



Recovered Paper

Quarterly Report – July 2016

International Market with a focus on Asia

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



Global uncertainties continue to dampen growth and weaken demand for recyclables, which is also contributing to an increase in unemployment levels worldwide. Weak consumption has meant increasing stocks of both raw materials and finished goods, affecting both prices and profitability. The EU's GDP of some Euro 14.63tn has also been growing at a very slow pace, with only a few member countries registering steady growth both in GDP and demand. However, this helped to sustain export price levels during the second quarter.

Exporters had to continue trading under the challenging conditions imposed on the market by increasing geopolitical stresses, fluctuating oil prices and currency volatility following the strengthening of the US dollar and the weakening Euro.

Sea freights remained low although, following the Chinese New Year holidays, a shortage of sea-going containers was experienced in April and May.

At the start of the second quarter, good availability of US fibres and weaker prices resulted in an increase in exports from the USA at lower price levels, although demand strengthened through the quarter and prices started firming up.

This also had a direct effect on export values for European fibres: European OCC prices began the second quarter at US\$ 160-plus per tonne and strengthened over the period to US\$ 167-plus. Similarly, mixed paper prices opened the quarter at US\$ 115-plus per tonne but improved to US\$ 130-plus by the end of June.

Demand from the other regular Asian markets of India, Indonesia, Vietnam and Thailand remained steady for news & pams and the middle grades (de-inking, 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 2016.

Another key development during the second quarter was the UK's vote to leave the EU. We are now entering a period of six to 12 months of uncertainty before we can evaluate the real impact, if any, on our global trade in recyclables.

Vietnam & Indonesia

(Mark Mijster, Papermarketing, NLD)



Indonesia

Recently, Indonesia's industry ministry expressed its ambition for the country's pulp and paper industry to achieve annual growth of 3-4%, in line with the increase in global paper needs. But even before the Brexit, currency volatility was having a major impact on the operational and buying activities of Indonesian mills.

In May and June, the rupiah weakened to such a low level that buying locally was a far more attractive option for Indonesian mills: material was not only cheaper but also transit/delivery times were very much shorter. As a result, orders from Europe and the USA were either cancelled or postponed for arrival in August/September. And with the Ramadan holidays also to be considered, buying activity sank to an even lower level.

European packers did not appear to be unduly affected by this slowdown because of the combination of new capacity starts on their own continent - for example, in the Netherlands and Germany - and the surprising purchasing activities of some Chinese buyers. This pushed prices to new peaks and begged the question: can we expect another "hot" summer?

Vietnam

Our previous Mirror report confirmed that many foreign paper mill groups (including from China, Taiwan and Thailand) are interested in investing in or starting up new mills in Vietnam.

Vietnam is a world-leading exporter of wood chips and ships out huge volumes every year; wood chips are used in pulp production and this sector should attract foreign investment. However, many large pulp and paper factory projects have not yet been put into operation.

Pulp and paper industry ventures require huge expenditure in advanced technologies and long periods to recoup such investments.

As a result of stricter environmental protection regulations, investors are becoming increasingly reluctant to pour money into this industry - a fact also reflected currently in mills' reduced buying interest in recovered paper.

In recent years, most mills have been conducting tests with different grades and from different sources/regions. Although not all of them have yet figured out exactly what their optimum furnish should be, it has become increasingly clear both in general and in principle that they require, first and foremost, material that is as clean as possible but also good fibre strength.

Regrettably, a lot of European recovered paper does not satisfy this requirement and so this year's second quarter did not feature much in the way of exports from Europe to Vietnam.

Turkey

(Ekrem Demircioglu, BIR Ambassador)



Demand for finished product was stagnant during the second quarter of 2016, with the brown paper mills in particular working at 70% of capacity. There was a 10% drop in the prices of finished product during a period in which exports decreased, and corrugated box factories no longer need to keep stocks.

The fact that paper mills are operating at 70% of capacity has led to reduced demand for recovered paper but there has been no change in prices. At present, both imports and exports have come to a halt.

While no shift in current conditions is expected in the third quarter, it is believed the final quarter of this year could bring some changes.

