



## Recovered Paper

Quarterly Report – April 2016

### International Market with a focus on Asia

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



The New Year started with fears that an increasing risk of global economic crisis would lead to recession affecting exports of recovered fibre. The GDPs of various economies were likely to be downgraded on concerns that global growth of 3.4% was unsustainable.

The slowdown of the Chinese economy - a key driver of the world economy - continued to be a major concern for all fibre exporters. Demand for recovered fibre and other commodities showed signs of significant slowing during the quarter.

Such a prolonged slowdown of the Chinese economy has not been seen in the last two decades. The Chinese government was working on a new policy based on shifting away from an export-led economy to one centred on domestic consumer demand, with a view to averting a deeper downturn.

Recovered fibre exporters began to accept this extended slowdown and were forced to look at other regions of the world to which to export their fibres. Emerging Asian economies like Indonesia, Vietnam, Malaysia and South Korea were looking interesting. India continues to show signs of increased fibre demand for the coming years with its projected economic growth of 7.5% for two consecutive years.

Weakening oil prices, the Euro and lower freight rates helped to sustain an otherwise weak market.

Since the Chinese New Year celebrations, there has been a gradual increase in demand for European fibre from the Chinese and wider Asian markets. However, European fibre quality has continued to be the dominant factor influencing mill buyers. Local fibre collections in China continued to increase, also affecting imports.

OCC prices began the year at US\$ 150+ per tonne and gradually strengthened over the quarter to US\$ 160+. Having started out the first quarter at US\$ 110+ per tonne, mixed paper prices enjoyed some strengthening and ended the period at US\$ 115+.

Other Asian markets - including India, Indonesia, Vietnam and Thailand - maintained a good, steady demand, mainly for mixed waste, news and the middle grades (deinking, sorted office paper, Multidruck and BBC).

Tougher environmental controls continue to emerge both in China and India, with some mills being forced to shut down in China for not being environmentally friendly.

We look forward to a year of improved growth for our industry across all the regions in Europe and Asia.

## Vietnam & Indonesia

(Mark Mijster, Papermarketing, NLD)



### Indonesia

The beginning of 2016 has been rather sluggish. Although US suppliers started the year by offering plenty of material at prices that were lower by double digits, European packers had just celebrated Christmas/New Year and were not that eager to take new orders for Asia. Buyers in Indonesia, however, used a large part of January to build recovered paper inventory.

At the end of the first month, some buyers started to check the market, its prices and availability. New orders were approached with caution because most of the mills had the expectation - and perhaps the hope with the Chinese New Year looming - that prices would go down in a similar way to what happened in the USA. But while all the key price indicators such as sea freight, currency and local/global economies were pointing logically to price cuts, the opposite actually occurred.

Mainly initiated by the more aggressive buying of Chinese representatives,

Indonesian mills had no other choice in February than to increase their prices in order to become competitive in the market. As a result, some large volumes have been closed. Buying activity slowed slightly in early March. During the month, mills became more focused on streamlining their import logistics owing to the fact that the Ramadan holidays are rather early this year. Several shipments have had to be delayed to arrive mid- to end-May.

### Vietnam

In 2015, various foreign paper mill groups installed and/or announced new capacity in Vietnam. And in early January this year, Taiwan's Cheng Loong also made its interest in Vietnam public. This firm has announced its desire to build a 1-million-tonne-capacity board mill in the south of the country.

In our previous reports, we have mentioned many times the tremendous potential in Vietnam but it is not always easy for importing mills to obtain enough timely funding in dollars from the state bank. However, the recent announcement from the government that commercial banks are now allowed to expand their branches and networks is encouraging business to be done easier and faster.

Nevertheless, Western banks remain cautious when dealing with Vietnamese banks, resulting in high interest rates for letters of credit.

In the first quarter, buying activity was rather moderate not only because most Vietnamese mills were closed during and around Chinese New Year but also because of the successive depreciation of the Chinese yuan.

