



PSR The Paper Stock Report

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The Market: High supply keeps OCC prices down

By Ken McEntee

Recovered paper traders during the last two weeks of July reported improved export orders for old corrugated containers (OCC), with modestly improved prices on both the East and West Coast. Meanwhile, sources said OCC demand in the Midwestern U.S. was beginning to improve slightly due to buying for mill projects that are expected to come online in the coming months.

Despite that, however, traders said they expect prices in August to generally hold at July levels for OCC and most other grades.

In fact, some traders suggested that some mills – particularly in the Southwest U.S. - might try to slice a few dollars off what were already being called the lowest prices in 25 years.

Earlier in the summer, some paper recyclers said they were stockpiling OCC rather than selling at prices that averaged less than \$40 per ton across the country. They expressed some confidence that prices might turn upward around August.

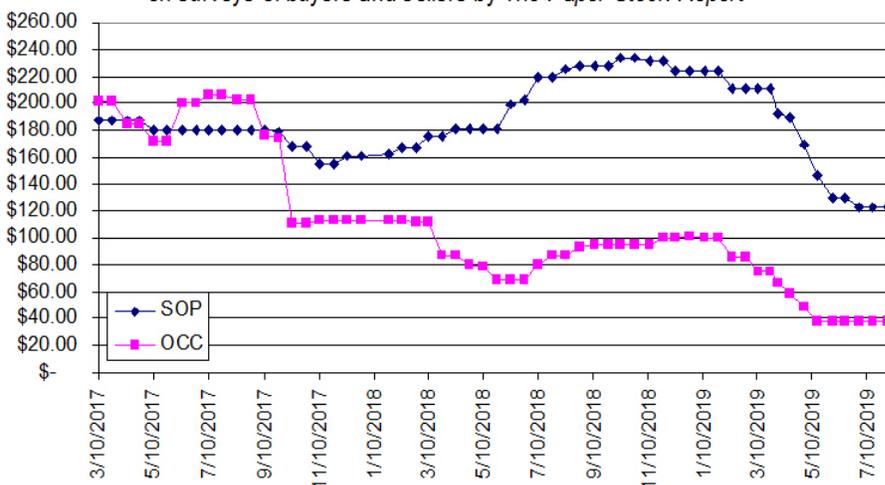
"I'm storing a block of double-sorted OCC," said a recycler in Chicago, who added that he plans to sell it when he can get \$115 to \$120 per ton on the export market.

During the last week of July, sources in

(See OCC, page 6)

OCC, SOP prices

U.S. average national mill buying price, \$ per ton, FOB sellers dock, based on surveys of buyers and sellers by *The Paper Stock Report*



Waste Management concedes loss for recycling business

By Ken McEntee

After showing an \$11 million first quarter profit in its recycling business, and projecting recycling to remain a "tailwind" for the year, Waste Management is now expecting a loss in recycling due to low commodity prices.

Speaking at Waste Management's second quarter earnings call, John Morris, executive vice president and COO, said the company now anticipates the price of recyclables overall to be well below the \$70 per ton projection the company expected when it gave its 2019 outlook.

"There was a \$21 per ton, or 33 percent drop year-over-year in our blended average commodity price down to \$43 per ton

(in the second quarter)," Morris said. "We're very pleased with the outcome of our team's hard work to improve the recycling model by lowering cost, restructuring contracts and assessing fees for contamination."

However, as a result of the lower than anticipated commodity prices, Morris said,

(See Waste Management, page 7)

Highlights

- Current recovered paper prices
- Global scrap paper markets remain weak, BIR reports

Recovered Scrap Paper Prices: Dealer/Processor Prices

These prices reflect the estimated value of recovered scrap paper accepted by or sold to paper stock dealers and/or recycling centers unless otherwise indicated. Prices are listed in dollars per short ton for loose (not baled) material in small quantities, unless otherwise noted. Negative values indicate a charge to accept the materials. Estimated prices are based on surveys of buyers and sellers and are not binding. Prices for grades marked "at generator's dock" indicate the estimated value for material picked up by a dealer from the place where material is generated. Prices for grades marked "at dealer's scale" indicate the estimated value of material brought to the dealer's plant or recycling center.

