



THE RECOVERED PAPER MARKET

QUARTERLY REPORT

November 2011



GENERAL MARKET ANALYSIS *by Andy Hanke*

Q3 was a period of high prices for the recovered paper market, reaching around £140/tonne for OCC. It was quite surprising that high prices were still being paid during August and September when demand from China for recovered paper had fallen due to oversupply of liner board and dropping prices for finished products. In addition, considering that Europe was experiencing its weakest growth in output since the end of the 2009 recession with decreasing order books and dropping export orders, it was unlikely that these high prices could be maintained.

Considering the outlook in the second half of 2011 the global economy could be at risk of going into a double dip recession. The Greek debt crisis and the downgrade of the U.S. credit rating combined with a serious worsening of Europe's economy has led to falling stock prices and uncertainty for investors and consumers. Even if the downgrade is "actually a comment on the US political system, process and raw politics, rather than on the US's ability to pay its sovereign debt", as Nigel Gault chief U.S. economist for IHS Global Insight reported, it still has an impact on global markets. He also states that the chance for a recession now stands at 40%, up from 20% in June. "For the past few months, there's been a competition between Eurozone and U.S. politicians over who can mess up the most," Gault says. "I don't think a winner's been decided yet. The spectacle over the debt ceiling in Washington was very damaging to consumer and business confidence. That the government could let the U.S. go to the brink of defaulting on its obligations is disturbing for rational grownups."

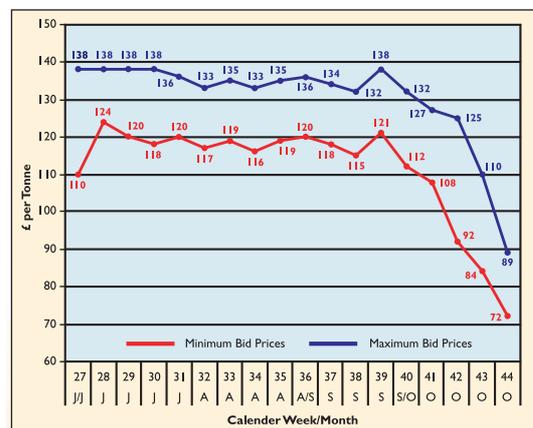
China's growth has experienced a slowdown as a result of policy makers tightening monetary policy to combat inflation (highest level in three years as prices rose by 6.4% in June). Although the People's Bank of China increased loan and deposit rates with an impact on national investment the government officials are certain this will not have a deeper impact on the country's growth. The National Bureau of Statistics (NBS) has stated on their website that "despite a moderate economic slowdown during the first two quarters, the economy still operates in territory of relatively stable and fast development, with the growth momentum steering from policy stimulation to self-initiated growth".

t2e MARKET ANALYSIS

Continuing the trend at the end of the second quarter, prices in Q3 have been relatively stable. Although China's demand for Recovered Paper started decreasing slightly in August and September, bids continued to be made between £133.00 and £140.00. By the end of Q3 the slackening of demand had filtered through to the market prices which dropped rapidly, 42.5% at the extremes, over the last 3 weeks of October (Calendar Weeks 41 to 44).

During this period of volatility, t2e's participants both benefited from and reacted to this valuable information, as a result, we saw trading take place as both buyers and sellers took advantage of opportunities, both to secure additional tonnage at good prices, without worrying about quality or availability, and to use our swift payment process. Traders are now adjusting to the new price levels at which to trade.

Highest Bid and Lowest Bid for OCC on t2e's Marketplace Week 27 to 44



Bids and offers can be viewed at www.t2e.co.uk/recoveredpaper. If you are not already a member, please contact the trading team (rp@t2e.co.uk) on 0131 473 2337.

Angus Macpherson

Managing Director of The Environment Exchange



When discussing market prices many say “I already know everyone in the market. All I want is more material and to know that I am not paying more or being paid less than the going rate. I need an index. Why bother with a marketplace?”

SO WHAT EXTRA DOES A MARKETPLACE PROVIDE?

