Clouds gather on economic horizon

Tiffany Holland takes an in-depth look at how the recovered materials markets have behaved so far in 2011

■ PAPER

All paper grades have experienced strong markets so far this year, with mills seeing healthy order books. According to *MRW*/WRAP prices, paper has seen an ascent across the year, with news & pams reaching £140 per tonne at its peak, OCC at £135 per tonne and mixed papers at £115 per tonne at its height. Year-on-year, this is around a 50% increase in prices, showing an incredible resilience, despite the recovering economy.

But it seems paper may now have reached its ceiling as prices begin to soften.

SCA Recycling sales director Steve Williams says: "We are not getting price increases on products, and we are wary because it was around this time in 2008 that markets crashed. Smaller mills are now buying smaller tonnages on a weekly basis for fear of any price changes that may lose money. But this means there is now huge volatility so, week in, week out, you never know how the market will behave."

Ten years ago mills would buy paper quarterly, keeping markets much more stable.

Key recovered paper market figures agree that the price of paper is set to fall further as consumers continue to show concern about the economy with a drop in sales figures. Less packaging will be needed, as fewer items are bought, so a surplus of material on the market could see prices correct themselves significantly in Q4 of this year.

AT A GLANCE
Nearly all the recovered materials markets have seen a strong six months in 2011, but this looks set to change

"At the moment, the demand for OCC from Asia has softened," explains Williams. "We have also seen the effect that currency exchange rates have on prices. Freight rates are at their lowest in two years, although this is probably not sustainable. So the market does look a bit like a rollercoaster ride.

"It will not be until September, when mills start to ramp up for the Christmas period, that we will know how the markets will go."

President of the paper division at the Bureau for International Recycling Ranjit Baxi says: "The Chinese economy is showing the effect of the global economic slowdown, which has meant that its box manufacturing sector is feeling the pinch. There has been an increase in domestic paper collections, which has caused the price of recovered paper to stagnate a little and move down in July.

"In addition, Ramadan is currently affecting the Indonesian market, and the priority at the ports will be for specific commodities for the population during this time."

According to experts, current market movements are indicating further decreases in the price of paper as the year continues. The three months from August are traditionally the busiest period for European linerboard mills. But instead of filling up their order books, they are thinning out. This is due to a drop in consumer spending, which is weakening demand for boxes and recovered paper.

According to Mark Lyndon Paper Enterprises (UK) managing director Paul Briggs, the price correction is expected in October when European mills should be at their peak operating period.

He says: "The stars are lining up for a drop in price. We have been expecting it for a while because the liner market has been experiencing full order books and very strong prices while going through a recession, so the boom has got to come to an end at some point."

GLASS

Traditionally the quieter of the materials, glass has had a rocky year following the crash of the packaging recovery note (PRN) in 2010. It was hoped that a recovery would be on its way in 2011 but, as Q1 and Q2 figures showed the collection of high tonnages for glass packaging, the likelihood of the PRN gaining any more value seems to have been shattered.

Because of the bad weather at the end of 2010, much of the glass which should have been collected within that fourth quarter was delayed. This took it into Q1 of 2011, pushing the PRN price down due to a surplus of supply. Figures for Q2 have shown this to be the case once again – the PRN has dipped from £10 per tonne in July, just before Q2 figures were announced, to the current value of £7 per tonne.

Experts are concerned about whether there will be another crash in the PRN market for glass.

Recresco director Tim Gent says: "I don't know if the PRN price of glass will ever recover. We would have to see phenomenally low glass collection tonnages in Q3 for it to gain value. It means that there is not a big profit margin in glass recycling for merchants."

In the Government's recently published review of waste policy, it stated that it would look at PRN targets for 2013 onwards. But Gent believes this will be too late for the glass market.

He told *MRW*: "If the Government does not do anything to increase glass packaging recycling targets, it will be almost like not having a PRN for glass. If so, we will see horrendous gate fees for MRF glass. It looks as though glass will not have a value in 2012, which will affect merchants, MRF operators and local authorities looking to make a profit."

Since Q2 PRN figures were released in mid-July, the price of green glass has dropped by £5-£8 per tonne, down to a range of £9-£10, and mixed glass has dropped by £4-£9 per tonne, to a price range of £1-£10 per tonne. Some glass recyclers are charging a gate fee of up to £10 per tonne for low-quality material.

Amber and flint glass have managed to keep their value, however, with current prices seeing amber trading at £24-£27 per tonne and flint trading at £25-£32 per tonne. This is because there is a shortage of these materials across Europe and a demand in the UK to use the material in whiskey bottles.

