

The Recovered Paper Market

General Market Analysis by Andy Hudson



Generally a good quarter in the UK from a Recovered Paper (RP) perspective; CPI data shows year on year collection on the back of significant export demand is up, contrary to the belief of some of merchants, with the traditional post Christmas peak in January. Prices after peaking in January and tumbling in February and March, as sellers in the US started to aggressively discount prices to exporters to clear accumulated stocks, are now beginning to recover.

Weather had a big impact in Q1. The prospect of severe winter weather in the United States during February and March made the UK more important as a source of RP in January for the Chinese buyers. In the UK there was heavy rain instead of snow and sellers were faced with significant moisture claims.

Shipping already hit by reduced imports from China was diverted due to stormy weather to European ports rather than UK ones which resulted in a shortage of shipping space from the UK and substantial (some exporters reported prices almost tripled) increases in shipping prices. What was anticipated to last a month took a little longer to sort out with prices only returning to a norm in April and May. Please find more details in the MDs remarks.

Politics played a smaller part with events in Ukraine having a far more substantial impact on Continental Europe and Poland in particular but as events continue it must be anticipated that Eastern European mills will have to seek supplies from elsewhere.

t2e Technical Analysis

In comparison with Q1 2013, Q1 2014 has seen increased activity in the RP market. The 2013 bid volume of 43,300 increased to 53,940 while the offer volume increased from 2,822 tonnes to 4,806 tonnes. Overall the period from January to the beginning of May (calendar week 19) 2014 has exceeded the offer volume for the first half of 2013 by 14% (124,800 tonnes).

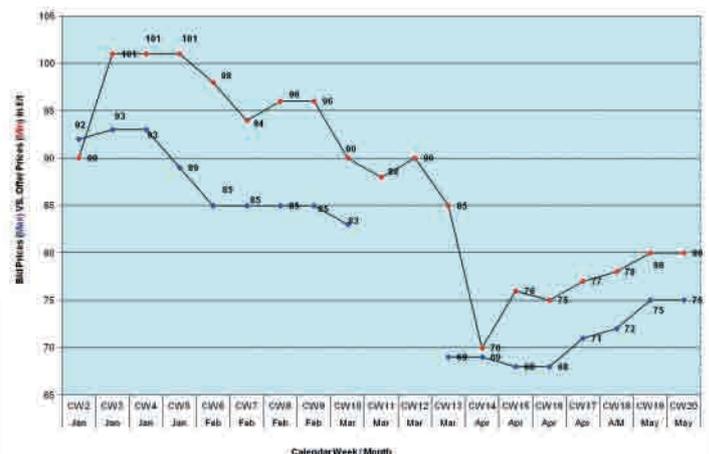
As a marketplace t2e reflects the prices of the wider market. So if offer prices on t2e are lower than prices off t2e, buyers will buy RP through t2e until the wider market prices adjust downwards to the t2e price whereas if they are higher then buyers will buy it away from t2e until the prices on t2e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

After a busy January with prices peaking at £101, the lack of container space had a dramatic impact on participants which led to a period of time where there were no bids in the market. Sellers reported full depots at the end of February which meant that they had to decrease their prices dramatically to get tonnage moving. This was not helped when looking to the export market by competition from the US as they were equally trying to clear warehouses filled during the bad weather. Domestic Mills bought heavily taking advantage of the price drop.

Another contributor to the increase in tonnage on the exchange is the reduction of fear of the unknown as in 2014 exporters are beginning to understand the requirements of the Chinese green fence combined with an increase in overall demand from China in comparison to 2013. Although the container shortage had a dramatic effect this year it had the same, if not even worse, effect last year.

Buying prices in Greater London, the South East and the East Midlands in the first quarter were between £1 and £13 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 increased from 49,320 tonnes of OCC last Quarter (Q4 2013) to 53,940, of which 36,120 tonnes were Container HC (1,505 loads) and 17,820 tonnes (891 loads) were Container HC light. The total offer volume for the period was 4,806 tonnes of OCC, of which 1,224 tonnes were Container HC (51 loads), 960 tonnes Container Standard (40 loads), 1,311 tonnes Curtain Sided Trailer (57 loads) and 1,311 tonnes Walking Floor Trailer (57 loads).