Grade	N.Y.	NewEng BOS	SEast ATL	PITTS/ CLEV	MWest CHIC	SWest Tex	L.A.	NWest SEAT
Mixed paper, at generator's dock:	-60/0	-60/0	-50/0	-55/0	-55/0	-50/0	-60/0	-60/0
Mixed office paper, generator's dock:	0/50	0/50	40/75	50/70	50/70	40/75	20/60	0/65
White ledger, at generator's dock:	90/130	90/130	90/120	110/140	110/140	105/140	90/130	80/140
Old newspaper, delivered to dealer:	-25/0	-25/0	-15/0	-15/0	-15/0	-15/0	-25/0	-25/0
Old corrugated containers, delivered to dealer:	-25/0	-25/0	-25/0	-25/0	-25/0	-25/0	-25/0	-25/0
Old corrugated containers, supermarket-sized bales	5/30	5/30	5/40	5/30	5/30	5/40	10/50	5/50
Old magazines, delivered to dealer:	0/40	0/40	0/40	0/40	0/40	0/50	0/50	0/45

Recovered Scrap Paper Prices: Mill Buying Prices

These figures are average prices paid by paper and board mills for the grades listed. Prices are listed in dollars per short ton, baled, FOB seller's dock (exclusive of freight), packed to PS-2017 specifications. Numbers in parenthesis are PS-2018 grade definition numbers.

Post-consumer grades:	Northeast	Southeast	Midwest	Southwest	LA	Northwest	Natl Avg	Last Issue	Last Month	Last Year
Mixed paper (54)	0/5	0/15	0/10	0/25	N/A	0/5	5.00	5.00	5.00	2.50
Sorted residential papers & news (56)	10/35	20/40	20/40	20/40	10/20	10/35	25.00	25.00	25.00	9.58
Sorted clean news (58)	70/85	70/85	65/75	70/85	50/60	50/80	70.42	75.83	75.83	123.33
Old corrugated containers (OCC) (11)	25/40	25/50	25/40	25/50	35/50	35/55	37.92	37.92	37.92	86.67
Sorted office paper (37)	115/140	120/140	115/140	120/150	100/120	100/120	123.33	123.33	123.33	220.00
White ledger, post-consumer (40)	250/270	250/270	260/280	260/290	220/240	210/250	254.17	254.17	254.17	299.17
Old magazines (10)	50/80	60/100	60/90	60/90	80/100	70/90	77.50	77.50	77.50	132.50
Industrial / Commercial grades	Northeast	Southeast	Midwest	Southwest	LA	Northwest	Natl Avg	Last Issue	Last Month	Last Year
Boxboard cuttings (4)	30/45	25/35	25/35	30/45	30/50	30/50	35.83	35.83	35.83	93.75
New double-lined kraft cuts (DLK) (18)	60/75	70/85	60/85	70/85	60/80	60/80	72.50	72.08	70.00	111.25
White news blanks (24)	170/220	190/220	180/220	210/250	170/210	170/190	200.00	200.00	200.00	280.00
Coated soft white shavings (28)	300/320	300/320	300/320	300/320	310/340	300/330	313.33	313.33	313.33	263.33
Hard white shavings (30)	420/440	420/440	420/440	420/440	420/440	420/440	430.00	430.00	430.00	430.00
White ledger, post-consumer (40)	250/270	250/270	260/280	260/290	220/240	210/250	254.17	254.17	254.17	299.17
Coated book stock (43)	115/145	120/145	120/145	120/155	100/120	100/120	125.00	125.00	125.00	220.00
Coated groundwood sections (44)	50/85	60/100	60/95	60/95	80/105	70/95	79.58	79.58	79.58	142.50
Unprinted bleached sulfate (SBS) (47)	350/380	350/380	350/380	350/380	350/380	350/380	365.00	365.00	365.00	430.00
Weighted average national price							65.83	65.79	65.32	110.24

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The Market

Global scrap paper markets remain weak

With limited Chinese demand for old corrugated containers (OCC) and a reduced European demand for packaging, the global recovered paper market remained weak through the second quarter of the year, reported Jean-Luc Petithuguenin, of French recycler Paprec, and president of the Paper Division of the Bureau of International Recycling (BIR).

