



PSR The Paper Stock Report

Volume 30, Number 17 • November 1, 2019

Published by **McEntee Media**
Market Intelligence
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The Market: Scrap paper prices projected flat

By Ken McEntee

Despite weak generation for most grades, traders said they generally anticipate no improvement in North American recovered paper markets for the balance of the year. However, many add, there is little room for prices to drop, either.

Present market conditions have small, independent suppliers concerned.

"This is the worst we've seen in 31 years," said a recycler near the Washington D.C. "I hope the smaller independents like us can ride it out."

Meanwhile, a broker on the West Coast said some smaller independents could decide to "hang it up if we don't see some sign of life in the market by the end of the year. A lot of them don't know how long they can hang on and keep losing money."

It's not only the small plants that could be closing, he said.

"Large companies are quietly closing plants," he said. "I know they are closing plants because I was buying from some of them."

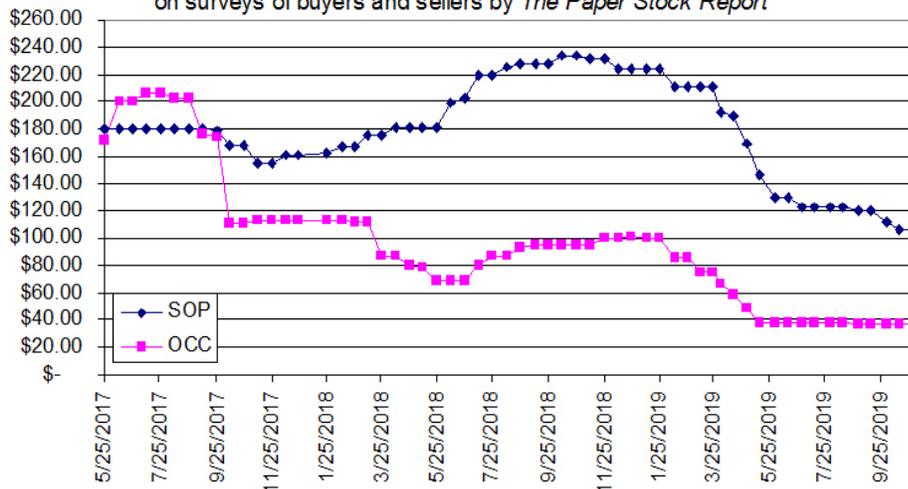
However, he said, there may some light at the end of the tunnel.

"We don't have anything to look forward for the rest of the year, but for OCC (old corrugated containers), I think there is some reason to be excited going forward," he said. "We could see things im-

(See Flat, page 4)

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*



Future is bright for corrugated packaging, IP says

By Ken McEntee

Despite a rough year, International Paper (IP) sees a bright future in corrugated packaging, which bodes well for the company's containerboard business, according to chairman and CEO Mark Sutton.

Speaking during IP's third quarter financial performance conference call, Sutton said IP expects growth in global packaging demand as a "preferred method of packaging."

"We'll see where sustainability and all this discussion will go," Sutton said.

Sutton said the company projects an annual growth rate of 3.5 percent for kraftliner demand.

"But for right now, we've seen a demand decline, and we saw inventories built last year," he said. "And when you put the two together we have a correction in the year of 2019. We haven't seen any structural changes in the ultimate driver of the containerboard demand which is box demand."

(See International Paper, page 3)

Highlights

- Current recovered paper prices
- Sonoco projects \$35 OCC in 2020
- Turkey may gobble up more paper

