

The Marketplace for PRNs

Market Status Report By Tom Rickerby, Head of Trading



PRNs bucked the global inflationary trend as another strong supply quarter saw prices fall across all materials reinforcing Q1's bear market. This deflationary price pressure combined with a reduced risk outlook has led to another period of cautious trading activity and low volume as buyers look to manage compliance costs post-pandemic.

A total of 298,154t traded on t2e during Q2, up 3.5% on Q1 and down 21% on the same period last year. 175,241t were traded in the 2021 Spot Market. 42,971t were traded in the 28 Day Rolling Market and 79,942t were traded in the 2021 Forward markets.

Paper

Paper supply continues to show evidence of a strong recovery to pre-pandemic levels leaving the PRN market languishing at low single digit values. Buying activity remains subdued as prices are locked in a downward trajectory having fallen 75% from the beginning of the year to close the quarter at £1.85 per tonne. Stiff competition from Wood for General Recycling demand is likely to maintain this trend into Q3.

Glass Remelt

Remelt's failure to hit target in Q1 saw a strong market reaction at the beginning of Q2. Early buying pressure saw Spot prices jump 18% to a 31 month high of £43.50. Despite seller's bullish outlook, price momentum slowed during the period, consolidating at £40.00 per tonne with an improved supply picture (up 15% on Q1) supporting the pull back.

Glass Aggregate

Glass Aggregate prices consolidated in Q2 after receiving a boost following the price surge in the Remelt market. Spot values traded within a narrow price range from £12.75 to £11.00, whilst prices softened to £10.00 in the 28 Day Rolling and October Forward market. Volume was up 10% on the previous quarter.

Plastic

The sell-off in Plastic markets at the end of Q1 ended abruptly at the beginning of Q2 as buying support returned following news of further trade restrictions imposed by Turkey effectively banning the import of all packaging grades in a kneejerk response to a damning Greenpeace report on illegal waste export to the country. The loss of one of the UK's largest plastic export markets signalled another mood swing in the PRN market with many sellers anticipating a significant contraction in Q2. By the start of June, Spot prices had rallied 125% to a £132.50. However, this price action failed to attract the support of larger buyers resulting in a retrace to the £85.00 support level. Prices stabilised for a period but fell again on the release of strong monthly data for June, diminishing concerns of a weak supply quarter. The Spot price closed the quarter at a year low of £48.50.

Steel

Another comfortable supply quarter saw further downward price pressure in Steel markets and a continuation of the deflationary trend established in Q1. PRN prices fell 37% to a year low of £10.00 in the Spot and Forward markets. Weak buying support has been a feature of this year's market so far and this is no more evident than in Steel where

traded volumes remain significantly down on 2020.

Aluminium

Aluminium is following a similar narrative to Steel this year where a surge in the underlying commodity value has seen high demand for packaging grades producing consistent and strong PRN generation, a strong factor in fuelling this year's PRN bear market. Prices fell steadily over the period, dropping 28% to £18.00 in the Spot, despite a 13% rise in the obligation.

Wood

Another strong supply quarter saw Wood hit its reduced material specific target with over 6 months of the compliance year to go. A scenario that will frustrate wood recyclers, already dismayed at the decision to drop the recycling target this year. The value of Wood PRNs has collapsed accordingly, falling 65% to a year low of £1.75 in the Spot. The Q2 average is the lowest since Q2 2017. Wood prices have traded at a discount to Paper throughout the period, providing a more attractive option for General Recycling buying, helping to boost trading volumes. Volume was up 137% on the previous quarter.

