



## Recovered Paper

### Quarterly Report – July 2015

#### International Market with a focus on Asia

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



We continue to trade under mounting geopolitical stresses, with failure to find an acceptable agreement between Greece and its creditors as well as increasing currency volatility following the strengthening of the US dollar and the weakening Euro.

European economies continue to benefit from a combination of relatively low oil prices, a depreciating Euro and weak-to-steady global growth which is, in turn, stimulating demand within Europe. Meanwhile, growth in the major emerging economies - China and India - is continuing to weaken, which is affecting export demand for fibres from Europe.

Sea freight from Asia to Europe has remained in decline whereas outbound rates have continued to rise, aided by vessel omissions effectively reducing container space.

The second quarter started with US fibre availability and prices remaining sluggish owing to weakening demand from Asia, which resulted in fibre prices staying lower generally. This had a direct effect on export prices for European fibres. But during the quarter, there was a small shift in demand which helped strengthen export values. OCC prices began the quarter at levels of US\$ 160+ per tonne and strengthened over the period to US\$ 180+.

Similarly, mixed paper prices which started 2015 at levels of US\$ 120+ also made a positive move to US\$ 140+.

Demand from other regular Asian markets - India, Indonesia, Vietnam and Thailand - remained steady for news & pams and the middle grades (deinking, sorted office paper, multidruck and BBC).

We are anticipating an increase in fibre demand over the next two quarters as the EU economies and the emerging economies of China and India are projected to see growth across the remainder of 2015.

#### Vietnam & Indonesia

*(Mark Mijster, Papermarketing, NLD)*



##### Indonesia

The second quarter of 2015 can actually be split into two parts: first, Indonesian paper mills tried to keep pace with the continuous increase in prices and strong demand initiated mainly by the big three Chinese buyers; and second, mills were preparing themselves for the Ramadan holidays and gradually reduced the volumes purchased. Simultaneously on the local market, sales of finished paper products became increasingly sluggish.

## BIR World Mirror on Recovered Paper

Owing to the crash in Asian demand for newsprint, some of Indonesia's newsprint mills had to cut production.

Meanwhile, packaging mills rapidly slowed their output and some even had to rent additional warehouse space to store unsold production.

Many consider it rather curious that the major three Chinese purchasers have kept on buying at the higher price levels even though there is no competition from other Asian markets.

At present, Indonesian mills report that they are unable to buy at the current levels owing to the weak local currency.

### Vietnam

There has been a dynamic response to the Vietnamese government's indication that, by 2020, it wants 70% of local paper consumption to be produced in domestic paper mills. Besides the existing machines of Nine Dragons, both Lee & Man Paper Manufacturing and Vina-Kraft (a joint venture between SGC of Thailand and Rengo of Japan) have announced plans to install new capacity next year and the year after.

This optimistic outlook could also be noted at the Paper Vietnam 2015 conference held in early June in Ho Chi Minh City. But for obvious reasons, existing paper mills look at these proposed new capacities with mixed feelings.

Of course, these new developments are very promising but, having learned from the past, the government has also indicated that it will intensify import regulations for paper mills in order to prevent material of doubtful quality from coming into the country.

Over the last two to three months, Vietnamese paper mills have not been particularly active in their purchasing but have kept on buying their regular volumes from their established suppliers at market-related prices.

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### Germany

*(Reinhold Schmidt, Recycling Karla Schmidt)*



Reviewing the second quarter, activity levels in the recovered paper sector were significantly higher in April than in the previous month.

Paper industry demand for the bulk grades continued at a high level and the market remained stable in its basic structure as well as in terms of domestic price levels for almost all grades.

From the south and south-west of Germany, however, large volumes of primarily OCC and corrugated board flowed out to France and indirectly to Spain, resulting in higher payments for local customers. At the same time, there was improved demand from Asia for recovered paper owing to, among other factors, the weak Euro. In April, Asian customers were already placing orders for May.

Owing to holidays in May, recovered paper collection volumes decreased significantly against a backdrop of very good domestic and foreign demand. As well as the bulk grades, the middle and higher qualities were also ordered in larger volumes. At the same time, the paper industry's stocks of recovered paper became emptied and exports continued to deduct bigger quantities from the market; notably, more orders were recorded from Belgium. Orders from Asian customers remained high, declining only slightly from April levels owing to exchange rate effects.

Payments displayed a significant East-West divide, with recovered paper prices in Eastern Europe considerably lower than those in the west of the continent. Day-to-day business for recovered paper recycling companies was complicated by a poor availability of lorries in the lead-up to Pentecost, but this subsequently levelled out.

To some degree, the recovered paper sector made a hectic start to June. Collection volumes remained quite low and demand for almost all qualities was consistently high. Lower quantities of deinking and mixed grades were collected in relation to OCC. In parallel to the price stability for orders of lower grades, special volumes of these qualities were demanded and supplied to a greater extent in Germany.