"After a strained first quarter on the markets, the crisis gathered pace in the second three months of the year," Petithuguenin wrote in BIR's quarterly recovered paper report. "Demand is a little weak and stocks are swelling everywhere. In the lower grade market, Chinese buyers are absent for the time being. There is no need to remind you that they do not have enough quotas to meet their needs and that their imports are limited to a few sources such as Japan and the U.S.A."

Petithuguenin said that after a euphoric 2018, packaging demand has calmed down in the European market. Reel prices are tight as paper mills are finding trouble at times in offloading their finished products. As they are faced with plentiful offers of recovered paper and significant stocks, they are gradually dropping their prices. The market is also being disrupted by abundant competition from the U.S. and the U.K. Delivered-to-factory prices in Europe are low and some paper-makers are not hesitating to use it as a source of supply.

"The major problem to be managed this summer is the lack of space granted for our tonnage by paper-makers," Petithuguenin wrote. "The South East Asian market is overflowing with offers of material from the U.S.A, the U.K. and elsewhere. Prices are under pressure and sharp thinking is required when placing orders."

Indonesia shut down its imports in June. However, new regulations based on ISRI (Institute of Scrap Recycling Indus-

Effective April 1, 2019

The Paper Stock Report is now publishing recovered paper prices on the 1st and 15th days of the month. Previously we published on the 10th and 25th. Learn more and try a free **online trial subscription** at:

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tries) specifications have been agreed and controls are gradually being put in place.

"The market needs to rediscover its balance and calm as some players have been apt to lose their patience and temper," Petithuguenin wrote.

He said the medium-grade market is also under pressure.

"Usually at this time of year, prices and demand are rising together, but the opposite has been the case this year," he wrote. "There are not enough exports and demand is low, with some paper mills stopping their machines from time to time in order to control their stocks and reduce the pressure. Prices are therefore dropping and buyers are becoming difficult to find for some grades such as magazines. This summer is going to be complicated as we will have to deal with high stocks at a time when there are almost no exports to Asia. The situation for some grades - such as white heavily-printed multiply board and newspapers - is becoming ever more complex. Sales are hard to make and prices are unstable."

Regarding the high grades, prices have kept dropping for several months after reaching peaks in 2018. Pulp prices are falling too, as are its substitutes.

"It is valid to talk about a crisis as prices are reaching very low levels and it is difficult if not impossible at times to sell certain grades or origins," Petithuguenin wrote. "Paper-makers can afford to be selective and to take what they want. So have we hit rock bottom? It is difficult to forecast what will happen in the second half of the year, but there are few positive signs at present. New machines will be arriving on the market within a year and beyond. We also have to keep in mind that Chinese quotas should fall by 50 percent next year to around 6 million (metric) tonnes. The

market is cyclic, so we have to expect that the wheel of fortune will turn and the market will set off again."

Here are BIR's second quarter market reports for individual countries:

Asia
Ranjit Baxi
J&H Sales International

Fears of global economic slowdown increased during the second quarter as the U.S./China trade war continues to bite. The trade war is greatly affecting China's exports, which continue to fall, and thus in turn has a direct effect on its imports.

The Chinese economy grew only 6.2 percent in the second quarter, which is said to be the lowest in 27 years. With the mounting trade pressures, China's economy has failed to respond to fiscal stimuli in the form of massive tax cuts. Markets are looking forward to further interventions to prop up demand in the second half of 2019.

