

The Marketplace for PRNs

Market Status Report – May 2014 to July 2014 By Ian Andrews



Once again trading during the period appeared to favour buyers over sellers with supply across all materials remaining strong and offer prices reflecting this position. At the start of the quarter, one could be fooled into thinking that the Glass Other grade may struggle with Q1 supply well behind but even in the face of a potential shortfall

buyers remained unconcerned. Similar views were expressed regarding the other 2013 problem materials with Glass Remelt, Plastic and Steel all seeing softening prices throughout the quarter. Aluminium trading was weak in the face of poor demand and the lower valued materials Paper, Recovery and Wood saw very little movement in value over the period.

The quarter could be best characterised as one where the buyers refused to panic and collectively were not prepared to get into bidding wars to secure undersupplied materials. Some have commented that after two high value years when low quarterly returns set the tone for price increases, this year, after the Government's reduction of the glass targets, pressure had eased on their positions. When the demand figures were released and the reduction in the glass demand was quantified, the true picture became clear and those who had not purchased glass were comforted by the fact that their judgement was correct. At the end of the period the Q2 supply figures (Review pg4) provided evidence that any concerns regarding undersupply had been misplaced and buyers were rewarded with further good news.

Trading for the quarter equated to 234,707 tonnes with 166,493 tonnes trading in the Spot market and 68,214 tonnes trading in the Forward markets.

Paper

Paper traded in reasonable volume this quarter with little concern surrounding supply resulting in the price remaining soft. Since the start of the year this market has consistently traded at below £1 and it would appear that given the strong supply this may well continue.

Plastic

With positive news being provided through the NPWD on supply throughout the first two quarters the prices drifted down during the early part of the period with buyers confident that last year's export issues had been alleviated. Once the demand figure was released and the supply figure adjusted to reveal the need for an additional 80,000 tonnes market prices stabilised and only started softening again upon the release of a strong second quarter supply figure.

Glass

Both glass markets saw good activity this quarter with supply being secured with ease. The aggregate market which had initially reported a short supply for the year maintained a strong price with supply indicators showing that it had some ground to make up. The Remelt market has continued to report good supply and prices have softened more than the aggregate market. The price spread between both markets has closed to the shortest spread since the split note was introduced.

Steel

Steel values held firm at the start of the quarter with concerns about the short supply ensuring demand remained good. Towards the end of the quarter the supply position eased and prices softened to reflect this.

Wood

With good supply offered across all markets and the figures showing another excellent quarter, prices remained stable during the period. Buyers opted to secure larger volume trades in the forward markets to secure lower trading fees via the rebate structure. Wood sellers have again set a benchmark price for sellers and this has helped to maintain value.

Aluminium

With very little concern being voiced regarding this market's supply, buyers continued to populate the market with single digit bids. Sellers initially refused to sell so low and only revised their positions once the Q2 supply figure confirmed that supply and demand were broadly in balance.

Recovery

The undersupply position reported in the Q1 supply reported at the end of previous quarter created some concern and saw prices firm up for the first time in a number of years. By the end of the quarter the supply position had improved and concerns eased.

