

The Recovered Paper Market

General Market Analysis by Tom Rickerby



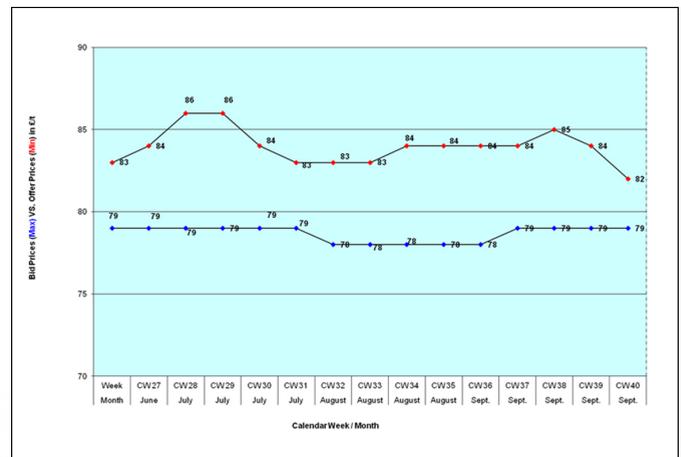
Following Andy's departure from t2e, I will be picking up the reigns on his market analysis column in the Quarterly newsletter as well as the general management and promotion of the Recovered Paper Market. With 6 Years experience as Senior Market Operator for the t2e Packaging Recovery Note (PRN) market I have built up both a strong understanding of the domestic and export recovered paper markets and a firm belief in the principles and benefits of a centralised, transparent, trading platform. My next challenge will be to see if these two elements are in some way mutually compatible. t2e is now over 3 years into the Recovered Paper Market project. It has met some resistance in this time and I am under no illusions as to challenges and concerns posed by the industry. However, after recently returning from the paper

conferences in Shanghai and Chicago it is apparent that the 'age old' issues, both at regional and global level, are as prevalent today as they have ever been. Quality is still poor resulting in too much time and resource allocated to claims; pricing indices are still inaccurate; China is becoming less dependent on imported recovered paper; quality specifications remain confusing, ambiguous and regional; the industry remains heavily exposed to volatility in paper prices, transport costs and exchange rates; TFS regulations are still inadequately policed; and it continues to rain a lot in the UK! The Chinese Green Fence (generally seen by most as a good thing now) has only served to magnify many of these issues. This is certainly not ground breaking news but it may require a ground breaking solutions. Innovation and change do not come naturally to the recovered paper markets, however, they will need to be embraced if many of the familiar issues outlined above are to be overcome. Page 3 explores further how the concept of a trading platform can help to provide an innovative and progressive solution to some of these challenges.

Technical Analysis

Rising OCC prices plateaued in the 3rd quarter in the low to mid £80s and have remained flat throughout the period. Whilst spot bids and offers were present in the t2e market throughout the period, a £4 – 6 price spread still remains the biggest hurdle to trading. Encouragingly, this quarter saw the first commitment to offer OCC in the forward markets. Prices ranged from £82 to £88 with loads being offered for delivery up to 5 weeks in the future. Off market, trading was typically taking place towards the higher end of the t2e spread and peaked in late September at £85 per tonne Domestic OCC prices have been typically around £5 below the export price. Export demand throughout the third quarter has been inconsistent at best. However a weakening pound against the dollar during the period has kept the UK market competitive and allowed overseas buyers to maintain prices north of £80 per tonne despite concerns over the mid-term health of the market. Initial signs of a downturn were evident as OCC prices tailed off towards £80 per tonne towards the end of the quarter. With China's economy appearing to be losing momentum and with overcapacity in board production, reduced order-books for finished product and tightening margins, pressure appears to be building for further reductions in price. The recent downgrade of the economic outlook in Europe and the U.S. has sent shock waves through global stock markets and will do little to bolster confidence in the sector. OCC prices are also likely to be negatively affected by further reports that freight rates are set to rise by \$100 to \$300 in November with shipping lines expected to remove vessels from operation in order to squeeze the availability of containers. However, the reopening of Smurfit 500,000 tonne Snodland mill in January 2015 should provide a boost to domestic demand towards the end of the 4th Quarter.

Bid Prices (Max) VS. Offer Prices (Min) in £/t



US\$/£ Exchange Rate



Managing Director's Comments



I apologise that this quarterly has taken so long to be published. I regret that a combination of factors have meant that I have been unable to concentrate on my contribution. Nevertheless it has meant that we are now writing this report after the new team has had

the benefit of attending conferences and talking to you, the market participants, in the recovered paper market (RP) in Shanghai, Chicago and Milan. I am due to go to Jakarta shortly. I write this not to make you jealous of the air miles we are accumulating but to once again show what a truly global business the RP industry is and the efforts to which we are going to learn of all your concerns and assist in providing solutions.