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)	0/10	0/20	0/25	0/25	N/A	-10/5	6.25	5.42	5.42	5.42
Sorted res. papers & news (56)	20/40	30/50	30/60	30/60	10/20	20/35	33.75	33.75	33.75	20.00
Sorted clean news (58)	85/100	85/100	75/85	85/100	60/70	50/90	82.08	70.42	70.42	123.33
Old corrugated containers (OCC) (11)	25/40	25/45	25/40	25/45	35/50	35/55	37.08	37.08	37.08	100.42
Sorted office paper (37)	105/120	100/120	105/120	100/130	80/100	80/100	106.67	106.67	106.67	231.25
White ledger, post-consumer (40)	200/230	210/230	210/240	210/250	170/190	170/200	209.17	234.17	234.17	309.17
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)	30/40	25/35	25/35	30/40	30/50	30/50	35.00	35.00	35.00	112.08
New double-lined kraft cuts (DLK) (13)	60/75	70/85	60/85	70/85	60/80	60/80	72.50	72.50	72.50	122.50
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	408.33
Hard white shavings (30)	380/415	380/415	380/415	380/415	380/415	380/415	397.50	397.50	397.50	505.42
White ledger, pre-consumer (41)	200/230	210/230	210/240	210/250	170/190	170/200	209.17	234.17	234.17	299.17
Coated book stock (43)	105/120	100/120	105/120	100/130	100/120	100/120	111.67	111.67	111.67	234.17
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)	330/360	330/360	330/360	330/360	330/360	330/360	345.00	345.00	345.00	455.00
Weighted average national price							62.45	63.29	63.29	123.55

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The Paper Stock Report surveys scrap paper traders twice a month to obtain current, unbiased market prices.

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Use the survey form to submit your observations about current scrap paper markets.



Note on ONP

The price chart on page 2 indicates a higher price for Sorted Clean News (#58) compared to the previous issue.

This doesn't reflect an improvement in the market for the grade. It represents an adjustment. Several sources have confirmed that the grade was transacting at a higher price than was being reported in the recent issue.

This change reflects the correction.

Financials

Sonoco projects \$35 OCC for 2020

By Ken McEntee

The present old corrugated container (OCC) price of about \$35 per ton is likely to stand through the new year, Sonoco Products Co. projects. Speaking on a conference call about the company's third quarter financial performance, Rob Tiede, president and CEO said the company anticipates that OCC will be flat next year around the \$35 level - the same level that OCC averaged in the Southeast U.S. during the third quarter.

"And that's taking into consideration that we also believe that China will curtail their permits from 12 million tons of imports to about 6 million tons, and North America will get its proportionate share," Tiede said. "So, that's our best thinking as of today."

Sonoco said the third quarter OCC average of \$35 per ton was down compared to an average of \$88 per ton in the third quarter 2018. During those periods, The Paper Stock Report reported a Southeast average of \$35 per ton and a national average of \$37.08 per ton during the third quarter 2019. During the third quarter 2018, The Paper Stock Report reported a Southeast average of \$100 per ton and a national average of \$95.42 per ton.

Asked how recycling fits into Sonoco's business strategy, considering that the company is losing money on recycling, Tiede said, "If I think about recycling and

why we're in recycling, it is obviously to ensure that we get good quality fiber as an input into our paper mill system. If I had a business and said that I'm going to lose money indefinitely, the answer is no, we wouldn't do that. But again, this is an integrated play for us. So, a couple of things that we have been doing as it relates to our recycling business. As you know, it's nice that OCC is at \$35 a ton, but there's a cost associated with picking that up. I think, the vast majority of our customers understand that and we have addressed that with them. The other thing that we have done regarding our MRFs is to change the model where we used to pay for material. We're now going to municipalities and saying at these price points we're going have to revert that back to where you're going to have to contribute towards us addressing that. That has been underway for the better part of the year. And then, ultimately the question is, all right, if it's really about feedstock for us, we're constantly assessing what we need and where we needed it and what that overall footprint might look like."

Overall, Sonoco said third-quarter 2019 net sales were \$1.35 billion, compared with \$1.36 billion in the same period of 2018. On August 9, 2019, Sonoco completed the acquisition of Corenso Holdings America Inc, from a company owned by investment funds advised by Madison Dearborn Partners LLC, for about \$110 million in cash. Corenso Holdings America is a U.S. manufacturer of uncoated recycled paperboard (URB) and high-performance cores used in the paper, packaging films, tape and specialty industries.