Weakening Chinese and other Asian economies are not helping to sustain fiber demand and prices. Simultaneously, exporters are having to absorb increasing sea freight rates imposed by the shipping lines whose revenues are also challenged by decreasing exports.

China is continuing to issue fiber import licenses in batches, although for much lower volumes than last year. By the end of the second quarter, close to 7.5 million tonnes of licenses had been issued, with around 65 percent of these used so far. Markets are expecting more to be issued over the August to October period for a further 4 to 5 million tonnes.

With a sluggish demand cycle, prices for European OCC started the second quarter at around US\$109 per short ton and ended it at nearer \$95. Demand trickled in for other grades such as news and magazines, but in much smaller volumes.

China's domestic fiber prices were at \$245 to \$264 per ton for OCC; \$200 to \$259 for mixed paper; and \$386 to \$432 for old newspaper (ONP). Mixed paper continued to be exported to other markets - namely India, Indonesia, Vietnam and

(See Global, page 4)

The Market

Global

From page 3

Thailand. Exports of OCC also continued to these markets, but all are at reduced price levels.

By the end of the second quarter, new inspection regulations had been imposed on exports to Indonesia in a move which is likely to slow the container loading process. We are looking to the second half of the year to see how export volumes and overall prices will be affected by these new controls.

Germany Reinhold Schmidt Recycling Karla Schmidt

In April, there were a few, quite short production stops at the paper mills, for reasons that were not always obvious. Full warehouses coincided with a high availability of recovered paper, exports of which to Asia were at a relatively low level and so did not provide any relief. Prices for one or two recovered paper grades were slightly reduced, but this was not the general rule.

Owing to the four-day week created by the Easter holidays, it proved difficult to transport everything and so truck availability was tight, leading to a temporary increase in freight costs.

In May, the situation was stable as a balance was struck between the relatively large influx of recovered paper and the volumes dispatched to the paper industry. This indicated that the paper and board industry was well-stocked with recovered paper whereas inventories held at waste disposal plants were rather low.

For the lower grades, prices remained largely stable but were higher in East Germany and Eastern Europe when compared to the west owing to greater demand. Downward price corrections were made only for rotation and for woodfree white.

In June, Europe's paper and board industry - including the packaging industry - complained of a decline in orders. The mills' recovered paper warehouses were

well stocked and, at the same time, availability remained high.

There was a drop in exports to the Far East, and especially to China where new import licenses are proving hard to secure. Volumes of mixed paper and Kraft grades are available from Northern and Western Europe at significantly lower prices, especially for Kraft bulk grades. Prices for the lower grades were relatively stable in June whereas high levels of availability resulted in further price reductions for the better grades.

United Kingdom Keith Trower Viridor Resource Management

The export market continues to experience changing factors. China's Ministry of Ecology and Environment (MEE) has released a reduced number of import licenses, bringing the total to 8.2 million tonnes up to July 2019 (44 percent of the 2018 figure).

It is believed that licenses covering only 12 million tonnes will be issued for the current year as a whole. If so, this would represent a 39 percent reduction compared to 2018. Therefore, it is clear that China is continuing to strive towards a 100 percent ban on waste imports, with the forecast for 2020 at just 6 million tonnes.

The focus of late has been on the Indonesian market as customs officials have set out new import restrictions around recycled paper. After much uncertainty, it has been revealed the allowance for prohibitive material is 2 percent with an outthrow allowance of 3 percent.

The inspection regime is expected to remain similar to that of China, with 100 percent inspections and 2 percent bale breaks. Indonesian customs is now set to follow the ISRI specifications, which are currently used throughout the U.S.

The disruption caused by the uncertainty surrounding these guidelines has made U.K. producers cautious of selling their material into this market, with the knock-on effect being that it has flooded the Indian and European markets with material. The U.S. took a similar approach and also diverted their material elsewhere until the official announcement was made.

This put heavy pressure on prices, which fell as a result.