Q2 May - July 21	High	Low	Traded this Quarter	Quarterly Average Price	YTD Average Price	Total Volume
Paper						
Spot 2021	3.50	1.85	42,154	2.30	4.60	130,396
28 Day Rolling 2021	2.00	1.75	20,500	1.76	3.32	34,000
JUL Forward 2021	2.10	2.00	40,192	2.03	3.68	64,192
OCT Forward 2021	2.00	2.00	2,500	2.00	6.19	10,500
DEC Forward 2021	2.50	2.00	5,000	2.25	3.47	8,000
Plastic						
Spot 2021	132.50	48.50	42,815	78.67	99.24	100,786
28 Day Rolling 2021	130.00	48.50	6,468	70.61	95.46	14,630
JUL Forward 2021	130.00	65.00	1,800	92.08	106.59	5,800
OCT Forward 2021	100.00	48.50	8,650	84.42	89.55	12,900
DEC Forward 2021	75.00	48.50	7,700	70.38	76.74	11,200
Transitional JAN Forward 2022	50.00	50.00	100	50.00	50.00	100
Glass Other						
Spot 2021	12.75	11.00	24,860	11.97	11.35	41,545
28 Day Rolling 2021	10.50	10.00	1,500	10.17	10.17	1,500
OCT Forward 2021	10.50	10.00	1,500	10.17	11.83	13,400
Glass Remelt						
Spot 2021	43.25	35.00	18,032	39.36	31.00	39,217
28 Day Rolling 2021	41.25	41.25	2,000	41.25	32.26	8,500
Steel						
Spot 2021	16.00	10.00	12,763	12.24	14.27	26,966
28 Day Rolling 2021	10.00	10.00	1,000	10.00	10.00	1,000
OCT Forward 2021	10.00	10.00	1,000	10.00	12.14	3,500
DEC Forward 2021	10.00	10.00	1,000	10.00	10.00	1,000
Wood						
Spot 2021	4.95	1.75	31,968	2.16	3.31	62,359
28 Day Rolling 2021	2.50	1.75	11,503	1.96	2.67	15,990
JUL Forward 2021	2.00	2.00	6,000	2.00	4.45	10,700
OCT Forward 2021	2.00	1.80	2,000	1.90	6.29	9,750
DEC Forward 2021	2.00	1.80	2,000	1.90	2.13	2,250
Aluminium						
Spot 2021	25.00	18.00	2,649	20.72	26.22	10,070
JUL Forward 2021	23.00	23.00	250	23.00	26.46	1,200
OCT Forward 2021	23.00	23.00	250	23.00	26.46	1,200

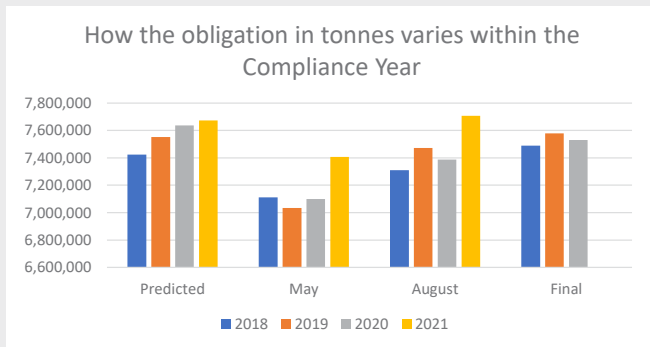
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Managing Director's Comments August 2021



It has been another quiet quarter from a trading perspective. Despite early concerns about exports, secondary raw material prices are spiralling upward, PRNs are plentiful, although some tension is retained in glass, and their prices are tumbling.

As threatened the Agencies have introduced the cancellation of PRNs. The Chairman of Advisory Committee on Packaging (ACP) has spoken out against the Deposit Scheme as the Scottish Government reviews its proposed start date of July 2022. The consultation on consistent collection closed with a consistent clamour from local authorities against it. So far feedback from the Government has been sparse as they struggle to get the Environment Bill through Parliament, where far greater concerns are expressed about environmental principles, habitats, air and water quality than Producer Responsibility although the facility to appoint a scheme administrator more swiftly, a vital cog in future Producer Responsibility, has been introduced.



PRN System working

With tumbling prices some may think that the PRN system is not working or complain that it is too volatile (although that complaint may be reserved for 2022 should prices rise as steeply as they have fallen in 2021!) but that would be wrong. The falling PRN price reflects the booming secondary raw material market and the increase in its availability as demand for goods expands globally post-pandemic outstripping an increased PRN demand created despite last year's lockdown, potentially reflecting the increased packaging needed for home deliveries. Secondary raw material prices are under further upward pressure as the logistics chains have struggled with congested and closed ports, restricted container availability and driver shortages.

