



Recovered Paper

Quarterly Report – October 2015

INTERNATIONAL MARKETS WITH A FOCUS ON ASIA

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



News of globally weakening demand and downward GDP revisions for leading world economies dominated the third quarter. Market demand and export orders were strongly driven by price coupled with quality demands.

Globally, markets were concerned about the health of the world's second-largest economy, China. The world markets were looking for reassurance following the shock devaluation of the yuan and subsequent fall in the stock market, which gave rise to fears of a global slowdown. Overall demand and industrial output were affected both in China and the emerging economies. However, markets gained confidence by the end of the quarter with the news that China's economic growth was within the tolerance range and that it will achieve a growth rate of around 7.3% for the year.

Compared to the emerging economies, the developed economies of the Western World were showing signs of steady growth and increasing domestic demand, including notably the American as well as most of the European economies. There were other bright spots amid the economic gloom too: the falling price of oil continued to help keep sea freights low, with shipping lines able to maintain rates at competitive levels over the quarter despite decreasing trade volumes and container shortages at some European ports.

Meanwhile, a strong US dollar and a weak Euro helped to keep fibre export prices from Europe to China at favourable levels. Prices for OCC continued to weaken during the third quarter, having started at US\$ 180+ per tonne but then declining during the quarter to US\$ 165+. Similarly, prices for mixed paper started at US\$ 140+ per tonne but were reduced to US\$ 130+ by the end of the quarter. Demand from other Asian markets - namely India, Indonesia and Vietnam - continued at levels similar to those of the second quarter but prices were slightly lower.

Weakening export demand over the summer holiday period did not greatly affect prices as this was compensated by the seasonal decline in collection

volumes. Also, stronger domestic demand helped to stabilise prices within a reasonable range during the quarter.

With normal collection levels now restored, we are hoping to see some increase in demand during the latter months of the year to help steady the decline in prices seen during the third quarter.

Indonesia & Vietnam

(Mark Mijster, Papermarketing, NLD)



Indonesia

Our report for the second quarter of 2015 ended by saying that, at that time, Indonesian mills were unable to buy owing to a weak local currency. At that moment, the Ramadan holidays were about to begin and it was quite normal for purchasing and production activities to decline. Based on previous experience, everybody was actually expecting most mills to start importing again at the end of August or, at the latest, in September.

However, these expectations were met by great disappointment. Following on from the already-sluggish buying market in the second quarter, many Indonesian paper mills not only stopped importing recovered paper in the third quarter but also significantly reduced or even halted production. Alongside the slowdown in sales of finished products, another reason for this situation is that many mills finance their business activities by lending from abroad; these arrangements are concluded in US dollars whereas sales of finished products are in rupiah. But recent currency inconsistency has had a huge negative impact on their financial results and so they were forced to consider taking downtime or reducing production.

Those mills that decided to continue to produce could buy more than enough recovered fibre from the local market at more attractive prices and, more importantly, in their local currency. In Indonesia as in China, the threat from overcapacity looms ever larger. Newsprint mills have been facing difficult sales conditions for much longer and the current situation shows no improvement for them either.

Vietnam

Although economies are facing difficult times in most parts of the world, the Vietnamese government continues to initiate all kinds of activity in a bid to boost imports/exports, the economy and industrial activity. A good example is the rapid development of packaging production in Vietnam, driven mainly by a growing demand for consumer goods and foodstuffs.

This year's GDP growth estimate of approximately 6% has also created a foundation for the recovery of retail indexes and the development of support industries, including the packaging sector. In addition, some free trade agreements - such as the Vietnam-EU FTA and the Trans-Pacific Partnership - are expected to sharply increase Vietnam's export contracts (especially those for seafood and garments), which will also result in strong demand for packaging.

These favourable trends have made packaging one of Vietnam's most rapidly developing industries. According to the Vietnam Packaging Association (Vinpas), average annual growth of the sector is 15-20%. This is also one of the reasons why many foreign paper mill operators have announced their intention to build new capacities in Vietnam. At present, Vietnam has more than 900 packaging factories, around 70% of which are located in the south of the country.