## BIR World Mirror on Recovered Paper

There was also a demand for the middle and higher standard grades, with recovered paper companies receiving an urgently-required improvement in remuneration. Files, woodfree lightly printed shavings and multi print were in demand as well.

France, Spain and Belgium intensified their orders for OCC while demand increased from those traditional non-European recovered paper export destinations from which, until then, order volumes had remained stable at a low level.

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### Spain

*(Francisco J. Donoso, ALBA Servicios Verdes S.L.)* 



High OCC demand locally but also from Asia has been the main feature of the recent period, possibly in part because of the lower Euro in relation to the US dollar which makes Spanish exporters more competitive in terms of both finished paper products and secondary raw materials. Prices have responded accordingly, with increases of around 30%. Stock levels are rather low.

Voluntary collections by “free agents” are continuing to become increasingly significant, often replacing the official municipal channels and even increasing the efficiency in terms of volume. This is possible only because of the harsh financial crisis still faced in Spain and also because of the high prices paid at the yard door by most recyclers. Bad working conditions affecting free agents are the other side of the coin.

Regarding the deinking grades, the market situation has totally shifted from that of last quarter and demand has increased strongly - although prices climbed later and to a lesser extent than for OCC. White grades have remained in high demand and prices have risen slightly too.

Another issue to take into account is the recent resolution by the Spanish anti-trust office (CNMC) to impose huge fines on the paper and packaging industry owing to its continued illegal behaviour (according to the CNMC), including sharing confidential price information and sharing out clients. Fines imposed for these reasons have totalled Euro 58 million on 18 companies.

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### Czech Republic

*(Jaroslav Dobes, SPDS-APOREKO)*



The positive recovered paper market trends at the end of last year continued into the first quarter of 2015. A year-on-year comparison shows a collection volume increase of 19% which would annualise to around 900,000 tons for 2015 - or some 100,000 tons more than in 2014. All of the collection increase was exported.

A significant factor in this upturn in collections was the 7.4% or 25,000-ton increase in paper product imports. Total consumption of paper products increased by 5% and production by domestic paper mills climbed 23%.

Business conditions have been relatively stable and stocks are at normal levels. Prices have shown a moderate improvement for all grades.

While full statistics for the second quarter are still awaited, the picture is expected to be similar to that for the first quarter.

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### Finland

*(Merja Helander, Lassila & Tikanoja)*



During this year's second quarter, collection volumes for news & pams were at a very low level while OCC and packaging tonnages were stable. The economic situation in Finland has had an effect on consumer spending: less is being consumed, fewer newspapers, magazines and other goods are being bought, and so less material has ended up in collections.

Demand for all grades remained at a high level in the second quarter and some grades were imported to cover shortages. All paper and board mills are running well. No dramatic changes are envisaged in the near future either in terms of collections or recovered paper demand, except for maybe the normal seasonal summer drop in collection volumes.

In comparison with 2013, statistics for last year show that: domestic paper and board production fell by 2% to 10.4m tons; recovered paper collections decreased by 6.7% to 662,000 tons; exports slumped 27% to 100,500 tons, mainly because of good domestic demand; and imports dropped 4.7% to 52,000 tons.

### Sweden

(Markus Ocklind, IL Recycling)



Demand for OCC has been good over the past six months and prices have gone up by 10-15% since January. All kraftliner mills are in full production and healthy demand is anticipated for the rest of 2015. And as previously mentioned, investment plans at StoraEnso Varkaus in Finland could dramatically alter the Nordic OCC market during the course of 2016.

Swedish mills' demand for the news grades and for mixed has decreased significantly in recent years but collection volumes are also dropping sharply. There has been an ongoing change in collection trends within Sweden with printed media losing out rapidly to digital media, as the statistics below underline.

Tissue grades are enjoying quite strong market conditions with historically high prices, but here too there has been a drop in collection volumes, both from offices and from print shops. Stocks at paper mills are at a low level ahead of the difficult summer period.

Swedish recovered paper statistics for the first quarter of 2015 continue to indicate changes to the local market. When compared with the same period in 2014, total consumption by domestic mills fell 7% to 308,000 tons; usage of news & pams slid 8% to 105,000 tons while consumption of OCC edged 2% lower to 128,000 tons.

Sweden's recovered paper collection total dropped 4% to 277,000 tons in the first quarter, with news & pams tumbling 14% year on year to 77,000 tons whereas OCC was unchanged on 131,000 tons.

The recovered paper import total was also unchanged, at 118,000 tons, while exports dropped 10% to 82,000 tons as shipments of the news grades plummeted 34% to 10,000 tons and exports of OCC fell 14% to 43,000 tons.

### United Kingdom

(Simon Ellin, The Recycling Association)



The second quarter was a period of sustained demand, low arisings and thus sustained price increases across all grades. However, these factors coupled with varying buying strategies, unpredictable shipping rates and volatile exchange rates make short- to medium-term price predictions very difficult.

