



CHINA's Recovered Paper Import

" Demand Over the Next Five Years: Don't Get Your Hopes Up "

After falling continuously in 2013 and 2014, Chinese recovered paper imports rebounded by about 6% from 27.5 million metric tons in 2014 to 29 million metric tons in 2015, just slightly less than the peak level of 30 million metric tons in 2012. More than 55% of the import increase came from Western Europe, while the United States accounted for only 20% of China's import growth.

The weak euro relative to the U.S. dollar and the port congestion issues on the U.S. West Coast during late 2014 and early 2015 helped promote Chinese import demand from Western Europe, especially for the first three quarters of the year. China's imports from most, if not all, of its Western European trading partners grew significantly in 2015. Increased purchases from China put additional pressure on the already tight demand/supply balance in the European recovered paper markets and helped hold the European markets stronger relative to the U.S.

As for China's import gains from the U.S., which were most noticeable in the second half of 2015, we believe that these were partly due to the low import prices for U.S. recovered paper relative to domestically collected grades during that period.

For instance, while the import prices for U.S. OCC dropped by \$11/metric ton in the fourth quarter, the price for domestically collected post-consumer OCC rose by RMB 70/metric ton (U.S. \$11/metric ton).

The rebound in Chinese imports was somewhat of a surprise to many people, given the further slowing of the nation's economic growth and the lackluster paper and board markets in 2015. According to our latest estimate, Chinese recovered paper consumption expanded by about 1.4 million metric tons in 2015, with most of the demand growth being met by imports. Chinese domestic recovered paper collection volume, however, was estimated to have shown no increase in 2015 after growing by about 10% or 2.7 million metric tons per year on average in 2002-2014.

This was the first time since 2002 that domestic collection did not increase year-over-year. The paper recovery rate, therefore, remained unchanged at an estimated 46% in 2014 and 2015 after rising significantly from 32% in 2002 to 45% in 2013. Increasing collection and processing costs, including labor costs, the relatively low prices for recovered paper, and the lack of effective

support or guidance from the government combined to slow the development of the paper recycling business in China.

According to the China Resource Recycling Association, in recent years about 20% of the resource recycling labor force left the business, including the paper recycling sector, and the volume of collected and recovered waste material slipped. As a result, after holding stable for about 10 years, the volume of waste that went to landfills increased continuously in 2014 and 2015 and caused many issues in China's cities and rural areas.

Looking ahead, we expect to see an improvement in Chinese domestic collection supported by different factors, such as the increase of paper and board products consumed and circulated inside China as its economic growth becomes more domestic consumption-driven; the recovering paper and board business on a worldwide basis; the limited increase or even reduction in recovered paper supply surplus in the major exporting regions, such as Western Europe and Japan; the growing import demand from other emerging countries in Asia; and the potential support for the resource recycling business from the government. The likely increase in control of both the quality and quantity of recovered paper imports, and the improved quality of domestic collected grades, may also encourage paper mills to utilize more domestic grades, and thus

help the domestic paper recycling business somewhat.

Consequently, we think the Chinese import rebound that began in 2015 will not last long. Suppliers in the exporting regions should probably not get their hopes up for a continuation over the next five years of the strong Chinese demand that they saw in 2015. China will certainly continue to buy a huge amount of recovered paper overseas, but the net import volume is predicted to decline gradually together with the nation's slowing recovered paper demand growth and the improvement of its domestic collection. Nevertheless, China will still play a key role in the world recovered paper markets, and we should continue to keep a close eye on developments there. Meanwhile, some attention should also be given to other emerging recovered paper buyers in Asia, such as India and Vietnam, who are expected to import more recovered paper to fulfill their fairly strong demand.

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