



THE RECOVERED PAPER MARKET

QUARTERLY REPORT

May 2013



GENERAL MARKET ANALYSIS *by Andy Hudson*

The first quarter of 2013 has been disrupted by China's Green Fence. Originally initiated in February as a crackdown on the quality of plastic, Operation Green Fence was set up to enforce China's existing standards on imported contaminated material for recycling. The measures taken for plastic have been adapted for other materials, which has led to a backlog of containers at Chinese customs.

Although plastic has been the material most affected, imports of recovered paper have been subjected to quality inspections as well. The increase in inspections and waiting periods for containers in customs has led to an increase of costs for both exporters and their Chinese customers. Some report that the major exporters have a lot less problems than smaller merchants and brokers, many of whom have stopped shipping to China to avoid rejections and the costs of repatriation or redistribution.

China's appetite to enforce its 2009 regulations comes hand in hand with the change of political leadership in November last year. In a speech at the Boao Forum for the Asia Annual Conference 2013, President Xi told delegates "that the country would put more efforts toward green development, recycled development and low-carbon development" adding that China "needs to balance industrial development with green, sustainable development."

Despite the reports from some online sources, as of yet there is no particular feeling of panic in the market. Chinese exporters are still buying, although less as it is a slow time of the year anyway as are domestic mills. What has changed is that smaller Chinese mills are not taking the risk of buying lower quality material overseas regardless of the source and would rather source material internally. Most agree that the situation we have at the moment is not temporary, so what happens when we enter the busy period of the year? While suppliers are clearly going to have to revisit the quality of their material before exporting it to China, it is far from clear either exactly what criteria Chinese customs are applying or whether sufficient tonnage to meet Chinese demand will be forthcoming.

t2e MARKET ANALYSIS

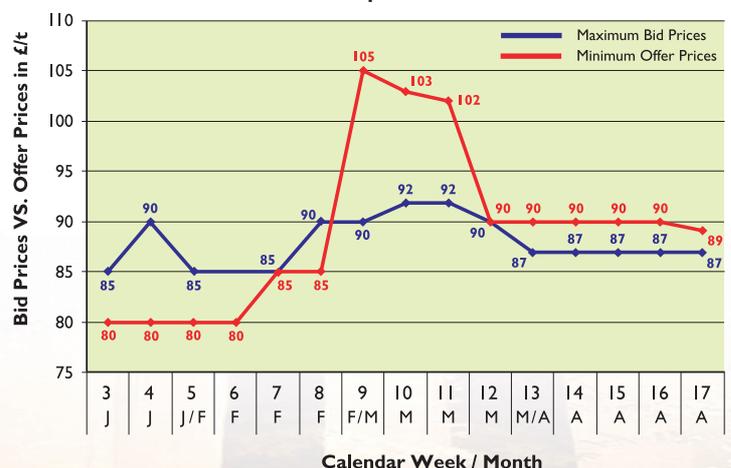
The first quarter of 2013 saw prices fluctuating between £80 and £100 per OCC tonne, with best buying prices of £92 in March and best offer prices as low as £80 in January. Sellers have reported there has been less material available for collection during the period, this is partially attributed to the Christmas period and partially to the current economic situation. Demand was down on the previous quarter, although this was expected as historically there is low demand in the first quarter of every year. Although demand from large exporters has been consistent, smaller merchants have stopped buying. As a consequence total tonnage exported has reduced.

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 £80 occurred in Wales.

The first quarter also saw a slight decrease in buying volume in comparison to the preceding quarter. Particularly during December, where buyers placed fewer orders - greatly influencing the overall tonnage in Q1.

The total bid volume for the period has marginal decreased from 62,312 tonnes of OCC to 61,340, of which 41,040 tonnes were Container HC (1,710 loads) and 20,300 tonnes (1,015 loads) were Container HC light. The total offer volume for the period was 3,926 tonnes of OCC, of which 1,200 tonnes were Container HC (50 loads), 864 tonnes Container Standard (36 loads), 851 tonnes Curtain Sided Trailer (37 loads), 851 tonnes Walking Floor Trailer (37 loads), 80 tonnes (4 loads) were Container HC light and 80 tonnes (4 loads) were Container Standard light.

