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Staying the course

Experts revisit their market predictions months after high-grade premiums reached historic highs.

BY [MARISSA MCNEES](#) | MARCH 2023



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Last year, demand for high grades of recovered paper reached previously unseen levels because of market shifts created by the coronavirus pandemic. Generation slowed when schools and office buildings closed for extended times, and those in the industry described seeing career-high premiums for sorted office paper (SOP) and other tissue grades.

In October 2022, a panel of experts [gathered for a session](#) at the Paper & Plastics Recycling Conference (PPRC) in Chicago to discuss how the pandemic affected operations and what the market fluctuations have meant for their businesses. The discussion, moderated by Kari

Talvola, president and CEO of [Fibre Trade Inc.](#), Burlingame, California, included Kathy DeLano, vice president of sales at [Texas Recycling](#) in Dallas; Ysabelle Dupuis, supply and logistic director at [Kruger Recycling](#) in Quebec; and Ron Gable, senior vice president of performance and operations and [Proshred Security](#) and Redishred Capital Corp. in Ontario.

“I think, by and large, the predictions were accurate,” Gable says of the discussion in October 2022 at PPRC.

Now, with premiums on a downward trend, the panelists revisit those predictions and speculate on the long-term health of the market.

Key takeaways

- SOP pricing has seen downward momentum over the last several months, but prices as of February still are 12 percent higher than a year ago.
- Mills are turning to lower-grade substitutes to make finished products of comparable quality at less cost.
- High premiums are slightly offset by still-high freight and logistics costs.

Market competition

SORTED OFFICE PAPER PRICING*

FEB. 2023

\$214

AUG. 2022

\$236

FEB. 2022

\$176

AUG. 2021

\$143

*Average U.S. dollars per ton for open market purchase by mills, FOB seller's dock. Source: Fastmarkets RISI's PPI Pulp & Paper Week.

SOP prices reached a peak of \$237 per ton in October and November of last year—the same time the panel convened in Chicago. Since then, U.S. average SOP pricing has dipped, with the latest figures from Fastmarkets RISI indicating \$214 per ton. Despite the slight downward

momentum, prices remain 12 percent higher than they were a year ago, when the U.S. average SOP price was \$191 per ton.

“The prediction was that we will fall back to a low watermark somewhere around Q2 of 2023, and that seems to be the direction in which we’re moving,” Gable says.

“It’s been lighter through the holidays, but if you look at this time last year, it’s still higher than it was, even though it’s not as strong as it was,” DeLano adds. “We’re used to being slammed ... we’re just not as busy.”

DeLano notes a shift in the grades her customers are taking, too. She says some customers used to want cosmetic boxes, for example, printed on white solid bleached sulfate. Now, many of them are fine with printing on chipboard and making it black.

It’s a specific example, but Gable agrees it speaks to a bigger trend in the SOP market where he says a potential lack of communication through the supply chain is impacting what grades are being sourced and from where.

“I think the mills can influence a little bit greater on the high grades if that’s what they want,” he says. “I think the mills should be able to identify where those grades are coming from and encourage everyone in the supply chain to recognize that and get them all again.”

DeLano, though, says it’s not so much a lack of communication but a recognition that mills can accomplish the same goals with lower-priced material.

Texas Recycling has been a big consumer of textbooks from schools or libraries or books from used bookstores, she says, and that material was used as an SOP supplement grade. “Now, there’s a lot more mills that have been able to adapt their machines where they can use mixed paper instead of using a high-grade SOP setup,” DeLano says.

“It’s kind of made high grades a little more competitive with low grades,” she adds, noting mills have adjusted to fewer employees by adapting their machinery to make similar finished tissue products with lower-quality material.

But, Gable says, if mills truly want high-grade material, it’s out there for the taking.

“If all you’re looking at is high-level supply and demand, then the market will continue to perform as it always did,” he says. “If you’re looking at trying to get a cleaner grade through to the mill, then some of those decisions that are made on where we default our paper from, those should probably change.”

Gable adds, “If the mills put an emphasis on clean grades, and they push that down through the supply chain to think differently about how they collect and compensate and move those clean grades, they’ll be able to get them from the domestic marketplace.”



Kari Talvola, left, and Ysabelle Dupuis discuss high grades during a panel at the 2022 Paper & Plastics Recycling Conference in Chicago.