"Our strong mix of consumer- and industrial-related packaging businesses did an excellent job navigating slumping global macroeconomic conditions," Tiede said. "By focusing our businesses on the areas which we can control, we continued to drive margin expansion, as each of our four business segments reported gains in operating profit as compared to last year. With these strong operating results, which included the Corenso acquisition, and a lower effective tax rate, we delivered our best third quarter earnings performance and exceeded the high end of our guidance."

Tiede projected a "more pronounced year-end slowdown" in customer orders in several of Sonoco's served markets due to continuing deteriorating global macroeconomic conditions.

"We expect our customers will take a very conservative approach to managing their businesses and will de-stock inventories at year-end," he said. "The fourth quarter typically experiences a seasonal slowdown and we have seen this pattern of tight inventory controls by our customers for the past four quarters."

Other highlights of the earnings call included:

- Tiede: Industrial sector volumes continued to struggle in the third quarter, down 3.8 percent, which was in line with the company's expectations. "We continued to see weakness and demand for global tubes and cores as well as paper, both in uncoated recycled board and corrugating medium. We are continuing to run some recycled pulp in our corrugating medium operations in an effort to offset lower orders for medium."

- Responding a question about plastics losing market share to fiber poly coated products like cups and bowls, Tiede noted that the costs of recapturing and recycling those materials could exceed the virgin materials.

- Julie Albrecht, vice president and CFO: "Product selling prices were modestly lower year-over-year by \$2 million, driven by lower raw material costs, partially offset by our work to better realize the value of the products and services we provide to our customers."

- Tiede: "I am proud of our team's third quarter performance, especially considering how challenging the current operating environment truly is. You've all read the growing amount of troubling economic data, which I believe has been and is pointing to a clear slowdown in global business activity."

- Tiede: Volume in the consumer businesses continued to struggle in the third quarter. Rigid paper containers sales volume for the quarter declined in North America, which was partially offset by higher revenues in Europe, Latin America

(See Sonoco, page 4)

Financials

Sonoco

From page 3

and other international operations.

Operating profit for the Paper and Industrial Converted Products segment during the first nine months of the year were up 8.9 percent, to \$169 million, while operating margin was 11.4 percent, up about 30 basis points from last year.

Tiede: Tube and cores business is expected to get worse in the fourth quarter. "There is nothing that we're aware of in terms of someone taking additional downtime that we haven't built into our forward thinking. But, has that market been challenged? Absolutely. And we've seen specifically that the paper side has been a little more challenged than some of the other markets."

Regarding the market for URB, Tiede said Sonoco is continuing to run very strong and prices for the most part are holding up. "We are running in 98 percent range on the URB side," he said.

Tiede, when asked about the possibility of acquiring a coated recycling board (CRB) producer - some of which might be available - said no. "Our focus is really on driving around the consumer side," he said.

International Paper

From page 1

Overall, IP reported third quarter net earnings of \$344 million compared to \$292 million in the second quarter of 2019 and \$562 million in the third quarter of 2018.

"International Paper delivered another quarter of solid earnings and strong cash generation," Sutton said. "We continue to demonstrate the strength and resilience of our cash engine and our ability to perform well in a challenging global environment. Looking ahead to the fourth quarter, we will continue to maximize performance by optimizing our full value chain from fiber to the customer."

Asked whether IP has opportunities to shift some of its feedstock from virgin to

recycled fiber, Sutton said 35 percent of the company's feedstock is recycled fiber.

"If look at some of the investments we made over the last few years, we've increased our capacity at 100 percent recycled mills and we've increased our capacity at some of our virgin mills that use a certain amount of recycled fiber," Sutton said. "So we have the ability to do more. But we look at more than just the cost of OCC (old corrugated containers). It really is the cost of the fiber to the forming part of the equipment that really matters because if you leave more OCC, and it causes you to generate less boiler fuel to make your biomass energy, you have not done anything on your cost. What we look at is the actual fiber cost through the system to where you actually form that sheet of paper. "We call that 'fiber to the head box' because there's other costs involved. For example, you want to make sure you maximize your energy production in the integrated mills even if you're blending in recycling fiber."