Combined Bid and Offer Prices for OCC on t2e's Marketplace Weeks 3 to 17



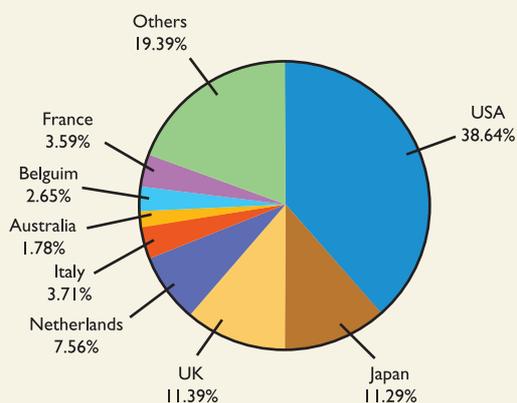
MANAGING DIRECTORS COMMENTS



The first quarter has been an interesting and busy period. From a trading perspective the market has been impacted by the gradual strengthening of China's 'Green Fence' aimed at improving the quality of its 'foreign waste' imports. Concurrently there has been a consultation in the UK about the introduction of legislated operational and quality standards for Materials Recycling Facilities (MRF) including a quality testing process. While from a marketplace perspective we had a very interesting visit to Dubai to learn about how the recovered paper market is developing in the Middle East.

A new President in China has brought new priorities. Not only is corruption very much in his sights but also a desire to promote China as a sustainable environment and not a dumping ground for global waste. As a result the Chinese customs are now rigorously enforcing quality legislation that was introduced in 2009. While this started on plastic, it has spread to other materials including recovered paper. Some slightly irresponsible reporting in the Daily Mail has resulted in additional challenges for UK exporters causing 100% of containers being stopped and checked. Not only has this caused backlogs of containers in Chinese ports but also delayed payments and increased demurrage charges. The ongoing concern is that there is uncertainty on exactly what quality standards are being applied by the Chinese Customs and also what checking methodology they are employing. There have been reports of shipments being repatriated on the grounds of a single bale being found with plastic in it which feels a little excessive.

China Recovered Paper Import Market 2012



Source: UMPaper, Chinese Customs Data

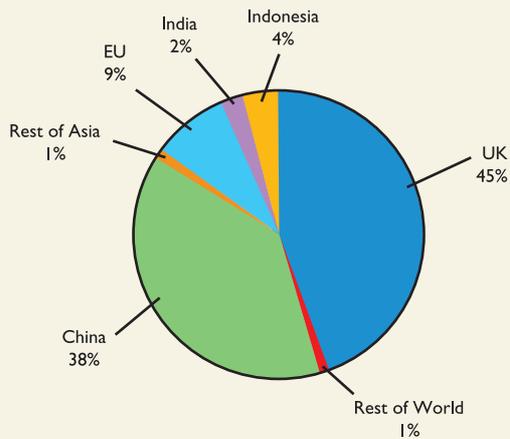
We hope to learn more about this during our visits to China in June.

As China is the most active importer of recovered paper, the activities of their Customs officials have an impact on prices throughout the global recovered paper market. While initially there were suggestions that the OCC price might drop by as much as \$50.00 a tonne, this has not transpired. In fact after an early fall, the price has remained remarkably stable as other buyers both domestic and elsewhere have used this opportunity to buy up stocks. While this is feasible during a traditionally quiet time of year the questions remain about what will happen to the price and supply should China's demand be restored to earlier levels or, as is quite possible with the 'Green Fence' anticipated to be in operation for the remainder of the year, if it does not. The yards of domestic mills and merchants have only a limited capacity to absorb more stock! This might be an opportunity to review trading strategies in the Forward markets.

Concurrently the UK Government has been consulting on a legislated MRF Code. There has been much debate about whether the quality standards should reflect a minimum benchmark or, as has been agreed, an agreement on testing size, frequency and accuracy. Quite rightly the recommendation is that it is more important that the commodity is correctly described than redefining variable market standards. As such it compliments rather than competes with EN643. So some material coming out of a MRF will meet the EN643 standard and will be sold as such; some will not and will not claim to be. Like any trading organisation the MRF will therefore be judged on its ability to deliver what it says on the tin! As over 38% of all paper recovered in the UK goes to China, this will provide their Customs and customers elsewhere reassurance that quality is being controlled at both ends. As important the legislation has begun to set some guidelines for measurement and verification of standards. Some may claim that 50kg samples per load of recovered paper are still too low but at least it is a start!

Meanwhile in the Middle East the capacity of paper mills continues to increase. As a result it is anticipated that they will become net importers of

UK Recovered Paper Export Market 2012



Source: CPI, HM Revenue & Customs

Recovered Paper and we are looking to start delivered contracts to 2 or 3 ports. Concurrently traders are looking for opportunities to sell elsewhere so we are also investigating the possibility of a FAS collected contract from the same or other ports.

