

The Recovered Paper Market

**General Market Analysis** by Tom Rickerby

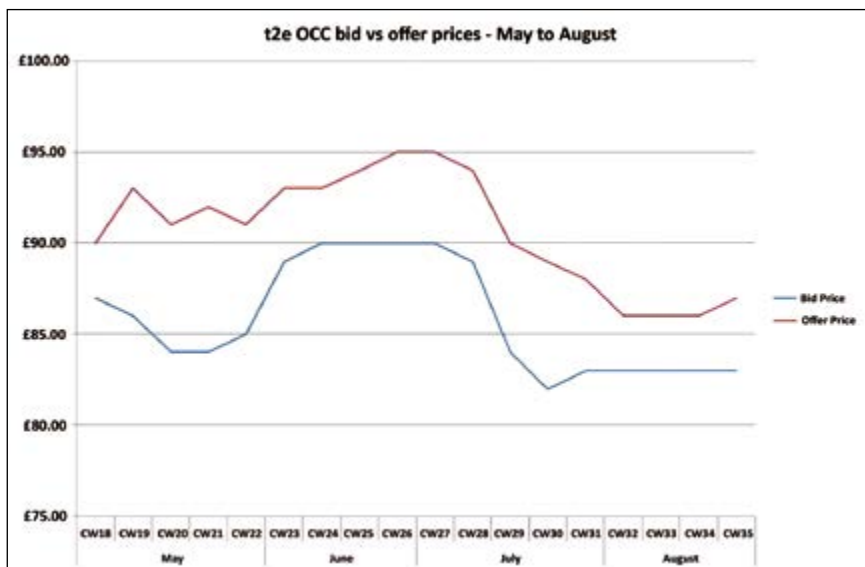


It used to be said that when America sneezed the rest of the world caught a cold, now it appears that the world's second largest economy, China is showing equally contagious qualities. The past quarter has seen fears mounting that the Chinese economy – for decades a key driver of global growth – is heading for a precipitous slowdown. The government's heavy handed interventions to stabilise the dramatic bursting of the stock market bubble in July were followed by a 4% devaluation of the currency and further cuts to interest rates. Fears were compounded by the release of disappointing economic data with indices pointing at a contraction in the manufacturing sector. Events in China have sent shock waves through global commodity and stock markets. Oil prices slumped to a 6 year low and more than 5 trillion dollars has been wiped off the value of global stock markets since China devalued its currency at the beginning of August.

Closer to home, Europe too has had its fair share of problems. The Greek bailout crisis in July took the Eurozone close to the brink and the escalating migrant crisis and strikes in France have severely disrupted freight routes from the UK to mainland Europe.

Fluctuations in the recovered paper price during the quarter have been slightly less dramatic than the headlines. The buyer's market that had gathered momentum towards the end of April continued into May with offer prices for OCC increasing from £90 per tonne to a 16 month high of £95 at the beginning of June. This 5.5% price increase can be attributable to a marked increase in activity from Chinese buyers and a slight downturn in waste collections. Chinese recovered paper import data for June and July (corresponding to May and June UK spot purchases) shows a year on year growth of 24% and 15% respectively. Prices remained firm throughout June but started to slide on early July trading. Bid prices fell 9% during the month but stabilised at £83 per tonne and remained flat throughout August despite the devaluation of the Renminbi and wider concerns over the state of the Chinese economy. In contrast, other commodities sensitive to Chinese demand showed a much more dramatic price correction. Copper and Brent Crude prices fell 17% and 30% respectively during the same period. Currency fluctuations during the quarter have also allowed Chinese buyers to 'shop around' international markets to get the best value.

One area of respite for the market came in the form of lower shipping rates. Eastbound container rates fell as low as £660 - £750 during the period and may have helped to stem the downward pressure on the material price.



Mixed paper prices showed a similar pricing trend, rising to a year high of £75 in June before falling back to £63 - £68 in late July.

CPI figures for the first half of the year showed a difficult 6 months for the UK paper and board sector with production of all grades down 9% on 2014. Much of this was down to a 27% fall in newsprint production. However corrugated board manufacture is one grade that has shown positive growth, up 8% on last year. UK demand for OCC continue to track the Export price albeit at £5-10 lower.

As we head into the second half of the year all eyes will be on the situation in China and with the U.S. predicted to raise interest rates later this year, the outlook looks unpredictable for recovered paper traders.

**Where to see t2e next**



t2e Managing Director, Angus Macpherson will be speaking on the following conference panel discussions:

**RWM** – Weds 16<sup>th</sup> Sept - *Enabling the UK to future-proof the plastics industry - How can we better incentivise innovation and investment?*

**European Paper Conference** – Thurs 29<sup>th</sup> Oct 14:00 to 15:30 – *Getting the Price Right*



t2e spoke to Colin Morrow, SEPA's Producer Compliance Waste Shipment Unit Manager about the steps being taken by the Scottish Environment Protection Agency to regulate recovered paper waste exports.