By aggregating buyers and sellers in a single location, a marketplace provides instant excellent information not only on price but also on material availability and location, which no index can achieve. A marketplace is based on hard data and transaction evidence; any price quoted has to be supported by a firm commitment to buy or sell, whereas indices are always based on hearsay often quoting spreads and where variations exist difficulties arise trying to balance the merits or otherwise of the data provided or whether like is being compared with like. How many times do I hear buyers bewailing that they always have to buy at above market prices whereas sellers consider that they must sell at below market prices or vice versa? In a regulated marketplace the bid or offer is a binding contract and must be honoured as it stands.

The rules of a marketplace define the terms and conditions for all transactions on the marketplace and the employees ensure that those rules are complied with. A simple comparison might be that the rules of t2e define whether the participants are playing association football or rugby football, while the employees act as referees and linesmen ensuring that the rules are complied with. To keep the game flowing there are constant requirements to interpret the rules, so too in a regulated marketplace except all variations can only be accepted by mutual agreement between the counterparties. If that cannot be achieved and a dispute arises then t2e has dispute resolution processes and procedures to ensure the swift and fair settlement of those disputes. At all stages counterparties to a traded contract can

either challenge the outcomes of the dispute in a court of law or by using an independent arbiter. To continue the simile, if a participant breaks the rules in one or multiple offences to such an extent as to undermine the good standing of the game that person can be sent off, so a participant in a marketplace can be banned from using t2e and the reasons for that ban notified to all market participants.

SO WHO USES A MARKETPLACE?

- Established buyers and sellers for price and availability discovery, administrative simplicity, solving short-term supply shortages or surpluses and long-term security.
- New buyers and sellers for all of the above plus parity, market entry, seeking outside investment and sourcing new material.

A marketplace does not compete with market participants. It is a tool for market participants who will develop over time the strategies that best suit their business needs. It facilitates the efficient operation of the market and its participants through consistency, administrative simplicity and transparency.

The best way to learn is by being involved, not looking on from the sidelines. Nobody scores a goal while standing on the terraces. Thank you to those that are already involved. We look forward to continuing to work for and with you. We are all learning every day and look forward to assisting you in the future. For those that have yet to join, join now and start to evolve both the marketplace and your strategy so that it best suits your needs.



ANTICIPATED DROP IN PAPER PRICES EARLIER THAN EXPECTED

by *Stuart Pohler*, CPI, Recovered Paper Sector Manager

Following a peak in prices in September, the UK recovered paper market has been subject to an expected decline in prices across the grades over the past month, albeit significantly quicker than that anticipated by many in the industry.

Both Mixed Papers and News & Pams prices have fallen by an average of 5% since the previous period, with Old Corrugated Cardboard (OCC) having dropped by more than 10% to lows of £90 per tonne by mid-October – the latter representing a decline of £25 per tonne at the top end of the range, according to WRAP.

The initial reduction was seen in OCC prices, caused by a lack of demand in both the European and Far Eastern markets, and this has catalysed the falls in the value of other grades.

European mills have held high paper stocks over the summer period and with their order books at far-from-bursting point, prices are expected to fall further throughout the last quarter of 2011.

Demand for OCC in China (by far the largest UK export market) is still relatively high but signs of over-capacity are emerging. Furthermore, fears of market volatility due to the global economic downturn have led many smaller-scale Chinese importers to shun the international market and buy material locally, for fear of significant price fluctuations occurring during shipment. And there are signs that a reduction in exports to China will be further compounded by an overall reduction in its own economic output. China's Gross Domestic Product (GDP) expanded at the slowest pace in nearly two years in the third quarter. Demand for import material is therefore expected to drop off further. This may be counterbalanced somewhat by a stabilisation in price early in 2012 due to higher demand associated with the Chinese New Year. Nonetheless, stability in the medium- to long-term is looking less certain.