With volume being key to carries in the coming months as well as in the long term, and with Asian volumes at risk owing to the changes in China, it will be very interesting to see how the shipping lines manage the pending IMO (International Maritime Organization) 2020 global sulphur limit surcharge. All shipping lines have incurred high costs in ensuring they meet the new standards and their intention will be to pass on these costs to the shippers.

The European market has been similarly affected as shipping rates from the U.S. into Europe are currently low, and people can take advantage by purchasing brown grades at a fraction of the price.

The U.K. and Europe have also started to feel the effect in terms of price on certain middle grades. The Indian price for multigrade has fallen and U.K. and European mills are now following suit.

We strongly believe this is due to recent confirmation of the closure of the Georgia-Pacific mill in the U.S. which was a large consumer of tissue grades - a development that looks set to rebalance the market for this stream. The closure has led to the U.S. looking to India for off-take. With the influx of material, India was able to drop its purchase price, resulting in downward pricing for other countries.

As always in a downward pricing market, the key is to keep material moving and the relationships strong. A continued focus around quality is needed as higher quality will always be more attractive to the off-takers.

Italy Giampiero Magnaghi

As everywhere else, the recovered paper sector in Italy has evident problems but the approach is strangely contradictory.

Domestic collections have been clearly exceeding local consumption; over the last 14 months, there has been a campaign to intensify collection activity, to the great satisfaction of municipalities in the south of the country where there is a chronic lack of thermal recovery plants for final disposal of their waste.

The result is that paper mills within the COMIECO circuit (the National Consortium for the Recovery and Recycling of Cellulose-based Packaging) are strongly stocked - some at the limits of their capacity - and so there is now a net reduction in public collections. In some instances, the fire services have imposed fines on those infringing the upper limits of quantities held in stock.

There has also been a perceptible reduction in voluntary collections by industrial operators while, in parallel, professional collectors have cut their collections from industrial and similar sources and are not overly busy. Materials that require too much sorting/cleaning are being abandoned because of an evident lack of viability. Some claims from consuming mills concerning materials from COMIECO lines have been settled by inspectors to control the actual quality.

A major mill in Mantua is still encountering problems because a consistent quantity of recovered paper stock has been sequestered for inspection, and is faced with additional complications owing to the erection of some minor buildings without authorization from the local municipality.

At the end of June, OCC was about \$5 lower at about \$45 per ton ex works and was easy to source, whereas mixed paper was enjoying a rebate of about \$1 per ton and is currently in good demand and not so available.

Some overseas brokers have offered low ex-works prices that have not been accepted.

Exports of good, clean recovered fiber have been continuing in modest but constant volumes to destinations in both Europe and Asia.

Latest official data reveal that Italian paper and board production totaled 3.005 million tons in the first four months of this year for a decrease of 2.9 percent over the same period last year. There were year-on-year output declines of 10.8 percent for graphic paper; 3.1 percent for hygiene papers; and 4 percent for packaging.

Recovered paper consumption was 3.8 percent lower at 411,495 tons.

Comparing the opening quarters of 2018 and 2019, paper and board production was down 2 percent in the first three

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months of this year at 2.272 million tons whereas consumption increased by 1.3 percent. Paper and board imports dropped 6 percent year on year to 1.335 million tons and exports slid 8.8 percent to 919,624 tons. Total cellulose imports amounted to 807,880 tons, with semi-chemical on 774,300 tons. As for recovered paper, imports climbed 4.1 percent year on year to 95,588 tons while exports surged 27.3 percent to 498,500 tons.

Over the coming months, smaller recovered paper operators will be under severe pressure, particularly those with scarce available space and limited options for offering really clean material. Prices have fallen to historical lows, fulfilling the dream of Italian mills of being able to obtain secondary raw materials at the lowest price. It would be even better for them if raw materials were free or at a negative value, but that would require a complete structural change.

The Circular Economy concept is effectively a plan to solve the problem of waste, and specifically municipal waste, but hopefully this will be based on reality rather than idealistic dreams.

Actually, operators have some concerns for August: many mills are supposed to stop production, with their warehouses full of raw material and also of finished product. There are some reasons to suppose that compulsory municipal collections will struggle to continue, with thermal recovery capacity already overburdened and available only in a few regions of the country.