Other highlights of the conference call:

- Sutton: Product demand in the third quarter was mixed. North American packaging improved seasonally, largely as IP had expected. However, export containerboard and pulp shipments faced pressure from continued supply/demand imbalance.

- Sutton: Yesterday we announced the completion of the sale of our controlling interest in the papers business in India. We are now passive investors with minority ownership of a company which we intend to fully exit.

- Tim Nicholls, senior VP and CFO: Volume improved modestly in the third quarter, driven by higher seasonal demand in North American packaging, as well as improved containerboard exports. This was partially offset by lower seasonal demand in IP's European packaging business.

- Nicholls: "Input costs were better due to lower fiber costs across our businesses and geographies."

- Nicholls: Industrial Packaging performed well and the North American business earned \$525 million with margins of nearly 23 percent. Across the segment, price and mix was unfavorable, mostly on the impact of prior index movements in

North America, and realization of lower export containerboard pricing. Volume was flat. Improved volume in North American packaging and containerboard exports was offset by seasonally slower demand in Europe as well as weaker demand in the packaging business in Turkey.

- Nicholls: October saw a slight pickup in demand. "Overall, we're confident in our commercial outlook and the trajectory of our growth as we move into the coming year."

- Nicholls: "Containerboard export shipments also improved in the third quarter, although a bit less than we expected. Underlying demand was actually pretty good, but customer inventories took longer to draw down. Wood and recovered fiber costs were favorable versus the prior quarter."

- Nicholls: "Underlying demand for containerboard exports has improved throughout the year generally as we expected, while inventories took about a quarter longer to normalize than we anticipated and have pressured shipments through the first three quarters."

- In China, demand remains sluggish as tariff uncertainties linger. And in other regions in Asia, demand is mixed, although customer inventories are back to normal levels. "The takeaway here is that we expect export containerboard shipments to continue to recover, and we are seeing this in October," Nicholls said. "We saw a slight up-tick in demand for October and feel good about it. We think it's going to be a good season for the fourth quarter."

- Regarding the conversion of IP's Riverdale (Selma, Ala.) mill from copy paper to containerboard, Nicholls said it will be a long process. "It will be a pretty long outage," he said. "There's a lot of work to be done, when we take it down and start making the conversion. At some point the production of printing papers will shut down on the machine and then all of the preparations for conversion. That work will begin early in the first quarter."

- Nicholls: The containerboard production at the Selma mill will enable another facility to switch some production to gypsum facing board. "It's going to free up other facilities ... one of which has a large

position in gypsum facing board and will now be able to grow that position."

- Box demand was flat in the third quarter, but demand from e-commerce was strong. "We feel really good about e-commerce," Nicholls said.

- Sutton: E-commerce makes up between 5 and 10 percent of IP's domestic box demand.

- Nicholls: "We've been battling (virgin) wood cost all year long. If you remember, we had tremendous amount of rain and wet weather starting late fourth quarter last year and continuing into well into the first quarter this year. It's just a matter of being able to access and have availability. It's starting to normalize. We're probably be pretty close to a more normalized cost as we exit the year."

is being made into something, whether it used here or for export, it's positive for the market. A 3 to 4 percent shift in supply or demand is enough to make a significant change in the market."

He said a key to an improved OCC market would be getting the price of exported linerboard and corrugating medium back up to where it was 18 months ago.

"If we could get that European demand up and get the U.S. mills running at 98 percent like they were, it would be a different market," he said.

In the meantime, however, traders project more of the same.

Moving into November, traders said white ledger prices continued to trickle

downward, as domestic and overseas orders were tough to find.

"This is the hardest I've ever had to work to move white ledger," said a broker in Chicago.

Although he said he hasn't seen large reductions in prices for the grade, others noted that ledger prices have been dropping off during the past couple months. Export orders for sorted and manifold white ledger were reported as low as \$190 FAS off the West Coast, with somewhat stronger numbers coming out of New York.