One of the surprising things is that the consistency of those concerns. Globally quality is perceived as a big issue. It might have seemed logical that in consequence a global quality standard would be developed but sadly China seems intent on developing its own range of standards while there is little indication that Europe and the United States are going to harmonise their definitions. In fact if anything they are going in different directions! Of possibly even more importance is that to date there are still no globally agreed methods of measuring and verifying these standards, although the conference in Milan revealed some interesting developments.

Logistics too are high on everyone's agenda. Domestically a shortage of drivers is a problem in both the United States and Europe and, in a reflection of how global the industry is, the costs and availability of shipping was a subject of much interest. This in turn reflects the global economy. The global slowdown has meant that China is not exporting as much. This means that not only has the remorseless growth of Chinese imported RP slowed down but also there are less empty ships and containers returning to China and therefore less available to be filled with RP! Additionally shipping lines are not only shipping slowly from Europe to try and achieve carbon dioxide limits but also removing ships from the fleet and trying to concentrate on larger and larger vessels. Again good from a carbon perspective but restricting from the perspective of ports that they can use!

The global economy also impacts on the RP industry in another way. It affects the exchange rates between currencies. In this case as in most cases RP is priced in United States Dollars, the variation of exchange rates between local currencies and the dollar has a significant impact not only on the domestic price but also the demand. So as the dollar increases in value against the pound so the domestic

price in pounds for RP in the United Kingdom rises but if concurrently the dollar is either rising against the RMB and Chinese buyers are trying to keep their prices constant or the euro is losing value faster against the dollar than the pound, the price of in pounds of RP and the demand in the United Kingdom might fall.



As a global commodity RP is not solely an ingredient part of a supply chain focused on just in time management. It is also part of a global collection system and steps need to be taken so that sellers can manage their inventories as well as anticipating that buyers will always be able to offer maximum value from their commodity. Concerns are frequently expressed about the measures that suppliers take to minimise their costs of collection. But to change this dynamic not only do buyers need to provide price security to sellers at levels that can cover their costs and incentivise single stream collection but also sellers need to take measures to allow them to be able to absorb the inevitable price shocks in a global commodity market. From this perspective it was interesting to hear in the United States that sellers were establishing warehouses in which to store rather than ship their inventories. Ultimately this development will also raise the issue of whether RP specifications should also include a time limit for storage.

It is for this world that the tools that a marketplace offers have a role. Not only the standardised contracts and dispute resolution processes but also global transaction facilities with like minded operators who wish to perform to the same standards as all other participants in the marketplace and timely quality information services. Additionally and possibly most importantly it provides a flexible mechanism through forward trading to manage price and volume risk. This is the opportunity that t2e is offering to the RP market to grasp.

Thank you for your support.

Angus Macpherson
Managing Director
The Environment Exchange

Common Concerns Regarding t2e’s Recovered Paper Market

t2e recently carried out a survey on members of the RP industry, to gather information on what people perceive to be the main issues facing the RP market at present. One of the questions we asked was aimed at discovering what people’s main concerns are regarding t2e’s RP marketplace. As expected, the most popular concerns raised were ones that we have heard several times throughout the past three years; You can’t guarantee quality; I need to know who I’m buying from before I trade; I like speaking to my customers/suppliers directly and have built a strong relationship with them; The industry works fine as it is. This article aims to address some of these concerns, and to explain why we believe that an online trading marketplace will benefit the RP industry.

EN643 for OCC and ONP

You Can’t Guarantee Quality

The question of how t2e can guarantee the quality standards of recovered paper (RP) traded through our platform is one of the key concerns raised by potential members of the market. t2e understands that quality issues and claims are frequent in the recovered paper industry, and so we have strict terms and conditions regarding recovered paper quality for all contracts traded through us. t2e’s employees ensure that these rules are complied with at all times, giving buyers peace of mind that the goods they receive will meet the highest quality standards and if they are not there is an ability to resolve any disputes. The quality required in t2e’s standardised contracts are EN643 grades 1.05 for OCC and 1.09 for ONP (see table). Participants who are unable to meet these quality standards are not eligible to join t2e’s marketplace. t2e’s rules and procedures state that the seller is responsible for ensuring the quality of the recovered paper, right up until the point it can be verified by the buyer. Unfortunately, this does not mean that t2e is able to guarantee that disputes over quantity will never arise in contracts traded through our platform. But should disputes over quality arise, t2e will utilise its dispute resolution services, as well as various safeguards which are in place for each contract to ensure that any conflict is handled swiftly and fairly.

Grade Number	Title	Grade Description	Maximum level of non-paper components
1.05.00	Ordinary Corrugated Board	Used boxes and sheets of corrugated board of various qualities, may include 10% of other packaging paper and boards.	1.5%
1.09.00	Newspapers and Magazines	Mixture of newspapers and magazines (predominantly unsold) each of them with a minimum of 30%.	1.5%

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I Need to Know Who I’m Buying from Before I Trade

Another concern raised by potential participants of t2e’s marketplace is the fact that people don’t know who they are buying from/ selling to at the time of transaction, as all bids and offers placed on t2e’s marketplace are anonymous until the moment of settlement. However, because t2e’s marketplace operates as a level playing field, all participants can be assured at all times that their counter parties in any contract have agreed to comply with the same rules and procedures as they themselves have. This means that although participants do not know who they have traded with until after the trade has occurred, they can be satisfied in the knowledge that each potential counter party has met t2e’s participation criteria, thus eliminating their apprehension of trading with unknown parties. Additionally, a list of all t2e participants is available on its website.