The cost of eliminating waste or unsorted materials will sky-rocket and perceptions need to be modified to acknowledge the real viability of processes and the poisoning of the environment. Despite all the theories, all professional operators know that serious recycling is possible only at some cost to communities and that making money from waste is just a chimera. Better to say that recycling reduces where possible the cost of eliminating waste.

**Scandinavia
Martin Leander
Stena Recycling**

The Northern European market for corrugated cardboard was unstable and unpredictable in the second quarter of this year, with mills remaining well-supplied. The Asian market continues to decline and there appear to be no business opportunities from Scandinavian ports.

OCC prices fell by 11 percent whereas mixed paper did not follow the same trend and remained stable in Scandinavia, with demand greater than for OCC.

Indeed, there were reports in Continental Europe of higher prices for mixed than for OCC.

The newsprint market remains under pressure in Scandinavia with low production rates. Conversely, the tissue segment is demanding healthy volumes and is working to a high capacity utilization rate. Major players in the Scandinavian printing market are consolidating their businesses and closing down several printing houses.

In the second quarter, Scandinavian newsprint consumption decreased by 18 percent when compared to the same period last year. Deinking grades were down 10 percent; the wood-free grades down 15 percent; and pulp substitutes down 25 percent.

**Spain
Francisco J. Donoso
ALBA Servicios Verdes S.L.**

China's recovered paper import licenses fell from 6 million tonnes in the first quarter to 2.5 million in the second, making it absolutely clear to many recyclers that there was no chance of a backward turn in Chinese policy.

Many suppliers who had been waiting to see if Chinese demand would increase with the new round of import permits for the second quarter decided to hurry up with their sales as they had lost any confidence in a potential improvement in prices or demand. Export options to other Asian countries are scarce and at cheap prices.

(See Global, page 6)

The Market

Global

From page 5

As a result, local offers of recovered paper suddenly increased even further when compared to the first quarter, with demand remaining stable and poor. Meanwhile, Spanish paper mills not only maintained their import volumes but actually increased them by 10 percent during the first four first months of the year, to 484,339 tonnes. Volumes were coming mainly from France owing to lower prices and corporate interests, including Spanish investments in the collection industries in France and Portugal.

Prices for the deinking grades have been falling every month but are still above export values. Demand is extremely poor, clearly showing a lack of capacity to consume all the volumes collected locally.

Having dropped in April but then kept stable, OCC prices have remained under huge pressure owing to excess supply. International Paper stopped its machine in July for technical reasons, thereby exacerbating the lack of local demand and consumption capacity.

Prices have decreased by around 30 percent in July to reach their lowest level since 1992, and even lower in some cases. Prices for the medium white grades have kept rather stable, with supply and demand in reasonable balance.

Turkey Ekrem Demircioglu

Owing to stagnation in the economy, fluting and liner mills were working at 60-70 percent capacity utilization rates in the first quarter of 2019. In April and May, however, the rates climbed to 80 percent before changes in global markets forced utilization levels back to 60-70 percent once again.

In the first two months of the second quarter, mills increased their recovered paper prices by 20-25 percent, as they did not have sufficient stock to meet increased demand, but June brought a 20 percent decline in line with falling sales prices.

The finished paper demand trend is generally downwards for July and August but a steeper fall is expected this year, partly due to economic stagnation.

During the second quarter, once-read and overissue news prices did not suffer any falls while sorted white ledger (SWL) prices increased by 30 percent. Exports of SWL is continuing in small volumes and imports of A4 and A5 are still averaging 30,000 tonnes per month.

As for latest company developments, Mondi Tire has closed its PM1 operation and is continuing only with PM2; investments are continuing at Hamburger in Kütahya and Kipas in Söke; and Albayrak's fluting and liner mill has started testing and so has paced its purchases of A4 and A5.

