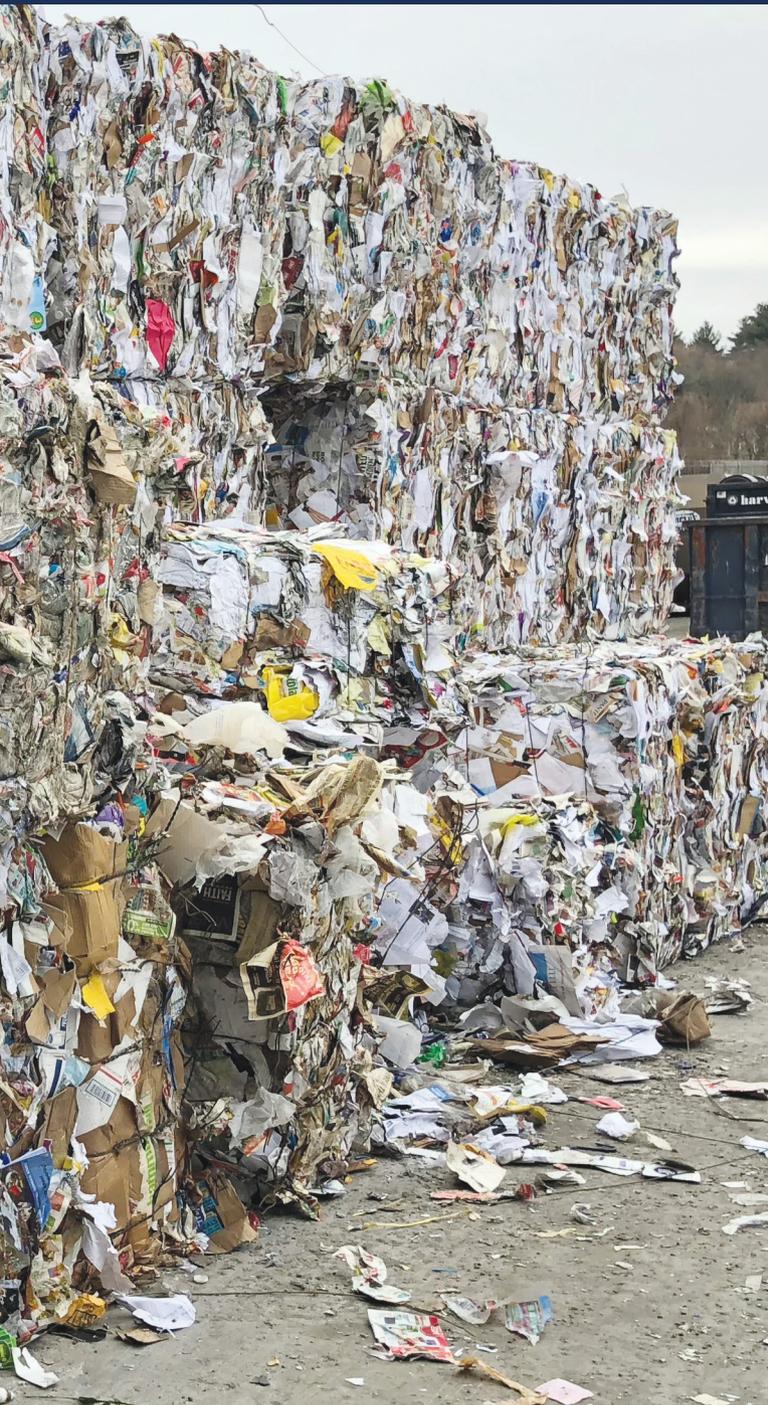


MIXED PAPER PILEUP



IN THE WAKE OF CHINA'S IMPORT BAN
ON MIXED PAPER, PAPER RECYCLERS
AND TRADERS ARE RUSHING TO FIND
NEW MARKETS. BY MEGAN QUINN



JASON MARGOLIS/PRI

In January, Keith Ristau, president and CEO of Far West Recycling (Portland, Ore.), stopped counting how many bales of mixed paper were filling his warehouses. First it was 2,000 bales. Then it ballooned past 6,000 bales. He needed new markets—and fast.

The pileup wasn't a surprise. China, once the largest importer of mixed paper from the United States, banned imports of mixed paper and many other recyclable materials at the start of 2018 in an effort to clean up its environment. To eliminate unrecyclable and hazardous waste that could be hidden among legitimate recyclable commodities, it banned those commodities as well. With its main export market gone, Far West and other recyclers like it have braced for the impact, wondering how long they can manage their backlog of mixed paper.

On the East Coast, Ben Harvey, president of E.L. Harvey & Sons (Westborough, Mass.), is in the same boat. His company sent 95 percent of its mixed paper to China before the import ban. Now the company has been playing catch-up to find new markets. Like Far West, E.L. Harvey's warehouses are stuffed with mixed paper—about 2,000 tons as of mid-February—with nowhere to go. "It's been a tough road," Harvey says. "It's almost impossible to move mixed paper right now."