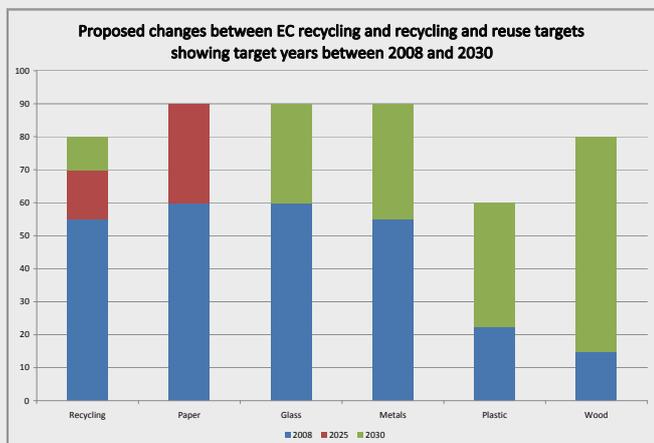
	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	YTD aggregated traded
Paper						
Spot 14	£0.90	£0.85	55,544	£0.85	£0.74	117,485
Jul Fwd 2014	£0.85	£0.85	1,891	£0.85	£0.80	22,891
Plastic						
Spot 14	£45.00	£29.00	40,913	£35.88	£38.89	60,016
Jul Fwd 2014	£43.00	£35.00	6,935	£38.11	£38.11	6,935
Oct Fwd 2014	£42.00	£28.00	10,390	£36.52	£38.49	13,590
Dec Fwd 2014	£42.00	£35.00	1,300	£38.62	£38.62	1,300
Jan Fwd (Trans)	£45.00	£45.00	1,500	£45.00	£45.00	1,500
Glass Other						
Spot 14	£28.00	£20.00	17,108	£22.93	£24.45	20,992
Jul Fwd 2014	£25.00	£20.00	4,500	£22.11	£28.58	14,200
Oct Fwd 2014	£25.00	£20.00	5,000	£22.10	£28.72	15,700
Dec Fwd 2014	£22.00	£22.00	8,500	£22.00	£24.57	11,800
Glass Remelt						
Spot 14	£47.00	£30.00	25,843	£38.11	£40.33	31,758
Jul Fwd 2014	£41.00	£33.00	7,000	£36.21	£39.95	9,600
Oct Fwd 2014	£28.00	£28.00	2,000	£28.00	£43.80	7,100
Dec Fwd 2014	£27.50	£27.50	3,800	£27.50	£37.61	6,900
Steel						
Spot 14	£20.00	£10.50	15,810	£14.25	£13.97	16,442
Oct Fwd 2014	£15.00	£15.00	1,000	£15.00	£13.75	2,000
Wood						
Spot 14	£2.00	£1.50	2,611	£1.66	£1.67	2,657
Jul Fwd 2014	£1.35	£1.35	11,733	£1.35	£1.35	11,733
Oct Fwd 2014	£1.65	£1.65	211	£1.65	£1.65	211
Aluminium						
Spot 14	£10.00	£7.00	2,584	£8.82	£8.03	3,221
Recovery						
Spot 14	£0.75	£0.50	6,080	£0.63	£0.52	16,417
Jul Fwd 2014	£0.50	£0.50	2,454	£0.50	£0.50	2,454

MANAGING DIRECTORS REMARKS – August 2014



A quarter dominated by the European Commission's announcement of its circular economy proposals which include revised targets for packaging as far as 2030. Concurrently the Agencies have issued the Q2 NPWD figures and revised both the obligation and Q1 figures, the plastics industry have continued to advocate for a split PRN and a new protocol for aluminium packaging has been announced. Meanwhile it has been another busy quarter of trading through t2e's markets.

The ambition of the packaging targets for 2030 within the Commission's circular economy package has surprised many: 80% general recycling target for all packaging, 70% by 2025; material specific targets of 60% for plastics; 80% for wood; 90% for steel, aluminium and glass by 2030 and 90% for paper by 2025. Additional complexity has been added by the inclusion of preparation for re-use within the target and measures to increase public awareness of proper waste management and litter reduction with no guidance of how this should be implemented, measured or verified. While a landfill ban on recyclable waste and a target of 70% recycling or preparation for re-use on municipal waste may assist this ambition it still represents a major challenge.

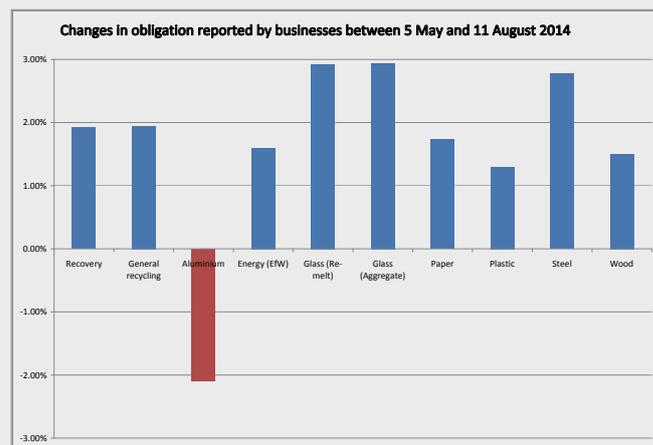


Of more immediate benefit there is a desire to harmonise definitions and the methodology for the measurement of targets which will at least give some opportunity should the UK ever again be called the 'dirty man' of Europe – incidentally no longer a reasonable accusation – to be able to compare its recycling performance with those of others on a like for like basis.

