Q + A

FOR

JIM YANG

Q:  With the advent of China’s Green Fence policy how do believe the industry will respond to meet more stringent quality requirements?

1. It would be the understatement of a lifetime to say, regarding any sector of business to be discussed, that China is a force to be reckoned with. The potential magnitude of their impact on any initiative they may adopt is beyond tremendous. If they “speak,” the world listens, and I believe the industry will be mandated to respond by meeting the guidelines and restrictions called for with regard to China’s “Green Fence” policy. That one singular country has become such a major resource for buying and repurposing most wastepaper grades that it has become quite clear that “as China, goes, so will the industry.” Recycling plants will have to “up their game” by increasing their labor forces, upgrading their equipment and machinery, and paying closer attention to the evolving and more stringent standards of the “Green Fence.” I believe that as we all get used to the policies and as the industry adapts to those new standards, additional costs will eventually be ‘coaxed” downstream to the city/contract levels and possibly as far down as the resident level. The regulations and constraints seem to be fluctuating and we really have no idea what new policies may be enacted next month or even next week, but we do know that China’s EPA is currently analyzing the impact of policies instituted in the early phases of the program and they are actively gathering input and opinions from every angle of the supply chain-traders, suppliers, AQSIQ and mill buyers are all offering their unique perspectives in an effort to mold the program into a long term and worthwhile program. After the analysis has been gathered, I believe they will meet sometime in November to establish new guidelines that the AQSIQ will then enforce. From my viewpoint, I am encouraged-it’s a good thing because most suppliers will accept the challenge to produce products of a higher quality which will then lead to a lower rejection rate at destination ports and that will result in reduced claim rates for everyone. Although there is some speculation that the Green Fence policy is going to be terminated in November, I assure you that the regulations and restrictions adapted over the course of the past eight months will not go away, and there is a good chance that future rules and regulations may become even more strict.

* I would like to also share that the new Chinese Premiere Li Ke Qian stated publicly that, “We must clean up the environment because if we don’t clean it up, the environment will clean out the communist regime”.  Those are some strong words from the top.  I am convinced that the Green Fence is here to stay.

Q.  We have seen brokerage profit margins decline significantly in the past 5 years. What do you think the future holds for this end of the business?

A. I think it’s become clear to people in just about every sector of business that we all have to find the way to “work smarter.” I think that in general brokers’ and traders’ margins may be a bit off, but for our company, those numbers have not dropped significantly. Yes, it’s true that there has been a drop in volume in the recent past, and that of course, results in lower profits. I do feel that the trading side will remain and the brokers that currently play in this arena will continue remain here as well. Let’s face it, as the barriers of entry grow increasingly taller, the need for professionals well versed in new and ever changing procedures and policies will find that they serve an increasingly important function. As the Chinese regulations of maintaining the AQSIQ license and CCIC approved self-inspection companies get more stringent, those regulations will deter most newcomers from entering this industry (**Please check this wording-not sure of the terminology**). I think we also have to take into consideration that our business sector is capital-intensive, and I do believe that most mill suppliers and shipping lines are very careful and cautious with new companies that attempt to join this industry.

Q.  What have you been seeing in the last few years as generation decreases and grade shifts in what’s being collected and processed and do you expect these trends to continue?

A. I see overall paper generation decreasing because of the proliferation of electronic media.  Newspaper will continue to decrease in generation as less people are reading hard copy.  This is a trend that will happen globally and not just in the USA. The Chinese demand for newsprint is not as robust as it once was or was expected to be.   Newsprint Mills in Asia are suffering from weak demand, and that is resulting in weak pricing along with over capacity.   The necessity and use office paper will also decrease with electronic media, but I am confident that as the world morphs and continues to adapt to trends inspired by new technology, the materials we use and discard as a culture will make way for new sectors of recyclable materials. (**If you have any ideas as to trends you foresee in the business, perhaps give a little tease of what may be coming down the pike, and you can say something like**)  I know it may be a little premature to mention this, but trend-wise in our market place, we are beginning to see greater demand for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and as paper generation decreases in popularity, it is being balanced and possibly eventually replaced with \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.