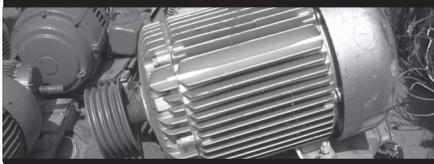
China's import ban has hit U.S. mixed paper markets particularly hard because the United States relies on China to buy more than half of its mixed paper. In 2017, the United States exported 3.55 million tons of mixed paper, and 51 percent (1.82 million tons) went to China, according to data from the U.S. Census Bureau.

Replacing this huge international buyer will be tough, says Hannah Zhao, senior economist covering global recovered paper markets at RISI (Bedford, Mass.). "We don't know where the U.S. recovered paper surplus can go," she said during RISI's mixed paper webinar in December. Japan and several European countries also ship high volumes of mixed paper to China, but those countries are not as dependent on China as the United States is, and their markets are a little more stable, she says. "This will be a quite big challenge for the U.S. paper recycling industry, especially for the mixed-paper sector, like the MRFs."

Paper recyclers like Ben Harvey (left), president of E.L. Harvey & Sons, say China's import ban on mixed paper has left them with few buyers. They know their quality must be top-notch to compete for the remaining domestic and international markets.

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Materials recovery facilities, processors, and brokers who handle mixed paper have a few options left: Either find other international buyers, or find domestic mills interested in their products—all while cleaning up their streams using better technology or more manpower. However, as more mixed paper floods the market and prices plunge, some might be left with an undesirable, costly third option: landfilling.

ALTERNATIVE MARKETS OVERSEAS

With mixed paper exports to China out of the question, many processors and brokers are turning their focus to other countries in Asia, such as India, Malaysia, Vietnam, Thailand, South Korea, and Indonesia. This region has

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a "fast-growing paper industry and a fast-growing recovered paper demand," Zhao says.

Vietnam, for example, increased its consumption of mixed paper 67.6 percent from 2016 to 2017, going from 12,292 mt to 95,424 mt. India increased its consumption of mixed paper last year by 27.4 percent, from 413,670 mt to 527,048 mt, according to Census Bureau data.

Bernie Lee, ISRI's research analyst, cautions that these examples don't necessarily mean there's long-term domestic demand growth within these countries from new infrastructure or increased paper manufacturing. Vietnam's huge demand increase was due mostly to Chinese companies moving their operations there, he says. "The characteristics of Vietnam's economy do not indicate that there would be a strong domestic demand for paper products. The paper packaging plant capacity coming online there is to support [other] countries needing packaging for their own consumption or exporting," he says. Meanwhile, India probably is buying more mixed

paper because "mixed paper is at a more appealing price point as a source of quality fiber compared to their current fiber sources," he says.

These countries also do not have the capacity or the papermaking infrastructure to keep pace with what China once imported, Lee and Zhao say. It could take years for these or other countries to build or improve their mills to create stable, long-term demand for more mixed paper.

Processors in the United States agree they need long-term solutions to find destinations for their mountains of mixed paper, but for now, a short-term deal will suffice. E.L. Harvey & Sons, for example, has found some new consumers in India. "I don't

think it's a good long-term market, unless we start to see new mills develop," Harvey says. "Right now, they're taking advantage of the marketplace, and rightly so. They have an opportunity to get cheap paper. But at some point, that market is going to be saturated," he says. "We're also exploring markets in [South] Korea."

Harvey says he expects his own paper backlog to continue all year because it takes time to find new buyers and secure export orders and shipping containers. A recent shipment left the port later than expected because the ship didn't show up on time, he says. All the while, more mixed paper—about 600,000 tons a year—streams into his MRF at a pace he can't keep up with. "That's time we don't really have," he says.

Far West Recycling, which already was selling mixed paper in India, Malaysia, Vietnam, and South Korea before China's ban, has asked its buyers in those countries to accept larger shipments than before. "We went to our buyers [outside of China] and said, 'We really need outlets.' They agreed



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because our paper is pretty good quality. But it's hard to tell how long that is going to last because how much capacity do they really have?" Ristau asks. Still, these agreements have helped Far West finally start moving paper out of storage, he says.

George Chen, president of paper brokerage firm G&T Trading International (Clifton, N.J.), says his company stopped shipping mixed paper to China long before the ban was officially in place because the company didn't want to risk paying high costs for having a shipment returned. Instead, like Far West, it went to its existing buyers in Vietnam and Thailand to see if they would be interested in buying larger loads. The buyers said yes, but it was a tough sell. "I tried to ship more, but they cannot take too many" shipments, Chen says.

LOOKING FOR BUYERS IN OUR BACKYARD

China's ban is an opportunity not just to sell to other countries, but for domestic mills to beef up their consumption, Zhao says. Existing U.S.-based mills don't have the capacity to handle all the mixed paper that U.S.

