



THE RECOVERED PAPER MARKET

QUARTERLY REPORT

October 2012



GENERAL MARKET ANALYSIS *by Andy Hudson*

2012 has been an exhausting year for the recovered paper industry. The grim prognosis for exports - as well as for domestic consumption - has come true as prices have yet to fully recover to 2011 levels. Although prices have been climbing towards £90.00 a tonne, demand for cardboard has been weak. The anticipated demand increase from China for Christmas-packaging has been poor rather than promising so far this year.

The global economic downturn, which effectively began in December 2007 with the global financial crisis, followed by a particularly sharp downturn in September 2008, is the major reason for the struggling packaging industry. In the immediate aftermath of the global financial crisis, countries like Germany, China and Brazil were the engines that kept the global economy expanding, but recent evidence suggests that they too are losing steam.

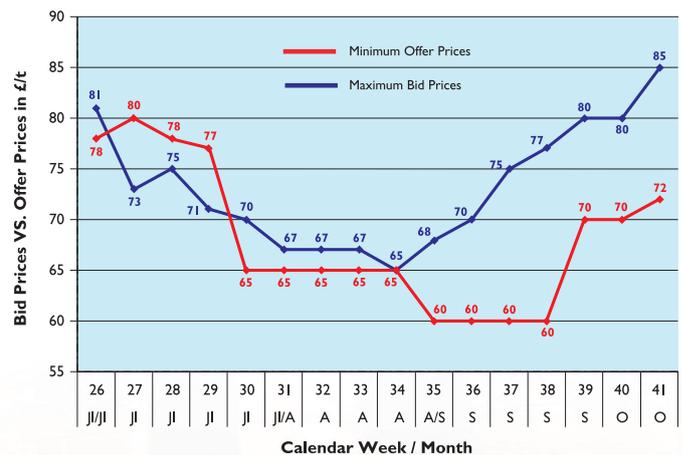
Recovery between 2010 and 2011 has led to a sellers market, with prices paid way above the £100.00 mark (max between £138.00 and £145.00 per tonne). In the first quarter of 2012 the UK found itself in recession once again as GDP dropped 0.2% in the first quarter of the year, signalling two quarters of decline. China's economy has slowed for a seventh quarter in a row as a consequence of the economic struggle within Europe and the US. The annual rate of growth was 7.4% in the third quarter, down from 7.6% in the previous three months. As a result demand for packaging has weakened, putting immense pressure onto the supply side of cardboard and paper.

As the market has further weakened in the 3rd quarter of 2012, another discussion has begun about the quality of cardboard and mixed paper provided by UK sources. CCIC has warned exporters that they must ensure that the material is free of contamination as the Chinese government is concerned about poor quality. Given that the demand from China is still described as "slowed", paper mills are able to be choosier about the material provided.

t2e MARKET ANALYSIS

The third quarter of 2012 has seen the lowest prices so far in 2012 with buying prices as low as £65 and offer prices of £60 for the tonne OCC. The downward trend was finally broken at the end of August as prices and volume started to recover slightly. Bid prices started to climb up to £85 by the beginning of October whilst offer prices (consistently £60 in September) suddenly jumped to £70 - £72. Although the graph suggests that buying prices have been consistently higher than offer prices, trading has not occurred. Buying prices in Greater London, the South East and East Midlands in the 3rd quarter were between £2 and £4 below the selling prices for these regions. The lowest selling price of £60 occurred in Wales, where prices are normally £15 to £20 below those in the Greater London area.

Combined Bid and Offer Prices for OCC on t2e's Marketplace Weeks 26 to 41



The 3rd quarter has seen an increase in buying volume in comparison to the preceding quarter. More available container and vessel space has led to higher demand for material from our exporters. Sellers have also stored material for longer periods in anticipation of an increase in prices. The general sentiment has been "it can't possibly go down any further so let's wait and see". Strangely, forward markets have been used less in the last quarter as volatile prices made participants cautious.

The total bid volume for the period has increased by 213% from 30,560 tonnes of OCC to 95,816 - of which 62,256 tonnes were Container HC (2,594 loads) and 33,560 tonnes (1,678 loads) were Container HC light. The total offer volume for the period was 4,930 tonnes of OCC of which 2,496 tonnes were Container HC (104 loads), 1,560 tonnes Container Standard (65 loads), 483 tonnes Curtain Sided Trailer (21 loads) and 391 tonnes Walking Floor Trailer (17 loads).

