in fact ONP or mixed papers. This is an issue that had been flagged up due to the decline in the use of newspapers in the US by US paper exporters over a year ago. The second of which is whether the on-going premium paid on US material can be justified solely on the quantity of primary fibre within it. In an increasingly global economy much of the OCC produced in the US is distributed elsewhere in the globe and to a lesser extent products from outside the US are imported into it packed in boxes with a lower primary content. The consequence is a greater homogeneity between the US and Europe in primary fibre content. What is certain is that fibre recovered from the Chinese waste stream has a far lower primary content and some commentators are beginning to argue that a greater use of pulp should be made as a raw material to improve the fibrous content of collected material. What impact that would have on the global price for either pulp or recovered paper has yet to be identified.

Meanwhile in the UK collection tonnages seem to have at least remained stable and possibly increased as have exports of OCC although those to China as the graph shows have become increasingly volatile.

Thank you to Jimmy Zhou and China Paper for their insightful comments. Thank you for your on-going support and your patience as we go through a process of updating our contact details. We look forward to being of further service to you.

Angus Macpherson
Managing Director
The Environment Exchange



Analysis of European waste paper situation in the first quarter of 2014

The sales of European and British waste paper in China had undergone great difficulties during the first quarter (half?) of 2014. Although the total imported amount has gone up by 6%, these purchases have been dominated by: Nine-Dragon, Lee and Man, Cyclelink and Liansheng Fujian.

Other potential importers are faced with a combination of circumstances that are unprecedented in China:

1. There has been a reduction in the volume of Recovered Paper collected in Europe, this there is less being exported.
2. The rise of ocean freight costs.
3. Some larger paper suppliers in China have resources which allow them to perform their own CCIC checks, which keeps costs lower. However, the majority of Chinese paper suppliers must have CCIC checks carried out externally, which raises their costs, resulting in higher prices.
4. In some parts of China, especially the Manila board producing Fuyang area of Zhejiang province, companies are confronted with the security issues connected to the failure of businesses, which leads to financial deterioration. Mills are struggling financially, unable to open L/Cs and therefore unable to purchase Recovered Paper from overseas
5. The green fence policy action leads to the rise of potential risk of returning cargo. This has occurred in ports including Zhajiang and Ningbo.
6. The price of local waste paper has always been maintained at a low level which also suppresses the price of import waste paper from rising. As exports from China are decreasing, paper mills are able to increase the use of local materials thus allowing the mills to minimise their costs.

The European 90:10 OCC price was at 200USD and has dropped to between 180-183USD delivered to China's main

ports since the beginning of the year. In July the price has risen again slightly and should be maintained at around 185USD.

US OCC's price has decreased from 220USD early this year to 195-197USD, and for the present is maintained at 203-205USD but the volume of imports has greatly reduced.

Japanese OCC price dropped from 200USD to 180USD, and has currently risen back up to 195 USD.

The price of A2 mixed waste paper has consistently stayed at around 140USD. The difference between suppliers' costs and receiving customers' pricing is so great that reaching a transaction is very difficult.

It is estimated that the adjustment in China's paper market will last for some time to come.

In contrast, prices in Thailand, Vietnam and India are more desirable than in China. This can be partially contributed to the fact that there is no CCIC detection expense. As a result more European, American and Japanese suppliers are looking to Southeast Asia's markets.

What's more, the quantities of Japanese OCC exported to China has decreased from 80 percent to 60 percent of the total OCC amount that Japan exports to South Asia.

To many factories, using American along with local waste paper or Japanese waste paper can totally replace European waste paper from the aspect of technology and control of expense.

In a sentence, 2014 is a period of adjustment for the papermaking industry in China, both price and consumption are decreasing, do if the price for European waste paper is not advantageous small and medium sized enterprises will largely reduce their use of it.

Andy's Ironman Challenge

Iron Man is a long distance triathlon race consisting of a 2.4 mile swim, a 112 mile cycle, and a full marathon.

Although I was a keen runner when I signed up for my first Iron Man in 2013, I was definitely not triathlon material. However, I had recently quit smoking, had a lot of extra energy and needed to keep my mind occupied, so I decided to register.

Training for Iron Man takes a lot of time and sweat. My training usually consisted of a morning cycle, swimming at lunchtime, and a run in the evening. During my training, I often asked myself why I had bothered to sign up, but I knew that quitting wasn't an option.

When the competition starts, and 2,000 people start swimming, it is like being in a bucket full of fish. People were literally swimming over me, kicking me from all sides. I found the swim very challenging and it seemed that from stroke to stroke the distance didn't become any shorter. The idea of giving up became more appealing, but I kept going. I will never forget the relief and happiness I felt when I completed the swim.

The cycle was the part I enjoyed the most. All of my training

had made me quite fit and I made good progress. Once I had completed the cycle, I thought that the worst was over; as only the run was left. Well, I was wrong. It's not just running. It's running a full marathon, when your body is already about to shut down. By the 20km point every part of my body ached. Needless to say, running the final kilometre was amazing; the crowd were cheering and I knew that I was only minutes away from being an Iron Man.

I signed up for Ironman 2014 as soon as the registration opened. I was much more prepared this year; strong on my bike and much better in the water. However, during transition I tripped over my cycling shoes and injured my foot. I immediately thought the race was over for me, but I ran through the pain until my foot was numb, and managed to finish the marathon.

