



Recovered Paper

Quarterly Report – October 2012

PRESIDENT'S REPORT *featuring Asia*



The pain of global economic recovery continues to affect trade. Manufacturing in the Euro-zone countries has contracted to the levels of 2009 and even lower in some countries, forcing its major economies to shrink, with some stepping back into recession. Unemployment continues to increase to record-high numbers.

Weakening European and Asian demand continues to affect Asian factory outputs, which remain in decline due to weak export orders. This is especially so in China, the engine for global economic growth.

All this suggests it will take longer for a stabilisation of the global economy as well as for world demand to grow. This in turn has a continued dampening effect on demand for recovered fibre not only in Asia but also in Europe and America.

The shipping industry continued its drive to cut losses by increasing sea freight rates and surcharges during the third quarter. July, August and September saw increases of between US\$ 200 and US\$ 250 per 40-foot container. However, the good news is that freight rates looked to have stabilised by mid-September and we look forward to a more settled market in the final quarter.

At the start of the third quarter, ex-works prices for both OCC and mixed paper continued to decline. OCC prices during July and August dropped from levels of US\$ 195 to US\$ 170+ per tonne while mixed paper fell even more sharply from US\$ 170+ to US\$ 135+ per tonne.

Fears of a port strike in America during September/October forced mills to bring forward some of their procurement, thereby increasing demand levels. The threat of a strike has since been deferred until the start of 2013. The market is now looking for a new demand level coming from China after the week-long National holiday.

September saw an increase in domestic demand in Europe and at the same time a similar trend seemed to be coming from China. Prices started to strengthen during September, with OCC prices recovering to levels of US\$ 190+ per tonne and mixed paper to US\$ 150+ per tonne.

Demand from India has been slow for the middle and upper grades in view of weak domestic demand and a price differential greatly affected by currency fluctuations. Newspapers & magazines continue to maintain a steady demand from various Asian countries.

We look forward to a stable fourth quarter, with less erratic freight increases and steadier demand for recovered fibre. European collections have been affected by recessionary trends at home which could disrupt fibre prices, depending on availability levels and demand from Europe and Asia.

Ranjit Baxi

J&H Sales International Ltd

President of the BIR Paper Division

Spain

(Francisco J. Donoso, Reciclajes Dolaf S.L.)



Low collection and low stock levels are the main drivers in the Spanish market nowadays.

Public consumption has decreased significantly due to the financial crisis in the

country and waste generation in general is becoming much lower than it used to be. Therefore, there is strong competition for recovered fibres across the country, keeping prices at high levels despite soft demand from Asia during recent months. Such competition became even stronger in September due to lower stock levels after the holiday period and improved demand from China, resulting in price hikes for the bulk grades.

The price of finished packaging paper has increased too by some Euro 40, thus slightly improving producer margins. However, they are still facing other threats such as tax and grant issues relating to co-generation energy, which could inflict very serious damage on the sector.

The international market continues to become an ever more significant factor for Spain. Import volumes increased by 10% during the first half of this year to 639,579 tonnes while exports climbed 7% to 372,628 tonnes. This phenomenon improves the optimisation of the whole recycling industry, finding the best economic and logistical opportunities wherever they are in the world.

Germany

(Reinhold Schmidt, Recycling Karla Schmidt)



Market conditions for recovered paper were difficult at the start of the third quarter. In July, the paper industry's order books were just ticking over, resulting in low recovered paper orders as mills relied on their stocks. At the same time, the summer holiday period and the weaker economic situation led to smaller recovered paper volumes, with collectors not building their stocks. Orders from the Far East remained at a low level while sea freight containers were scarce. Recovered fibre prices were reduced by the mills; and for the brown/bulk grades, collection and processing costs exceeded the prices obtained for these qualities.

Against the backdrop of the economic crisis, the holidays ensured that much reduced recovered fibre availability persisted into August. For deinking grades such as 1.11, temporary closures led to an almost balanced supply and demand situation. Despite low demand from consumers of the brown grades, there was no further price pressure from buyers. It is impossible to tell whether this situation owed something to the fact that producers of packaging raw papers were planning a price increase for September.

Exports to Asia remained at a satisfactory level. Availability of sea containers improved but freight rates were very high. Overall, collection companies were holding no significant stocks of recovered paper at the end of August.