**There has been widespread concern amongst exporters about the perceived zero tolerance approach by SEPA to contamination in recovered paper bails leaving Scotland for export. Can you**

**clarify SEPA's stance on this?**

SEPA has never taken a 'zero tolerance' approach to green list waste shipments. We aim to target higher risk loads and assess each based on the quantity and nature of the contamination. We then take a considered view as to the most proportionate course of action which can range from the provision of advice, through to warnings, statutory notices and, in the worst cases, referral to the procurator fiscal.

Our formal enforcement action is not focussed on a few aluminium cans in a load of waste cardboard; in the worst cases we have uncovered evidence of gross contamination with food waste, hazardous waste, electrical waste and dirty nappies mixed with green list waste.

**Some exporters are now wary of sourcing recovered paper from Scotland for fear of the potential recriminations of a sub standard load? How would you address these concerns to ensure Scotland remains an attractive market for recovered paper?**

The majority of containers inspected by SEPA destined for export are deemed suitable for export and these containers had some degree of visible contamination.

For example - out of the 100 containers inspected in the last year 75 of these were allowed to leave the country despite each of them showing visible signs of contamination. These were followed with advice where appropriate.

SEPA has regular discussions with the other UK Enforcement Agencies and with other countries within the EU and are confident that we are taking a consistent approach in this area.

**The journey of a load of paper from recycling bin to port can be a complicated and multi-stage supply chain. How do you ensure each link in the chain is adhering to these quality guidelines?**

We want every actor in the supply chain from producer to exporter to understand how their actions affect quality. We are mapping the flow of paper and plastic and have a much better understanding of what affects final quality than ever before.

We want to use this to work with the industry to improve material quality, tackle poor performance and level the playing field. We believe this is in everyone's interest. To this end SEPA has carried out a significant number of audits of local authorities, commercial waste collectors, Materials Recycling Facility (MRF) operators and waste brokers involved in the export of dry recyclable waste originating from Scottish MRFs.

SEPA has also engaged with the wider sector on materials' quality and have attended various forums such as The Scottish Environmental Services Association (SESA), The Recycling Association and the Scottish Network of Local Authority Managers to raise awareness, provide updates on our findings and on the work that we are undertaking to facilitate improvements to quality.

**Do you think there is a greater need for global standardisation across export grades of waste?**

Standards relating to waste paper would be difficult to enforce. For the past four years SEPA has been the lead agency on an IMPEL\* project. This project has several aims including sharing best practice and improving consistency in the regulatory approach taken by European nations under the EC regulations.

This project has been very successful although it is acknowledged that close engagement with countries outwith the EU is certainly more challenging. However, work is being undertaken at a European level to address this matter by identifying appropriate contacts and improving engagement.

\* European Union Network for the Implementation and Enforcement of Environmental Law (IMPEL)

**Maximum contamination levels can be notoriously difficult to enforce. How are SEPA going about this?**

We find it difficult to envisage how a maximum percentage contamination limit would be helpful to the industry. Neither the UK nor the EC regulations specify a contamination limit and a Scottish limit may differ from the position taken by receiving countries.

Further, there are practical difficulties of how such a limit could deal with non-dry recyclable contamination without resorting to either a zero tolerance approach to these waste types or setting extremely small percentages for these higher risk waste types. This would become impractical and onerous for both industry and the regulator to measure.

As such SEPA assess each load based on the nature and quantity of contamination present. The type of contamination is clearly important as wastes such as clinical waste, hazardous waste and WEEE would be of a greater environmental risk than other dry recyclable contamination.

We are willing to work with MRFs and waste brokers to provide specific guidance on whether the bales of waste they produce for export are suitable. This would involve our officers arranging to sample representative waste, produced by a specific MRF, to provide a view as to its suitability for export.

**What improvements could be made to improve quality throughout the waste value chain?**

Everyone involved in the supply chain can assist in making improvements that support high quality recycling of dry recyclables. Our work to date has identified the following areas that can affect final quality;

- The effectiveness of collection systems and education of householders.
- Storage and treatment practices at MRFs. For example - SEPA has seen many examples of 'negative picks' resulting in poor quality. We would like to see MRFs operated on a 'positive pick' basis. 'Positive pick' involves removing the target waste from the picking line rather than removing all of the non-target waste which can be more difficult to achieve leading to increased risk of contamination.
- Lack of robust quality control systems in place (including sampling of inputs and outputs). Mandatory sampling at Scottish MRFs, which accept more than 1,000 tonnes of mixed dry recyclable waste, will commence on 01 October 2015. It is hoped that this will lead to improvements in this area.