



Recovered Paper

Quarterly Report – April 2015

INTERNATIONAL MARKETS WITH A FOCUS ON ASIA

(Ranjit Baxi, J&H Sales International Ltd, GBR)



Economic forecasts for 2015 are for slower growth of the Chinese economy, resulting in weakening demand for recyclables and raw materials. The Purchasing Managers' Index (PMI) is also projected to dip below the 50 mark, reflecting a contraction of the manufacturing sector.

China's growth rate for 2015 is likely to be around 7%, which would be the lowest since the year 2000. However, the good news is that the Chinese government is working on building a balanced, mature economic model following a period of robust, double-digit growth which may help to sustain current demand levels.

Eurozone economies are projected to gather pace in 2015 after an annualised growth rate of 1.2% in 2014. Decreasing rates of unemployment as well as increasing consumer confidence and spending are providing the foundation for a stronger recovery during the year. Falling oil prices and a weakening Euro are helping domestic economies and promoting exports. By the second half of 2015, weakening oil prices will have less influence and so the challenge for the Eurozone economies will be to sustain the growth achieved during the first half of this year.

We have seen sea freights falling during the first quarter, supported by weakening oil prices and increased capacities through the introduction of larger vessels. However, ancillary charges - such as the low sulphur surcharge - are being levied by the lines and these are neutralising in part the lower sea freight rates.

After the Chinese New Year celebrations, there has been a gradual build-up of demand for European fibre from the Chinese and wider Asian markets. However, quality continues to be the dominant factor influencing the mills' buying decisions. During the first quarter, the continued disruption at US West Coast ports and severe winter weather conditions along the US East Coast required mill buyers to look at Europe and other regions for sourcing their fibre.

During the quarter, we saw a steady reduction in Asian mill inventories for both finished paper and recovered fibre, but export price levels remained weak despite increasing demand. OCC prices began the year at US\$ 168+ per tonne and continued to weaken over the quarter to US\$ 160+. Similarly, mixed paper prices started 2015 at US\$ 135+ per tonne but ended the first quarter at US\$ 120+.

Asian markets such as India, Indonesia, Vietnam and Thailand maintained a weak but steady demand, more for news & pams and the middle grades (deinking, sorted office paper, multidruck and BBC).

Meanwhile, environmental authorities in China, India and across the Asian continent are continuing to impose tighter controls on the paper mills to ensure that environmentally-friendly systems are in operation and the highest quality of fibre is imported. For example, the port of Tuticorin in India has imposed stricter controls on the import of mixed waste and other low-quality recyclables. Also in China, these tighter controls have resulted in some mills being forced to shut down.

We all look forward to a year of improved growth for our industry.

Indonesia & Vietnam

(Mark Mijster, Papermarketing, NLD)



Indonesia

In the first quarter of 2015, Indonesia suffered an ongoing weakening of its local currency, the rupiah, which at one point dropped to its lowest level in 16 years. Owing to the fact that most paper mills sell a large proportion of their finished products into the domestic market, the currency issue has a huge impact on their financial situation.

At the same time, European suppliers have benefited from the continuous strengthening of the US dollar.

US exports to China fell 6.5% in January although an agreement was subsequently reached in the US West Coast ports dispute; Indonesian

buyers took the driver's seat approach when it came time for price negotiations and levels duly fell. However, buyers had to change their offer prices on a weekly or even daily basis. Mainly initiated by the leading Chinese buyers, the positive impact of the stronger dollar was immediately passed on to suppliers, resulting in plenty of unnecessary dynamics in the purchasing markets.

In general, Indonesian paper mills' demand for recovered paper has been moderate. But for various and obvious reasons, order placement has been apportioned between different countries and regions such as Europe, Australia and New Zealand; reasons for adopting this approach include the availability of more just-in-time supplies and the quality being provided.

Over the last couple of years, Indonesian mills have become extremely concerned about the quality of recovered paper from Europe in particular. The government recently announced that it would intensify pre-shipment inspections; it is very likely controls will reach the same levels as implemented by the Chinese authorities when they announced their Green Fence policy.