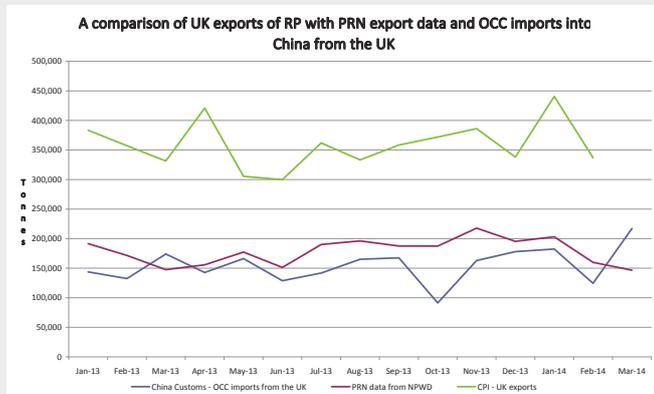


Managing Director's Comments



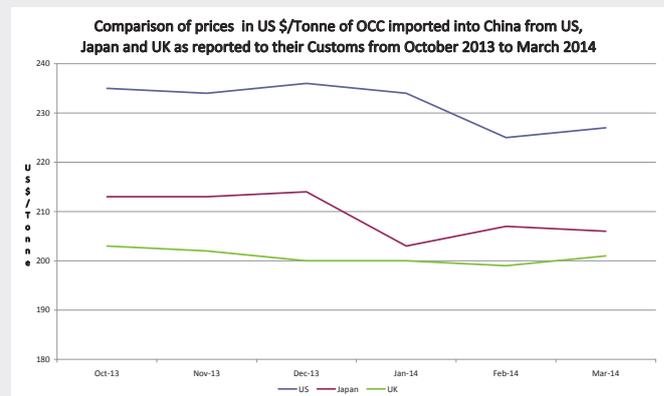
Another interesting quarter as the global Recovered Paper (RP) market once again has to tackle the unexpected with global slowdown being exacerbated by poor weather and political tensions. Despite concerns raised by the Governor of the Bank of England about the speed of house price inflation, it still remains difficult to identify

anything other than the faintest glimmers of recovery within Europe. Concerns remain within the UK that much of the impact of public sector cuts has yet to filter through to the consumers, who according to retailers in the UK are spending more. If so that is good news for packaging industries as it will pull through much needed demand that was anticipated but not identified at the beginning of this year.



Winter storms in the US moved from the Mid-West to the Eastern seaboard bringing everything to a standstill. In anticipation of potential transport problems, Chinese buyers switched substantial elements of their buying from the US to the UK. As a result prices reached in excess of £100 in January 2014, levels not seen since April 2012 other than a brief flurry in August 2013. However while the US had snow, the UK had rain and plenty of it - on average over 18 inches between the end of October 2013 and mid-February 2014. In consequence moisture claims particularly from uncovered sites increased significantly.

Concurrently the storms also diverted ships bound to UK ports, already scarce, to European Ports, containers came in short supply and freight rates to China sky-rocketed. Mills ran down their stocks and by the end of February merchants warehouses were full. In March the weather settled. Merchants discounting stocks to clear yards found themselves competing in the export market with US merchants who were similarly keen to clear stocks. Domestic Mills absorbed some of the excess but shipping rates remained high and prices plummeted. In April shipping rates started to return to tolerable levels, Chinese buyers returned, yards began to clear and prices started to pick up again. Given the significant competition from Australia, where presumably RP is normally dry, Italy and the Netherlands, this was a relief and as much reflects currency movements as the availability of RP. Japan now has also begun to respond to price competition and the price premium, which if anything has increased year on year, is solely being retained by the US with its greater level of primary fibre.



Meanwhile in the Ukraine a revolution started in February, the President was deposed and Russia annexed Crimea. Sanctions were promptly imposed by Europe and the US on Russia. None of this to date has had a major impact on the Recovered Paper market but, if it continues, changes must be anticipated, particularly for the Eastern European mills.

