



Recovered Paper

Quarterly Report – January 2013

PRESIDENT'S REPORT *featuring Asia*



European and Asian demand for the fourth quarter of 2012 started to look more bullish with the news that some of the European economies were signalling possible emergence from the recessionary trends seen earlier in the year.

October began with a strengthening of fibre prices, leading into November with the market anticipating a firmer end to the quarter. However, after mid-November, exports to China slowed as many of the medium-sized mills had utilised their import allocations for the year, and also because, with the approaching Chinese New Year holidays, most of the exports shipped from Europe from mid-December to early January were likely to arrive in the shut-down period.

With the Christmas closures in Europe, there was a rather weak and volatile December market in which prices and supply were chasing each other.

The anticipated longshoremen's strike at US ports, which was due to take place at the end of 2012, has again been postponed to sometime early in the first quarter of 2013.

Shipping lines continued to maintain stable rates during the fourth quarter, with prices remaining at the lowest levels seen during 2012 as a whole. Over the next three years, a large amount of capacity appears likely to come on stream; after excluding ships taken into dry-dock, this should provide a welcome net increase in capacity. This strengthens the belief that the 2014-2016 period should bring stronger global trade for our industry as well as for the shipping lines.

During the final quarter of 2012, demand for deinking and the middle grades showed a similar pattern whereas prices for OCC experienced a sharper increase and decrease. For Asian main ports, OCC prices began the period at levels of US\$ 175 per tonne, moved up to US\$ 195 and ended the year at US\$ 180+. Mixed paper struggled to attain higher price levels owing to quality issues: October began at US\$ 155+, with prices rising to US\$ 175+ before ending the year at around US\$ 165+.

Deinking prices displayed much uncertainty during the quarter given the weak export market in Asia. Demand for sorted office paper and other middle grades remained steady during the final three months of 2012.

The market is waiting to take its cue from Chinese mill buyers once they return from their New Year holidays which are set for early February. With Europe showing intermittent signs of recovery from recession and with China and other Asian economies projecting growth levels of between 5% and 8% for 2013, we look forward to a successful year ahead.

Ranjit Baxi

J&H Sales International Ltd
President of the BIR Paper Division

Italy

(Roberto Romiti, Masotina SPA)



The situation remains largely difficult for domestic mills; they can barely compete with the main European producers owing to the impact of high energy costs and the country's political instability.

Predictions of negative GDP growth of 2.1% for this year make the commercial outlook uncertain and compels businesses to focus their trading activities in general on the export market. In this negative climate, the banking system is imposing increasingly severe constraints on credit access.

Businesses in our field can benefit from developing an increased export share among the Far East countries which now represent a real expansion opportunity.

Fibre recovery from traditional sources such as publishers and printers is continuing to decrease owing to the state of their own trades while volumes coming from the municipalities remain largely stable.

Spain

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



Domestic market conditions for OCC have been following Asian trends - but with a time gap of several weeks. Chinese demand in October brought a late price increase in November, just when most export brokers had started to reduce prices. These opposing moves brought a late and slight price drop in December, with domestic rates being significantly higher than export levels during all this time.

This confusing situation meant that, for several weeks, some paper mills maintained a high price while refusing inputs which were too high owing to a lack of exports.

Deinking grades have remained stable, with small spot increases resulting from OCC's volatility. The white grades have also been stable.

Protectionism issues continue to threaten the market. A change to Spain's waste regulations allows waste producers to demand that the waste manager gives priority to recycling within the EU, thus limiting export possibilities. This creates a disadvantage for independent (but not integrated) recyclers, and also for other European paper mills whose domestic recyclers can freely export recovered paper anywhere in search of better prices.

And there is yet another threat to Spain's paper industry in the guise of an energy reform implemented on 1 January. With co-generation energy, electricity production is going to carry a 7% tax and natural gas consumption is going to be charged at Euro 0.65 per gigajoule.

According to ASPAPEL, this energy reform will result in an extra cost to the domestic pulp and paper industry of some Euro 135m per year.

Germany

(Reinhold Schmidt, Recycling Karla Schmidt)



Looking back to October last year, recovered paper collection volumes increased at the end of the school holidays but did not reach the previous year's level, possibly due to a slight economic slow-down at that time. The paper industry also felt the impact of a drop in order volumes which varied according to the product.

The resulting drop in recovered paper usage was compensated by lower availability. Neither the paper industry nor collection companies built substantial stocks.

Recovered paper prices remained at the level of the previous month while container freight rates also continued stable, thus favouring exports where an increase in demand could be detected.

Recovered paper orders from domestic paper mills remained stable in November. Collection volumes were quite high, albeit lower than in the previous year.