Most mills have already placed recovered paper orders to cover their needs until the Ramadan holidays in June/July.

No major changes in market conditions are expected over the next few weeks.

Vietnam

Vietnam represents a very interesting and promising market. Many mills have capacity expansions plans, including Lee & Man Paper Manufacturing which is pressing ahead with the construction of a new 400,000 tonnes per year recycled containerboard investment at a greenfield site in Hau Giang province.

But as in China, there is also the threat of overcapacity in Vietnam as growth in domestic consumption of paper products is falling behind expectations; on occasions, mills have no choice but to export some of their finished products - and this is rarely a profitable option.

Owing to a lack of foreign currency, most mills are being hindered in their imports of recovered paper such that Vietnam is more of a spot lot market at present and is not mature enough to play a crucial role in the purchasing sphere.

Germany

(Reinhold Schmidt, Recycling Karla Schmidt)



Domestic paper mills increased their production of paper and cardboard to around 22.5m tonnes in 2014. According to VDP e.V., the overall increase of 0.6% when compared to 2013 resulted from gains for packaging (+1.2%), hygiene papers (+1.7%) and special papers (+1.5%) whereas graphic paper output continued to decline, albeit by a marginal 0.5%. It is interesting to note that the paper industry used more recovered paper (+0.8%) in relation to paper (+0.1%) and wood pulp (-5.7%). Overall, the paper industry used 16.62m tonnes of recovered paper in 2014, which was 133,000 tonnes more than in the previous year.

Germany remained a net importer of recovered paper last year; indeed, the import surplus increased significantly from 1.2m tonnes in 2013 to

1.52m tonnes the following year. According to preliminary figures from the Federal Statistical Office, Germany imported 45,000 tonnes less recovered paper (3.86m tonnes). At the same time, however, exports dropped by 443,000 tonnes or 15.9% to 2.34m tonnes: the main reasons for this are likely to be increased paper demand in Germany as well as the cyclical decline in China's demand for recovered paper from Europe.

Recovered paper suppliers were confronted with a variety of problems in 2014. For example, the increased access of large paper mills to our commercial collection points hindered our access to recovered paper. Additionally, some huge paper mills won municipal calls for tender by offering prices above the market level. More recovered paper buyers demanded a higher fibre quality. In this context, it also became clear that the paper industry will promote the elaboration of standardised controls for recovered paper entering their mills.

During the year, the recovered paper market itself recorded variations here and there, both in terms of collection quantities and demand. Germany also ordered recovered paper from Eastern Europe, including Poland and Croatia. The total volume of exports, especially to Asia, was relatively low, the main reasons for which are likely to be: low imports from Asia of new products packaged in cardboard; subdued economic growth in China; and currency issues. The overall analysis of 2014 shows that, in Germany, more recovered paper was available than was required by the industry. The resulting price drops for various standard grades increased the already huge pressure on our companies' margins.

After the Christmas and New Year holidays, above-average waste paper volumes were collected in January while demand from most paper mills slowly picked up again. Given the balance between supply and demand in most recovered paper grades and the stable export situation, prices remained largely unchanged. Demand increased for newsprint and magazines; in this segment, consumption in Europe seemed to increase whereas availability declined. Woodfree white paper was available in larger quantities and demand for this grade remained stable, but deliveries were slow.

In February, collected waste paper volumes were slightly lower than in the previous month. Given relatively good paper stocks at numerous paper mills, demand was not that high for newspapers and the deinking grades in particular, putting considerable pressure on prices early in the month. Some German processors also tried to apply pressure to supermarket and corrugated board prices but failed owing to resistance from recovered paper suppliers. Quantities delivered to these mills declined significantly until unchanged prices were confirmed in the middle of the month; thereafter, volumes returned to normal.

In early February, an encouraging volume of export orders was received at slightly increased prices. In the course of the month, however, both order quantities and prices fell back to January levels.