By September, collectors' depots were devoid of stock in the south of Germany where summer holidays ended only in the middle of the month; the situation was similar in other parts of the country. The paper industry also did not keep high stocks. Exports were at a low but stable level. Recovered paper prices remained stable throughout the month. A critical eye should be cast on the increased trend towards paper mills buying recovered paper directly at collection points.

United Kingdom



(Simon Ellin, The Recycling Association)



Recessionary factors resulting in poor generation and poor demand in some market sectors have led to challenging times for UK merchants and brokers alike, with less and less tonnage being chased by more and more operators, leading to fierce competition and squeezed margins.

For the brown/bulk grades, the third quarter saw fairly consistent demand for OCC, although price fluctuations presented difficulties with forward planning in many sectors. Several factors, not least the precarious global financial situation, allied to freight increases, led to significant price reductions. Although the majority of UK merchants and traders have been able to move OCC, it is still a buyer's market. Continued negative sentiment surrounding the Chinese economy and reduced demand for finished product have resulted in decent stock levels and softening prices. UK mill stock levels remain high and producers are generally not buying spot tonnage.

Demand for mixed fibres dropped significantly early in the third quarter, with lower quality producers struggling to find markets; prices fell by over 50% in some places. Demand increased again towards the end of the quarter, but quality is still the key factor.

There was an unexpected - albeit small - price hike for brown grades throughout September as Chinese buyers replenished stock. However, shipping increases allied with poor Chinese demand for finished product may depress prices in the fourth quarter.

Following a re-entry into the market at the end of the first quarter, deep-sea demand for the middle printers' grades has continued to diminish significantly. In particular, the devaluation of the Indian rupee has continued to impact negatively both demand and thus prices, particularly for multigrade.

Some Indian brokers are reporting an 80% drop in demand. Conversely, new demand for SOW for white-top production in China and India, allied with continued strong European demand, has led to robust order levels for SOW as well as prices still equal to or higher than multigrade. The commissioning of the new DS Smith white-top machine is beginning to improve UK demand.

At the higher end of the market, there has been a period of general stability in demand and prices, and most grades are now moving satisfactorily - albeit at significantly lower prices than at the beginning of the year. Following a period of demand and price stability in the de-ink sector, meanwhile, prices fell by a further £10-plus per tonne across most grades for September deliveries. UK and European mills are well stocked and have reduced prices.

Finland



(Merja Helander, Lassila & Tikanoja)



Recovered paper demand continued to be strong over the third quarter while collection dropped more than expected during the summer months and has not returned to normal levels. Structural changes are taking place in newsprint consumption (for example, some newspapers will be changed to tabloid size), resulting most probably in a slow decline in newsprint consumption. Meanwhile, some smaller newspapers have started to use thicker newsprint, which is very comfortable to handle and read.

In the tissue industry, there have been the first signs of cheap pulp being used instead of the woodfree grades.

Collection of brown grades is stable and these will continue to increase as a consequence of consumers purchasing more over the Internet; the still fairly good economy in Finland is fuelling this development. There are no stocks and the market situation can be described as balanced.

Prices remained stable during the third quarter but it would not be surprising if they were to turn downwards during this fourth quarter.

Finland's new waste law came into force on May 1 this year and producer responsibility for paper will come into effect on May 1 2013. All existing paper producer organisations must renew their status by this date, and for packaging by May 1 2014. This will mean many new arrangements in collection.

Sweden

(Markus Ocklind, IL Recycling)



Domestic kraftliner mills are holding good order books and will enjoy full production in the coming months, which will help sales of OCC, whereas newsprint mills are in a tough market and will see many changes in the near future. Holmen Paper is aiming to close down the oldest machine (PM3) at its Hallstavik mill during the second half of 2013; this manufactures 140,000 tonnes of SC paper annually.

Recovered paper stocks at tissue mills are at a good level and the market is balanced between supply and demand. SCA Hygiene has started the process of closing the tissue mill at Jönköping which uses only news grades as its recovered paper input.

Total domestic consumption of recovered paper fell 2.9% to 842,000 tons during the first half of this year compared with the same period in 2011; consumption of news & pams dropped 5.5% to 423,000 tons while OCC usage edged 2.8% lower to 259,000 tons. Collection volumes decreased by 14% to 666,000 tons, with news & pams sliding 15% to 238,000 tons and OCC tumbling 19% to 238,000 tons.

Sweden's recovered paper imports increased 10% to 350,000 tons in the first half of the year whereas exports fell 11% to 158,000 tons. Overseas shipments of the news grades slumped 21% to 25,000 tons while exports of OCC declined 10% to 74,000 tons.