Far West, for example, says he might sell more paper domestically if there were a mill closer to Oregon. "There are no consuming mills on the West Coast that take mixed paper," he says. "The closest [domestic mill] is probably Pratt in Indiana," he says. Pratt Industries

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recyclers were exporting to China, but there is an opportunity for mills to expand and for new mills to come online in the next few years, she says. Even with more capacity, existing domestic consumers of mixed paper won't be a viable option for all U.S. paper processors and traders. Ristau of

(Conyers, Ga.), the fifth-largest paper and packaging company in the United States, uses residential mixed paper as a feedstock for its 100-percent-recycled fiber mills in Georgia, Indiana, Louisiana, and New York. Industry media have reported that Pratt plans to construct a fifth mill in Ohio for a



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planned 2019 startup. With existing mills' distance from Far West's operations, "it's still cheaper for us to ship it to Asia instead," Ristau says.

Another hurdle, a paper industry representative says, is that many mills still use virgin pulp to make their paper. Mills need to adopt the technology to use more recovered fiber—a process that could take several years, he says—before they can take advantage of the low prices resulting from

If Chinese mills "buy from the world again, they will only be accepting very, very high quality," says Keith Ristau of Far West Recycling.

the ban. But there's no guarantee the supply surplus and low prices will last, he notes. If processors continue having trouble moving mixed paper and diversifying their markets, they might decide not to collect it anymore.

Mixed paper's low per-unit cost, coupled with the deep nose dive mixed paper prices took toward the end of 2017, add other factors into the equation, says Joe Pickard, ISRI's chief economist and director of commodities. "Low unit value makes [mixed paper] extremely expensive to transport, and when you don't have a consumer close by [for] those truckloads of paper, the price incentive to not collect the material is becoming more and more pronounced."

Though processors could sort mixed paper into grades such as old corrugated cardboard and old newspaper, that process is costly and might not yield profits, Chen says. "Right now, the separation cost is really high, and ONP and OCC costs are low. So there's no reason to separate," he says.

When shipping costs exceed mixed paper's value, buyers are scarce, and mixed paper prices continue to fall, there is another option: the landfill. The idea makes recyclers cringe, Chen says. "I hear it a lot: The mixed paper is going to the landfill instead of going anywhere else. But the companies that do that don't like to talk about it," he

says. There's a financial cost to landfilling as well.

The Oregon Department of Environmental Quality has started issuing permits to MRFs that need to landfill mixed paper and other recyclables when they cannot find a home for them. "We haven't taken them up on that," Ristau says. "But some make the argument that it's better to landfill it than to ship it overseas, have it returned, and have to pay for it."

It's a similar story in Massachusetts. The Massachusetts Department of Environmental Protection has a ban on the disposal of "recyclable paper," but in the past few months it has issued some waivers to MRFs that are having problems moving their mixed paper, Harvey says.

A QUALITY FUTURE

Far West Recycling, E.L. Harvey & Sons, and G&T Trading International are all doing business as if they will never ship another bale of mixed paper to China again. Yet they hold out hope that the markets there will someday return—with one major change: "If [Chinese mills] buy from the world again, they will only be accepting very, very high quality," Ristau predicts. "China still has to produce packaging," he says, and he wonders how the country will make up for the lost feedstock on its own without importing from other countries.

China hasn't banned every type of recycled material. The country has introduced new technical standards for contamination levels in materials that were not banned, and the new thresholds—0.5 percent prohibitives for most scrap and 1 percent for non-ferrous metals—apply to shipments arriving on or after March 1. ISRI and other international recycling organizations consider the new standards



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virtually unattainable. ISRI has asked China to consider adopting standards that align more closely to international standards of between 2 and 5 percent contamination. "It's a possibility that China could come back to the market [asking for mixed paper] again, but I have my doubts that anyone could meet their shiny new specifications," Harvey says. "If they could relax the standards and maybe qualify certain packers or processors that prove they meet [them], it could work out. They still need this material somehow."

The paper industry representative says one silver lining from China's ban is the way it has motivated recyclers of all commodities to focus more diligently on creating higher-quality materials. As more mixed paper floods the market, companies that offer higher-quality paper will stand out, he says. Yet processors must decide how much time, energy, and effort they can put into quality when paper prices are so low, Ristau says. "Of late, we have had to slow the line down, and we've added some people to the sort line to get better quality. But there's only so many people you can add" and still show a profit, he says.

Harvey says he hears industrywide discussions on how paper processors can add newer equipment or other quality-control methods to make paper streams cleaner and more attractive to buyers. "But you're also asking yourself, where do we invest, what you can afford to spend to make this product, and is the paper going to move after we invest in it?" At the same time, Harvey and Ristau say it's critical to strive for good quality, regardless of where processors sell their material. "It's not just about China," Ristau says. "If you send bad quality [paper] to other countries, eventually they will piggyback off what China has done and say, 'We don't want your garbage, either.'" ■

Megan Quinn is reporter/writer for Scrap.