Czech Republic

(Jaroslav Dobes, SPDS-APOREKO)



Against all the odds, recovered paper collection and trading improved in the fourth quarter of 2014. Domestic paper mills realised an expected production increase (of 3%) while consumption of paper products achieved a similar level of growth after several years of stagnation. Also very positive, there was a 14% increase in recovered paper consumption by domestic paper mills.

Collection volumes recorded their biggest annual growth of around 100,000 tons, or some 12%, which was absorbed by the market and consequently exported without any problem. As a result, exports jumped 16% from 630,000 tons in 2013 to 730,000 tons last year.

Despite price fluctuations and unsteady demand, business conditions were more or less stable, with most stocks sold out. Overall, it could be said that 2014 brought a significant improvement after a number of years of stagnation. Meanwhile, the current year has started optimistically but it is too soon to confirm a continuation of the positive trends seen in 2014.

Finland

(Merja Helander, Lassila & Tikanoja)



Demand is good for all of the traditional domestic grades, with shortages apparent in some. Paper and board, tissue, newsprint and coreboard mills are running well; furthermore, special product producers - such as those making insulation - are also using reasonable amounts of recovered paper even though housebuilding activity has slowed owing to the recession.

Traditional exports of special grades are continuing as normal while imports are very limited and are being undertaken on a spot basis. Overall, supply and demand can be said to be in balance.

The customary seasonal drop-off in collections over the winter months was less pronounced because weather conditions were more spring-like. The recession and a continuing decline in graphic paper consumption are the reasons why collection volumes are dropping. The same trends seem to be continuing in the second quarter of 2015.

For Finland, statistics for 2014 are not yet available.

France

(Jean-Luc Petithuguenin, Paprec)



The various markets made contrasting starts to the year. Demand for the lower grades was satisfactory whereas the deinking market became more complicated. Stock levels in the recycling industry were low as collection volumes appeared quite average at the beginning of the year.

As far as the low grades are concerned, demand proved to be favourable throughout the first quarter in both the domestic and export market. Prices increased in Europe, influenced by the pressure prevailing in the south of the continent. The same applied in the Asian market, with major demand and rising prices. At the end of the first quarter, even stronger pressure could be observed.

Unfavourable weather conditions coupled with congestion at US ports prompted Asian buyers to increase their order volumes and prices, while the Euro/dollar exchange rate also encouraged exports. In Europe, demand was also influenced by anticipation of a possible stock and supply shortage in April and May that could intensify the pressure even more.

The situation in the deinking market is different, and some difficulties were experienced at the beginning of the year. The problems faced by the UPM

Chapelle paper mill and Aylesford's closure in the UK made sales harder and implied a slight drop in price, although low collection rates and export possibilities to Asia helped to keep the market more or less steady. The approaching summer is usually a positive period and should contribute to reversing this trend.

There is no significant change to report for the high grades: Germany can still be considered the leading market and demand is matching supply.

Even though various troubles affected the market at the beginning of the year, general confidence has not been eroded. Demand has accelerated at the beginning of the second quarter and the market seems to be sustained in Europe and Asia. We wish only for an increase once again in collection volumes because activity has tended to be quite slow until now in 2015.

Spain

(Francisco J. Donoso, ALBA Servicios Verdes)



Local demand for OCC was strong during the first quarter of this year, thereby leading to a price increase of some Euro 15 per tonne since January. Book orders at paper mills seem to be improved, maybe due to the greater competitiveness of some of them in the export market thanks to the Euro's depreciation. This heightened competitiveness means higher production and therefore increased demand for OCC. Lack of deliveries as a result of the Easter holidays has also contributed to improved local demand and pricing. Regarding export demand for OCC, it has not been strong owing to the Chinese New Year holiday period, and final prices have been significantly reduced during the period. However, the ongoing depreciation of the Euro has offset these reductions, keeping prices effectively stable or even slightly increasing.

Demand for deinking grades continues to be soft following the recent announcements of mill closures in Europe and local stock levels are rather high. Prices have been reduced accordingly, although these are still higher than export levels. White grades have seen an increase of some Euro 15-25 per tonne since January owing to higher demand not only locally but also from Asia.