For many years, the lack of raw materials appears to have been the Achilles heel of Vietnam's pulp and paper industry; although the country has plenty of wood, it still has too little fibre. As Vietnam exports ever-increasing quantities of wood chips, industry sources report that the quality, cost and availability of good recovered paper imported from abroad have become serious problems for domestic paper and board producers. This has even resulted in an intensification of quality controls by customs officials at ports, such that clearing cargoes takes a long time and leads to major congestion.

Germany

(Reinhold Schmidt, Recycling Karla Schmidt)



Looking back on the third quarter of 2015, July brought strong demand for all grades of recovered paper. Orders came from the Benelux countries and France, as well as from Asia during the first half of the month in particular. There was no scheduled downtime at recovered paper-consuming mills and the high demand was met by little recovered paper availability, with mixed grades and deinking material being particularly scarce. Spot lots of mainly mixed paper represented a solution for some customers. For mixed paper, supermarket grades and some other bulk grades, prices inevitably adapted to the higher export values.

In August, the summer holiday period had a noticeable impact on Germany and neighbouring countries. Disposal companies did not collect large volumes of recovered paper whereas paper mill demand remained high for almost all grades. For bulk grades (1.02), deinking (1.11) and rotation (3.14/3.15.01), demand was disproportionately high and could barely be satisfied.

Germany is Europe's largest recovered paper consumer. The domestic recovered paper disposal industry has been importing for years - and increasingly from other European countries such as the UK, the Czech Republic, the Netherlands and Austria - in order to satisfy German paper industry requirements. Demand from the Far East was considerably lower in

August, which led not only to stability but also to some relief in the German market. The recovered paper situation in Eastern Europe was generally stable at a high-volume level.

With the summer holidays having ended, September saw an increase in recovered paper availability and recyclers were able to satisfy paper industry demand for bulk grades with relative ease. 1.02 appeared to be very much in demand, while supply and demand were in balance for 1.05. Transactions varied according to region: in the south of Germany (Baden Württemberg, Bavaria and parts of Rhineland-Palatinate), recovered paper prices remained generally stable; in northern and western Germany, prices fell slightly for the brown grades owing to minor pressure on export prices; and in eastern Germany, price reductions were imposed because paper mills had well-replenished warehouses. This stockpiling became apparent mainly for the higher grades across all German states.

Overall, the market has been relatively balanced and the cutting of some price peaks resulted in certain countries such as France, Spain and the UK having to adapt to the situation. Since mid-September, there have been reports of increased quality controls being carried out by consumers.

Czech Republic

(Jaroslav Dobes, SPDS-APOREKO)



Market statistics for the second quarter of 2015 confirmed our optimistic presumption of growth from the first quarter. The good news for recovered paper collections is an increase in paper production as well as continued growth in paper products consumption: annual growth in paper production is around 16% while the paper product consumption increase remains at a constant 3%.

The generally positive trend has been influenced significantly by a recovery in the Czech economy. Public confidence in the country's economic development has been restored, unemployment has fallen and retail revenues have increased, all of which means growth for sources of recovered fibre and particularly OCC. Collections of the deinking grades and printers shavings remain stagnant.

In the first half of the year:

- Collections increased annually by 80,000 tons, or 20%;
- Exports increased annually by 73,000 tons, or 23%;
- Recovered paper consumption increased by 29,000 tons, or 20%; and
- The recycling rate was 70.28%.

Increasing volumes of recovered paper are being sold without any problem and prices have increased moderately.

France

(Jean-Luc Petithuguenin, Paprec)



In the third quarter, collected volumes have been lower - as in every previous year at this time. Regarding the markets, this is a good vintage: sales prices are consistent and higher than last year; and global demand is good enough to create difficulties in meeting it.

With respect to the OCC market, European demand has been strong for several months. The fact that paper mills have full order books has had its effect on waste paper demand. Nevertheless, stocks at paper mills are

climbing again, and Spanish and French prices dropped in September.

After several months of rising prices and good demand, export values suffered a fall this summer. Demand remains normal for the moment but the crisis in Asia leads us to be uncertain about prospects for the end of this year.