The overall downward shift in prices has come as no surprise to the recovered paper industry, with many viewing it as a natural correction following a period of record prices that flew in the face of an increasingly shaky economic outlook. But with European Leaders currently locked in talks in an attempt to resolve the unprecedented Sovereign Debt issue and as the wider global economic engine continues to splutter, opinions are understandably divided as to whether 'correction' turns into 'crash' along the lines of 2008.

NEWS

CHANGES IN LOADING AND PACKING OPTIONS

Container light: Some sellers indicated that they are not able to load containers with 24 tonnes average weight. Therefore we have introduced a "light" container with an average loading weight of 20 tonnes. These containers can be traded on t2e's Recovered Paper market in the same way as other load types.

Packing: As well as the existing packing types (baled and loose) we are consulting with the industry on whether to include shredded material. Feedback so far is that shredded material is most likely to be ONP rather than OCC. If you have any comments on shredded material please contact [Andy Hanke](mailto:Andy.Hanke@t2e.co.uk) at ah@t2e.co.uk.



THE 'CLOSED LOOP' APPROACH REMAINS AN ABSTRACT TERM IN SOME QUARTERS OF THE QUALITY MATERIAL SUPPLY CHAIN

by *Stuart Pohler, CPI, Recovered Paper Sector Manager*

Material quality remains a key issue of debate amongst the UK paper industry - suppliers, domestic reprocessors and exporters alike – but obvious non-paper contaminant/reject material aside, for some post-consumer waste products clear lines in the recovered paper supply chain have yet to be drawn.

Such products are often constructed from a mixture of recovered fibre and complex laminates and composite materials, which are bonded to the fibre in such a way as to prevent their separation in the mill pulping process¹. Whilst the recovered fibre content of these products may be relatively high and therefore considered – on paper – recyclable by manufacturers, retailers and householders, many cannot be recycled and are ultimately required to be treated via thermal recovery, or sent to landfill at considerable cost to the mills.

For example, a recent survey carried out by a consumer body² suggests that 8 in 10 householders think they can dispose of their share of the 2.5 billion disposable 'paper' cups consumed in the UK each year via municipal paper recycling facilities. In reality most UK mills are unable to recover the fibre in these disposable cups which, in turn, represent only a fraction of the total tonnage of similar complex laminate/composite products entering the waste stream. To put this in context, one manufacturer has planned to produce a further billion units of a single, complex composite food packaging product per year for use in the UK, which although high in quality fibre content, tests have shown are difficult to reprocess into other paper products. Add potentially hundreds more products to the list, and one gets the gist.

On the other hand, not all mixed material packaging products are destined for thermal recovery or landfill and those with a low proportion (by weight) of non-paper component that can be easily extracted in the mill pulping process may well be suitable for reprocessing.

The challenge, therefore, is to establish a clear framework/guideline to ensure that the relative 'recyclability' of mixed material products is taken into consideration at the appropriate stage in the supply chain, i.e. that they are actually recycled into new products rather than simply being 'collected for recycling' only to be processed further down the Waste Hierarchy.

To this end, the Confederation Of Paper Industries is engaging with key stakeholders including DEFRA, the Waste & Resource Action Programme (WRAP), packaging manufacturers, packaging experts, retailers, other materials associations, waste processors and (not least!) the paper reprocessing industry to develop such a framework; the more 'in the mix', the merrier the solution!

¹ Products considered here do not include drinks cartons such as Tetra Pak which are widely collected separately for reprocessing.

² 'Where Will Your Cup End Up', November issue.

NEW PARTICIPANTS

t2e welcomes the following who have joined the Recovered Paper (RP) marketplace this quarter:

Chas Storer Ltd

J & A Young (Leicester) Ltd

Peninsula Waste Savers Ltd

The Greenhouse

Total Waste Ltd

If you wish to join or learn more about t2e's RP marketplace, please contact Andy Hanke (ah@t2e.co.uk) or Yaya Cao (yc@t2e.co.uk) on 0131 473 2337.

t2e - smart, simple, safe trading
The Marketplace for Recovered Paper

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