

Paper Recycling Conference – Europe: Economic Models

Speakers at Paper Recycling Conference – Europe offered an overview on the recovered paper market in Europe.

The opening session of the 2011 Paper Recycling Conference – Europe provided an overview of the world economy as well as the implications for the paper and board industry in the near term.

U.K.-based Clive Suckling of PricewaterhouseCoopers (PWC) LLC said that following a strong recovery from the global recession, GDP once again was trending downward, especially for the advanced economies of the world. “The actions of the political leaders will determine how long we stay in an economic trough.”

While PWC had originally predicted an uptick in GDP for the advanced economies in 2012, the company revised its projections to flat at best once the IMF (International Monetary Fund) released updated figures this fall, Suckling said.

In contrast, the economies of the BRIC (Brazil, Russia, India, China) countries were forecast to provide 40 percent of the global GDP growth seen in 2011 to 2012, he noted.

The debt crisis continued to plague the economies of the advanced countries, fueled by problems with sovereign debt in the eurozone periphery, medium-term debt burdens in the major advanced economies and challenges in achieving political consensus on fiscal consolidation, Suckling said.

Key threats as a result of the eurozone crisis included a credit squeeze in light of bank recapitalization, lack of competitiveness in some periphery countries and dampened business and consumer sentiment. The picture is similar in the U.S., where low consumer sentiment is combined with aggressive fiscal consolidation and the impact of long-term unemployment. The BRIC countries face different threats, which include inflationary pressures, particularly in China, monetary tightening, reliance on export-led growth and government red tape, Suckling said.

Given the strong correlation between the global economy and board markets, future growth in board demand would come from the emerging economies of the BRIC countries, he predicted.

David Powlson of Poyry Management Consulting, said demand for paper and board was expected to increase by 1.6 percent per year globally, though the dynamics affecting this growth are regional. China and other emerging economies should see 3.2 percent growth per year.

A decline in graphic packaging demand is expected through 2025, Powlson said, while tissue and packaging board consumption was expected to grow during that same time.

Demand for recovered fiber had increased, as had demand for virgin fiber, he said. However, recovered fiber growth was outpacing virgin growth at 4.7 percent per year versus 0.3 percent per year. Powlson said he saw no reason for this trend to reverse in the near future.

Demand for recovered fiber has led to market imbalances and supply chain pressure. China continues to drive recovered paper demand, importing 24 million metric tons of the material annually. Recovered

fiber demand also has led to increasingly volatile prices for the material, which are forecast to continue, according to Poyry.

Powlson said a higher rate of collection within China could address these issues. If China's collection rate matched that of the Europe, an additional 25 million metric tons of recovered fiber could be available, which is equal to China's imports, he alleged. However, Powlson said underlying consumption imbalances prevent this. China accounts for 20 percent of world manufacturing but only 6 percent of consumer spending and less than one-third of the packaging paper consumed in China is disposed of in the country.

Prices for OCC (old corrugated containers) are 35 percent higher today than they were a decade ago, Powlson noted, as the result of increasing supply pressures.

"We are experiencing unsustainably high prices today," Powlson said. "Prices are expected to fall in the short term."

Poyry predicts declining OCC prices through 2014 based on declining pulp prices. Beginning in 2015, stabilizing pulp prices and increasing supply pressure will bring OCC prices back up toward peak levels, Powlson added.

While he said he saw some ability for producers to push rising raw material costs on to customers, that ability falls off the higher prices climb.

"The market dynamics and environment are changing," Powlson said. "Businesses will need to adapt their business models to survive and ever tightening supply-demand imbalance."

The Paper Recycling Conference – Europe was Nov. 7-9 at the Barceló Sants Hotel in Barcelona.