Czech Republic Martin Soth Pieringer Zu•itkování Odpadu

Recovered paper prices have dropped by Euro 5-10 per tonne. After a long period at the ports, stock has ultimately remained within Europe for processing, which has affected sales opportunities for newly-generated recovered fiber.

The Czech market has been offering prices for OCC of between \$73 and \$81 per short ton. However, many traders are making speculative purchases of OCC and are thus damaging continuing sales of recovered fiber. Everybody is expecting a slight decrease in prices but no major impact on the Central European market.

OCC

From page 1

most regions said mills were still loaded with OCC inventory, although movement was showing some positive signs.

"Things remain sluggish in the Southwest and prices could possibly go down another \$5," one broker said, adding that Mexican mills were hardly "in the game" to relieve some of the pressure.

Another broker said that despite the improved export prices, many West Coast recycling plants were offering zero to \$1 per ton at their gates. Sonoco mills in California and Washington are paying as much

as \$45 per ton and \$50 per ton respectively for loose OCC.

Some new buying activity was reported in the Midwest U.S., where Pratt Recycling - the country's dominant market for mixed paper - is preparing to open its new containerboard mill in Ohio. Meanwhile, sources said, America Chung Nam was beginning to buy fiber for the Nine Dragons Paper recycled pulp and containerboard line in Wisconsin. The mills are expected mainly to sell recycled pulp made from OCC and mixed paper to Nine Dragons mills in China.

Another sources said Chung Nam is expected to start buying fiber for its Maine operations closer to the end of the year.

On the export market, traders said the big OCC orders were generally coming from China's "big three" - America Chung Nam, Ralison International and Cycle Link. East and West Coast prices for No. 12 OCC going to China were reportedly peaking between \$115 and \$120 per ton FAS, with No. 11 OCC going for between \$85 and \$90 per ton.

One broker said export orders for No. 11 OCC were being taken out of Chicago for close to \$90 per ton - a higher price than was being offered on the coasts. Sources generally agreed, however, that prices increases at domestic mills in the region were unlikely.

"If the export orders continue, we could see a \$5 bump in the Midwest," he said. "For now I don't see it happening. There is still way too much OCC sitting around all over the country."

According to another broker, "A lot of my suppliers are still sitting on lots of OCC. I think any chance of seeing any increase in OCC prices has passed for this year. I think most people are just ready to write this year off and see what happens next year."

Most traders said they expect the increase to be short-lived.

On the heels of the announced recycled containerboard mill in Utah, sources said Pratt already has purchased a board machine for a new mill in the Western U.S. Pratt has not announced such a project and has not responded attempts to confirm the plans.

Meanwhile, some sources reported that

a severely weakened old newspaper (ONP) market in China has had some impact on domestic ONP and other groundwood markets.

"We can't find a buyer for the load of groundwood sections that we have," said a recycler in the Northeast U.S.

Office paper markets remained soft in July, with no improvements in sight, most traders said. Among the barriers is a Georgia-Pacific mill in Oklahoma that went down after an explosion in May.

"A recycler has offered to store our shredded paper, but he said he can't pay us for it until that mill starts buying again," according to a document shredder. "There are so many bales of paper sitting around that Trump could build his wall with them."

Other sources said the mill is buying office paper, but at a reduced volume.

Another supplier in the area said the mill has been open for about a month and is buying recovered paper.

"I think stealing is a better word with the prices they're paying," he said,

A broker in the Northeast, meanwhile, said office paper and Coated Book Stock were showing some improved movement on the export market.

Financial

Waste Management

From page 1

"we no longer anticipate a full-year tailwind from recycling. We now expect that our recycling business will be a \$0.01 to \$0.02 (per share) headwind for the full year. As we mentioned previously, the traditional formula that a \$10 move in commodity prices changes annual EPS (earnings per share) by \$0.04 no longer holds, due to our successful efforts to change and improve the business model."

During the company's first quarter earnings call in April, Morris said the enormity of this year's drop recyclable commodities prices surprised Waste Management.