No new projects were announced in the second quarter; everyone is waiting to see what will happen with the markets.

Germany

(Reinhold Schmidt, Recycling Karla Schmidt)



In 2015, German paper mills increased their production of paper, cardboard and paperboard by a slender 0.3% to 22.6 million tonnes.

According to the German association VDP eV, this small gain could be attributed to packaging (+1.2%) and hygiene papers (+1.5%) whereas the graphic paper segment remained on its downtrend with a drop of 0.6%. Overall in 2015, the paper industry used 16.73 million tonnes of recovered paper, which is 115,000 tonnes more than in the previous year.

According to provisional statistics from the German Federal Statistical Office, an additional 36,000 tonnes of recovered paper was imported compared to the previous year to give a total of 3.98 million tonnes. Recovered paper exports increased by 56,000 tonnes to 2.25 million tonnes such that Germany remained a net importer with an import surplus of 1.46 million tonnes.

Germany's recycling companies considered domestic recovered paper sales to be very good last year and demand from the country's paper mills could be satisfied without any problem. In addition and to an increasing extent over recent years, domestic processors have been importing recovered paper from other EU countries (for example, the UK, the Czech Republic, the Netherlands and Austria). Meanwhile, recyclers active in the Far East took advantage of the sharply lower freight rates and of the fact that China increased its recovered paper imports when compared to 2014.

Negative factors impacting recovered paper recyclers included: the changing composition of collected material and the resulting lower added-value; the increased bureaucratic burden; and mounting problems with access to recovered fibres owing to the impact of municipalities. Moreover, some paper mills were pushing for a better fibre quality. Overall, recovered paper prices were clearly lower than would have been necessary to yield a profit and to allow for investments.

Turning to more recent market developments, all deals could be closed without delay in early May because of the approaching holidays. For lower recovered paper grades such as mainly 1.02, 1.04 and 1.05, there was a clear East-West divide: recovered paper demand was higher in the new Länder and in Eastern Europe, with the result that prices needed to be slightly increased. Depending on the region, some additional Euros could also be accrued for 1.11 deinking paper when compared to the previous month. The higher and kraft grades recorded prices similar to those of previous months; the UK and Benelux countries offered higher quantities to German mills, most likely because of increased collection activity. Exports to the Far East were stable.

In June, mills' high demand was met by good collection volumes; demand for mixed grades and supermarket grades was particularly high. According to the cardboard industry, the purpose behind increased buying activity was to boost their stocks. As a result, prices for these grades increased slightly.

Multigrade and coloured letter showed a moderate increase, depending on the region. Among the brown, medium and better qualities, all other grades remained stable price-wise and were available in sufficient quantities. In the neighbouring countries of France, Spain, Austria and the Czech Republic, recovered paper markets were generally stable. As far as exports are concerned, the situation has remained largely unchanged with volumes relatively low.

Czech Republic

(Jaroslav Dobes, SPDS-APOREKO)



The growth trend from the beginning of the year was reaffirmed in the second quarter. Moderate economic growth has brought a related increase in paper consumption and, owing to this heightened public purchasing power, the volume of packaging waste has been rising too. Following the relative stagnation that is expected for the summer months, the fourth quarter should bring a return to the growth trend in the recovered paper market.

Prices are more or less stable and so business conditions remain largely unchanged too. Stocks are at normal levels and all grades of recovered paper are being sold with regularity. Despite a slight increase in recovered paper consumption by Czech paper mills, more than 80% of collected material is still exported.

Finland



(Merja Helander, Lassila & Tikanoja)



The Finnish recovered paper industry continues to inhabit the same stable business environment as in many previous months.

Finland has producer responsibility in place for many product groups such as paper, fibre-based packaging, plastics, glass, tyres and metals. Producers of these different products have been developing their businesses and a collection network according to varying time frames, in line with the Waste Act 646/2011 that came into force in 2013. While collection of fibre-based packaging comes under the remit of the producers' responsibility organisation, municipalities have taken care until now of collections from households and onward delivery to recovered paper depots. Now, however, the whole collection chain comes under the producers' organisation.