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Demand remains steady

In October 2022, Dupuis said it was not a question of when high-grade generation would slow down because, she said, it already was happening. “It’s a known fact the high grades should be called the dying grades,” Dupuis told attendees in October. “It’s something that’s slowly becoming less available.”

However, Gable was a bit more optimistic about the future of the grade and maintains that opinion today. “I think it’s far down the line,” he says. “The clean grades of recycled paper remain in demand.”

Gable says supply and demand have moved together in lockstep over the past several months, suggesting a continued downward trend when it comes to generation. It’s not

alarming, as the panelists anticipated the current situation months ago during the initial discussion.

But, he says, the SOP recycled by Proshred is different from the SOP pulled from municipal recycling streams. The material Proshred handles is direct from office or commercial building sources—preserving the quality of the paper—and Gable says he believes demand will continue to be strong for the clean, high-quality grade his company provides.

“To get the recycled paper they need, [mills] have tried to use less quality grades,” he adds. “They’ve tried to figure out deinking and all the other things they were trying to figure out, but our supply of [SOP] remains the cleanest, and so I think there will continue to be a demand for what we provide.”

Gable continues, “We’re collecting out of the workplace, and the workplace is incentivized through both the security motivation ... as well as by that general concept of being a good, community citizen and putting things into the recycling stream.”

In the months since meeting in Chicago, Talvola says she hasn’t noticed a significant change in generation, but with tax season looming, she anticipates a sharp, albeit brief, spike in SOP generation.



Ysabelle Dupuis, left, Kathy DeLano and Ron Gable discuss high grades during a panel at the 2022 Paper & Plastics Recycling Conference in Chicago.

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“I think this time frame—the tax season, the shred-days season—is a little bit different from perhaps [what we’ll see] long term,” she says.

DeLano adds, “The tissue mills that are buying our high grades, our coated book [stock], our SOP, they still want it. The price has softened a little bit, but it’s nowhere near the free fall that corrugated went through. They’ve definitely softened the price a little bit, but they’re not taking any less of [the material].”

Logistics woes continue

While high-grade premiums have softened, freight, labor and logistics costs have not exactly followed the same trend. Most of the panelists note some level of pricing being offset by interest rates and other operational expenses.

“Yes, it’s been nice to see an easing in the market, but those [prices] get offset by interest rates and other things that are going up,” Gable says. “Will that return the labor market to something normal? That’s still to be seen to some degree.”

He adds, “As in any supply and demand equation, there tends to be a high degree of cooperation when demand is up and supply is down. As demand falls ... we don’t have much tolerance for that to become somewhat less cooperative or less responsive. We need them to pick it up, and so we tend to gravitate toward partners who can ensure they’re going to be able to take our stock away.”

At times last year, contacts reported trucks not picking up orders, and DeLano says Texas Recycling was not immune. “It’s one thing to sell it, it’s another if they haven’t picked it up, and unless it’s picked up, you don’t get paid,” she says.

The continued focus on packaging still is affecting the market as companies reaffirm their growth strategies in that sector.

Cascades, headquartered in Kingsey Falls, Quebec, recently [invested \\$9 million](#) into its corrugated packaging converting facility in Piscataway, New Jersey. The company also anticipates a first-quarter 2023 startup date for its Bear Island containerboard mill in Ashland, Virginia. Fort Mill, South Carolina-based Domtar also [resumed operations](#) in January at its 100-percent-recycled packaging plant in Kingsport, Tennessee, after a two-year conversion project that cost \$350 million.

Even Kruger recently has invested in containerboard operations, announcing a [\\$22.5 million upgrade](#) to its Place Turcot Containerboard Mill in Montreal.

“These [companies] are grabbing on right now where they can make money, and they’re seeing that e-commerce and shipping boxes are where to go right now to make money,” DeLano says.

Overall, the panelists generally agree there haven’t been many, if any, surprises since meeting in October, particularly with pricing—everyone agrees premiums couldn’t stay that high forever.

“The shadows are still the shadows, and the things that were predicted with some degree of certainty are still there,” Gable says.

“The pieces of that which were unpredictable have not materialized to any great degree—China hasn’t had a sudden resurgence in the marketplace ... and the oceans are not embattled [with an expansion of the Russia-Ukraine war]. Those are the kinds of things that could create sudden changes one way or the other.”

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