MANAGING DIRECTORS COMMENTS

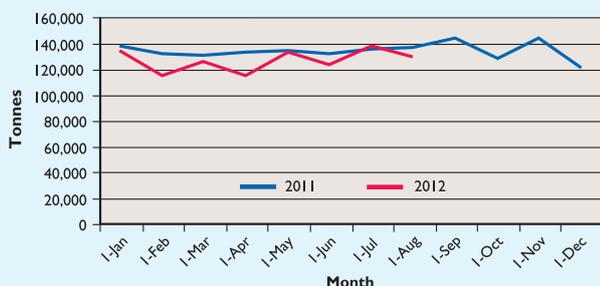
t2e has now been running the UK collected contract marketplace for over a year. Although trading has been minimal and prices have been at times widely divergent, traction is occurring and participation rates have been increasing with a steady stream of new members and tonnage displayed. We are now moving towards the launch in November of our delivered contract to 13 ports in China. We have had to jump some significant hurdles to ensure financial security for our participants but the contract now delivers the mantras by which a marketplace should abide:

- You get what you pay for and pay when you get it.
- My word is my bond is fine but my bond is my word is better.
- The rules apply equally and evenly to all participants.

The later significantly improves the robustness of the traded contract and any subsequent dispute resolution. With this in place we can offer the ability for buyers and sellers to trade forward and secure prices up to a year in advance, although initially we will only be offering forward contracts up to three months in advance.

Meanwhile the recovered paper market has been an unpredictable arena and what is being said in the market is not always being reinforced by the statistics available. Over the last quarter domestic and overseas demand for UK ONP has continued to climb back to last year's levels. While some ONP may have transferred into mixed paper exports, the picture is one of increasing demand being balanced by increased supply. This has retained some tension in the market but there has been a hint of price weakness.

ONP Reprocessing in the UK 2011 vs 2012



Demand for OCC has been consistent with a sizeable increase in demand since April 2012 from domestic reprocessors, meanwhile exports having surged significantly in January have settled down to the same steady levels as last year despite fluctuating exchange rates and container availability putting a downward

pressure on price throughout the summer. Although prices have strengthened in October the anticipated upturn in demand from the Far East has disappointed as a double dip recession in Western Europe combined with political uncertainty in the United States appears to have restricted the demand for finished product. To exacerbate the situation quality controls have been more rigorously applied by customs officials in China. Despite this gloomy picture recovered paper collection in the UK, particularly OCC, seems to have grown. Maybe this reflects the successful expansion of internet sales.



Exports of OCC from the UK 2011 vs 2012



Quality is a wide ranging issue. To the regulator mixed waste represents a problem if its disposal is hazardous to human health or the environment but beyond that quality is not an issue. To a reprocessor quality of its input material is crucial to the quality of its output material. It cannot make paper out of plastic or glass. The same applies throughout the supply chain. A MRF struggles to produce paper as a secondary raw material without plastic or glass if its input material comes from a source where all these materials are mixed together. With technological advances in MRF operation these issues can be overcome to a certain extent but it is important for buyer and seller that there is some reliable testing mechanism so both know to what extent. t2e use EN 643 as the basis of quality and if disputes arise arbitration is based on the evidence of loading and unloading.

Once again many thanks for your support. I look forward to seeing you at the Paper Recycling Conference Europe (PRCE). We look forward to being of service to you in the future.

Angus Macpherson
Managing Director of
The Environment Exchange



AN EXPORTERS PERSPECTIVE

by Paul Briggs, Mark Lyndon

With the world in the grips of a recession and buying patterns of export OCC and Mixed paper changing, I suppose we had to expect significant volatility and the market certainly did not disappoint. The last three months have been quite a roller coaster ride; we have seen exchange rates fluctuating between 1.55 and 1.62 \$ to the £. Shipping costs – originally expected to increase - actually reduced. There was a brief period where Mixed was difficult to move when Indonesia finally tired of buying contaminated material and introduced import inspections. To top it all Chinese customs officials have at last been halting the import of sub-standard material.

Does this past three months indicate the future market through to Christmas? Well, only insofar that the market will stay ever volatile for the foreseeable future and new influences will only add to this volatility.