## Turkey

(Ekrem Demircioglu, BIR Ambassador)



There was low demand for finished product in 2015 and the decrease has continued into 2016. As a result, paper mills were forced to drop sales prices in the first quarter, especially for brown paper which saw a decline of 15-20%. But despite this reduction, there was no increase in demand; the paper mills which cut their sales prices attempted to offset this by trimming their buying prices for low and medium grade recovered paper by around US\$ 30 per tonne.

The arrival of spring in Turkey normally brings an increase in recovered paper collections but usually there is no upturn in demand. At the beginning of the second quarter, therefore, expectations are that paper mills will drop their recovered paper buying prices by US\$ 10 per tonne or more.

Woodfree white demand and supply have been in a balance that is expected to continue in the second quarter.

There were no capacity increases at the paper mills in the first quarter; in addition, there were no new investment agreements signed. But for the longer term, two different brown paper mills are known to have begun research into potential investments that would increase each one's capacity by 300,000 to 400,000 tonnes per year.

### Germany

*(Reinhold Schmidt, Recycling Karla Schmidt)*



In Europe, recovered paper prices and volumes were stable for all grades in January. Domestic collection volumes and the tonnages delivered to consumers were mainly in balance. Exports to the Far East were moderate for the lower grades but quite good for the kraft grades (eg, 1.05/4.02/4.03).

Towards the middle of February, the paper industry's recovered paper warehouses were clearly filling up and a few mills postponed delivery dates. At the same time, slightly lower quantities of all grades were arriving at recovered paper sorting facilities in many parts of the country. In the south and south west of Germany, some paper mills imposed slight price reductions for mixed and supermarket grades. In the north, west and east of the country, prices remained mostly stable.

In the eastern part of Germany, requests for some special quantities could be met owing to decent availability and processor stocks as well as planned shutdowns and maintenance operations. The middle to higher grades changed hands at stable price levels, and supply and demand could be considered to be in balance.

In Eastern Europe, recovered paper demand exceeded supply because of the stop on exports from Russia. As a result, demand increased considerably from some countries in the region, which resulted in minor cross-border price increases. Export demand from Asia improved slightly at the beginning of February and remained stable for the rest of the month.

In March, the steady flow of recovered paper received by recyclers was met by similar levels of demand from the paper industry. Mill inventories of recovered paper were at a high level whereas recycling companies kept hardly any stocks. All grades could be sold without problem. There was an East-West divide regarding prices, with one reason being the relatively high recovered paper demand from Eastern Europe, as seen in February. Ukraine played a particularly decisive role, buying increasingly from Hungary and Poland as a result of Russia's recovered paper export ban.

The resulting scarcity in these countries was covered through purchases in the new Länder. Exports to non-European countries remained at a very low level.

At the beginning of March, recovered paper prices were confirmed at existing levels. Only French paper mills close to the border tried to push prices slightly lower.

### Sweden

*(Lars-Gunnar Almryd, IL Recycling)*



OCC demand was healthy during the winter months, with merchants' stocks low while those at paper mills were normal or slightly higher. Prices were stable during January and February and were followed by small increases in March.

Poland has seen an effect from Russia's export embargo against Ukraine over recent months and this is also impacting demand in Sweden. Converted from fine paper to linerboard production, the recently-restarted Stora Enso machine at Varkaus is clearly affecting the Swedish OCC market and, more specifically, the local Stockholm market.

Swedish mills' demand for the news grades continues to be very good and volumes are short despite the fact that consumption is much lower owing to the closure of paper machines and deinking lines, as reported in earlier Mirrors.

Demand for the tissue grades remains very high; collection and availability have improved in the early part of the year, which is a normal seasonal effect owing to old archives being emptied.

Swedish recovered paper statistics for 2015 illustrate the changes on the local market. Compared to 2014, total consumption of recovered paper by Swedish mills fell 3% to 1.211m tons; usage of news & pams decreased 11% to 375,000 tons while OCC/NCC witnessed a gain of 1.5% to 517,000 tons.

Total recovered paper collections in Sweden dipped 1% last year to 1.174m tons, with news & pams down 5% at 343,000 tons and OCC/NCC up 3% to 546,000 tons.



