



RECOVERED PAPER MARKET REPORT

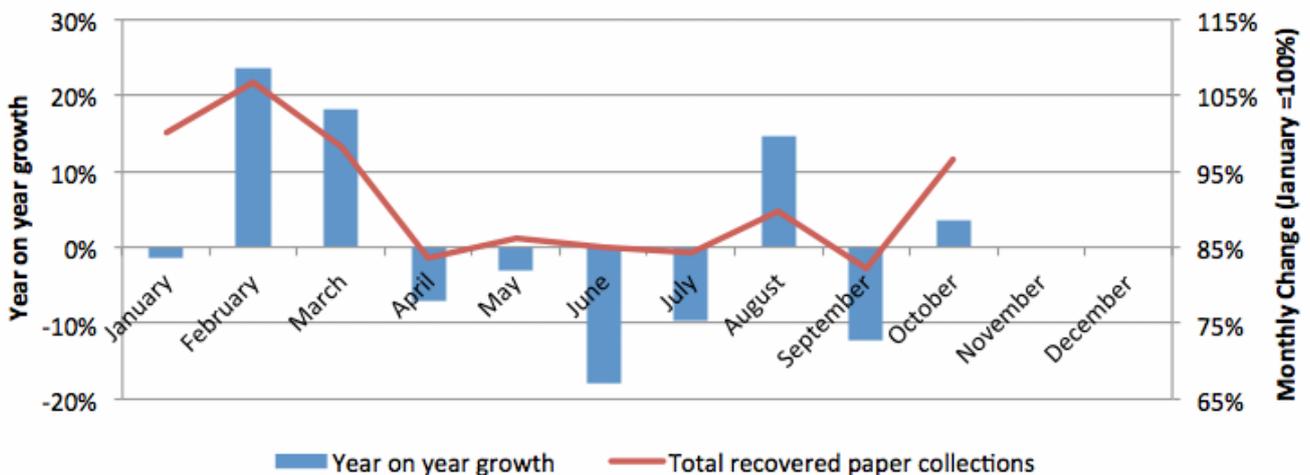


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As the dust settles on the election of Donald Trump as President of the United States, the sensation remains that not only was 2016 an extraordinary year in politics but 2017 may have a lot more surprises in store. Against this background the challenges facing recovered paper sound rather familiar: quantity, quality and shipping and as always everything finally comes down to price.

Politically Donald Trump has indicated that he wishes to follow an isolationist policy “Put America First”. It will be interesting to see how deliverable that is as an ambition and how quickly the ‘rust belt’, which although media interest has focused on steel mills includes paper mills, can be restored to its former productive glories. In the interim recovered paper will continue to be traded, it cannot be stored in forests like its primary cousin nor can it be stored in the ground like coal or steel, and currently China remains a major destination for global recovered paper. Despite predictions in 2016 in all probability it imported more than it has ever done before. Furthermore the US will be not

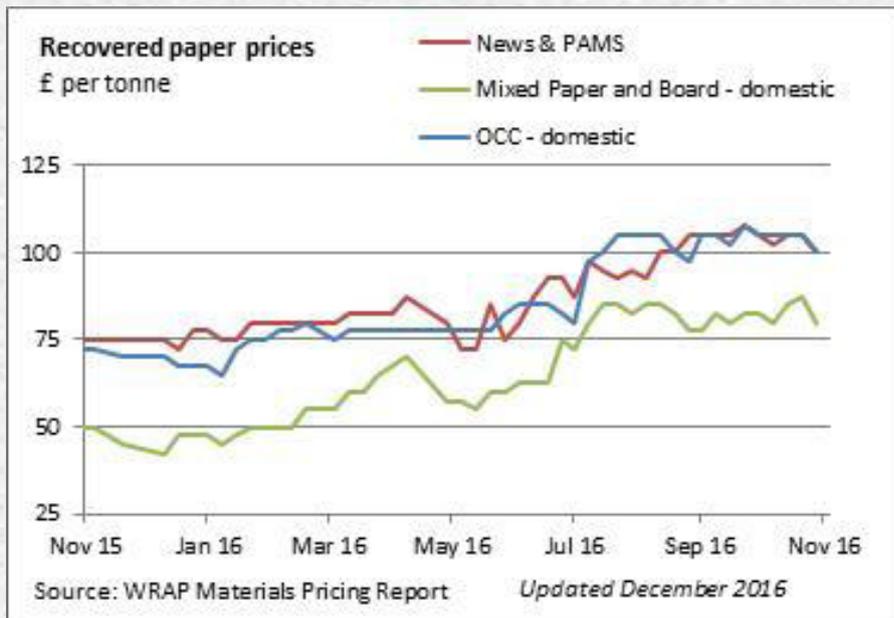
UK Monthly Change and Year on Year Growth in Recovered Paper Collections



far off exporting a record tonnage to it. By November the UK had already exported more to China than ever before. This achievement has occurred despite import prices being in the doldrums for the first 6 months of the year. In the first quarter in fact lower than at any stage over the last 5 years! As a result exporters started putting volume into other 'new' markets Vietnam, India, Korea and Thailand all started to look more attractive.

By the third quarter prices started to escalate reflecting an historical pattern but have continued to do so through the fourth quarter. This is counter-intuitive as both the euro and the pound sterling have fallen against the US\$ and remain weak. Could this show that that global availability is out of balance with demand? Initial thoughts were probably not, it was as a consequence of shipping constipation of containers and dock space caused by the demise of Hanjin. But that has now worked through the system and containers are once again moving freely so if that is no longer an issue could it be panic buying as the Chinese New Year approaches that has contributed to the price hike? However within the UK prices have risen year on year by over 30% and yet worryingly that price rise has failed to produce matching increases in the collection of recovered paper and since May, until recently, there appears to have been if anything a year on year decline. If this is reflected globally a shortage of quantity may be on the horizon.

Regardless the familiar concerns about quality are being raised. This comes from a combination of two factors firstly mills and the sorting plants are setting higher standards for acceptance and secondly they are showing a more consistent application of those standards. Concurrently the increasing take-up of mixed dry recyclables collection is making it increasingly challenging to filter out the non-paper elements. Rejections are normally associated with a lack of demand so that this should be occurring



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when prices and demand are apparently rising is significant.

While with the current excess of capacity, the demise of a shipping company may well have been anticipated. Its consequences were most certainly not. Containers and ships were marooned at sea either unable or unwanted to berth as ownership issues were debated with administrators, space alongside came at a premium and suddenly there was no space for containers. Free containers and shipping space developed a premium and low value commodities like recovered ceased to be able to find shipping space. Hence at the very moment when the tumbling pound might have been anticipated to accelerate exports it was not until the final quarter that growth in tonnage exported was seen.

So where now for the next quarter? Will prices remain high as the new entrants compete with the more established players for tonnage? Will prices fall as shipping issues iron themselves out? What will be the impact of a new President in the US and who knows the outcomes of Brexit or the elections in Germany and France? Will there be tariffs? Will exchange rates continue to fall against the US\$? One thing is certain recovered paper will continue to follow the highest price if it knows where to find it! 🇬🇧

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