Sorted office paper (SOP), meanwhile,

(See Flat, page 6)

The Market

Flat

From page 1

proving by next year for those who are able to hang on. It's not going to happen overnight, but with all the new capacity coming on, next year could be the year that OCC starts to turn. People say that the new capacity may displace the old, but some of that new OCC consumption is in unbleached pulp for Chinese mills, rather than containerboard. As long as the OCC



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MARKET OCTOBER 15, 2019

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The Market: Weak pulp market drags white grades

By Ken McEntee Although a couple sources reported that Sorted Office Paper (SOP) was beginning to show improvement this month, prices for the grade generally trickled further downward. The average national domestic mill buying price...

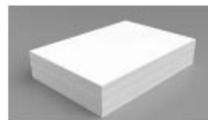
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The latest quarter maintained the same momentum as its predecessor – demand is flat and the reel market has failed to mirror its level of 2018, reported Jean-Luc Petithuguenin, of the Paprec Group, of France,...



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Domtar said it will permanently shut down two of its uncoated freesheet machines. The closures will take place at the Ashdown, Ark. pulp and paper mill and the Port Huron, Mich. paper mill. These measures...



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Closed Loop Partners acquires stake in Balcones

Closed Loop Partners, a New York based investment firm focused on building the circular economy, has acquired a stake in Texas-based Balcones Resources through its private equity fund, the Closed Loop Leadership Fund. Balcones Resources...

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The Market

Flat

From page 5

remained weak, but had pockets of better demand scattered around the Midwest and Southwest. But traders projected generally flat markets for November.

"The white grades are all going to move with wood pulp, and maybe pulp is ready to bottom out," according to a West Coast broker.

Another broker said there were few SOP orders to be found on the West Coast, and prices there were considerably below East Coast orders. Still, he said, domestic mills were paying better than export prices.

Suppliers said the new Pratt Industries' containerboard mill in Wapakoneta, Ohio, which opened at the beginning of October, hasn't made a significant impact on the mixed paper market in the Midwest.

Several suppliers said many paper recycling plants stopped making the grade, and single stream MRFs have been sending mixed paper to landfills. Still, mixed paper generally carries a "zero" price, although Pratt reportedly has set a floor price of about \$20 to \$25 per ton.

In Biron, Wisc., ND Paper - the American affiliate of China's Nine Dragons Paper - has started to produce about 150 to 200 daily tons of unbleached recycled pulp for export to China. A new 700 ton-per-day pulper is expected to start up in Biron during the first quarter 2020 using a blend of mixed paper and old corrugated containers (OCC), according to ND spokesman Brian Boland. Meanwhile, Boland said, ND's recently started recycled pulp mill in Fairmont, W. Va., is producing about 600 tons of unbleached pulp per day using OCC and mixed paper.

On the export market, one broker said Chinese buying groups are pressuring prices down for Asia-bound OCC.

"There was a little upward pressure from some of those countries, but the Chinese brokers went into those marketplaces and undercut everybody to artificially keep the prices down. That's not unusual - they do that during this time of year when prices

start to go up. But this year, prices are already so low, so I think it's a little overkill by them."

While OCC prices to markets like Vietnam and Malaysia are low, he said, direct exports to China are limited to America Chung Nam, Ralison International and Cycle Link.

The wildcard in the market for the next few months, several traders believe, could be Indonesia, which is contemplating scrap paper import restrictions similar to China's.

"Indonesia isn't buying and a lot of people think they won't for a few months," said an exporter in Chicago. "But if they do come in this month, things could get a little crazy. I don't expect it to happen, but they are putting some feelers out."

Despite the likely implementation of tight quality restrictions, this broker says Indonesia is less risky to export to than China.

"Inspections for Indonesia are done up front, not when the material lands," he said. "With China, you can get it inspected up front, but they could still reject it when it gets there, which costs a lot of money."

