



BRIEF

ISRI2019: Recycled paper mill cost structure 'probably never looked better'

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Dive Brief:

- "The margin spread for companies that use recycled fiber is bigger than it's ever been," said BMO Capital market analyst Mark Wilde during ISRI2019, citing a difference of more than \$600 between OCC and new linerboard. "We're in territory that we have never seen ever in history."
- Factoring in lower prices for OCC and mixed paper, along with cheap natural gas, Wilde noted that "the cost structure for recycled mills has probably never looked better, at least in the last 20 years." While he projects those conditions won't last forever, Wilde foresees an ongoing period of investment ahead.
- Over the next 18 months, there will be an estimated 2.5-3 million tons of new capacity coming into an estimated 34 million ton domestic market. This includes a variety of acquisitions from Asian buyers as well as new projects underway from the likes of Green Bay Packaging and Pratt Industries.

Dive Insight:

While recent public attention may be focused on plastics, many in the recycling industry are paying even closer attention to what's going on in the paper world from a volume standpoint. Delivered as part of a session on recycling trends over the next five years, Wilde's presentation is the latest sign of how much activity there has been in this space.

With demand for fiber grades softening in export markets — even as generation continues to increase domestically — it's considered a very lucrative time to be a mill operator. Conversely, that makes it a less exciting time for MRF operators that are sometimes paying (or perhaps earning a small amount) to move certain material these days — but they also see signs of hope for what's in store.

As of Nov. 2018, the Northeast Recycling Council counted at least 17 mills in North America that had announced new or expanded capacity, including the notable acquisition of multiple U.S. sites by Chinese company Nine Dragons. Many interpreted this as a sign that the country still needs recycled feedstock following import restrictions, even as it remains the world's largest fiber importer. Wilde expressed skepticism over how the transportation logistics would pencil out to get material from areas such as Wisconsin overseas, but details remain to be seen.

In addition to those deals and the project by Green Bay Packaging, activity by Pratt Industries has also been notable. The company now operates four recycled content mills in the U.S., with a fifth on the way in Ohio. Wilde projected the logical next step could include a sixth site somewhere on the West Coast within the next couple of years.

Once looked down on by some for using around 60% mixed paper in its fiber — the U.S. average is closer to 35-40%, unlike some European and Asian countries — Pratt's business is now booming, with products sold in major stores such as Home Depot around the country.

With all these factors playing out, Wilde suggested the domestic market would likely get tighter for mill operators given increased competition from new Chinese players, as well as domestic tissue makers that source recycled content. The material stream is also continuing to evolve, with less mixed white paper and more OCC coming into the mix.

Finding new market opportunities will be necessary to smooth out any volatility, with the ongoing shift away from expanded polystyrene foam coffee cups held up as a key example (Dunkin' will be the last big brand to make that move later this year). Still, Wilde pointed out that this area also isn't immune from sustainability questions.

"In the interest of fairness here, the paper cup right now is not a perfect solution," he noted, "Because the paper cup is really a composite."

Graphic Packaging, which is contracted to make many of those new cups, is reportedly taking a close look at ways to reduce the plastic component and deliver a purer paper product.

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