

Exports Continue to Drive U.S. Recovered Paper Markets

A major increase in recovered paper imports by China has realigned U.S. export destinations during the past five years.

— BY WILLIAM P. MOORE

Although the U.S. domestic mill demand for recovered paper is large, 25% of paper recovered in the U.S. is exported and has become the most important force driving this market. After more than a decade of strong growth, the recovery of paper and board (currently just below 50% for paper) has stalled.

This growth and dramatic slowdown (in the second half of the 1990s) can be seen in Figure 1, which shows the U.S. residential recycling rate of growth from 1990 through 2001.

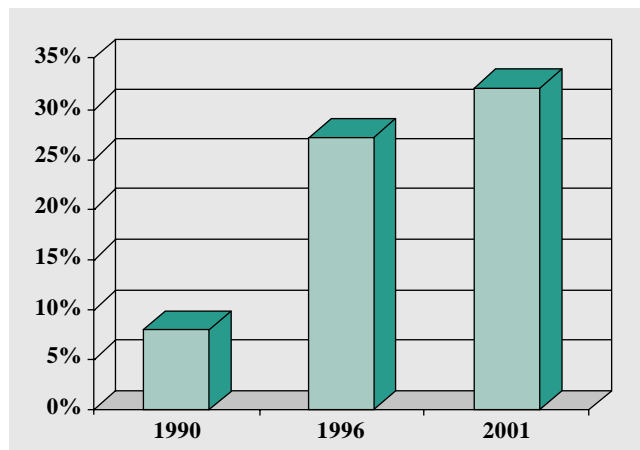


Figure 1. U.S. residential recycling rates.

While demand for recovered paper to U.S. mills is expected to continue growing slowly in the future, export demand will move rapidly to approximately 30% of total U.S. recovery by the year 2006. To keep up with this demand, the American Forest & Paper Association (AF&PA) has raised its goal for paper recovery from the current 50% to 55% by the year 2012.

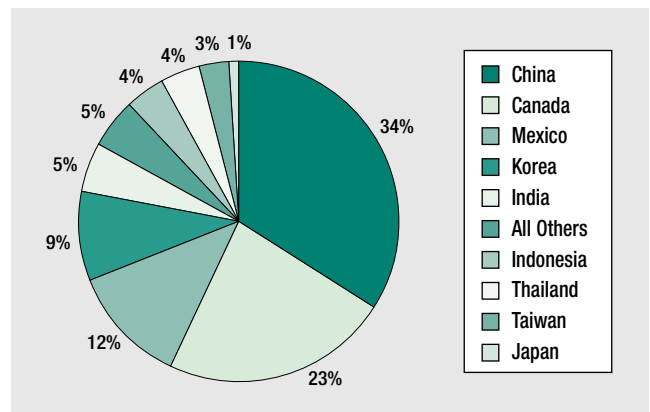


Figure 2. Export destinations of U.S. recovered paper—2002.

There has been a realignment of export destinations for U.S. recovered paper over the past five years, primarily marked by a major increase in imports to China. Figure 2 shows the distribution by country of U.S. exports of recovered paper in 2002.

Canada and Mexico, traditionally the largest importers of U.S. recovered paper, have fallen behind China's now dominant position of more than 30% of the export market. Noteworthy in Figure 2 are Korea and Taiwan, which prior to the mid-1990s, consumed larger percentages of U.S. exports. These countries have rapidly developed their domestic paper recovery in the 1990s and reduced their reliance on U.S. sourced secondary fiber.

China's OCC, Mixed Paper Imports

China imported more than 3.3 million tons of U.S. recovered paper in the year 2002. Old corrugated containers (OCC) was the second most important grade imported, and China's growth in this grade can be seen in the Figure 3, which shows that country's increased usage of OCC during the past five years.

While U.S. OCC is important to China, imports of mixed paper from the U.S. were twice as much as OCC. The paperboard mills that have been installed in China during the past few years have been equipped to use a

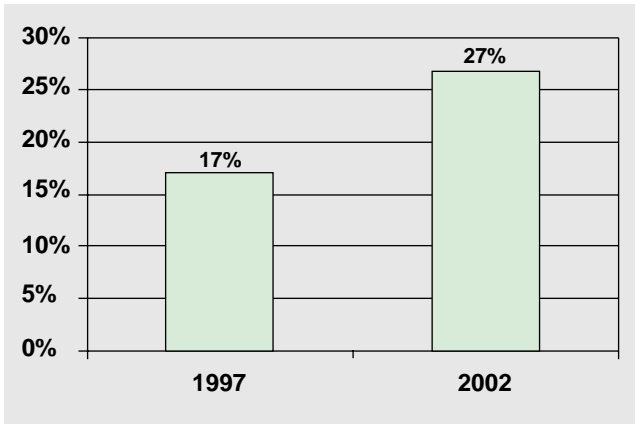


Fig. 3. Chinese imports of U.S. OCC in 2002 compared with 1997.

much higher percentage of mixed paper than the current U.S. industry recycle mills.

Chinese mixed paper demand alone has been driving the U.S. market for this grade. While the recovery of mixed paper is significantly less than OCC (approximately 25% versus OCC at 70%+), the lack of new collection initiatives has stalled the supply. Coupled with strong Asian demand for mixed paper, the price of this grade relative to OCC has been rising for some time and will be only bounded by its ultimate yield and fiber value.

Asian recovered paper imports have been the major driving force in the U.S. recovered paper market for more than three years now. In Moore & Associates' OCC price forecasting work, the most important statistical variable has become the up-and-down export demand.

Moore & Associates sees no letup in the demand for recovered paper from China, with sixteen new paper and board mill projects scheduled in the years 2003/2004. Most of these paper machines will be fibered by recovered paper, substantial amounts of which are to be sourced from the U.S.