Nevertheless, paper stocks on both the collection and customer side were small. There was an increase in export demand from Asia, particularly for 1.04. Domestic prices stabilised for 1.02 whereas 1.04, 1.05, 4.01 and other brown grade prices increased as they adjusted to the higher levels achieved for exports to the Far East.

Prices for the middle and higher grades remained stable. On the domestic market, there was a slight price differential between Western and Eastern Germany.

Hamburger's Frohnleiten mill stopped a machine, resulting in higher recovered paper availability in Eastern Germany; it plans to halt a second machine on March 31 this year. Furthermore, it became apparent that Mondi intended to stop its machine at Ceske Budejovice before the end of the year - something which it acquired not long ago.

December traditionally sees more recovered paper generated than in the previous month but volumes were lower than those of the same period in 2011. Collectors did not accumulate any stocks. Paper mills ordered steadily, partly building their recovered paper inventories. Many companies appeared set to work throughout the Christmas holidays. Exports to non-EU countries dropped very slightly.

Prices for supermarket grades, corrugated board and other brown (kraft) grades suffered a small decline while prices remained stable elsewhere.

Czech Republic

(Jaroslav Dobes, SPDS-APOREKO)



The latter part of 2012 continued the trends of previous months. There is an expectation that collections last year will have totalled around 800,000 tons, which is some 4% more than in 2011. The increase was attributable mainly to OCC whereas collections of deinking grades and printers' shavings have been falling slightly.

Also last year, paper mills' overall production probably exceeded the 2011 level by some 3-4% to reach around 770,000 tons. Recovered paper consumption was approximately 330,000 tons.

Domestic consumption of paper products increased around 3% to some 1.32m tons. Meanwhile, exports amounted to around 580,000 tons and their share of total market outlets has continued on a course of unbroken growth to 72.5%.

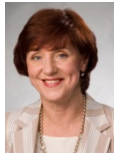
There were no serious sales problems during 2012. Prices were a little shaky but generally stable at the end of last year. With stocks currently low, there are no expectations of significant changes in market conditions this year, although a moderate increase in recovered paper collections is possible.

Regarding the stoppage to paper production at Duropack Bupak (now Mondi Ceske Budejovice), this will mean a major increase in exports of 100,000 tons to approximately 680,000 tons - equivalent to 85% of total market outlets.

Finland



(Merja Helander, Lassila & Tikanoja)



The domestic market remained strong during the fourth quarter of 2012. Demand was good for the main grades - news & pams and OCC - and the first quarter of 2013 seems set to follow the same trend. Indeed, the early months of this year are expected to bring reasonably stable conditions.

Collection figures are not yet available but the best estimate is that volumes in 2012 remained at the level of 2011 as a result of healthy consumption of the different kinds of packaging. Finnish consumers have discovered internet purchasing, which has served to increase collection figures for packaging whereas graphic papers have continued on a downward trend.

Ownership changes and adjustments to the raw material mix from recovered paper to pulp will decrease tissue mills' demand for recovered fibre.

There are no stocks at the mills or at merchants' facilities, and so the market can be described as balanced and very healthy. Domestic supplies are sufficient to cover demand; consequently, imports are marginal and less is available for export. Prices remained stable during the fourth quarter of last year.

The new Waste Act has created much excitement: having come into force on May 1 2012, it will have an effect on producer responsibility developments for paper and packaging. Nobody can tell yet what it will mean to our field of operations but the impact can be expected to be seen during the next three or four years.

Sweden



(Markus Ocklind, IL Recycling)



Domestic kraftliner mills continue to have very good order books and will operate at full production in the coming months, which will benefit OCC sales.

Conversely, newsprint mills are enduring tough market conditions and many changes will be seen in the near future. Holmen Paper is aiming to close down the mill's oldest machine (PM3) at Hallstavik during the second half of 2013; the machine manufactures 140,000 tons of SC paper annually. In addition, StoraEnso Hylte will close down one of four machines (PM1) and reduce capacity by 170,000 tons during 2013. Unfortunately, this is just the beginning for this sector of paper-making.

Tissue mills' recovered paper stocks are at a high level and supply is greater than demand at present.

Compared with the same period in 2011, total domestic recovered paper consumption fell 3.9% to 1.286m tons in January-September 2012. Usage of news & pams decreased 6% to 625,000 tons while the OCC total dipped 2.9% to 379,000 tons.

Sweden's recovered paper collection volumes dropped 7.8% to 1.047m tons in the first three quarters of last year, with news & pams sliding 7% to 399,000 tons and OCC tumbling 15% to 366,000 tons.