Sweden

(Markus Ocklind, IL Recycling)



Demand for OCC has been good and stable over the recent period and merchants' stocks are at normal levels. Shipments to Poland and Germany from the south of Sweden fell back during the first quarter while a combination of lower exports and increased collections has put pressure on import volumes. The stock situation prior to the Easter holidays was better than ever at the paper mills.

As previously reported, new investment plans for Stora Enso Varkaus in Finland could change the Nordic OCC market dramatically during 2016.

Swedish mills' demand for news grades has decreased significantly in recent years and collection volumes are also dropping sharply as printed media continue to lose out rapidly to digital media (see statistics below).

The tissue grade market has been quite stable at historically high prices, but here too there has been a drop-off in collection volumes from offices and print shops. Paper mills' inventories are at normal levels whereas merchants are carrying no stocks of these grades because demand is so strong.

Swedish recovered paper statistics for 2014 continue to indicate big changes in the local market. Total consumption by domestic paper mills fell 9% to 1.248m tons last year, with news & pams plummeting 28% to 421,000 tons and OCC climbing 5% to 509,000 tons. In total, domestic recovered paper collections fell 6% last year to 1.161m tons, with news & pams tumbling 18% to 361,000 tons whereas OCC increased 4% to 528,000 tons.

Sweden's recovered paper imports dropped 9% to 449,000 tons in 2014 while exports moved 3% higher to 353,000 tons. Exports of the news grades soared 100% to 58,000 tons whereas overseas shipments of OCC fell 5% to 189,000 tons.

United Kingdom

(Simon Ellin, The Recycling Association)



The first quarter of 2015 was again a period of contrasts as general stability in the brown and tissue grades was counterbalanced by the appalling news of the demise of Aylesford Newsprint, which went into administration in February with the loss of 300 jobs, widespread debt and plummeting newsprint prices.

In line with the England cricket team's performance at the World Cup, activity in the OCC sector was underwhelming. Prices for OCC carried over from the year-end and then softened slightly in February before unexpectedly increasing again in March to the levels experienced at the beginning of the year. UK demand was healthy and fuelled to a degree by the ports dispute on the US West Coast and freezing weather in the east of America. Abatement of these US-related factors did not have the expected effect of softening prices; indeed, the price increases are a demonstration of healthy Chinese demand for the UK's OCC as well as of the pound's weakness in relation to the dollar. In contrast, some softening of mixed prices in March was fuelled largely by

increased availability owing to Aylesford's demise, although this "Aylesford factor" has abated to some extent (see below). Domestically, mills are fairly well stocked with brown grades; however, more orders are now available than at the beginning of the year. The UK is still awaiting full start-up of the new Smurfit Kappa machine in Kent, which should have a positive effect on domestic brown prices. There is still decent demand from mainland Europe.

For the news grades, the loss of the Aylesford Newsprint mill allied to the announcement of the decommissioning of UPM's line at Shotton had a sudden and significant impact on the price of newsprint, with Palm Paper announcing a £30 per tonne reduction as soon as the Aylesford closure was broadcast. As expected, however, prices have bounced back very quickly, with robust deep-sea and European demand driving prices almost back to the levels seen prior to the closure announcement. As predicted by many forecasters, the demise of Aylesford - although unexpected - has merely removed capacity from the market that would have had to be taken out in any case owing to the worldwide reduction in newsprint consumption.

As for the middle grades of recovered paper, there has been a slight softening in the prices of multigrade and SOW, led by DS Smith and driven by the strength of the pound against the Euro. The Indian market has followed suit, but demand remains very robust. There has been a slight drop in higher grade prices too, and most European mills are reporting healthy stock levels.

Turkey

(Ekrem Demircioglu, BIR Ambassador)



There were no major market movements in the first quarter of 2015. While OCC prices remained in balance, there was a minor increase in demand for woodfree white but a slight drop-off in orders for newsprint.

Kartonsan's KM2 investment has yet to reach full capacity but hopefully will do so in the second quarter, thereby leading probably to an increase in demand. Modern Karton's latest 400,000 tonnes per annum investment will also come on stream in the second quarter, which will result in an increase in Turkish imports.

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