France

(Jean-Luc Petithuguenin, Paprec)



As at the beginning of the year, the summer witnessed quiet collection activity, with low inputs and stocks at recyclers' yards. A decrease in volumes of 10-15% has been observed since January. This has been a difficult year overall due to the drop in consumption and the gloomy economic situation.

In the early summer, the domestic corrugated board market saw a price drop which was due in part to the lack of Asian buyers - but the situation has changed over the last month. In August, Asian demand returned to Southern Europe which benefitted from reduced freight costs, leading to higher prices than in Northern Europe. China is still facing a difficult economic situation and producers are hoping for an interest rate drop to help them boost their reel sales.

In the third quarter, collections of recovered board were still weak and some spot prices appeared on the domestic market as paper mills tried to restore normal stock levels, leading to a price increase of Euro 10-15 per ton in September.

Although summer collections of the deinking grades were also not strong, supply kept pace with demand. There was no tension in the market and price reductions were seen for some grades. Exports to Asia remained weak as the prices offered were lower than those available domestically.

As for the high qualities, lower volumes continue to be available but some grades - such as 3.07 - have seen a price cut.

Looking ahead to the end of the year, it is quite difficult to anticipate the market because it is highly reactive to events happening on the other side of the planet, such as Sino-Japanese tensions and US port strikes. Despite these uncertain times and the lack of visibility with regard to the future, there is still good demand for recovered paper and board.

Italy



(Roberto Romiti, Masotina SPA)

Conditions in this market are persistently slack as Italy's paper mills continue to suffer the consequences of the crisis.

Supposed increases in recovered fibre are not matched by higher production - a situation that is further destabilising the domestic market. Despite this, there is still a general lack of recovered paper due to the slump in consumption and the substantial drop in printing activity in the graphic sector and in publishing owing to the shortage of advertising.

An increase in orders is expected in the final quarter of the year with respect to the Christmas period, and an increase in requirements from the international markets is anticipated for the same reasons.

Some mills across different sectors have stopped production and a further negative focus on credit-worthiness has been noted from all Italian banks.

Export activities seem to be more sparkling, with all the consequent benefits for our sector.

Czech Republic



(Jaroslav Dobes, SPDS-APOREKO)



Domestic collections increased 3% during the first nine months of this year. Consumption of paper products has recovered step by step (+2%), which has brought an increase in recovered paper resources. Prices stabilised in the third quarter of 2012 but the business climate was unsteady. Interest in the different grades rotated, but the general market situation appears to be that all reserves have been sold and stocks are at a low level.

Despite positive consumption and sales figures, the market has not increased markedly, with a statistical evaluation still showing signs of stagnation. There are no expectations of significant changes in the market before the end of the year.

Recovered paper consumption by domestic paper mills was 2% higher in the first nine months of this year, while production of new paper products grew 4% and exports 5%.

Turkey



(Ekrem Demircioglu)



Having fallen in the first quarter of the year and then stabilised in the second three-month period, recovered fibre prices dropped in the third quarter by around 10-15% for all qualities. Finished product prices also declined during this quarter, mainly because of the fall in demand both domestically and in the export market.

The opening of new capacity at Kutahya has been postponed until the New Year because of technical problems. Below is a list of finalised projects:

- Maraş Kagit in Kutahya will start up news production in a couple of months, with an annual capacity of 70,000 tonnes.
- At Kipas in Maras, a new machine capable of producing roughly 350,000 tonnes per year of fluting and testliner is scheduled to start up in the final quarter of 2013 or the first quarter of 2014.
- At Dentas in Edirne, a second-hand machine to produce 100,000 tonnes per annum of fluting and testliner will commence operations in the first quarter of 2013.
- A new machine at Koknar in Corlu, capable of producing 300,000 tonnes per year of fluting and testliner, will start up in the third quarter of 2013.
- Albayraklar of Balıkesir is scheduled to begin production of news or woodfree white in 2015, with an annual capacity of 200,000 tonnes.
- Also scheduled for 2015, Modern Karton's new machine will have an annual capacity of 500,000 tonnes of fluting and testliner.

Two more projects have yet to be finalised: Muratlı Karton at Corlu is planning a new machine with an annual capacity of 200,000 tonnes of doubleboard; and a planned new machine for Halkalı Kagit at İzmit will have the capacity to produce 300,000 tonnes per year of fluting and testliner.

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