Against this background the progress or complete lack of progress on the end of waste criteria for recovered paper as a result of intensive lobbying by the Confederation of European Paper Industries may seem rather irrelevant but in the long run may have more impact on the Recovered Paper industry. It is hoped that once methods to measure and verify recovered paper standards are agreed this subject can be revisited. In the interim recovered paper from Europe is condemned to remaining waste for the purposes of shipment with the consequent restrictions.

On a more positive note Environment Commissioner Janez Potočnik has announced that more waste targets are going to be introduced in Europe; within this it is widely anticipated that packaging recycling targets are going to be increased along with targets announced by material stream. So it is probable that greater quantities of recovered paper will become available although the quality may be more questionable!

Thank you for your continuing support. Thank you to Wade for his insightful contribution. He argues eloquently for the importance of China within the global recovered paper market and highlights the work that is being done to harvest the paper distributed within China. Chinese importers have done a great deal to bring price transparency and quality criteria; both very necessary ingredients to create a global industry. He advocates for a policy which preserves the open trade and export of recyclable materials, minimises unclear and excessive regulatory cost, and holds accountability equally amongst domestic and export market end users. This is a world into which The Environment Exchange, a level playing field for all participants, which believes in the principle that "You get what you pay for and you pay when you get it" both fits and can enhance. We look forward to being of service to you in that process.

Angus Macpherson
Managing Director
The Environment Exchange

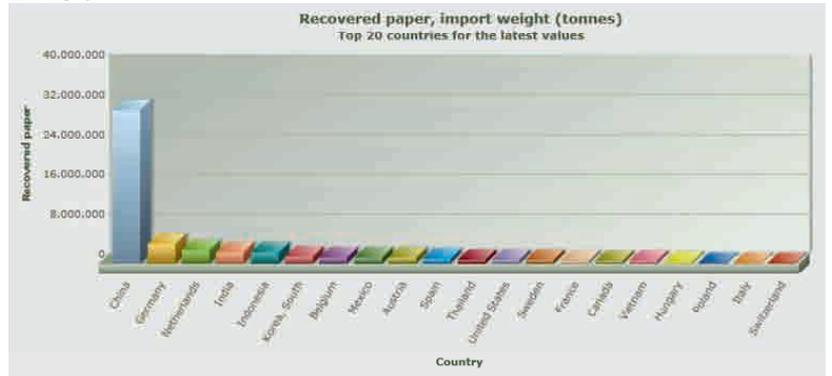
At the heart of it - an updated narrative of the Chinese growth story

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In short, there is no replacement for the demand of recovered paper that China represents, and without it, no meaningful amount of increase much less sustainability in the recovery rates and ambitious plans of councils and “sustainability” stakeholders in the western world. We need China more than ever for a healthy and viable paper recycling industry.

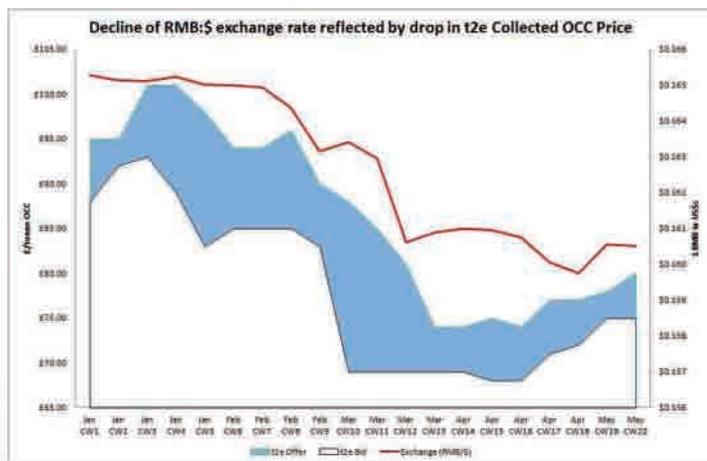
The driving narrative for stakeholders in the paper recycling industry should be focused on those efforts that will ensure the sustainable and competitive position for all stakeholders in the recycling chain. At the heart of this narrative should be a policy which preserves the open trade and export of recyclable materials, minimizes unclear and excessive regulatory cost, and holds accountability equally amongst domestic and export market end users. At the end of the day, we are united in an industry that holds the delicate environment which sustains us all.

