

RECOVERED PAPER MARKET REPORT



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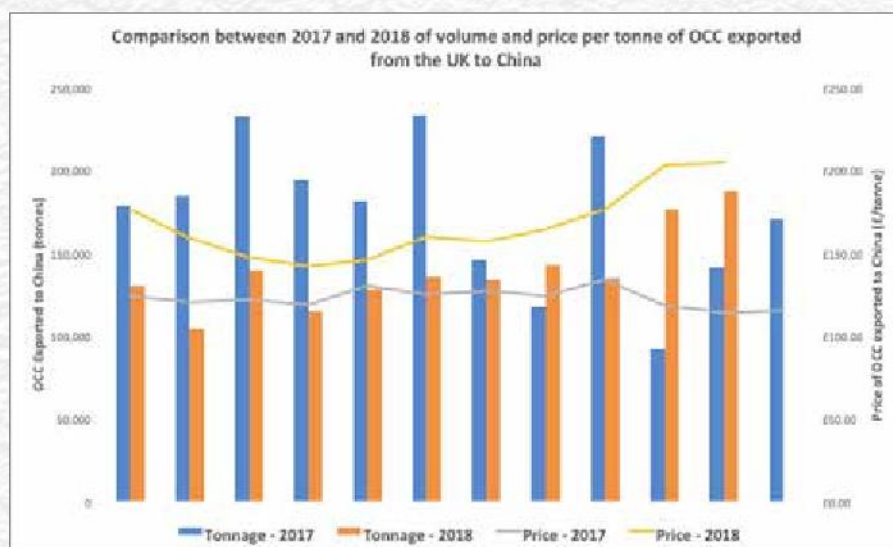
As the Brexit process grinds painfully and with no apparent destination through the UK parliament, recovered paper traders are having to face up to the reality that post 29 March 2019, there may be no deal and trade will be taking place under World Trade Organisation rules. Although the UK is a signatory in its own right to the Basel agreement on the transshipment of waste, there is many a slip anticipated between cup and lip to prevent the smooth transition from one regime to another. Additionally, it is not clear whether Chinese legislation will allow the acceptance of any secondary raw materials from the UK once it is outside of the EU. It is hoped that pragmatism will prevail, but that is far from a comfortable position for those faced with the potential of rejection at Chinese ports or even EU destinations.

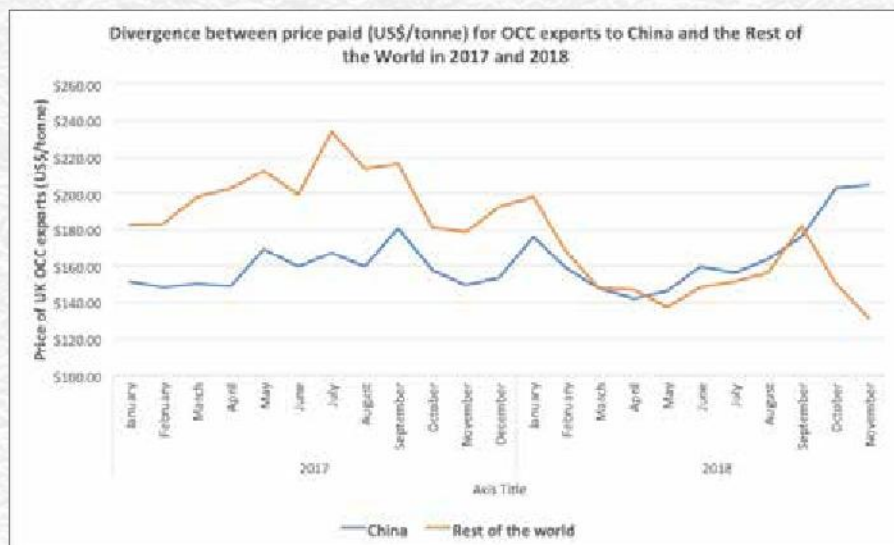
Add to that the, some may say late, arrival of winter both in the

UK and Europe and more extremely in the central states of America and the recovered paper trade faces substantial challenges in the short term regardless of the travails of trying to meet the quality criteria set by China.

On the positive side, China has been substantially more generous on allocating import permits at an

early stage in 2019 than it was in 2018 with over 5 million tonnes permitted in the first tranche, primarily to the big three importers. On the negative side, after a period of sustained price growth for exports to China, prices for OCC have fallen sharply in the UK as they have done elsewhere in Europe, the US and Japan as the Chinese New





for all packaging that is recycled the claim is that balance is unfairly weighted against the taxpayer, who is currently estimated to pay £600 million, a sum which is anticipated to increase as recycling targets increase.

In response to the challenges faced by UK exporters to China, they have started to develop new markets in Asia with quite substantial changes of export destinations between 2017 and 2018. As anticipated, India has stepped substantially into the breach but so too have Vietnam, Indonesia, Turkey, Thailand and Taiwan.

Domestic collection in China seems also to be stuttering as mills not only switch to imports to retain their quotas but also slow down production and run down their inventories as they struggle to find markets for their end products. This is particularly noticeable in the ONP/mixed paper grades.

As always, the only certainty is price uncertainty and that if the quality meets their requirements someone somewhere wants recovered paper. In a dynamic market this is to be expected. The question remains how might those risks be reduced and what tools might the recovered paper market utilise to minimise them? 🗑️

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Year approaches and demand, all be it most anticipate temporarily, comes out of the market with the differentiation between China's price and that offered by the rest of the world once again converging.

To have such a clearly specified and identifiable price differential within the OCC grade is new for paper traders and is welcomed and necessary both as a reward for the additional effort in meeting the requisite quality standards and the risks becoming increasingly inherent in shipping to China. It also provides a benchmark against which price discounts for quality disputes can be benchmarked. This gives a much clearer picture for discussions between paper buyers and their suppliers, in particular

from a UK context, local authorities, to explain why their rewards are not at the same levels as they anticipate. If their quality is not up to the 'China' standard, then they can expect the price they receive to match the 'China' price less the cost of taking what they provide in their mixed recyclable collection streams to that required to meet 'China' standard. The challenge then comes within local authorities as to whether they continue to collect in mixed streams, move to single streams or not collect separate recyclables at all. From a legislative perspective, the latter is not available, so local authorities are seeking a balance between asking the taxpayer, their residents/voters, to pay or the producer. In the UK