Pricing Trends

Because of the higher risks and costs associated with exports of recovered paper, pricing is almost always higher than in the U.S. domestic market. Longer payment terms, the difficulty in solving claims, and increased credit/insurance charges are major components of the higher price of exported fiber.

Figure 4 shows the price of OCC exported from the U.S. west coast versus the domestic market during the past few years.

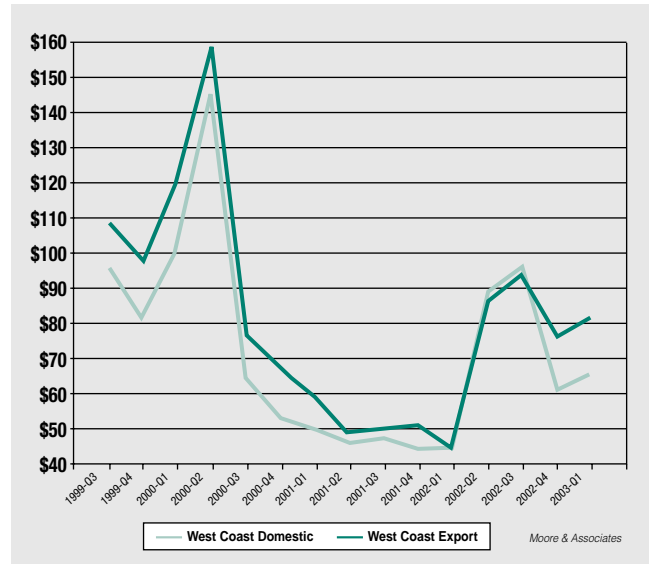


Figure 4. Average published price of baled OCC—west coast domestic versus west coast export.

The export market is highly “spot” oriented. This means that the quantities purchased on a month-to-month basis vary and that the sources of supply also change frequently. There is a large use of brokers, and the important Asian market swings back and forth between buying from the U.S. versus Europe to take advantage of both fiber pricing and freight costs. This type of inconsistent buying has the following market implications:

- In rising markets, exports prices lead the way and are almost always well above domestic prices.
- In falling or low markets, export can approach domestic, and in rare cases fall below the domestic market.

U.S. recovery of grades such as OCC and ONP (old newspapers), which exceed 70%, have become limited by the incremental costs to recover additional tonnage. Currently there is a lack of any new initiatives at the local government and collector/processor level to obtain new supply.

The highly variable nature of recovered paper markets, with market price troughs below the cost at which the supply infrastructure can make a profit, has made collectors cautious about expanding supply. With widespread infrastructure in place for residential recycling, local governments see their citizenry concerns for recycling services significantly reduced.

Municipal Recycling Programs

During the last few years, the municipal sector has not produced any significant increase in supply. Many communities are going through difficult economic decisions about whether to maintain their recycling programs. Citizen activism and interest in recycling to date has limited any program reductions or cutbacks suggested by municipal officials.

One emerging and hotly debated change in the approach to residential curbside recycling, single-stream collection has both economic and quality implications. Single-stream programs are defined as collecting all dry recyclables (papers, bottles, cans, plastics, etc.) in a single compartment on the collection truck. The driving force behind the move to single stream is the desire to lower collection costs.

In addition to the significant implication of glass and non-paper contaminants in the recycling collection stream, possibly a more important issue is the mixing of multiple fibers. For many years, ONP was the primary residential curbside collected fiber, and was kept in separate bins on the collection vehicles.

The advent of adding such grades as old magazines, mixed mail, office papers, paperboards, and OCC has led to a mixing of these fibers as they are received at the processing center. While OCC and paperboard are relatively easy to separate, other grades of paper are not.

The more mixed approach to collection in the residential and commercial industrial sectors has a connection with the export market. Overseas mills, particularly in Asia, seem better equipped to deal with mixtures of fibers because of the nature of both their paper manufacturing facilities and the quality demands for their products. This phenomenon can be seen in the growing use of U.S. mixed paper by Asia.

Future of U.S. Recovered Paper Market

What does this mean for the U.S. recovered paper market? The following are the implications as Moore & Associates currently sees them:

- Demand for U.S. recovered paper from the Asia/Pacific region will continue to increase.
- U.S. supply of both residential and commercial paper will lag demand until the market price of commodities

moves up to a price cycle level that will support additional supply development.

- Export demand will continue to drive the market with peak cycle prices driven very high by the spot nature of the overseas purchasing practices.
- A number of techniques will have to be developed to deal with the implications of a growing export recovered paper market.

As mentioned earlier in this article, AF&PA has established a new recovery target goal of 55%. Whether the collection and processing infrastructure will be expanded at a pace commensurate with the additional demand is still an open question.

Also as mentioned earlier, there is little activity at the local government level, and the integrated paper mills with recycling divisions have shown limited interest in expanding this infrastructure. With the exception of Waste Management Inc. and its new Recycle American Alliance, the solid waste haulers have been absent from new supply development. The question becomes who will be the drivers for supply development?

The other major issue is the use of more mixed paper in U.S. mills. Again, as mentioned earlier, the new machines in Asia are being installed with fiber fractionation and other stock preparation equipment to utilize increased amounts of mixed paper. To accomplish this at U.S. paperboard mills would mean major capital investments and reconfigurations of the wet end of many recycled mills. The financial constraints on the U.S. paper industry will greatly limit what can be accomplished in this area.

It's going to be a rocky road ahead. We used to think that the recovered paper price spike of 1994 to 1995 would never be repeated. However, it is likely that during the next two to four years we will again see an imbalance in supply and demand that will drive prices to those heights again, and the export market will lead the way. ■

About the Author:

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