Thank you for your support to date. We look forward to encouraging you as the year proceeds to use the tools and services that we provide and reporting back on our visit to China.

Angus Macpherson
Managing Director of
The Environment Exchange



“GREEN FENCE” PROJECT

by Yaya Cao

The first quarter of 2013 has witnessed weaker demand from China, particularly after the introduction of the “Green Fence” project, which is said will last for up to ten months. The project aims to crack down on “foreign rubbish” imports; targeting a range of products, including electronics, tyres, old clothes, plastics, paper etc. Customs will apply more stringent controls on aspects, such as licensing, documentation and the quality of foreign solid waste.

Even though it has caused issues for many exporters to China, the project has been welcomed by many Chinese paper mills as it has resulted in a more consistent supply of higher quality material, despite longer customs clearance times. It is the Chinese traders who have been affected most. Many are reluctant to commit to purchasing material fearing that it will be delayed or possibly rejected by the Chinese customs. Some have also been caught at abusing SIPA licenses. In the meantime, overseas sellers are more cautious, because if their exported material is rejected three times by the Chinese customs, it is likely that they will lose their AQSIQ license. However, good quality material is being cleared, but with longer waiting times than previously and as a result increased demurrage charges.

A reduction in demand for finished products, coupled with increasing input costs (raw material, labour, power etc.) has slowed down China’s export market. Over the years, imported better quality raw material has brought changes to the paper making industry.

Chinese OCC Import – Country of Origin

Country	Tonnes			
	March 2012	March 2013	% Comparison	% Overall
US	625,983	568,105	-9	39
Japan	182,928	194,390	6	13
UK	184,549	174,068	-6	12
Netherlands	122,423	93,723	-23	6
Italy	60,045	52,706	-12	4
Australia	28,898	49,952	73	3
Belguim	42,981	49,655	16	3
France	58,182	43,005	-26	3
Others	314,049	224,094	-29	15
Total	1,620,037	1,449,697	-11	100

Source: UM Paper, Chinese Custom Data

"Green Fence" Project by Yaya Cao - continued

Domestic collections have not only been increasing but also better quality material has been collected. In certain regions, domestic waste streams are now meeting local demand. However the ongoing rise of domestic demand has and will stimulate increased consumption of packaging within China, and the mills will still require more and more raw material. The question remains for packaging producers will the increases in domestic demand for end products make up for the drop in export market?

Many countries have been affected because of this project. In Europe, particularly the Netherlands, an aggregation point for material exported from many other European countries, with the court case of Peute Recycling, one of Netherlands' largest paper and plastic recyclers. Chinese buyers have suspended sourcing material from the Netherlands. An article published recently in the Daily Mail alleged "millions of tonnes of household rubbish painstakingly sorted by families for recycling are being dumped abroad" has been spreading in the Chinese media and has caused negative sentiments in the industry towards UK waste. As a response, recent market information reveals that Chinese Customs are opening and inspecting 100% of containers from the UK. Despite this since many European exporters have now shied away from exporting to China, there is an opportunity for UK exporters to reinforce their market position as consistent suppliers of good quality material. If they do, prices should increase and the premium over recovered paper from other Western European countries maintained. Otherwise prices will decrease to cover the additional cost of sorting material, and UK exporters will find themselves competing with exporters from other countries. So UK exporters may have to target new emerging markets for their recovered paper.

Looking forward, the industry will see a rise in the demand for high quality material in order to compensate for the tonnage which is no longer acceptable. China will still be dependent on imports until domestic supply becomes sufficient or alternative material such as pulp is preferred and utilised. The message for recovered paper suppliers is to keep up the consistent supply of good quality recovered paper to better negotiate with the "Green Fence" policy and achieve long term sustainability.

WHERE TO SEE US NEXT

Please come and see us at the following conferences in Shanghai, China.

European Paper Recycling Asia: 30-31 May 2013



The banner features the logo for the Paper Recycling Conference Asia on the left. The main text reads: "PAPER RECYCLING CONFERENCE ASIA", "30 - 31 May 2013", "Shanghai, China", and "The Meeting Place for the Asian Recovered Paper Industry". The background image shows silhouettes of people standing on a large structure covered in plastic waste, with a recycling symbol visible.

RISI

**RISI Asian Pulp & Paper Outlook Conference:
17-19 June 2013**

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