

The recovered paper market showing signs of faltering

A set of factors that are as much cyclical as structural have held recovered paper prices up, which undoubtedly explained why the contributors attending the Bureau of International Recycling (BIR) meeting at the end of May in Istanbul, were fairly circumspect. The economic recovery in Europe remains hesitant, and Chinese buyers are not so much in evidence. On top of this, virgin pulp remains expensive, but the shortage is evaporating and there are even reports of the start of the turnaround.



Om Bhatia,
Maquairarie Bank
USA

According to **Om Bhatia**, of Maquairarie Bank, the key determining factors have been strong American exports, poor climatic conditions in Southeastern United States which disrupted the collection, the growth in demand from China and the ending of subsidies for the US pulp makers. Some of these factors changed at the beginning of the second quarter 2010 with the abating in the appetite for fiber in China and the collection improving in the southeastern United States.

Prices in North America (Official Board Markets) rose constantly between January 2009 and January 2010, when they reached a record for the decade. In terms of the OCC (OCC n°11) grade, these were up 37.5% against the highest level of 2008. The trend in Europe was similar with a trough at the beginning of 2009, although the rise was not on the same scale as in North America.

Turkish papermaker capacity lags behind

Erdal Sukan heads the Turkish pulp and paper industry federation. The association, founded in 1989, has 20 members who account for 80% of national pulp and paper output.

Consumption is rising faster than production, to the considerable satisfaction of European producers. Between 2005 and 2009, paper output increased from 1.9 million tonnes to 2.3 million tonnes whilst consumption rose from 3.7 million tonnes to 4.2 million tonnes. Per head consumption is up from 51 kilos to 60 kilos. The Turkish economy is growing at a rapid rate and its inhabitants are gradually adopting western lifestyles. The distribution market is undergoing a modernization, food products are diversifying with a consequent strong growth in the consumption of packaging materials. Turkish paper and board producers are however handicapped by the price of Turk-

ish wood. (Many forests are owned by the Turkish state and prices are controlled.)

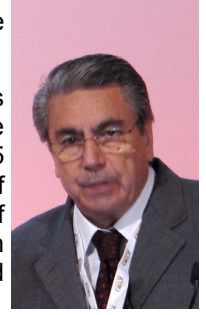
The expansion of production capacities is a long process and most Turkish mills are not very efficient. The federation lists 65 mills with an average production of 54,000 tonnes. The sector's balance of trade is thus significantly in deficit. In 2009, 2.2 million tonnes were imported and only 241,000 tonnes exported.

The recovery rate for corrugated board is 67%, but only 5% for newsprint and 9% for printing and writing grades. Taking all grades, only 41% of waste paper was recovered in 2009. For all grades, Turkish papermakers use 70% RCF, 27% virgin pulp and 3% fillers. Erdal Sukan is hopeful that companies in the sector in Turkey will be able to anticipate their future needs and will develop both plantations and collection systems for paper and board.

The outlook for the Turkish paper industry is thus good. The federation is predicting that consumption will increase by between 4% and 5% between 2011 and 2015, and output by 8% in 2011, then slowing regularly to reach 6% in 2015. Turkey is unlikely to become self-sufficient and it will continue to be a welcome outlet for European industry.

The leading European markets in brief

In Italy, Giuseppe Masotina reports a shortage of recovered papers. He thinks this is less due to increased demand from papermakers and more a knock-on of the crisis which reduced consumption and thus the collection. Prices for deinking grades and ordinary grades are steady, and even falling slightly, whilst the higher grades are feeling the effect of the higher prices for virgin pulp. The market is still dependent on Chinese buyers. Giuseppe Masotina thinks that buyers in China are aware of their market power and that they alternate their buying



Erdal Sukan ,
President of the
Turkish
federation of pulp
and paper
producers

Turkish paper production and capacity overview

	Number of facilities	Capacity	Average capacity	Production	Imports	Exports	Consumption	Consumption per capita (kg)
Newsprint	2	182 000	91 000	0	469 000	1 000	468 000	6,4
Printing & writing paper	7	395 000	56 400	309 000	641 000	21 000	932 000	12,8
Wrapping paper	3	30 000	10 000	22 000	134 000	36 000	121 000	1,6
Materials for corrugated	24	1 849 000	77 000	1 126 000	563 000	72 000	164 100	22,6
Kraft sack paper	1	80 000	80 000	53 000	55 000	7 000	101 000	1,4
Board	13	557 000	42 800	411 000	355 000	43 000	727 000	10
Tissue	14	416 000	29 700	369 000	9 000	60 000	319 000	4,4
Cigarette & special paper	1	15 000	15 000	5 000	12 000	1 000	16 000	0,2
Total	65	3 524 000	54 200	2 295 000	223 800	241 000	4 325 000	59,6

Source: Turkish Pulp & Paper Industry Foundation

by country in order to always get the lowest prices.