I like Speaking to My Customers/Suppliers Directly and Have Built a Strong Relationship with Them

Becoming a member of t2e’s RP trading platform does not mean that you have to cease all trading with your current customers and suppliers, but rather that you can avail yourself of the opportunity to access a wider pool of potential counter parties, and greater volumes of tonnage.

Since being established in 1998, t2e has built a strong reputation in the UK for developing and maintaining strong client relationships and providing unparalleled customer support to its participants. Along with our online trading services, we provide personal account management for each of our participants, and our market operators are always available to contact via phone or email. This enables us to establish lasting relationships with our members.

The Industry Works Fine as It Is

At t2e we believe in the power of markets. The concept of a trading platform for the RP market is designed to complement and improve the current market status quo, not to replace it. Belonging to an online trading platform makes the life of the participant less stressful. Aggregating supply and demand on a single platform reduces the amount of time participants spend sourcing prices, volume, additional customers and tonnage, and t2e’s standardised contracts and payment terms greatly reduce the time participants spend doing administrative tasks. A second advantage of using a single platform to trade recovered paper is that t2e’s standardised contracts can be used to trade recovered paper for collection or delivery at a future date, as well as in spot markets. Trading in forward markets helps to reduce the impacts of volatility in price and availability, and allows both buyers and sellers to plan delivery schedules, confident that prices and volumes are secure regardless of the fluctuations in price which may occur between the time of transaction and the time of collection/delivery, which greatly assists in the setting of budgets.

Paper Recycling in the U.S.

By *Chaz Miller, Director Policy/Advocacy, National Waste & Recycling Association (USA)*



Paper recycling has seen tremendous changes in the last two decades. What was a sleepy business focusing on pre-consumer paper such as boxboard cuttings and over-issue news has been transformed into a key service for local governments and private sector recyclers.

This transformation began with the launching of two post-consumer curbside paper recycling newspaper curbside programs in 1968. Now, the U.S. has more than 10,000 programs currently collecting most grades of recyclable paper. Most of the growth occurred after 1990. The rise in the paper recycling rate reflects these new programs. In 1970, the U.S. Environmental Protection Agency estimated America had a 15 percent rate. That has grown to 65 percent rate in 2012. EPA estimates printed paper and packaging grades recycling rates of about 75 percent. The shortfall for paper recycling, of course, is in non-recoverable paper products such as plates, towels and tissues and the wide variety of paper products used for playing cards, inserts in products and in packaging, etc.

Nonetheless, paper recycling faces a number of challenges. While it is well established for single family housing and businesses that generate large amounts of corrugated boxes or other grades of paper, it is woefully short in apartment houses and in other businesses. And some communities still have underperforming recycling programs for single family housing.

On-line shopping and in-home paper shredding pose additional challenges. On-line shopping is now 6 percent of retail sales and growing. As a result, more corrugated boxes are showing up in residential recycling carts. This “browning” of the recycling stream is forcing processors to change their systems in order to capture as much of this high value recyclable as possible.

Shredded paper poses a different problem. Privacy concerns have led to a rise in the use of small paper shredders in homes. Not only does shredding harm the fiber value, loose shredded paper gets out of bags on the processing line and interferes with recycling of other materials. Fixing that problem will require educating homeowners to use public paper shredding sites instead of shredding at home.

A potentially bigger problem is the interest in mixed waste processing facilities, also known as “dirty MRFs”, which claim to separate recyclables from mixed waste. About a dozen of these facilities are in operation. The paper industry and other recyclers fight them tenaciously, arguing that residential and commercial separate collection programs are much more effective at generating significant tonnages of quality recyclables. Currently, accurate recycling data is virtually impossible to get from existing dirty MRFs. These facilities tend to be located in cities with inefficient or non-existent curbside collection programs. If they can prove their ability to effectively increase recycling, they are likely to expand.

Markets are another challenge. In spite of strong political support for residential recycling, these programs must be financially sustainable. Fortunately the market crash in 2008 was followed by a relatively quick rebound. While many commercial programs that depended on recycling revenues closed down, few residential programs stopped. However, had prices not rebounded as quickly as they did, many local governments would have been under pressure to jettison their recycling programs.

A number of groups are trying to increase the recycling rate. Two privately funded groups, the Recycling Partnership and the Closed Loop Fund, aim to give grants or zero interest loans to increase recycling in cities with limited recycling. The money will be used to buy collection and processing equipment and fund more citizen education. Those programs are likely to increase the supply of recycled paper.

As long as markets hold steady (and improve), I expect to see more paper recycling in the United States. The citizen support remains strong. All that is needed now is patience.

These comments are Chaz Miller's and do not necessarily reflect the views of the NW&RA.