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Sweden's overall recovered paper imports decreased by 10% to 402,000 tons in 2015 whereas exports edged 1% higher to 355,000 tons. Exports of the news grades slid 16% to 49,000 tons and those for OCC were down 1% to 186,000 tons. The main export markets for OCC continue to be Poland, Germany at premium prices, as well as Norway.

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### United Kingdom

*(Simon Ellin, The Recycling Association)*



The first quarter was a period of relative stability, with significant price increases across most grades experienced in March and now into quarter two. The major movements in the current quarter relate to mixed papers where continued investment in global papermaking is stimulating demand for this grade.

Historically and broadly speaking, the price gap between OCC and mixed papers has been somewhere between £10 and £15 per tonne. However, carrying into the first quarter of this year, this price differential stood closer to £30 per tonne which, to a significant degree, resulted from the recent reluctance of Chinese mills to buy from Northern Europe during periods of sustained wet weather. Although still large, the price gap began to rectify itself in March and now into April, with price increases for mixed of between £15 and £20 per tonne. Similarly, there have been increases of around £10 per tonne for OCC, driven by lower stock levels in Europe and China plus a general shortage of fibre owing to economic factors and trends in collections of mixed fibres by local authorities. Overall though, demand across all brown grades is healthy and sustainable.

Quality is still at the top of the agenda as producers and processors work together for continuous improvements in the UK's feedstock.

Very much related to the demand for mixed papers outlined above, UK and European graphic deink mills have seen stock levels fall sharply. UK mills in particular have struggled for pre-sorted news and PAM, and there are reports in Central Europe of similar shortages. This has resulted in sharp and, in some cases, niche price increases of £5-20 per tonne across all news grades. This increase in demand

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and thus prices is expected to continue throughout the first half of 2016.

Following some unexpected and unsustainable price decreases towards the end of 2015, demand and thus prices for multigrade, SOW, SOP and office pack have increased sharply. To a large extent, this has been driven not only by Chinese and UK demand for white top but also by the expected increase in demand from India, which always has a notable impact in the UK owing to the presence of significant players in the Indian market.

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### Spain

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



Domestic OCC prices increased around 10% during the final month of the first quarter owing to: good demand; low stocks in the face of a lack of logistics during the Easter holidays; and scant supply from neighbouring countries. Furthermore, export demand also served to keep stocks low among recyclers when the aforementioned problems arose, although local prices ultimately overtook export levels.

Domestic paper mills have maintained a healthy demand for the deinking grades and so prices have remained mostly stable but reluctant to increase. However, the improvement in OCC prices is applying pressure for an ONP increase too in order to safeguard incentives for sorting, otherwise significant volumes could be lost among the mixed OCC grades. White grades remain stable too, with good demand but limited supply.

Quality issues are becoming ever more important, not only for local paper mills but also for export buyers. Improved demand is not resulting in any relaxation of quality requirements, as usually happened in the past.

International Paper (IP) has agreed a deal to buy Holmen Paper Madrid and its recycling branch Carpa. IP has announced its intention to convert the newsprint machine for packaging production within the next 18 months. As a result, there is expected to be additional demand for nearly 400,000 tonnes of OCC grades in Spain in the medium term, while it is anticipated that domestic demand for the deinking grades will drop by more than half.

## France

(Jean-Luc Petithuguenin, Paprec)



We started the year at relatively high price levels. In the raw materials market, recovered paper is very well positioned.

In the first quarter, collection totals were average while demand was good. Asian prices have risen as healthy volumes have been ordered. In the wake of the Spanish market, France passed a price increase in March. Demand should remain good in the second quarter although orders have slowed slightly with the pressure on the reels price.

With the approach of spring, deinking prices should move upwards. We have light inputs, no stock and demand is beginning to increase. For the high grades, the situation is unchanged.

To start the second quarter, there is a lot of information circulating in the market. It is understood, for example, that Holmen has agreed to sell its Madrid newsprint mill to IP for conversion to the manufacture of testliner. We know of the arrival of many machines in Europe for packaging within the next two years. What will be the consequences for the market? Meanwhile in the newspaper sector, another machine was stopped recently. Where will be the next one?