The Chinese import licencing debacle gets underway in the next few weeks - all paper and card will have to be on the shore of China before the 15th December, as this is when China's mills import licences expire. The larger mills will be confident of meeting all the import and environmental issues and so will continue to buy on the expectation that their import licences will be granted. The smaller mills however dare not buy as much as they are not sure when or if they will regain their licences. This will disturb the market supply and demand. Many smaller mills have been buying through traders these past few weeks to make sure stocks are high enough to see them through December; this may have influenced the current price increase. Due to the licencing issues smaller mills may not buy from around the first week of November; so will this again influence the price? Or will the threatened shipping increase of 200 USD per box put off export buyers?

Who knows? For sure this market has a mind of its own and predicting is a risky business, it certainly is not as easy as it was in the simpler times; are those of days now truly gone forever... Well maybe?



NEWS FROM CHINA

by Yaya Cao

Market volatility has caused the Chinese paper buyers to sway from their normal buying patterns.

The last quarter has seen the closure of a number of paper mills in China due to a downturn in profitability and implementation of stringent environmental regulations. With demand for material dropping during the summer months many mills took the opportunity to implement maintenance programmes which resulted in some production capacity closing.

The situation picked up in September; when many buyers believed that prices had hit the low point for the year, and material started to trade again in good volumes in both the Spot and Forward markets.

Recent reports indicate that despite concerns over China's growth, it is now stabilising and starting to rebound. Compared to 8.9% in August, growth in the world's secondary biggest economy has increased to 9.2% in September; which has lifted people's outlook on the economy and also the belief that growth will rebound visibly in the fourth quarter. Buoyed by this expectation, Chinese buyers have returned to the market to stock up and prepare for end of year production aimed at exports for Christmas and domestic consumption in the run up to Chinese New Year in February. This has created a stir in the market and led to the price increasing in October. Concerns amongst the small to medium sized buyers about the reissuing of their SEPA (State Environmental Protection Administration) licences after the turn of the year has resulted in increased demand from this sector as they look to ensure their stock inventories are full to bursting.

The recent demand trend and end of year licensing issues suggest that China will be purchasing large volumes of recovered paper in October and November. It is believed that a number of small and medium sized buyers will back out from the market in December to focus on their licensing issues, leaving less purchasing power and giving free rein to the large mills to set the price as the year draws to an end.

DELIVERED CONTRACT LAUNCH AT THE PRCE

Invitation

We would like to take this opportunity to invite our participants and members of the industry to come along and see for themselves the next stage of our material markets development.

One and an half years after launching our UK collected contract marketplace for ONP and OCC, we are ready for the next stage of our development. The world increasingly becomes a village. Globalisation and the rapid development of emerging markets such as Asia have had a great impact on the packaging industry in the last decade. After opening the collected contract marketplace in the UK launching a delivered contract marketplace has always been the next logical step for t2e.

And what could be a better occasion at which to launch our new Delivered Contract to China than at the Paper Recycling Conference Europe (PRCE) in London.

WHAT IS NEW?

Our collected contract participants have the ability to buy/sell material from facilities registered in the UK. The delivered contract marketplace will allow UK sellers to connect with buyers at ports initially in China and ultimately in every part of the world. While Sellers will be responsible for arranging delivery of their loads at the requisite quality and quantity and time to the destination port, buyers will be responsible for collecting it from those ports and paying on delivery. t2e's new service will allow participants to easily identify where current demand resides and target the best prices globally for their material. They will also be able to identify and secure future buying.

Order

- Offer material to different ports in the world at the price you would like to achieve.
- Search for bids in specific locations and get an overview about price and availability.
- Connect intercontinental supply and demand.

Delivery

- Offer material in the delivery week that suits you.
- Use t2e's spot market to find a buyer quickly if your material is already on the sea.
- Secure your supply for weekly delivery on a weekly basis to your most convenient port.

Settlement

- Payments are managed through t2e's reliable settlement service.
- Get what you pay for and pay when you get it.
- Our dispute resolution process will keep ensure that everyone is dealt with fairly within an easily understood structure.

**Delivered Contract Launch at 16.30 on the 6 November 2012
at PRCE, Park Plaza Victoria London**



Paper Recycling CONFERENCE EUROPE

The Meeting Place for the European Recovered Paper Industry

6 - 7 November 2012
London, UK
PaperRecyclingConference.com

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

www.t2e.co.uk

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