

RECOVERED PAPER MARKET REPORT



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It is probably no surprise to anyone that Brexit, Britain's departure or otherwise from the European Union, is dominating every news channel in the UK. There is a titanic struggle in Parliament between those that think that they know best, those that 'wish' to deliver the will of the people (Brexit?) and those that wish to promote their own status. The net result is that paralysis and uncertainty prevails. Against such a background it is hardly surprising that the EU and the rest of the world is looking on in amazement!

Behind the scenes a more pragmatic approach is being taken. The assumption is the 'worst case scenario' and a hard Brexit with the UK moving onto World Trade Organisation rules. From a secondary raw material perspective this means the Basel convention, where for most of the world

bilateral agreements have been achieved/are in place for recovered paper and additional paperwork for shipping to the EU. Not quite business as usual, but at least business achievable!

Against this backdrop exporting to China remains challenging, Chinese and European paper mills continue to diversify both into India and America as well as other destinations in the Far East. Under the principle that the mill now moves to the market not to the source of the raw material, this bodes well for those countries. One hopes that economic growth is the reason for the move rather than solely a desire to find the countries with the laxest implementation of their environmental policies.

Indonesia was historically the second greatest destination for recovered paper exports from the UK. It is also, unsurprisingly,

a major export destination from Australia. They started overseas inspection of their imported material long before China, something that is frequently overlooked in the hiatus of the largest market for recovered paper raising its standards. They have now taken the decision to raise the required standard of recovered paper imported and make their inspections more rigorous. It looks as though China may have started something! To counter the cry that improving the quality does not pay the UK is now publishing a China price, which is consistently 15 to 20% higher per tonne, a significant differential. Presumably Indonesia will wish to follow suit.

Quality has come up in the UK consultations, a total of four, a light 551 pages to read if one includes the economic impact assessments as well, spawned

as a result of its Resources and Waste Strategy. In outline there is a desire to reduce plastic waste, increase producer funding for local authorities and level the playing field between exporters and domestic reproprocessors, on top of which is overlaid a desire to subdivide environmental performance measurement between regions/nations within the UK. The logic runs that by incentivising both the consumer and the producer of packaging it will reduce the quantity of litter and plastic litter in particular. Consumer incentives being considered are the introduction of deposits on all beverage containers, expensive for both consumers and local authorities as the latter lose valuable secondary raw materials from their recycling chains and clear (colour coded?) marking of recyclability in all packaging.

Industry is being encouraged to change their purchasing patterns by the introduction of a packaging tax, starting on plastic, depending on the recycled content in their packaging. A minimum 30% is proposed as the point when it becomes 'tax-free'. There is a discussion over whether fees

should be modulated depending on the recyclability of the packaging and whether an approved list of packaging should be introduced. Local authorities are being encouraged to switch to more consistent collection practices throughout the UK to try and avoid consumer/householder confusion. Concurrently they are being encouraged to improve the quality of the material they produce. The 'bribe' a whacking £5 billion from the packaging industry over the next 10 years. Some debate exists as to whether this should come from the packer/fillers of the packaging or the brand holders. It is unlikely that either will be willing to part with these sums without far greater clarity of the purposes to which those funds will be put.

Quality as I have previously raised is fine as a concept, but to ensure it is achievable there are three criteria that must be met:

- The quality standard must be identifiable (e.g. written down and agreed);
- The quality standard must be measurable (e.g. you must be able to prove that the secondary raw material meets the quality standard

required);

- And the quality standard must be verifiable (e.g. the recipient of the secondary raw material must be able to confirm that what they have received meets the quality standard).

This is achieved in many other global commodities to the mutual satisfaction of both the buyer and the seller. The recovered paper industry has made great strides in this area from the auditory and visual inspections of 20 years ago, but more can be done. In the end the consistency of the measurement and its verification are more significant than the quality criteria selected. That said the decision to use the highest potential quality as the benchmark for price looks a sensible decision.

Once again the only certainty is price uncertainty. Should the next item on the recovered paper agenda be addressing price risk in their raw material supply? After all it is the largest single cost for a paper mill and income source for a supplier. Is it not too important to leave open to the vicissitudes of the market? 🌱

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