## Czech Republic

(Jaroslav Dobes, SPDS-APOREKO)



In line with expectations, domestic recovered paper collections climbed to 911,000 tons last year as a result of overall economic growth, lower unemployment and greater purchasing power. Trade turnover has increased significantly; people are shopping much more and this is associated with an upturn in packaging waste. The collection increase for 2015 was most apparent for OCC whereas deinking grade volumes stagnated.

This trend is continuing in early 2016, with expectations of further growth in collection tonnages.

At the turn of the year, prices began to fluctuate moderately, decreasing mainly for OCC. In February and March, the trend reversed and prices rose slightly. Business conditions remain stable despite these price fluctuations, stocks are at normal levels and all forms of recovered paper are selling regularly. To date in 2016, all the indications are that this could be a good year.

Czech paper mills have slightly increased their usage but 83% of collection volumes are still being exported. Domestic consumption of paper products increased to 134kg per person last year whereas the figure for the fourth quarter was 145kg, thus illustrating the collection growth potential and providing a further reason for optimism.

## Finland

(Merja Helander, Lassila & Tikanoja)



Demand for recovered paper and board was extremely good throughout the first quarter of 2016. At the same time, however, collection volumes of the most important grades have dropped by 15-20%, including mainly graphic papers like news & pams but also printing house clipping grades and overissues. Board grade volumes dropped in January but stabilised towards the end of the first quarter.

The main reason behind the decreasing volumes of news & pams and other graphic papers is structural and this trend will continue. Meanwhile, board grade developments are influenced by our country's poor economic state and lower consumer activity. When the economy recovers, volumes will start to grow.

Price levels have been stable for most recovered paper grades during the period under consideration.

Producer responsibility for all packaging materials - including also glass and metals from households - has been reorganised and plenty of changes are taking place in the number of collection containers nationwide. The costs of servicing the collection bin network are being covered by the producers. The changes are based on the Finnish Waste

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Act which stipulates that producers of packages are responsible for the effective functioning of the whole chain - from the source up to the consumption works. This process is ongoing but there is still much to be done.

As regards the second quarter of 2016, we do not foresee major changes in Finland's recovered paper market.

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### Italy

*(Giampiero Magnaghi)*



As indicated at the end of 2015 and despite some official voices claiming collections have been increasing, the majority of recycling professionals are signalling a net reduction in available quantities of 10-20%.

COMIECO has given money to some of Italy's southern municipalities to assist with generation of materials in small, local areas where collections have been non-existent. On a global scale, however, unfavourable economic conditions in this year's first quarter resulted in a drop-off in the volumes of potentially recyclable materials.

Regarding municipalities' recovered paper auctions traditionally run by COMIECO, major cities such as Milan and Rome have recently assumed the direct management of their respective auctions.

Concerning the recovered paper market in the first quarter, January brought good local demand with prices more favourable than those for export overseas. The market was influenced by the proximity of the Lunar New Year holidays, but with growing pressure from Turkey given Russia's recovered paper export ban.

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In February and March, there was a reawakening of overseas exports at prices that were competitive with the sustained local demand. Currently, we are seeing a strong increase in Turkish demand and prices. It should be added that these deals are made essentially through brokers; last spring and summer, Italian collectors had been attracted by the prices offered by Turkish buyers but were later severely disappointed by a succession of claims. Many adventurous brokers (too many, indeed) are covering this territory with sensible competition while local mills continue to be good buyers. In some cases, their stocks are rather low.

In the mill sector, we should note developments at Group Pro Gest. Its acquisition of Ondulati Giusti in Tuscany has recently been finalised by taking up an existing option and equalling the Euro 40 million offer of German company Palm.

At the same time, the dismantling has begun of the Burgo plant in Mantua where a new Valmet paper machine is scheduled to be installed at the start of 2017, along with a co-generation/incineration plant. Discussions are currently taking place with the city's administration concerning environmental permits.

Pro Gest has also taken on an old recovered paper facility with the aim of reactivating it in the coming months.

Last but not least, consideration is being given to a series of new bureaucratic controls on the weight and tare of containers. Such rules would create serious complications for and hindrance to maritime traffic, negatively impacting trade in recyclables and our sector in general.

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