Exhibit 4



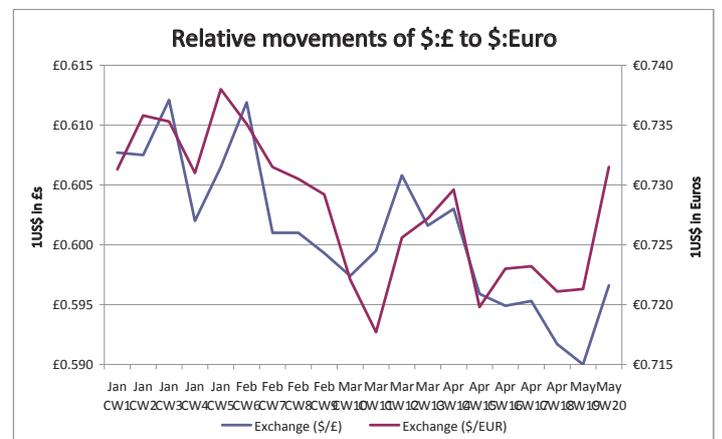
The Impact of Exchange Rates

The depreciation of the Chinese Renminbi (RMB) against the US Dollar (US\$) which started in Q1 2014 has continued into Q2 2014. Since Chinese buyers have resisted price increases in RMB this has applied a significant downward pressure on the price of OCC in US\$ terms. The downward movement of the US\$ to the £ has increased this downward pressure for purchases of collected contracts made in £. As can be seen in the graph this has had a far more significant impact on price than the availability of containers or Chinese New Year both of which may have impacted on volume.



Concurrently the £ initially depreciated and subsequent to March has appreciated against the Euro, hence in May collected contracts made in Euros look better value to sellers who are paid in Euros or vice versa are less costly to purchasers using US\$ and £s. In contrast UK material looks more costly to European buyers as well as Chinese and

American buyers. Hence the significant downward pressure on UK prices even though the import price into China is more consistent in RMB.



There are a large number of variables in pricing any contract but this simple example shows how important exchange rates are even to those operating solely within the UK market (very few purchasers currently). It is one of the reasons for encouraging the standardisation of global contracts so that they can be more simply traded and the true daily price/cost identified. Currently Chinese buyers apply an influence on the market price far above their relative size because they are so much more active in global export/import markets.. China still needs RP. The depreciation of the RMB against the US\$ has not translated into a decrease in imports of Recovered Paper just a downward pressure on prices in US\$ in the global market.

At the heart of it - an updated narrative of the Chinese growth story

by Wade Schuetzeberg, European Region at America Chung Nam



Since the Great Recession in 2008, adapting to a changing market environment and finding a competitive position in our globalized export business for recovered paper is the most vital effort any stakeholder can have. Whether trading as a small broker or manager of a large exporting concern, so many of the norms we applied for strategic analysis and forecasting in the preceding years have changed, making conveyance of the driving narrative troublesome for many.

A good example of the challenge we face since 2008 is the increased volatility of the export cycle as appeared in the first quarter of this year when exports from China dropped lower than many could have expected (exhibit 1). Without the strength of demand from its largest trading partners, exporters of recovered paper to China found themselves at odds with the resource replenishment cycle on which so much of our own business is dependent. Compounding this problem has been lower consumer demand in Europe and the trade imbalances that have forced steamship lines to increase ocean freight rates, making European and U.K. exports relatively more expensive.