An important criterion is that producers must have a nationwide network of at least 1850 collection points. This is one of the key reasons why producers have joined together and established a joint organisation to share the costs involved. This work is subject to a couple of months' delay. Packaging producers and importers are not happy about being handed responsibility for collection from municipalities but work is ongoing and the collection point network should be completed by the end of the summer.

As for paper and board mill developments, Kotka Mills in southern Finland has started up its new, modern machine with an annual capacity of 400,000 tons of folding boxboard. The machine does not use recovered fibre but represents a huge investment and a very welcome addition. It is difficult to foresee any major changes in the recovered paper market during the third quarter, with the same trends expected to continue.

United Kingdom



(Simon Ellin, The Recycling Association)



The second quarter brought the historic decision for the UK to leave the European Union. Opinion is split over the potential long-term effects on our industry but the immediate impact of a significantly weakened pound allied to global fibre shortages has been significant price increases across all grades.

Following the very wet winter in the UK which impacted Chinese buyers' order levels for moisture reasons, their robust demand for OCC throughout the second quarter has led to price increases of £15-20 per tonne. This has also been driven by low, stable freight rates and an increasingly weak pound in the run-up to the Brexit referendum. Sterling crashed in relation to the US dollar and the Euro following the momentous decision to leave the EU, resulting in increases of up to £10 per tonne for July orders. Chinese mill groups and brokers reported brisk business but also low generation which has further stimulated prices. The pound is showing no immediate signs of strengthening to any degree and, allied to demand and generation, there are no indications of prices softening.

For the same reasons, mixed prices have recorded increases of around £30 per tonne in the second quarter and now into July, thus reducing the price differential between mixed and OCC to historical and sustainable levels.

Quality is still at the top of the UK agenda as producers and processors work together for continuous improvements in feedstock, and The Recycling Association will be launching a sustained campaign in the third quarter with the aim of delivering tangible improvements. Developments among the news grades are very much related to the demand for mixed papers outlined above, with UK and European graphic deink mills having seen stock levels fall sharply. UK mills in particular have struggled for pre-sorted news and PAM while Central Europe is reporting similar shortages. This resulted in sharp price increases of £25-30 per tonne in the second quarter, and the weak pound has continued to put pressure on the UK market.

Low European generation levels will continue to drive prices upwards, although surely there will be some capacity removed from the market as consumer demand for newsprint continues to fall.

Regarding the middle grades, prices for multigrade/SOW and office pack have continued to climb, with increases of more than £30 per tonne experienced across all grades. The combination of significant fibre shortages, fierce competition (which now also includes China) and the weak pound is expected to drive prices steadily higher throughout the summer months.

At the high grades end of the market, the weak pound has driven up prices by £30-40 per tonne in July.

France

(Jean-Luc Petithuguenin, Paprec)



The data available at the end of the first half of 2016 suggest this should be a good year. Collection volumes are satisfactory and prices are at a higher level than last year. Domestic demand for recovered cartonboard is good but stocks have risen owing to the reduced activities of Asian buyers in Europe. Although the market declined by Euro 5 per tonne in June as a consequence, the trend is expected to be reversed with their return in July.

Regarding the very sensitive demand for deinking grades, there are difficulties in returning material to the paper mills because collection weakens in the summer. A lack of stock led manufacturers to increase prices in the second quarter.

There has been stability among the high grades, with the exception of best white 3.18 which has declined owing to greater availability and falling short fibre pulp prices.

In general, the market is performing well and at higher levels than last year. Testliner reel prices are being carefully monitored pending the coming battles between cardboard manufacturers given the arrival of new machines in Europe by 2017-18.

Sweden

(Lars-Gunnar Almryd, IL Recycling)



OCC demand has been good during the spring and early summer months, with stocks being normal and balanced while prices improved slightly during the spring. Poland has been impacted by the Russian export embargo against Ukraine, and this is also affecting demand in Sweden. Flows from Sweden to Finland have found a balance during the period. Demand and prices from Norway continue to be good. In the short term at least, demand from Asia is supporting the increasing prices.