Producers Pay

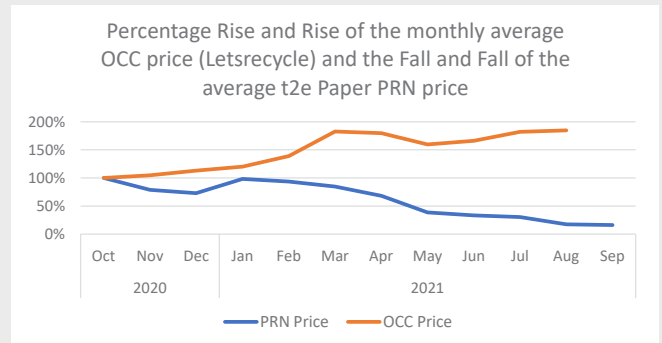
What is frequently overlooked is that it is the producers that pay these secondary raw material prices to provide packaging on their goods; the benefits of these higher prices trickle down to the suppliers/collectors of these commodities, which include local authorities, and the income provided by these secondary raw material sales significantly outweighs that from PRNs and traditionally covered

the costs of collection. Not only does it create a demand pull for these materials but it also encourages additional collection. Where funding shortfalls arise it is met by the supplier of the secondary material whether that be business or the general public through their Council Tax. Despite claims to the contrary confusion remains amongst local authority customers, the public, about how they fit in the supply chain and what is expected of them. Consistency of message throughout the United Kingdom would greatly ease this confusion.

Exports

Against an uncertain backdrop of rising cases and deaths from Covid-19, the economy is recovering remarkably swiftly from a low base with the second quarter revealing built up demand for house moves and non-food products. Similarly packaging use and the availability of used packaging for the creation of secondary raw materials has increased and consequently so have PRNs. However concerns still remain of potential abuse. This focuses on exports, in particular plastic, where a ban had been put in place for exports to Turkey but was shortly lifted.

Uncertainty also remains on exports to Europe which could be used as a staging post to Turkey and the source of some of the materials that are subsequently exported. The impact of closer Agency surveillance can be seen not only in the cancellation and/or suspension of accreditations but also the reduction in available PRNs. However, with a predicted surplus including carry in of almost 1 million tonnes this is not sufficient to create much tension in the market even after the anticipated increase in obligation.



Thank you to Salih for his insights into the confusion about exports to Turkey. It is good that this important export destination is open again so long as it is not abused. Thank you too to those that continue to support t2e. We long forward to both seeing you at the forthcoming shows and continuing to be of service to you.

Angus Macpherson
Managing Director

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Q2 Supply Analysis By Andrew Letham, Operations Manager



Another positive quarter as supply remained strong across most markets in Q2 despite falling PRN prices and challenges with shipping and haulage. Overall material recycling fell 31,019 tonnes (t) from Q1 with Plastic and Paper falling 15,404t (5%) and 54,531t (5.5%) respectively as Glass Remelt improved significantly, growing by 44,532t (14.8%).

The addition of 300 registered Producers from Q1 saw a further 302,028t (4%) added to the Recycling obligation. This brings the total obligation required 90,892t ahead of the final number last year (7,616,936t) with 425 fewer producers registered. Producer numbers have steadily fallen over the last three years suggesting outwith Covid-19 we would be unlikely to see the same number of registrations as last year (7,255), however growth from the current number of 6,830 is expected.

Glass remelt has seen both supply and demand increase significantly in Q2. Total packaging handled in Glass is currently 144,697t higher than close of play 2020, meaning that with increased recycling targets and amendments to the split between Remelt and Aggregate a further 107,279t has already been added to Remelt demand this year. After a poor start to the year supply improved significantly in Q2 with the 345,748t reported as recycled showing a 14.8% increase on Q1. Overall, only 46.7% (646,964t) of current obligation (1,384,060t) has been filled and supply will need to improve to meet target. The 80,657t carry-in gives some comfort to buyers but with sellers reluctant to commit volume to the market this may have some way to run.