While there is many an adjustment between announcement and implementation, the changes in thought, word and deed required to achieve these proposals will be significant. One hopes that the science justifies them and the targets are not just arbitrary aspirations.

Meanwhile on 11 August the Environment Agencies published the revised obligation and NPWD figures for Q1 and Q2 2014. While the market had already anticipated the issues and

factored them into the prices it is worth highlighting that the obligation increased by just over 2%. This restored it to levels predicted at the beginning of the year: Apparently a substantial element of this change was due to a large company that wished to re-assess its obligation in greater detail. As this caused a reduction in the material specific obligation for aluminium by 2% and an increase in the glass and steel ones by 3%, what might be the consequences of other companies being more rigorous about the calculation of their obligations?



Q2 has been a good quarter with growth in all materials and, led by plastic and steel, the highest levels of domestic reprocessing have been achieved since 2011, with the exception of the anomaly of Q4 2012, while UK exports for recycling, led by paper and plastic, have recovered from the jitters of the Chinese 'green fence' to reach record levels.

As the quarter has come to a close, the plastic industry has re-iterated their desire for a split between PRNs earned on exports and domestic reprocessing. Unless this is justified on the grounds of differences between the materials exported and reprocessed domestically it is difficult to identify on what legal basis this could be substantiated. In contrast research by the aluminium industry has resulted in the Agencies from 2015 reducing the ability to issue PRNs on 'protocol' aluminium but enabling reprocessors that receive aluminium from incinerator bottom ash to issue PRNs. It is anticipated by the industry that the net impact of these revisions on the aluminium PRN supply will be minimal. Nevertheless an initial reduction in supply could be anticipated.

Thank you for your support this quarter. Those who are going to RWM, I look forward to seeing you in Birmingham. Otherwise we look forward to being of service to you.

Angus Macpherson
Managing Director

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Q2 PRN Report *Continued from Page 4*

tonnes (1%) oversupplied in Q1. In Q2, Glass Other failed to meet its Quarterly Obligation once again and was 16,254 tonnes (12%) undersupplied. Glass Remelt exceeded its quarterly obligation in Q2 by 39,903 tonnes (16%). This will help us to understand why this oversupply position in Glass Remelt, even where it is meeting its Glass % split (65% for Glass Remelt, 35% for Glass Other), is putting downward pressure on the price more towards Glass Other prices. [Please see **Figure 2** below]

If we combine the two quarters for Glass Other, there is an 11,212 tonnes undersupply and so far this year, 48% of the Glass Other annual target has been met. When combining Q1 and Q2, Glass Remelt is 43,188 tonnes oversupplied and so far Remelt has met 54% of its annual target. If we take both Glass notes and look at where they are in comparison to the overall Glass obligation at this point in the year, we see that Glass (Remelt and Other) is only 2% oversupplied (31,976 tonnes).

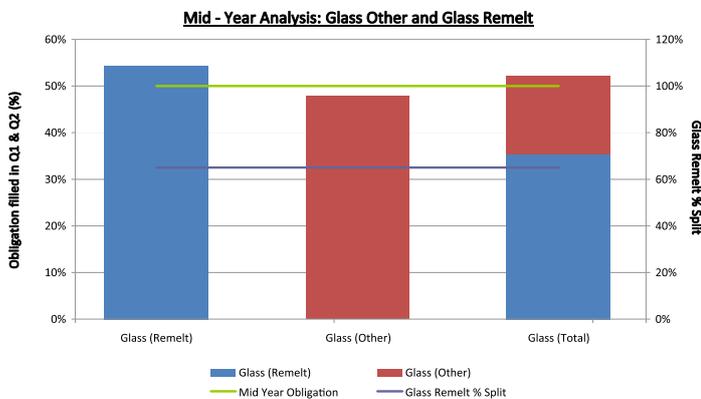


Figure 2. Mid-Year Analysis; Glass Remelt and Glass Other.