The deinking market is in line with usual levels. Collection volumes fell in the summer but demand was still as it is now. Owing to a lack of material, it was not possible to meet this demand and prices duly increased. In September, the collection rate remained steady and the market continued to be under pressure, but it should loosen up in October or November.

Demand for the high grades is still strong and the market is clearly facing a lack of material. Prices have moved significantly this year, something which has not happened for a long time. As we begin the final quarter, the pressure remains strong.

In general, this year has gone well until now. The recovered paper sector is in better shape even if the newsprint situation remains difficult. The raw material markets were hit by developments on the Asian stock markets but, until now, the slight correction undergone by recovered paper has been nothing unusual.

Finland

(Merja Helander, Lassila & Tikanoja)



In terms of collection volumes, news & pams suffered a seasonal drop in the third quarter and the high grades have been at very low levels. Meanwhile, volumes of OCC and other packaging grades have been more or less the same. For all the main grades, consumption and demand at paper and board mills were very good over the summer period. Despite high demand, only marginal imports of OCC have been needed for the mills. Therefore, the market can best be described as well-balanced, with price movements slightly upwards among the main grades. Market conditions are expected to remain steady and calm for the rest of 2015.

The new Waste Act that came into force on May 1 2013 has been implemented step by step. At the beginning of 2016, board packaging producers will have full responsibility for fibre-based packages collected from consumers. Applying nationwide, the law has meant changes in collection practices and also increased costs for producers.

Spain

(Francisco J. Donoso, ALBA Servicios Verdes)



The most significant feature of this year's third quarter was China's soft demand for bulk grades. The economic background in China is maybe the reason for the highly conservative behaviour of international traders who have significantly reduced purchase volumes, their number of suppliers, and market prices. Local demand has followed the same trend - but always one step behind such that, for most of the period, export prices have been lower than domestic prices. Stock levels are therefore higher than usual and mills are less tolerant in their quality requirements.

The deinking grades are less affected by export activity and so prices have been more stable, although slightly lower too. Nevertheless, demand is still high and stock levels are rather low. The white grades remain very much in demand and prices have been stable against a backdrop of rather low stocks.

Meanwhile, the Spanish association of pulp and paper manufacturers ASPAPEL has extended its policy of intrusion by attempting to lay claim to representing the country's recovered paper companies, currently the domain of REPACAR. The former has created "the new recovered paper board", comprising their integrated recycling companies but also open to independents. This new body enshrines 10 principles very close to the paper mills' own targets, such as mandatory priority to local clients over customers abroad. REPACAR has already rejected this initiative, arguing that the board is not at all representative of the interests of traditional, independent recovered paper companies. It is insisted by some REPACAR members that ASPAPEL is attempting to abuse a dominant position by transferring profitability from the collection/recycling industry to the paper production industry, thereby interfering in this activity.

Sweden

(Lars-Gunnar Almryd, IL Recycling)



Demand for OCC was stable but healthy over the summer period. Merchants' stocks are low but paper mill inventories are at higher levels than normal. In the south of Europe, prices started to fall during September, in particular to the Far East; this decline is expected to spread to northern and eastern Europe over the coming months.

Swedish mills' demand for the news grades has been higher than usual owing to the low volumes collected over the summer period, but normality has now returned. Far larger exports of non-producer responsibility grades are being seen, both to newsprint mills and the insulation industry (which is growing very rapidly in the Nordic region). Holmen Paper has stopped using recovered fibre in its production at the Braviken mill.

Tissue grade demand is still very high in the Nordic market and stock levels are low at both merchants and paper mills. Collections and availability are growing, however, and the situation should improve over the coming months as prices in central Europe are on the decrease.

Swedish recovered paper statistics for the first six months of 2015 illustrate changes in the domestic market. Total recovered paper consumption by Swedish mills fell 3% when compared with the same period last year to 609,000 tons, with news & pams usage sliding 12% to 191,000 tons whereas OCC consumption increased by 4% to 260,000 tons.