Gent believes the flint shortage will only get worse because a proportion of it still goes to the aggregates sector rather than remelt. It can make more sense to send the glass abroad for remelt – where Spain, Portugal and France use mixed glass for wine bottles – because it is more cost-effective to pay for the freight rather than colour sorting it in the UK.

British Glass recycling manager Rebecca Cocking explains that British beer sales have been down, which has affected the growth in glass volumes during the past few months: "This could be a result of the cool summer we have had, so there are fewer people going outside to enjoy the weather."

And although the PRN market has seen an influx of material, Europe is not seeing an excess, with all available material finding a home.

PLASTIC

Plastic, like paper, has seen a strong year for prices as demand from Asian markets continued, while the re-opening of Eco Plastics last year and J&A Young's bottle plant demanded more material from the UK.

This demand on the home market looks set to continue, as Eco Plastics announced it would be expanding its facility to reprocess an extra 40,000 tonnes of bottles in a partnership with Coca-Cola Enterprises, while Closed Loop Recycling is expanding its Dagenham facility by an additional 25,000 tonnes.

Speaking generally about the market trends so far this year, Eco Plastics head of procurement Charlie Flounders explains: "We have seen a fairly stable market this year. Prices crept progressively upwards in the first four months, but then tailed off towards the summer as more bottles were consumed [and therefore there was a larger supply on the market]."

MRW/WRAP prices show that clear PET bottles reached a high of £460 per tonne at the end of July.

Recently imposed stricter import regulations in China have caused some plastic exporters concern that the country will accept less material, causing a market surplus.

Flounders adds: "In recent weeks, new legislation in the Far East has left uncertainty over export. It seems this may lead to more recovered material being traded on →

the market, causing a drop in price as supply begins to overtake demand. We have seen fairly strong competition from the export markets in recent months, so it will be interesting to see where the market settles in light of these new rules."

Plastic film has not seen the strength in demand and price as PET or HDPE grades. The price peaked in May this year but since then has steadily dropped, with a £50 per tonne plunge across June and a further £20 slip for the lower quality material. Prices for film now stand at £230-£270 per tonne.

WOOD

Wood has been a focus of many reports of late, because WRAP found that wood waste arisings have dropped by 10% in the past three years, while there remains a huge shortfall of wood available for sectors reliant on it, such as biomass, wood panel manufacturing and animal bedding.

Wood recycling company Rio director Peter Alexander says: " Demand has been fairly constant in 2011. We can see it increasing in the next two or three years as the planned biomass energy plants are built. In the meantime, supply exceeds demand and will continue to do so, as more waste wood is diverted from landfill and into recycling. The recent shutdown of Sonae will also provide a glut of supply in the near future."

Indeed, the fire which destroyed Sonae's facility in Knowsley, Merseyside, has meant that wood usually headed for the plant needs a new home. The Wood Recyclers Association believes this will put upward pressure on gate fees, and some board mills are decreasing input prices slightly. WRAP had reported a drop in gate fees for waste wood previous to the blaze.

Those companies that had previously seen a fall in gate fees reported competition with firms keen to fulfil orders for biomass facilities in Europe and buying up as much material as possible.

Alexander comments: "We may well see a short-term increase in gate fees while the shutdown is in place [after the fire], but I would expect a return to the status quo as soon as operations resume at Sonae."

Biomass is continuing to demand huge material tonnages from the waste wood sector, with a six-fold increase in exports to northern Europe across 2010.

"Exports of wood have increased quite substantially during the past 12 months to The Netherlands, Belgium, Germany and Sweden," Alexander explains. "We are expecting this to slow down as new UK biomass plants come on-stream from 2015 onwards because they will have a price advantage over exporting.

"Very few plants will come on-stream in the UK before 2014. This means we are unlikely to see the much-predicted change from a negative price [which means gate fees] to a positive price for low-grade waste wood for a few years yet. Without the current exports of recycled wood, we would have an even more significant over-supply in the UK than we have now. That can only increase as the trend continues to move waste wood to recycling from landfill."

Looking ahead, it seems Sonae's moves will be significant for the sector. "The critical thing for me is how long Sonae is shut for," says Alexander. "If there is a longer-term problem, we will inevitably see an increase in available supply. And unless the export sector can pick up the slack, disposing of this extra wood could be problematic."

ORGANICS

WRAP's recent gate fee report showed that anaerobic digestion (AD) facilities had dropped rates substantially from the previous year because of the number of facilities that have come on-line.

Eco Sustainable Solutions managing director Trelawney Dampney says organics recyclers are now looking towards the introduction of the Renewable Heat Incentive (RHI) by the Government. He explains: "With revenue from the RHI coming on-line, it means the gate fee rate can drop down because there is more money available from the back end."