Aluminium

Following the release of the Q1 figures, we saw that Aluminium was 1,027 tonnes (6%) undersupplied. The Q2 figures demonstrated that Aluminium had exceeded the quarterly obligation by 345

tonnes (2%), but this was not enough to make up the shortfall seen in Q1. The two quarters combined gives a total of 33,624 tonnes. At this point in the year, Aluminium is still 736 tonnes undersupplied and 49% of the annual target has been met. It's possible that it is for this reason Aluminium prices have more or less continued to hold since the release of the supply figures.

Wood

Wood was 46,537 tonnes (80%) oversupplied in Q1 and 46,291 tonnes oversupplied (80%) in Q2. The two quarters combined gives a total of 208,894 tonnes and at this point in the year Wood has met 90% of its annual obligation. Despite overall Wood availability in the PRN market falling year on year, (369,877 tonnes in 2011, 290,229 tonnes in 2012 and 213,347 tonnes in 2013) there has still been good supply available in the market this year with trading prices remaining soft.

Paper

Paper was 219,568 tonnes (35%) oversupplied following the release of the Q1 figures. In Q2, Paper was 218,703 tonnes (34%) oversupplied. With large supply volume being offered across the markets and contributing towards General Recycling, prices have continued to trade at 85p. The two quarters combined gives a total of 1,708,579 tonnes and at this point in the year 67% of the annual Paper obligation has been met.

General (Total) Recycling and Overall Recovery

The General (Total) Recycling for Q2 was 1,727,344 tonnes and met 27% of the Business Obligation. PRNs available to meet the total general recycling obligation are in those materials which are in surplus to their obligation. When looking back to **Figure 1**, we can see that the two main materials contributing towards this obligation are Paper and Wood.

Overall Recovery for Q2 is 1,873,557 tonnes and exceeded the Business Obligation by 27%. When looking at Q1 and Q2 for both General (Total) Recycling and Overall Recovery, only 51% of the obligation has been met at this mid-year stage for each.

My academic year out... *By Tom Rickerby*



It seems like only yesterday that I was sitting at my desk at t2e but for the past 12 months I swapped PRN trading for full time academic study. Returning to University as a mature(ish) student, 10 years after I last paid off my library fines was both a daunting and exciting prospect. In hindsight, it has been one of the most enlightening, inspiring and rewarding experiences of my career so far.

The Carbon Management MSc programme at Edinburgh University is only in its 6th year and is a collaboration between the School of Geosciences and the Business School. It is based out of the newly renovated, award winning Edinburgh Centre for Carbon Innovation – a hub for low carbon businesses and academia. The result is a course that felt contemporary, engaging and highly relevant. The content touched on a broad range of topics including climate change science, mitigation and adaptation, carbon economics and markets, international and domestic climate change policy, carbon accounting and reporting,

sustainable development and renewable energy. The program attracts distinguished and influential guest speakers from the likes of the UN Intergovernmental Panel on Climate Change and business leaders at Diageo and SSE. I was also fortunate enough to work on collaborative projects with The Carbon Trust and the Scottish 2020 Climate Group.

Above all, the experience has opened my eyes to the immense challenges that climate change poses to business and society. Significant emissions cuts are required to stabilise atmospheric CO2 levels and to avoid potentially catastrophic climate change. This threat is real, the science is unequivocal and it is happening in our lifetime. In a world that is addicted to increased consumption, cheap travel and fossil fuel use and where economic and social development are directly linked to higher emissions, it will be fascinating to see how these challenges are overcome. The UK alone has set legally binding targets to reduce emissions by 80% by 2050. I look forward to dedicating my career to help achieve this goal. I would like to take this opportunity to thank my sponsors, Angus and my wife, for their support over the past year.

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Q2 PRN Report – Reprocessing and Exporting Figures *By Kirsty Anderson*



On Tuesday 22nd July the initial Q2 Reprocessing and Exporting figures were published which revealed some good news for the materials where shortfalls had been reported in Q1. All materials in Q2 exceeded their quarterly obligation, with previous shortfalls from Q1 made up in Plastic and Steel. Total Recovery production including general recycling for Q2 is 1,873,557 tonnes, which is +7% against a quarter of the Total Recovery annual obligation (quarterly obligation).