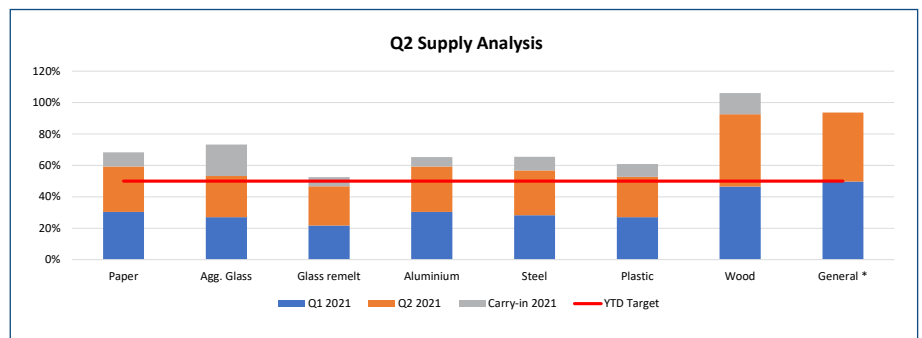
Glass Aggregate although slightly down Quarter on Quarter (QoQ) at 141,191t, continued in good supply. At current run rates and with 53% of the current obligation (538,245t) now complete it looks promising that there will be enough in the tank to fill its own obligation without the need to take supply from the Remelt market. If aggregate does manage to fulfil its own obligation in year it will be the first time it has done so since the split of grades in 2013.

Controversy is never too far away from the **Plastic** market and Q2 was no different. In mid-May Turkey (the UK's largest market) announced it would close its doors to Plastic waste pending review. Panic ensued with prices doubling over a 2-week period before suggestions of a relaxation of the restrictions alongside the ending of a ban of material being sent to non-OECD countries saw the tide turn. The overall impact on Plastic PRN supply was in the end relatively subdued with the 288,192t reported as recycled in Q2 down 15,404t (5%) from Q1, suggesting much of the material previously destined for Turkey found a home in European markets. To date 53% of the current 1,120,624t obligation has been filled meaning a rather modest 264,418t are required in each of the final two quarters to meet target in year. There is also the largest carry-in ever seen in Plastic (90,553t) to factor in, but current pricing and supply would suggest that not all of this will be taken into 2022.

A 4% increase in the **Paper** Recycling target from 2020 means that

Material	Carry In	Q1	Q2	2021 Obligation	YTD Supply + Carry In	Balance
Paper	299,118	993,771	939,240	3,263,858	1,292,889	-1,970,969
Aggregate Glass	107,086	145,751	141,191	538,245	252,837	-285,408
Glass remelt	80,657	301,216	345,748	1,384,060	381,873	-1,002,187
Aluminium	8,326	41,847	39,672	137,535	50,173	-87,362
Steel	33,644	108,272	109,642	383,848	141,916	-241,932
Plastic	90,553	303,371	288,192	1,120,624	393,924	-726,700
Wood	46,634	160,642	159,497	345,562	207,276	-138,286
General *	0	265,454	234,436	534,096		
Total	585,361	2,054,870	2,023,182	7,707,828	2,339,015	-4,452,844

**Please note the general supply figure has been generated from calculating the surplus material prns in each quarter and does not include carry in tonnage.*



although packaging handled currently sits 23,007t below the final figure last year (4,115,451t) the obligation is up 147,806t at 3,263,858t. Despite the increased obligation (which will grow further) and supply falling 54,531t, QoQ Paper remains on track to easily meet its own obligation and compete to fill a large amount of the General Recycling obligation which sits at 533,950t with Wood. The 299,118t of carry-in are likely to be surplus to requirements with the maximum carry-out into 2022 expected.

Wood compliance is now a foregone conclusion with the 320,139t reported as recycled in the first half of the year representing 92.6% of the current obligation of 345,563t. Some downturn in recycling may now be expected with PRN prices at administration levels however questions have to be asked whether the 13% reduction of target alongside the removal of Recovery PRNs (to which Wood and Paper contributed significantly) promotes recycling. With the maximum carry-out from 2021 into 2022 likely to be c.45kt, large amounts of Wood PRNs are set to be written off and many sellers will now consider their positions before accrediting for next year.

Another steady return in **Steel** means that despite the obligation already sitting 4,598t higher than last year at 383,848t, barring any unforeseen events compliance should be met come the end of the year. Recycling increased marginally from Q1 with the 109,642t reported just shy of last year's average of 110,382t in what is currently a very stable market.

Aluminium continued to post strong recycling returns with 59% of the current 137,535t obligation now met in year. A 13% increase in obligation YoY means that the market isn't as comfortable as it would have been in previous years at the current levels of supply, however if generation continues as it has in the first half of the year compliance should be easily met.