The second quarter brought steady increases in brown grade prices, with OCC climbing around £10 per tonne and mixed paper by some £15. Mixed paper is in very short supply, with reports coming out of mainland Europe that buyers are missing targets by up to 75%, and by up to 50% in the UK. This is linked to economy-related low generation to a significant degree, but also to quality concerns at the lower end of the spectrum; despite general shortages, larger buyers are not prepared to take risks with lower-specification material. A similar trend has occurred for OCC, with price increases driven largely by the big Chinese mill groups which are competing for material and which have forced smaller mills to go head to head for volume.

As already noted, predicting prices into the third quarter is very difficult given worldwide volatility. There are signs that some of the larger mill groups are holding back on price in an attempt to arrest the increases and we have heard of some small price reductions which may well filter into the UK market. But as we move into the summer months and a period of even lower generation, it is difficult to see any significant and sustainable price reductions into quarter three.

Domestically, mills with controlled supplies are fairly well stocked but, for the first time in several months, spot selling is available as the UK mills feel squeezed by low generation and Chinese demand. Smurfit Kappa is very close to returning to full production with its new machine at Snodland in Kent, and this is expected to add further heat to the UK market.

The impact of the Aylesford closure on the UK news grades market proved to be very short term and, while highly unfortunate, illustrated the fact that it was capacity that had to be removed from the market in any case.

Driven by very low generation globally, the price of news & pams has risen by £15-20 per tonne. The demise of Aylesford Newsprint forced many brokers to look further afield than the UK and new purchasing contracts have been formed both in mainland Europe and Asia at the same time as the elevated demand that has sucked material out of the UK, thus sparking a period of sustained price increases. This trend is expected to continue.

Regarding the middle and high grades, demand is robust for SOW, multigrade and office pack. Coupled with low generation, this has led to domestic and European shortages and thus a period of steady price increases. It is difficult to foresee any change to this situation and prices are thus expected to remain strong into the summer months.

The same factors have affected the high-end grades and a period of steady price increases has been experienced.

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### Turkey

*(Ekrem Demircioglu, BIR Ambassador)*



There were few major differences between the first and second quarters of this year. Owing to the Turkish election in June, the markets were unstable and these conditions resulted in a drop in demand for finished product. Meanwhile, the lower exchange rate for the Turkish lira made finished product imports more expensive and thus slowed inflows.

Over this same period, Kartonsan's KM2 started working at full capacity and Modern Karton's new liner mill - with an annual capacity of 400,000 tonnes - also came on stream. Despite these capacity expansions, recovered paper prices did not increase.

With schools closing for the summer break at the end of the second quarter, collection of school books will increase. Owing to seasonal developments, an increase in the collection of other materials is also anticipated and so no upturn in prices is foreseen for the third quarter.

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### France

*(Jean-Luc Petithuguenin, Paprec)*



During the second quarter, activity was normal with the exception of May which, as usual, was punctuated by a number of bank holidays. With only 17 working days, the business month was effectively shortened and volumes proved to be low. Notably, however, 2015 has been characterised to date by a good collection rate. Demand from the different markets has been satisfactory and prices are rising for most grades.

The OCC market remains quite sustained in France. Domestic demand is good and neighbouring European buyers are still present in the market while pressure from Asia on quantities and pricing remains strong. Prices in France climbed during the second quarter and paper mills must now succeed in increasing prices for reels.

A similar trend has been observed in the deinking market: demand is good and prices are improving slightly. Despite the closure of Aylesford Newsprint in the UK during the first quarter and the scheduled shutdown in June of a machine at UPM's La Chapelle paper mill, the drop in collection volumes firstly counterbalanced the market and then a shortage of material has started to appear with the approach of summer. Asian demand for the 1.11 grade has also influenced the market situation.

The high grades market is moving upwards after years of consistency. Demand is particularly strong in Germany. Some grades have become scarcer and US imports fell because of the Euro/dollar exchange rate. In some instances, it has been difficult even to meet demand.

As the summer begins, almost all markets could be described as bullish. The current price levels have not been seen since 2012.

### Italy



*(Giampiero Magnaghi)*

In June, recovered paper collections were again lower than normal because of unfavourable economic trends. Italian mills had and have reasonable orders but some of the medium-sized ones do not have sufficient recovered paper stocks or sufficient funds to build long-term stocks, so demand is strong and local prices have increased.

Regarding exports in June, there was a scarcity of containers on the Adriatic Sea which favoured shipments via Genoa. In Naples, some customs problems arose but these were settled within a couple of weeks.

As always, the obstacles to export by sea probably originate from the intention to reduce such shipments and to keep recovered paper in Italy despite the fact that local collections exceed local consumption.

In any case, total exports for the first quarter are estimated to have increased by 10%.

Prices probably peaked in June and reductions in export prices have already appeared at the beginning of July. Indonesian demand is supposed to reappear in July - Ramadan ends in the middle of the month - but normally the country's imports are no more than 10% those of China.

Comieco has announced some funding for municipalities in the south of Italy in order to increase local selective collections. Meetings have taken place with recyclers' associations with the aim of a more constructive dialogue.

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The reports given represent the personal opinion of their authors and have only a reference value.



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