Review of Q2 Supply Figures

Table 1 Shows the initial published Q2 figures and how these compare to the quarterly obligation. **Figure 1** illustrates the proportion of obligation which has been met so far this year from Q1 and Q2. The red line marks the mid-year obligation, 50% of the total obligation for each material, which gives an indication of these materials that are undersupplied at this stage in the compliance year. As can be seen, the materials that are significantly oversupplied are Paper and Wood, which fill the General Recycling Obligation.

Material	Q2 Supply 2014 (Tonnes)	25% of Obligation 2014 (Tonnes)	Difference	% Difference
Paper	853,857	635,154	218,703	34%
Glass (Other)	150,442	134,188	16,254	12%
Glass (Remelt)	289,109	249,206	39,903	16%
Glass (Total)	439,551	383,394	56,157	15%
Aluminium	17,453	17,108	345	2%
Steel	103,655	87,651	16,004	18%
Plastic	208,504	195,197	13,307	7%
Wood	104,324	58,033	46,291	80%
Overall Total Recycling	1,727,344	1,621,736	105,608	7%
Overall Recovery	1,873,557	1,753,671	119,886	7%

Table 1.

Confirmed Quarter 2 Supply Figures against the Quarterly Obligation.

Mid - Year Analysis



Figure 1. Mid-Year Analysis. (Excluding Carry-In)

Steel, Plastic and Glass (Remelt and Other) have dominated PRN

discussions this year and have received the greatest interest in the market. Plastic, Steel, Aluminium and Glass Other all saw a shortfall in supply in the initial Q1 figures released earlier this year. Once the Q2 figures were released, the shortfalls in Plastic and Steel were made up but Glass Other and Aluminium are still undersupplied.

Table 2 illustrates the amount of obligation filled in Q1 and Q2 for each material against 50% of the Obligation and displays the over/undersupply position for each material.

Material	50% of Obligation (Tonnes)	Q1 & Q2 Supply (Tonnes)	Difference showing over/undersupply	% Difference
Paper	1,270,308	1,708,579	438,271	35%
Glass (Other)	268,376	257,164	-11,212	-4%
Glass (Remelt)	498,412	541,600	43,188	9%
Glass (Total)	766,788	798,764	31,976	4%
Aluminium	34,360	33,624	-736	-2%
Steel	175,302	182,567	7,265	4%
Plastic	390,394	400,321	9,927	3%
Wood	116,066	208,894	92,828	80%
Total Recycling	3,243,472	3,332,659	89,187	3%
Overall Recovery	3,507,343	3,588,442	81,099	2%

Table 2.

2014 Obligation against Q1 and Q2 to show Current Under/Oversupply.

Steel

After the 11% shortfall in Steel reported following the release of the Q1 supply figures, Steel exceeded the Q2 quarterly obligation by 16,004 tonnes (18%). The two quarters combined give a total of 182,567 tonnes. At this point in the year Steel has met 52% of its annual target. It is understood that the undersupply seen in Q1 was mainly due to a downturn in domestic supply. 43,364 tonnes reprocessed in Q1 compared with 65,151 tonnes in Q2. Once these figures were released, it demonstrated the shortfall had been made up and Steel was 7,265 tonnes oversupplied. Prices initially softened and then held largely due to being only 2% oversupplied when looking at the Steel annual obligation mid-way through the year.

Plastic

When the initial Q1 supply figures were released, Plastic had a reported supply figure of 201,040 tonnes suggesting that the quarterly obligation had been met and there was a surplus. The Agency then released a revised set of figures for Q1 showing Plastic was actually undersupplied by 3,380 tonnes (2%). When the Q2 figures were released, initially an excess in supply of over 30,000 tonnes was seen. This was quickly revised to show Plastic had still exceeded its quarterly obligation, but by 13,307 tonnes (7%). The two quarters combined gives a total of 400,321 tonnes. At this point in the year Plastic has made up the shortfall from Q1 and is carrying a surplus of 9,927 tonnes. This is only 51% of the annual obligation for 2014 which may explain why, at the end of July, Plastic prices held.

Glass

Glass Other was 27,466 tonnes (20%) undersupplied following the release of the Q1 figures. In contrast, Glass Remelt was 3,285

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