This doesn't mean that the growth story in China has ended, but it has evolved, and forced market participants to quickly adapt to provide a better value proposition - especially in terms of price and quality – not solely on volume. This story is not new however, as that narrative was already apparent in 2009. (<http://www.realrecycling.org.uk/newsletters/2009/ExportingToChina.php>)

In the last years, much of China's effort has turned towards developing and feeding a growing domestic consumer base, restructuring its economy, and strengthening environmental controls and standards. Since 2002, the GDP per capita in China has been climbing steadily (exhibit 2). An emerging middle class of consumer is driving the need for more packaging (just think about the fact that Alibaba has more online sales in China than eBay and Amazon combined), and along with that, increased its own resource replenishment cycle within the country. In fact, China has already taken the first place in the total amount of recovered paper collected for its own use (exhibit 3).

In an effort to convey the current narrative for our global export business, I presented an updated report on the conditions for recovered paper export at the German Federation for Recycling's "Internationaler Altpapiertag" in Düsseldorf this last April. In preparation, I went back to the first presentation made at the same conference in Bremen in 2002. What is now overwhelmingly obvious, as was indicated in 2002, is that China has mushroomed to become the leading consumer and importer of recovered paper by far (exhibit 4).

Exhibit 1

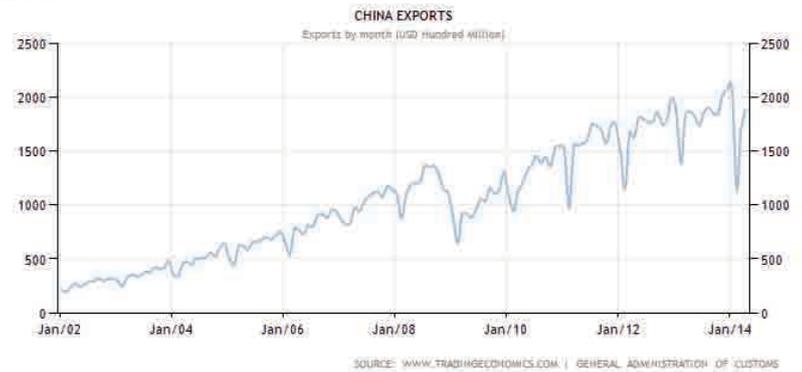


Exhibit 2

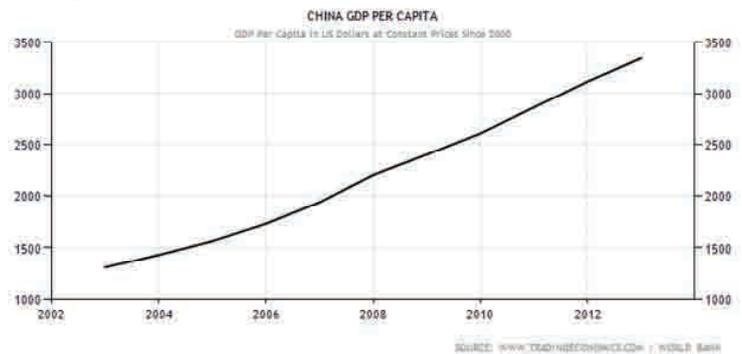
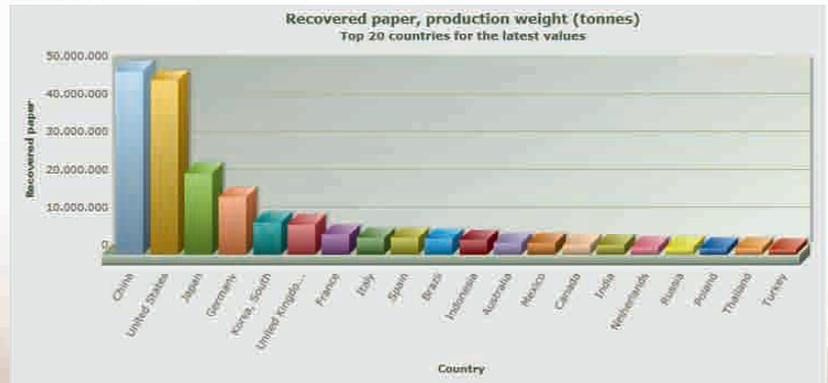


Exhibit 3



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