When doing Iron Man in 2013, I missed the opportunity to be able to do something to help others as I wasn't confident that I would be able to complete such an enormous physical and mental challenge. This year I decided to raise money for Animal Helpline, as I recently adopted two rescue dogs from the organisation. In total, I raised £672 pounds for the charity.

Chinese Paper Mills Eyes High European Recycling Rate With Mixed Feelings

submitted to The Environment Exchange by www.chinapaperonline.com

Latest reports from the European Recovered Paper Council (ERPC) showed the paper recycling rate in Europe reached 71.7% in 2013 with over 57 million metric tons of used paper collected, although not all of this was consumed within Europe.

Chinese paper makers read these reports with mixed feelings. While being assured of the consistent potential supply of recovered paper from Europe, they have deeper worries about the future fibre strength of European recovered paper with such a high recycled content.

Until five years ago, Chinese paper makers were actively developing European recovered paper supplies as a primary source to supplement those from USA. But this enthusiasm has waned under growing concerns on the fibre strength of shipments originated from continental Europe. And Chinese orders sharply declined in 2013 when the Green Fence Action caught a number of shipments red handed with high contents of contaminants!

Data from China Customs showed the situation was getting worse. In the first five months of 2014, shipments of recovered paper from Europe to China shrank to 3.35 million metric tons, -6.19%, from the corresponding period in 2013. Among the general loss in all the bulk grades, ONP has suffered the most by giving up -63.28% and plummeted to 105,700 metric tons!

USA remains the primary source of supply, with its share growing from 41.63% in 2009 to 44.62% in 2013 in China's overall recovered paper imports. And in the first five months of 2014, the ratio edged up to 45.75%. For Europe, however, shipments to China struggle below 8 million metric tons annually and its share in China's overall recovered paper imports shrank from 26.39% in 2009 to 21.65% by 2013.

Though China's domestic recovery rate was very high with nearly 45 million metric tons of waste paper and board collected, baled and repulped for paper and board production in 2013, the country has to rely on offshore supplies of recovered paper. Data from the China Paper Association (CPA) showed 40% of the recycled pulp produced in the country in 2013 originated from recovered paper shipments from overseas. In 2013, China's recovered paper imports stayed at its 2nd historical height at 29.24 million metric tonnes (-2.76% from the highest year of 2012).

While it is true that, as a result of the slow-down in the country's economic growth, China's paper and board consumption dropped -2.65% from the previous year to 97.82 million metric tons and paper and board production dipped by 1.4 million metric tonnes, -1.37%, to 101.10 million metric tonnes in 2013, it has in no way eased its dependence on recovered paper. In spite of this decline, China's recycled fibre consumption in 2013 stayed almost the same as the previous year. In the first five months of 2014, China's recovered paper imports totalled 11.83 million metric tons, -6.4% from the corresponding period of 2013. Much of the decline came

from ONP, which was down -18.49%. This reconfirmed the fact that through years of restructure, China's paper industry has evolved from dependence on straw fibre to recovered paper. According to the China Paper Association (CPA), China produced 76.51 million metric tonnes of paper-grade pulp in 2013. Of this, 59.40 million metric tons, or more than 77.63%, was recovered paper pulp. By consumption, recovered paper accounted for 65% of the overall pulp consumption in 2013. Echoing the global declines in newspaper demand and consumption, China's newsprint production – which consumes 100% recycled fibre – fell -6.9% year on year and newsprint consumption reduced by -5.8%. On the other hand, China's production and consumption of industrial packaging board – linerboard, medium and folding boxboard who are heavy consumers of recycled fibre as well – continued on its path of growth. Between 2009 and 2013, on average year on year China's industrial packaging paperboard production grew 4.3% and its consumption rose 3.6%.

The trend prompted Chinese recovered paper buyers to show greater interest in OCC. North American OCC remains the primary source of supply to China, regardless of growing complaints on cleanliness and moisture of bales from single-stream sorting in the USA. At the same time, Chinese buyers will further tap on OCC supplies from UK – where it is generally recognized that OCC fibre yield and strength are the most consistent within Europe.

There were significant changes by grade of UK's recovered paper exports to China in the first five months of 2014. According to China Customs, China imported 1.47 million metric tonnes of recovered paper from the UK in the first five months, 9.55% more than in 2013. Of which, 896,660 metric tonnes were OCC (+18.10%), 511,630 metric tonnes were sorted mixed paper (+34.66%), 51,500 metric tons were ONP (-72.22%) and 14,280 metric tonnes were de-linking grades (-32%).

As much of the exportable volume from the UK is already committed to large buyers from China, people are now wondering about the availability of additional volume within the UK. It will not be a surprise that more Chinese mill buyers will step up their efforts in sourcing direct from UK, which may encroach on the vested interest of existing large buyers. At the same time, Chinese buyers will tap new sources of supply from more countries in Europe, including Russia, Sweden and Norway. The questions now are:

Will exports of such recovered paper that have been recycled multiple times with less fibre yield and strength survive the stringent inspection from the Chinese authorities and repulping in Chinese paper and board mills?

What are the options for Chinese mill buyers to secure supplies of recovered paper from Europe, in particular from those non-traditional supplier countries?

In our view, the factors weighing on the business with China include among other things: