



Recovered Paper

INTERNATIONAL MARKETS WITH A FOCUS ON ASIA

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



China, an economy of US\$ 11tn-plus, is currently going through a period of readjustment, with the service sector enjoying a corrective growth phase while the manufacturing sector is in something of a declining phase. China's GDP is still projected to grow at a rate of over 6% for this year, which is equivalent to some US\$ 700bn. Some healthy growth was posted in the first half of the year but a slight slowdown is projected for the second half.

The quarter also brought a major shipping casualty with Hanjin Shipping Company filing for bankruptcy. There has been a decline in both east- and westbound sea freight rates alongside an increase in shipping space with the introduction of larger sea-going vessels of over 18,000 TEU as well as a decrease in export cargo volumes. The result has been that many shipping lines posted losses for 2015 and many have continued in the red during 2016.

Fibre exports have remained challenging owing to price volatility with European mills paying higher prices, increasing European demand, and a slight reduction in export volumes and prices. Having been at lower levels, US prices started to show significant gains which helped to sustain European export volumes.

Currency fluctuations with a strong US dollar and a weakening Euro and pound following the Brexit vote certainly helped to increase Europe's export volumes at competitive prices.

Prices for OCC were maintained at some US\$ 165+ per tonne at the start of the quarter, ending the period at US\$ 170+ and strengthening. Demand for mixed paper also improved during the quarter with prices moving up from US\$ 130+ per tonne at the beginning of July to US\$ 143+ by the end of September.

Beyond China, other Asian markets maintained a weakening but steady demand for various grades as the trend was to buy more US fibre which was being offered at fairly competitive prices in early July before gradually increasing during the quarter.

Quarterly Report – October 2016

In the summer holidays, there was a reduction in collection volumes at a time of increasing European demand and prices. The hope is that October will bring an increase in collection levels, with the possibility of some downward adjustment of prices by European mills which will again make the continent's exports more competitive for the rest of the year.

Vietnam & Indonesia

(Mark Mijster, Papermarketing, NLD)



Indonesia

July is one of the most important production months for China and so its buyers were aggressively chasing raw material. But with the start of the holiday season in Europe and decreasing generation combining with strong local demand, they had no other option than to embark on a price spiral in order to compete against their fellow Chinese buyers and against the European paper industry. However, offering ever-higher prices does not necessarily generate more volume.

Indonesian mills watched these developments with a heavy heart. They too wanted to import from Europe and also, to a certain extent, from the USA but they simply could not afford these higher prices. Collection volumes in Indonesia were healthy though and increased purchases from domestic sources and from Oceania served to counter the market overreaction in Europe.

The price rally continued into August, rising to such an extreme extent that prices for OCC shipped from Europe to China matched or even exceeded those for OCC from the USA. To put it mildly, this is rather unusual. Indonesian mills still could not afford to pay these higher prices and, as indicated above, they opted to rely on more local and regional sources such as Singapore and Australia. Although this material was no cheaper, delivery times were much shorter, enabling mills to buy on a more ad hoc basis and, more importantly, giving them the opportunity to reduce their recovered paper inventories. As margins are tight for Asian paper mills, this positive financial side-effect was very much welcomed.

With the arrival of September and the end of the holiday period, collections started to pick up again and slightly eased the struggle to source fibre. With hesitation, some Chinese buyers dared to follow US market developments and lowered prices by US\$ 5-10 per tonne.

Unfortunately, the Hanjin shipping line bankruptcy and the announcement of sea freight increases by other operators mean that the gap between the different markets has not been closed (as yet).

At the time of writing this report, Indonesian mills still want to buy.

Vietnam

Like many Asian countries, Vietnam has a very ambitious environmental protection programme. It not only wants to preserve its forests but also to have programmes in place to control and reduce waste generation. And while production of pulp and paper automatically results in the production of waste water, one of the major Chinese paper and pulp mill groups - Lee & Man - has come into conflict with the Vietnamese authorities for licensing reasons over the company's new mill in Hau Giang province. This conflict has developed to such an extent that the ministry of industry and trade is now said to be considering pulling the plug on the project.

This is just one of many examples of what the country and the paper industry are facing. It shows once again that a country's ambitions to develop itself or its industries can sometimes be at odds with environmental regulations already in place.

In the third quarter, most mills did not import large volumes of recovered paper from the EU or the USA because prices were unaffordably high. If and when mills needed material, supplies were imported from Japan. Many mills not only have good relations with Japan, some of them are co-owned by Japanese firms. The quality of Japanese material is always good, clean and dry, as well as available with short delivery times.

For the fourth quarter, mills would like to resume imports but prices would have to be at more moderate and, they say, more realistic levels.

Germany

(Reinhold Schmidt, Recycling Karla Schmidt)



Looking back on the third quarter, July saw the start of the school holidays in some Länder and a slowing of recovered paper availability. Industry demand remained high, notably for the lower grades and principally for mixed paper and supermarket qualities (1.02 and 1.04). In addition, the other standard grades enjoyed strong demand on the domestic and export markets and paper mills were well supplied.

Prices increased slightly for the lower grades whereas other qualities remained at existing levels. Recovered paper buyers in Asia increased their prices and bought large quantities from the UK, mainly because of the weaker pound resulting from the Brexit vote. Prices also increased in neighbouring countries to the west - such as the Netherlands and France - and a similar situation could be noted in Eastern Europe where recovered paper demand was at a very high level, leading to price increases for this raw material.

All of the Länder were on holiday in August, which drove recovered paper

collection volumes to a low point. However, demand for all grades remained high despite some temporary shutdowns at paper mills. Demand exceeded supply for mixed, supermarket, corrugated board and deinking.

Spain and traditional export countries gave new momentum to recovered paper demand. Paper mills in Eastern Europe increasingly ordered recovered paper from Germany. Domestic capacity utilisation was high but, as always during the summer months, collections via associations and schools came to an almost complete halt. There was strong recovered paper demand from China where poor weather conditions had dented collection activity. As a result, recovered paper values increased for almost all grades, with export prices considerably higher than domestic levels.

In September, the German recovered paper market differed according to region. Summer holidays were still being taken in some of the Länder and so collections did not resume in certain parts of the country. In the eastern Länder, prices for mixed and supermarket grades fell slightly owing to temporary factory shuts. Some mills also tried to apply pressure on the prices for deinking and magazines. In other Länder, there was no reason for suppliers to accept the customers' price pressure; in the south, there were even some special orders for deinking. There was demand from the French for supermarket grades because of a scarcity on their domestic market. In Austria, price levels for mixed and supermarket grades were unchanged while exports to the Far East remained stable.

Turkey

(Ekrem Demircioglu, BIR Ambassador)



The recycled paper market was stagnant at the start of the third quarter and remained so even after the coup attempt of July 15. Brown paper producers in particular are currently utilising only 70% of their capacity. Paper product prices were almost on the bottom and remained unchanged over the period although a general increase in payment terms sharply affected producers' profitability.

As recovered paper has not been collected in sufficient volumes domestically, approximately 40,000 tonnes has been imported on a monthly basis. Once-read has been going into mixed paper collections while overissue news levels are also very low because newspaper circulation rates are in permanent decline. The only price increase seen in the market has been for high-quality white because of the back-to-school season.

Hamburger has bought the Cami corrugated packaging operation in Eskisehir and is working on building a new facility in Kutahya with a liner/fluting production capacity of 500,000 tonnes per year. In addition, Kipas of Soke is searching for a location to build a new facility.

United Kingdom

(Simon Ellin, The Recycling Association)



The third quarter witnessed a gradual and sustained price increase across all grades in the UK. Domestic, Continental European and Asian demand allied to low generation, a weak pound and low freight rates all added to the pot.

Traditionally a quiet period for the UK recovered paper market, lower-than-usual seasonal generation of OCC and mixed paper, coupled with strong

global demand, resulted in price increases of £15-20 per tonne. Weak generation probably related to economic factors, such as the Brexit vote and a lack of consumer confidence in the UK, while healthy demand is indicative of the predicted strong global growth in requirements for packaging materials, with the result being the UK, Europe and China generally operating on low stock levels.

It is particularly noticeable that mills have continued to engineer for mixed consumption and it will be interesting to observe whether the seasonally weaker demand for mixed papers in the wet autumn and winter months will be as pronounced this year.

Despite the demise of Hanjin Shipping and localised container shortages, only small freight rate increases have been absorbed by the UK market. Furthermore, weak currencies allied to Chinese demand have helped to negate any significant impact on price.

Very much related to the demand for mixed papers outlined above and the reluctance/inability of mills to significantly price news grades against mixed, UK and Continental European graphic deink mills have seen stock levels continue to fall sharply. Domestic mills in particular have struggled for pre-sorted news and PAM, and Central Europe is reporting similar shortages; price increases of around £20-25 per tonne have failed to increase stock levels significantly. Low generation in Europe is likely to continue to drive prices upwards, although surely there will be some capacity removed from the market as consumer demand for newsprint continues to fall.

Although slightly less pronounced, prices for multigrade, SOW, SOP and office pack have continued to make gains, with increases in the region of £10-15 per tonne. Significant fibre shortages owing to the usual seasonal demand in India and fierce European and Chinese demand for white top packaging are expected to push prices steadily higher.

Quality remains top of the UK agenda as producers and processors work together for continuous improvements in the UK's feedstock. The Recycling Association launched its Quality First campaign in September with the aim of delivering tangible improvements through engagement with the entire supply and regulatory chain.

Czech Republic

(Jaroslav Dobes, SPDS-APOREKO)



Data for the second quarter of 2016 show an increased consumption of paper and corrugated board. A major contribution came from the growing consumption of packaging papers (annually by 18%) while production witnessed a gain of only 2%. The increase in consumption of these types of paper was covered by a 13% rise in imports and a 2% drop in exports. Production and consumption of graphic papers remained more or less at the same level.

Owing to the increased consumption of paper products, and particularly packaging papers, there has been a moderate increase in recovered paper collection volumes (mainly of OCC), which could be close to 1m tons this year. However, there is no expectation of growth in domestic processing capacities and so recovered paper exports are increasing.

Recovered paper prices were relatively stable in the first half of this year but some cuts are now expected. Generally, the market is stable with a slightly

increasing trend, stocks are at normal levels and all grades of recovered paper are being regularly sold without any problems.

Sweden

(Lars-Gunnar Almryd, IL Recycling)



Demand for OCC has been good during the summer and early autumn. Prices have increased by around Euro 15 per ton following the summer owing to low collection volumes and relatively high exports resulting from favourable freight rates. Domestic mills' demand for the news grades also continues to be good amid a continuing shortage of magazine volumes. As for the office grades, demand is high in the Nordic market but the summer has passed without alarming shortages.

The leading two players in the Swedish recovered paper market in volume terms have been under the same ownership since July 1. The family-owned Stena group has acquired IL Recycling, which had been owned for more than 60 years by Swedish forest industry companies (Fiskeby Board, SCA, Smurfit Kappa and Stora Enso). The Polish recovered paper market will be affected by the new set-up since both Stena and IL Recycling run substantial recovered paper collections and business in the country.

Swedish recovered paper statistics for the second quarter of 2016 continue to show a generally declining trend. Domestic mills' consumption fell by 9% or 53,000 tons to 555,000 tons when compared with the same period last year, with declines recorded by all qualities. Collection volumes were at the same level as in 2015. Imports decreased by 16% to 176,000 tons whereas exports increased by 12% to 195,000 tons.

Finland

(Merja Helander, Lassila & Tikanoja)



Figures for 2015 show that domestic recovered paper collections fell 3.9% to 635,000 tons while paper and board mills' recovered paper consumption was 2.4% lower than in 2014 at 613,000 tons. The Finnish paper industry could use more recovered fibre but there is a continuous shortage and imports are too expensive. The falling collection totals for news & pams and for printing house materials are structural whereas fibre packaging is suffering from the generally poor economic conditions in Finland. Once the economy recovers, packaging collection volumes will increase.

As a whole, collection volumes and mills' usage of recovered paper are in balance when looking solely at the figures. From our industry's point of view, we can be happy that all we collect can be sold immediately. At the same time, competition is becoming tighter and margins thinner.

Under Finland's waste legislation, the landfilling of recyclable materials is not allowed. Although we have a system of segregated collection, a proportion of fibre-based materials are not sorted by households and so end up being used to generate energy. Our challenge is to remove fibres from this stream. Already in operation for many years, the producer responsibility organisations with responsibility for recycling the different materials - such as recovered paper, packaging, plastics, metals, cars and tyres - have joined forces to improve Finland's recycling performance.

For the Finnish market, the outlook until the end of the year seems very stable.

Italy

(Giampiero Magnaghi)



Recovered paper prices began to increase in July and continued to climb in August as a result of the usual seasonal decline in collections and of the consistent demand from local mills, some of which were poorly stocked with raw materials. Demand was also good from overseas destinations such as Turkey and the Far East.

Demand was more consistent for bulk grades such as mixed, soft mixed (from Germany) and OCC while other grades remained relatively stable in terms of both demand and prices.

Some accumulation of reels has been seen by certain producers that have announced price increases effective from September. These increases were not greeted enthusiastically by box makers at a time when they are under pressure from more favourable foreign competition.

The high prices of August underwent further growth in the first week of September owing particularly to demand from China and the Far East. Overseas purchasing then began to show price declines while local demand remained proportionally more stable.

Recovered paper collections resumed in September but volumes have not increased greatly owing to the adverse impact of uncertain economic conditions on consumer spending. Actual mill orders are estimated at between 15 and 20 days.

October is forecast to bring recovered paper price reductions while the Hanjin shipping company bankruptcy, which has created problems at Italian ports, is expected to influence freight rates going forward.

Start-up of the Valmet paper machine in Mantua (to replace the former Burgo mill) and of the associated pulper waste incineration plant is still a topic of debate among local authorities concerning possible environmental pollution.

Latest key figures for the Italian market are as follows:

- Paper and board production to the end of July
5,432,714 tons (+1% versus 2015)
- Recovered paper consumption to the end of July
2,989,816 tons (+1.2)
- Recovered paper collections to the end of June
3,313,747 tons (+0.3%)
- Recovered paper imports to the end of June
177,360 tons (+12%)
- Recovered paper exports to the end of June
935,936 tons (-2%)



Bureau of
International Recycling
Paper Division

France

(Jean-Luc Petithuguenin, Paprec)



This year's growth in collections became stronger in August and September. The June price decline for OCC was reversed in July owing to strong demand from those wishing to start the summer with large stocks. In August, Asian buyers returned in force by significantly increasing their prices and thereby substantially influencing the French market. September was more calm and brought a slight decline in OCC prices on both markets.

The Hanjin Shipping bankruptcy announcement is indicative of the impact of slow economic conditions on shipping companies. An increase in freight rates is anticipated for October and will have an impact on prices to Asia. At the same time, the high level of stocks at paper mills will encourage a downward price correction.

The deinking grades are following their usual trend at this time of year, with good demand and prices on the rise from June before starting to settle down in September. The white grades have remained stable since June. Notably, there have been some delivery difficulties on 3.15 woodwhite coated and prices of virgin pulp are very low.

Spain

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



A high level of volatility has again been the main characteristic of the OCC market in recent months. Prices began to increase in July after having dropped in June, but then fell again in September. Different and sometimes opposing pressures have been behind these sharp changes.

In general, local prices have been lower than export values although the size of the gap has not been stable. Regarding domestic demand, there seems to be growing interest in long-term deals in preparation for the high levels of competition anticipated once International Paper (IP) starts buying and consuming OCC.

Demand for the deinking grades is extremely high because some annual basis imports have been cancelled following the announcement of IP's switch from deinking to OCC consumption at the former Holmen operation. At present, IP is continuing to consume deinking grades without the support of the aforementioned imports, thus putting pressure on local suppliers.

White grades remain stable, with strong demand and prices higher locally than for export.

Ever-higher quality requirements are demanded by all buyers, both domestically and in the export market.

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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