Again comparing January-September 2012 with the corresponding period in 2011, the country's recovered paper imports climbed 2.8% to 474,000 tons while exports edged 0.5% lower to 271,000 tons. Exports of the news grades surged 18% to 43,000 tons while overseas shipments of OCC increased by 2% to 131,000 tons.

France

(Jean-Luc Petithuguenin, Paprec)



In 2012, there was a general decline in domestic collections of recovered paper and board; volumes improved in the October-December period but were still below 2011 levels. Last year was made particularly difficult by lower volumes and fierce competition on sourcing. Selling prices remained at the appropriate level.

Expectations are that 2013 will be marked by uncertainty in the economic climate such that the financial health of customers must be watched closely and carefully. In this difficult environment, demand is likely to remain good and recovered paper selling prices should be at decent levels.

Specifically with regard to corrugated board, there was strong pressure on the OCC export market in November owing to good Asian demand, with high prices leading to hikes on the European market. December reversed this trend given weak demand from Asian buyers who kept on purchasing but at decreasing price levels. As expected, this prompted the French and wider European market into a downward move.

Even though domestic paper mill activity was hit at the end of the year, with some rare production stoppages scheduled, demand has remained almost normal. Waste management companies' inventories are at reasonable levels as it was possible to deliver to the mills right up until the last week of December despite some logistical difficulties in week 52.

On the deinking grades side of the business, collection levels were still high at the end of last year owing to the printing of Christmas advertising magazines. Despite this, prices have continued to be stable, the tonnages ordered are weaker and it will be difficult to deliver every load.

Paper mills' recovered paper and board stocks dropped steeply in September and October last year, but the situation has changed over recent weeks and their stocks

have been rising quickly. Pressure on paper reel prices remains steady and penalises mill activity.

Meanwhile, collection volumes and prices for the high grades of recovered paper remain stable and orders are at normal levels.

United Kingdom

(Simon Ellin, The Recycling Association)



The impact of the global economic downturn continues to provide challenges for collectors, processors and brokers alike, with poor production and generation having an impact across all sectors. A period of relative price stability across most grades of recovered paper has helped to offset some of the problems being faced.

Among the brown/bulk grades, the first part of the fourth quarter saw fairly consistent demand for OCC and thus relative price stability. However, from late November and through December, demand significantly weakened and hence prices softened slightly. The reasons for this decline relate to decent stock levels, renewal of import licences and the avoidance of deliveries during Chinese New Year. This drop-off in demand was expected to be short-lived, and Chinese mills in particular are expected to be hungry for tonnage again throughout the second half of January and into February.

Quality is still top of the agenda in all markets and significant claims are arriving in the UK from most export outlets. To a large degree, this reflects the proactive approach of the importation authorities, the fact that it continues to be a buyer's market, and the inclement weather conditions prevailing in the UK throughout the summer and into the autumn. Certainly, most UK exporters would argue that the quality of the material shipped overseas has, if anything, improved as the focus of reprocessors on quality remains high.

For mixed fibres, demand rose steadily throughout the fourth quarter and hence prices gradually increased. But with the focus very much on quality, many brokers are avoiding the lower grades at present.

There has been a steady recovery in demand for printers and office grades. After difficult second and third quarter trading conditions characterised by poor demand, particularly from India, the UK and export markets have increased their order levels and thus prices have risen steadily. Undoubtedly, the main driver has been poor generation as the UK printing industry continues to struggle in the face of recessionary and technological factors.

With new white-top machines continuing to come on stream in Asia, good demand for SOW in particular has led to a continued hardening of prices against a backdrop of increased competition between the UK, Europe and Asia.

At the higher end of the recovered paper grades scale, there has been a period of general stability in demand and prices, and most are now moving satisfactorily - albeit at significantly lower prices than at the beginning of last year.

Following a period late in the third quarter when prices of the news grades dropped by £10 per tonne, demand has steadily improved and a period of stability has established itself. UK and European mills are reasonably well stocked but any price movement is expected to be upwards.

Turkey

(Ekrem Demircioglu)



The trend in recovered paper prices was downwards in the first three quarters of last year. In the final quarter, however, they remained stable despite a fall in finished product prices. There was an increase in warehouse inventories of woodfree white and news in the fourth quarter but these stocks are expected to melt in the first quarter of 2013 as Kutahya is set to start up and will be using 70,000 tons per year.

The winter has been very warm in Turkey and so collection rates are still adequate, resulting in a balance between supply and demand. An increase in OCC demand is anticipated in early 2013, along with an increase in price.

The proposed investments reported in the previous Mirror are still in train.

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