Collections of recovered paper dropped 3% year on year - 585,000 tons in January-June 2015, with the news & pams total tumbling 14% to 163,000 tons and OCC remaining unchanged at 268,000 tons.

Sweden's recovered paper imports decreased by 7% overall to 202,000 tons while exports climbed 2% to 175,000 tons, with the news grades recording a drop of 26% to 21,000 tons and OCC unchanged at 92,000 tons. The main markets for OCC exports continue to be Poland and Germany at premium prices, but Peterson Ranheim of Norway is also buying from Sweden.

Italy

(Giampiero Magnaghi)



SPaper mills in Italy had a constant flow of orders in July, particularly the packaging producers. Such activity was a consequence of the reduction in imports of paper and board products of this sector from foreign producers who, in recent times, have imposed stricter payment and price terms.

Demand for recovered paper was increasing, along with domestic prices, and remained consistent in August. At the same time, some collectors noted a reduction in the formation/generation of material owing to the weak economy and the traditional holiday period. Mills' usual maintenance periods have been shortened in response to the current good order levels, and receipt of materials has remained constant.

Domestic prices have been competitive with levels for exports to nearby EU countries while prices for shipments to the Far East have been weakening as a consequence of the financial and economic problems in China that have influenced the whole region. Indonesia was showing some demand as a function of deliveries during Ramadan and fresh orders were coming from Turkey.

The current trend is one of greater stability in Italy, with stocks now strong enough at the majority of mills to raise the possibility of rebates.

Negotiations between the two major collection associations are proceeding, with the target being a possible merger that would allow for firmer and more concrete actions to safeguard the interests and work of the profession.

United Kingdom

(Simon Ellin, The Recycling Association)



Third-quarter 2015 was a period of relative stability in the UK, with stable demand balanced by low generation. There has, however, been evidence of a softening in demand and price across most grades for forward selling into quarter four.

Boring is a word you can never use for our industry but, in terms of the brown/bulk grades, the third quarter was relatively uninspiring with lukewarm Chinese demand balanced out by low generation throughout the summer

months. Quality is still top of the agenda in the UK with some over-zealous regulation - particularly in Scotland - resulting in significant nervousness among exporters. Although price predictions are very difficult given worldwide volatility, we are not expecting any big fluctuations into the fourth quarter; slightly reduced Chinese demand may be balanced out by increased domestic orders as the refitted Smurfit Kappa mill at Snodland ramps up production.

Meanwhile, demand for all deink graphic grades has continued to be robust, with good European demand keeping domestic prices at sustainable levels such that the demise of the Aylesford mill and the capacity reduction at UPM are now a distant memory. Again, quality is key and there is still a significant amount of cherry-picking at a domestic level.

For the middle grades, demand for SOW, multigrade and office pack was very robust throughout the third quarter, with significant stock shortages experienced early on at UK mills. However, some technical problems coupled with very poor Indian demand has seen price decreases into the fourth quarter. As always, though, it is expected that the Indian market will return when the price becomes sustainable; this, allied to continued low generation, probably makes the softening market a temporary phenomenon.

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

Turkey

(Ekrem Demircioglu, BIR Ambassador)



Since a coalition government was not formed during the third quarter, the decision was effectively made to become more stagnant. The subsequent depreciation of the Turkish lira and the increasing price of imports enabled mills to sell their stocks more easily and to increase finished product prices. Imports have declined and demand for the local market has been higher.

Domestic demand for recovered paper has been increased by Modern Karton's new liner machine and by the fact that, following a revision, Kartonsan started working at full capacity. In particular, prices of OCC (A4 and A5) and mixed paper (A3) continued to increase.

In the final quarter of 2015, there is expected to be an increase in this demand and also the emergence of higher prices for woodfree white and newspaper.

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Bureau of
International Recycling
Paper Division

BIR - REPRESENTING THE FUTURE LEADING RAW MATERIAL SUPPLIERS

Bureau of International Recycling (aisbl)
Avenue Franklin Roosevelt 24
1050 Brussels - Belgium

T. +32 2 627 57 70
F. +32 2 627 57 73

bir@bir.org
www.bir.org