Although local authorities are interested in collecting food waste, there is a question mark about how many more can actually afford the service because they are making frontline service budget cuts.

Gate fees for green waste have also been pushed back as competition from biomass facilities ramps up.

Dampney says: "A big problem we could have is companies with huge biomass facilities buying garden waste to burn →

instead. This could push gate fees even lower because they will compete with organics recyclers by possibly undercutting them with a 'zero' gate fee. Organics recyclers would not be able to compete with that."

According to WRAP's *2011 Gate Fee Report*, AD gate fees in 2011 have fallen the most within the organics sector, to £43 per tonne this year from £57 per tonne in 2010. Organics recyclers are concerned that the need to compete with one another for feedstock is becoming more important than ensuring that any discounts in rates can be absorbed. So it is possible the market may see company casualties in the war to attract feedstock, as gate fees versus organics treatment become less cost-effective.

METALS

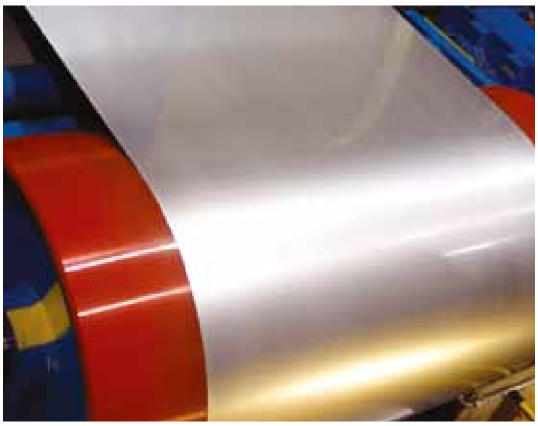
Ferrous

UK scrapyards have seen a real dip in material arisings this year, which has pushed prices high. "The first half of the year was pretty turbulent," comments British Metals Recycling Association director general Ian Hetherington. "A lot of that was caused by the bad weather at the end of 2010, which kept a lot of ferrous supplies from the Nordic countries.

"Across 2011, ferrous prices have increased and remain strong, influenced by currency movements as traders seek to export material. A continuing factor has also been the low supply of material because although manufacturing is growing, it is doing so very slowly and consumer confidence is low, so sales of cars and white goods are down."

The difficult market conditions may get worse, though, as Hetherington believes there is still a way to go until consumer confidence hits its lowest point: "But I don't think world demand will shrink – I think it will continue to grow in certain markets."

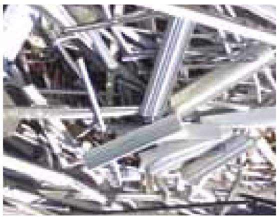
Because of the slump in arisings, competition for metal has become intense, with scrapyards reporting that the larger steelworks are undercutting them for small material tonnages in a bid to collect as much as possible.



On the exports front, Turkey – the biggest buyer of ferrous metals – continues to dip in and out of the market, causing price volatility. During the past six months, the European market has seen more buying from the US, where it can be less expensive to ship material from Europe to the east coast of America than driving it from the west coast.

Hetherington warns: "We want to see sustained growth in the domestic market, but there remains overcapacity in steel production across Europe. We will not see metal recyclers going out of business because they have all reacted well to the reduced material supply on the market."

Competition for material is set to get only fiercer.



Non-ferrous

The BMRA's Hetherington says: "If, in 2007, I was looking at current prices, I would say they were unusual, but the market has demonstrated high metal values for a sustained period of time. I can't see any factors that indicate a drop in price because I don't see any sign of an increase in non-ferrous scrap supplies."

This view comes despite recent falls in non-ferrous prices seen across the London Metals Exchange in response to the downgrading of US credit and the eurozone crisis over what should be done about debt.

"The other side of the coin is that demand for material is being maintained by Asian markets. So if we do see a slowdown in China's economic growth and infrastructure development, we may see a reduction in non-ferrous prices," Hetherington says.

This year has seen record prices for copper, gold and scrap aluminium as investors seek security in metal rather than the banks, Hetherington explains: "Aluminium is a major conductive metal and is being used as a substitution for copper in some applications."

The price for aluminium cans broke the £1,000 per tonne marker in July and has continued to stay up since. Alupro executive director Rick Hindley explains that 2011 has seen a higher use of aluminium as a packaging material.

"Aluminium has almost a 90% share of the can market now as packaging manufacturers shift from steel. This means there are more cans out there to collect, but there is also a higher demand for them."

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