Swedish mills' demand for the news grades continues to be very good and a shortage exists for magazine volumes in particular. There is also a high demand for uncirculated news grades from the insulation industry, thus driving prices. The situation for the tissue mills is well controlled, with stocks at healthy levels at the start of the summer but likely to go down during this quarter owing to the normal seasonal effect.

In this year's first quarter, total consumption of recovered paper by Swedish mills fell 6% year on year to 290,000 tons, with news & pams recording the biggest decrease. Preliminary figures show that total collection volumes in Sweden dipped 1% to 271,000 tons when compared with the same period last year. Imports tumbled 22% to 92,000 tons while exports slid 8% to 76,000 tons.

Italy

(Giampiero Magnaghi)



The basic situation has not changed since the Mirror report for the first quarter. Despite the feedback from COMIECO, the majority of operators are confirming a perceptible reduction in collection volumes during the second quarter too. Generally unfavourable economic conditions always lead to a drop-off in recycling activity.

The decline seen in the printings & writings branch and in newsprint have significantly influenced the quantities in circulation, with overissue news and magazines currently scarce.

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This has resulted in the emergence of what is called “soft mixed” - that is, mixed with a consistent content of printed materials, leaflets, etc, that have found, and continue to find, a ready home in Germany’s deinking plants.

The relative scarcity of mixed and OCC has created consistent demand and strong competition among domestic mill buyers, leading to price levels that on occasions have exceeded those of the European market in general.

There is something of a contradiction at play here. Consumption of packaging paper and board by box producers is related to the high local price of rolls and to competitive offers from foreign producers. Local mills are complaining about the necessity of further product price increases because of the upturn in prices for recovered paper which, evidence proves, has been caused by the competition among themselves as buyers. Demand has continued to be seen among brokers for shipments to overseas destinations such as Turkey as well as the Middle and Far East, while China has remained comparatively stable as a market.

Similar conditions are likely to persist in July. Collections are set to stay weak (as they always are during this particular month) while demand is expected to remain good, with some volumes of recovered paper heading to Spain because of healthy purchasing prices depending on lorry transportation of rolls here. From Germany and Austria too, demand remains good, with destinations also including Hungary and the Balkans among others.

As yet, it is unclear what the consequences of the UK’s exit from the EU will be; if the value of sterling continues to decline, this will assist the UK in its already established role as Europe’s largest recovered paper exporter.

Freight rates for overseas shipments are low but the introduction of new rules relating to the checking of container weights has the potential to create some complications.

Certainly of local importance are the activities of the Pro-Gest group. Having taken control of Ondulati Giusti, it has dismantled the old paper machine at the former Burgo mill in

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Mantua (because conversion was not a viable option) and is installing a new Valmet machine that is scheduled for start-up at the end of this year. In addition, an adjacent incineration plant will consume the mill’s waste and that of associated mills. Authorisations for both these plants are currently the focus of quarrels between the region and the local municipality over air and water pollution impacts.

To help it secure recovered paper supplies, the group has taken control of two of the area’s old collection plants and reactivated their operations. Some problems have arisen in the meantime with regard to two of the banks playing a part in this development. The collapsed Banca Vicentina will now fall under the control of the Atlante refinancing fund. Veneto Bank may well follow the same way.

Spain

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



There was a major lack of coherence among the brown grades during the second and early third quarters. Having already increased in March, prices went up further in April and then stabilised in May before dropping in June and then rising again in July. Various factors were behind these movements: increasing demand from Asia; high stock levels and maintenance shutdown announcements; and strategic competing positions in response to the new scenario of huge additional demand for OCC that is foreseen for Spain and Europe. This cocktail has been difficult to handle and the result has been high levels of volatility.

Regarding the deinking grades, consumption is still much higher than collection and so local demand is very good. Major import tonnages are becoming necessary to offset this shortfall but the higher prices paid by German mills to their French suppliers have ruled out this source. Therefore, stock levels are quite low and prices have increased slightly.

The white grades (office papers and pulp substitutes) have remained mostly steady although others from the printing industry have suffered a slight decrease. Here too, stock levels are rather low.

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