In Germany, in 2009, the consumption of RCF by German industry declined by 4.5% whilst the output of paper and board dropped 10.2%. The market in January 2010 was tight. Buyers in the Far East increased their buying at the same time as the collection faltered following the crisis and the hard winter. The level of Asian buying was not phenomenal but the diminished collection resulted in the threat of scarcity. German papermakers placed pre-emptive orders as of mid January to try and make sure of their supplies.

According to **Reinhold Schmidt**, papermakers are thus responsible for the rising prices. By ordering early, perhaps scalded by what was happening in the virgin pulp market, they artificially raised the requirements. The new mills in Eastern Europe belonging to Mondi and Dunapack also contributed to pushing up demand and *"neither customers nor producers had any stocks"*.

At the beginning of the second quarter 2010, orders from China stabilized at a more normal level but the recovery in Europe firmed up slightly. Prices have also stabilized, with the market players rebuilding some stocks and trade at a more normal level, a long way from the frantic situation at the beginning of 2010. Asian orders are also slightly more restrained. A gap is emerging in Germany between the West and the East, where the new capacities are being built.

In France, **Jean-Luc Petithuguenin**, from Paprec, says: *"The situation in the market is a little odd. We are facing a shortage of materials at our depots, which should normally lead to higher prices. But the situation is completely paradoxical because prices are easing (not for all grades), and especially for the ordinary grades"*.

He also reported the withdrawal of Asian buyers in April and May 2010 because they could not get rid of the sizeable stocks they had built up. Recovered paper consumption in Asia is high however because of their expanding economies and buyers could soon be back in the market. In addition, the shortage of containers pushed up the cost of sea freight, although the supply is going to increase over the coming weeks. In terms of the European market, Jean-Luc Petithuguenin is thus expecting prices to move downwards.

The trend in deinking grades is slightly different. Some producers of printing and writing papers are in demand whilst paper recovery levels are stagnating and prices of virgin pulp rising. In addition, the recovery operators are suffering because of the difficulties being faced by the printers which are limiting the volumes recovered.

Sevenside Recycling, leader in UK collection

Sevenside Recycling is a subsidiary of St Regis, which is part of the DS Smith group. Sevenside collects almost 1.9 million tonnes a year. The UK market is a hub for European recovered fibers. The amount collected comes to 8.2

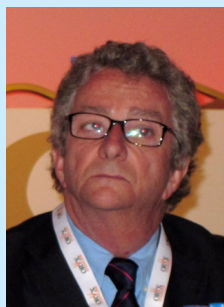
Producing diesel from recovered plastics

Edward Kosior, from Nextek, is promoting new added value uses for waste plastics. In the United Kingdom, the amount of recovered plastics available is estimated at 1.2 million tonnes, of which half consists of films.

There are two opposing schools of thought concerning plastic. The hierarchy of uses promotes a use that goes from a noble application, such as food packaging, towards its end-of-life incineration. Others however would like to create a closed loop such as occurs for paper, with recycling for similar uses. The huge range of plastics collected is however a significant constraint on this noble reuse.

Research is being conducted into the production of diesel from plastic. Other than PVC and polymers that contain sulfur, all plastics are suitable for this conversion at the rate of one liter for one kilo of recovered plastic. Of the product, 25% is diesel, 25% can be used as fuel oil and 50% can be further broken down to produce various solvents. According to **Edward Kosior**, the operation is *"very attractive at current oil prices"*. He suggests that almost 40% of the plastic sent to the dump could be reused by this system. Nextek is also promoting improved technologies for higher added value recovered plastics. The recovery sector companies could expect, it says, to achieve 99% efficiency with an automatic sorting.

Update on France and China



Jacques Musa
Deputy Chair of the
BIR Plastics
Committee

With regard to business levels, **Jacques Musa**, Deputy Chair of the BIR Plastics Committee, reports an improvement in activity but without any longer term visibility. He notes that there are limits on supplies of polyethylene, polystyrene and polypropylene in Europe with plant maintenance and a number of closures. In terms of the recovery segment, demand increased until mid May. It then stabilized but is now starting to decline. Jacques Musa expects reduced orders together with the supply problems. Prices could therefore remain at their current levels. The post-consumer PET bottle market is more stretched and prices continue to rise.

In China, demand for plastic was still high until the beginning of May, but then decreased. Traders, having built up considerable stocks, have started a reverse operation which could intensify the downwards pres-



Surendra Borad,
Chair of the BIR
Plastics Committee.