Turkey may gobble up more paper

During the next three to four years, Turkey could provide a home for a significant proportion of Europe's recovered fiber surplus, according to Ercan Yurekli, of TUDAM, the national association of Turkish paper and plastic recyclers and collectors.

Addressing the Paper Division of the Bureau of International Recycling (BIR), in Budapest, on October 15, Yurekli said that by 2023, Turkish paper mills are expected to have developed a combined annual production capacity of between 6 and 7 million metric tonnes. However, the country's collection rate of around 40 percent is well below that achieved by many developed countries and "is not increasing."

As a result, he calculated, there will be a need for Turkey to import 2 to 3 million metric tonnes of recovered paper annually, meaning that the country could provide "a

solution for some of Europe's surplus."

Under current waste management regulations in Turkey, only recyclers are allowed to import recovered paper whereas collection companies cannot. The country's imports have soared from just over 300,000 tonnes in 2015 to more than 725,000 tonnes in 2018, with a figure nearer 1 million tonnes anticipated for 2019.

New capacity also is emerging in Sweden, it was reported by Paper Division Vice President Martin Leander, of Stena Metall International AB. At the same time, the insulation and hygiene sectors have been experimenting with the wider use of recovered fiber in their products.

Earlier during the Paper Division meeting, the body's General Delegate Sébastien Ricard, of France-based Paprec Group, explained that Europe's structural surplus of recovered fiber is currently approaching 8 million tonnes per year, with annual collections of 56.7 million tonnes exceeding consumption of 48.8 million tonnes.

"So we need exports in Europe," he said. "We need new markets."

Until recently, China's demand for European fiber had represented the market's balancing factor. However, the recent shift in Chinese policy has resulted in a steep decline in its overall fiber imports - from around 28 million tonnes in 2017 to perhaps only 5 million tonnes next year, according to Yurekli. To make matters more difficult for Europe's exporters, most of China's recovered paper quotas have been used to purchase from the U.S. instead, Ricard said.

With opportunities to sell into China described by Ricard as "very few," prices in Europe have collapsed and cardboard is currently around the low recorded in August 2009. Mills have taken advantage of the steep drops in fiber prices by becoming "more and more demanding on quality," he said.

Paper Division Vice President Martin Soth, of Pieringer Abfall Verwertung GmbH, in Austria, pointed to falling prices in Eastern Europe and problems with deliveries because Western companies have been keeping the region's mills well sup-

(See Turkey, page 7)



Recovered paper market prices Independent coverage of the recovered paper markets since 1990
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The Paper Stock Report (ISSN 1064-1432), established in 1990, is published 24 times per year on the 10th and 25th day of each month by McEntee Media Corporation, 9815 Hazelwood Avenue, Strongsville, OH 44149, United States of America. Ph. 440.238.6603 Fx. 440.238.6712 Email. ken@paperstockreport.com Web. paperstockreport.com Facebook. www.facebook.com/PaperRecyclingOnline
Publisher/Editor: Ken McEntee
Office Manager: Amy McEntee

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Stats

U.S. containerboard production dips in September

U.S. containerboard production dropped 4 percent in September relative to September 2018, the American Forest & Paper Association (AF&PA) reported. Production dropped 5 percent during the first nine months of 2019 compared to the same time last year.

September 2019 production of containerboard for export decreased 20 percent compared to the same month last year and was down 18 percent year-to-date, AF&PA said.

The containerboard operating rate was 93 percent, down 4 points from 97 percent in September 2018 and down 6.1 points

year-to-date.

Mill inventories of containerboard at the end of September decreased 22,000 short tons from the previous month and were up 27,000 short tons compared to September 2018.

The complete report with detailed tables, charts and historical data can be purchased by contacting Kory Bockman at Statistics_Publications@afandpa.org or 202-463-4716.

The Market

Turkey From page 6

plied - something which did not happen when China was more active in the market, Soth said

Supported by factors such as the continuing growth in online shopping, cardboard prices may well increase at some point in the future - "but with a premium on quality," Ricard said.

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