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Q & A with Salih Kanbak – Foreign Trade Manager at Metroplast Packaging



Q: What does your role as Foreign Trade Manager at Metroplast involve? What materials do you import from the UK into Turkey?

I manage all export/import operations; developing objectives for market sales and implementing new product launches to achieve sales targets. On the importing side, my role involves purchasing raw material (plastic scrap) according to the needs of our production lines.

Currently, we export to more than 25 countries and this number is growing every year as we continue to enlarge our potential day by day. In the UK Market, we have a fruitful and long-term cooperation with our customers in Birmingham, London and Gateshead. We are extremely glad to have established a presence in such a substantial country.

Q: Turkey is now the largest export destination for plastics from the UK. Why has the recovered plastics industry in Turkey grown so rapidly?

After China banned plastic scrap imports in 2018, the global gap emanating from China was huge and many customers from Europe and Asia turned to Turkey as a recycling destination. Turkey saw more than \$6 billion worth of investment into recycling in a very short space of time. Previously there was a rivalry between Chinese and Turkish recyclers however, after 2018 many Chinese recyclers became customers as they began purchasing plastic resins/pellets from Turkey, Vietnam, Indonesia, and Malaysia to answer their industry's raw material needs. This also encouraged Turkish recyclers to increase their capacity and to import plastic scrap from export countries (mainly the UK).

A key reason why the UK is Turkey's preferred destination for purchasing plastic scrap is due to some of the famous grades that can be found in the UK such as 4-4-2,99-1/98-2 and mixed colour grades. In the past, Turkey was unable to compete with Chinese purchasers on the pricing of these grades, however after the China ban, the prices of these commodities decreased drastically, and so these commodities have started being shipped to Turkey.

Q: From where else, other than the UK, are recovered plastics imported into Turkey?

Generally, from USA, Germany, Holland, Belgium, Iraq, Italy, and Greece.

Q: In May 2021 Turkey announced plans to introduce tighter restrictions regarding the import of Plastic waste by adding polyethylene to the import exclusion list. Why were these restrictions brought into place? And how have these restrictions affected your business?

There are thousands of recyclers in Turkey who are doing their job exceptionally well and working in full compliance with environmental guidelines. However, as in every sector of the industry, this market also has a few illegitimate recyclers who do not comply with the regulations and pollute the environment rather than cleansing it. Instead of eradicating these few illicit recyclers, the Environment Ministry punished all recyclers in Turkey by putting pressure on the Trade Ministry of Turkey and banning imports of plastic scrap. Considering that Turkish plastic recyclers can only saturate max 10-15% of their plastic scrap needs domestically; after the disappointing Environment Ministry decision, many Turkish Recyclers decided to move their extrusion lines to other countries in Europe and cancelled most of their future investment in Turkey.

Q: In July shortly after these restrictions came into effect there have been reports that the Turkish government is planning to lift the ban on polyethylene imports.

What is the reason behind this decision? And what do you think the impact of this news will be on imports of recovered plastic to Turkey?

A few weeks ago the Trade Ministry decided to allow the import of plastic scrap and cancelled their previous decision (banning polyethylene scrap imports) however the Environment Ministry has placed hard conditions on this. One of these conditions is that businesses are only allowed to import plastic scrap grades with a maximum of 1% contamination, which is almost impossible. Turkish recyclers are still awaiting further feedback from the Environment Ministry regarding this decision. Considering that post-production plastic scrap is also forbidden to import it raises the question of where Turkish recyclers will find this material.

Q: What is the future of Plastic imports to Turkey? How do you think things could be improved?

Turkish recyclers are expecting the Environment Ministry to shed light on the latest regulations. Personally, I think they have not realised the effects of the legislation they have published, banning post-production waste and putting a 1% contamination limit on post-consumer scrap imports is like saying "you can swim but you cannot get wet!". The Turkish recycling industry hopes that this latest regulation will be amended.

Q: What are Metroplast's plans as a result of these changes?

If the Environment Ministry does not change the most recent regulation, it is obvious that we will have a serious raw material supply problem and must move our recycling lines to other European countries. There are also Turkish investors, who are looking to invest in the UK; Reis Pazarlama Ltd, who have more than 45 years experience in this field are planning to invest in an advanced recycling line in the UK and are currently looking for new UK partners.