"We still think (recycling) is going to be a slight tailwind for us, but we didn't contemplate this significant drop-off in com-

modity prices," Morris said at the time.

During the July 25 earnings call, Morris said that without the company's proactive steps to evolve its recycling business model, the full-year impact from depressed commodity prices would likely be closer to a negative \$0.09, rather than a negative \$0.01 to \$0.02 per share.

"We remain focused on changing the business model for recycling with improved MRF technology and contract structures that recoup processing costs and protect us from commodity price downside," Morris said. "To that end, we are on track to open our recycling plant of the future by the end of this year."

With the recycling plant of the future, he said Waste Management expects to achieve labor and operating cost savings while creating the best quality material for sale.

"Impressively, we fully expect the performance of our collection and disposal business to overcome the headwind from lower recycling commodity prices," Morris said. "As we passed the halfway mark for the year, we anticipate that continued strong organic growth and a focus on operating efficiencies will keep us on target."

Waste Management and other waste haulers have been working to renegotiate collection contracts to mitigate the impact of tanking recycling markets. Morris said Waste Management is about 40 percent of the way through the restructuring process.

"The last phase is a lot of the franchised municipal customers which take longer just because the structure of those contracts is generally three to five years, and a lot of times it's related to other lines of business, it's integrated to a franchise, post collection contracts, etc.," Morris said. "We're probably between 35 percent and 40 percent of the way through, probably middle innings on the commercial piece in the MRF volume and probably, if you use the baseball analysis, maybe the third inning on the residential side."

Jim Fish, president and CEO, said the ability to reference the fact that old corrugated container (OCC) prices are at a 25-year low strengthens the company's argument to persuade a municipality to restructure a contract.

"We're getting zero for mixed paper and

this business has really fallen off a cliff, that those are real facts that we're bringing to the negotiating table with some groups that have pretty big purchasing power as opposed to just coming in and saying, look these are the normal ebbs and flows of a business and we're in kind of the down cycle right now, but we think it will come back," Fish said.

Unfortunately, Fish added, the reduction of retail stores that generate OCC, along with Amazon's reduced packaging program, are causing big changes to the recycling business.

"I think the last number I saw was U.S. retail big box stores have had 12,000 closures so far in 2019, compared to 6,000 for the entire year last year, so there is some permanent changes going on in the business," he said. "So if there is a silver lining to a dark cloud, is that when we go in for renegotiations on these big contracts, we do have a pretty compelling story."

Here are some of the other highlights of the Waste Management earnings call:

- Morris: Overall, second quarter results were strong, particularly in the collection and disposal lines of business. Collection and disposal organic growth in revenue topped 7 percent driven by strong execution on the company's core price program, continued progress of its strategy around customer differentiation and robust post collection volumes at transfer stations and landfills. "In the second half of 2019, we expect that our collection and disposal business will continue to generate strong earnings growth and more than offset the decline we now expect in our recycling line of business," Morris said.

- Fish: At the end of June, stockholders of Advanced Disposal Systems (ADS) overwhelmingly approved Waste Management's acquisition of the company. Pending examination by the U.S. Department of Justice, Waste Management expects to complete the ADS acquisition during the first quarter of 2020.

- Fish: Waste Management opened its second driver and technician training facility in Glendale, Ariz. in June and continues to expand its program with Cater-

(See Waste Management, page 8)



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Financial

Waste Management
 From page 7

pillar to remotely operate equipment at one of its landfills in Denver. "While this is a technology investment, it's also an investment in our people as technology like this modernizes the jobs for our workers, improves safety, enables us to more efficiently work and provides us with an opportunity to expand our workforce in the future," Fish said.

- In answer to a question, Morris said Waste Management's increased landfill volume is not the result of previously marketable recyclables now being landfilled. "We haven't seen any appreciable impact from recycling moving to our landfills," he said. "We have the good fortune to have a really talented team in our brokerage side of the business. So we've been able to continue to move material even through the harshest downturn in commodity prices in 20 to 25 years."

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