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Quarterly Report 103
Autumn 2024

smart, simple, safe trading

The Marketplace for PRNs **Q2 2024**

Market Status Report

By Tom Rickerby, Head of Trading

The mood turned decidedly bearish in the PRN market in Quarter 2. The consequences of 3 years of flat recycling targets are beginning to weigh heavily on a market where supply is now consistently outstripping demand. Prices have been further undermined by late Producer registrations and missing obligation data again this year, a problem that must surely be addressed if confidence is to be retained in the PRN system.

A total of 323,035 tonnes traded on t2e during Q1, up 12.5% on the previous quarter and 27% on the same period last year. 224,664 tonnes were traded in the 2024 Spot Market, 52,105 tonnes were traded in the 28 Day Rolling Market and 46,266 tonnes were traded in the 2024 Forward Markets.

Paper

Paper PRN generation continues to break records despite ongoing reports of stress in the underlying Fibre markets. Q2 set the highest generation for a 2nd quarter period (surpassing the previous record set in 2019). This follows the best ever quarter set in Quarter 1. Together these results may have sounded the death knell for the 2024 market only 6 months into the compliance year. Spot prices declined steadily during the period, falling 58% to £2.50, the lowest Q2 closing price since 2021. The obligation needs to significantly improve for Paper to avoid a similar fate to that year, where Paper PRN prices saw their earliest ever collapse.

Wood

Wood sellers' early optimism following improvements to the Wood and General recycling target turned to despondency in Q2 as Wood PRN prices tracked the Paper market south. Despite the anticipated increase in demand, Wood looks destined to follow a similar narrative to Paper again this year. Strong H1 supply data (only marginally lower than 2023's record breaking first 6 months) has made life a little too comfortable for buyers. Spot prices fell 57% to close the period at £3.00 per tonne. Like Paper, Wood needs a boost in the obligation data to prevent total capitulation in Q3.

Plastic

Having sold off hard at the end of Q1, Plastic markets regained the key support level of £150.00 in Q2, rising to a quarter high price of £160 in early May. However, by the end of May the recovery was beginning to look like a 'dead cat bounce' as selling pressure took prices below the £150.00 support level for the second time this year. Another brief recovery was followed by a more decisive move in late June that firmly re-established the downward price trend and saw prices tumble 57% to a 29-month low price of £65.00 per tonne at the quarter close. Traded volume on t2e was down 22% on the previous quarter.

Steel

It has been a mixed narrative for the Steel PRN market this year, whilst Tata's exit from the PRN market continues to present some long-term supply risk, the supply data up to the half year point has shown little cause for concern so far. Steel's PRN price action in the period reflects this. A subdued but stable May was followed by a livelier June that saw Spot and Forward prices surge by a third to a year high of £42.00 on the back of perceived weakness in the monthly data. July brought confirmation of improved quarterly data and a 17% pullback to close

Q2 May - Jul 2024	High	Low	Traded this quarter	Quarterly Average Price	YTD Average Price	Total Volume
Paper						
Spot 2024	£6.00	£2.50	83,114	£4.03	£5.90	184,079
28 Day Rolling 2024	£4.50	£2.75	16,676	£3.93	£5.20	25,096
JUL Forward 2024	£3.75	£3.75	2,000	£3.75	£6.95	11,450
OCT Forward 2024	£4.25	£3.20	4,426	£3.69	£3.69	4,426
DEC Forward 2024	£3.75	£3.75	5,000	£3.75	£3.75	5,000
Plastic						
Spot 2024	£160.00	£65.00	49,493	£135.32	£160.47	129,969
28 Day Rolling 2024	£157.00	£65.00	13,579	£139.21	£161.61	36,008
JUL Forward 2024	£160.00	£125.00	4,900	£151.33	£168.36	16,450
OCT Forward 2024	£157.00	£70.00	9,900	£134.41	£155.84	21,195
DEC Forward 2024	£150.00	£70.00	1,845	£103.58	£160.90	7,945
Glass Other						
Spot 2024	£85.00	£20.00	19,935	£53.71	£69.57	32,048
OCT Forward 2024	£51.00	£51.00	500	£51.00	£87.75	2,000
DEC Forward 2024	£50.00	£50.00	250	£50.00	£93.04	1,797
Glass Remelt						
Spot 2024	£130.00	£102.00	30,364	£124.18	£120.93	40,304
28 Day Rolling 2024	£128.00	£110.00	11,021	£125.71	£125.71	11,021
JUL Forward 2024	£124.00	£124.00	1,000	£124.00	£107.87	7,500
OCT Forward 2024	£128.00	£124.00	4,000	£127.00	£114.83	12,000
DEC Forward 2024	£124.00	£124.00	1,000	£124.00	£108.17	6,000
Steel						
Spot 2024	£42.00	£31.25	14,245	£35.89	£32.07	27,081
28 Day Rolling 2024	£42.00	£31.50	5,061	£33.52	£33.18	7,785
JUL Forward 2024	£40.00	£33.50	4,000	£37.25	£31.76	8,800
OCT Forward 2024	£42.00	£32.50	3,500	£37.29	£35.50	6,500
DEC Forward 2024	£40.00	£31.50	4,500	£34.78	£33.22	7,300
Wood						
Spot 2024	£7.00	£3.00	21,268	£4.36	£6.89	59,248
28 Day Rolling 2024	£4.00	£4.00	5,000	£4.00	£4.07	5,091
JUL Forward 2024	£5.50	£5.50	3,000	£5.50	£7.63	9,500
Aluminium						
Spot 2024	£170.00	£50.00	6,245	£118.92	£92.05	11,389
28 Day Rolling 2024	£110.00	£55.00	768	£88.94	£87.89	813
JUL Forward 2024	£165.00	£95.00	970	£125.82	£111.02	1,570
OCT Forward 2024	£155.00	£85.00	900	£111.39	£101.67	1,500
DEC Forward 2024	£165.00	£150.00	575	£156.74	£124.36	1,175

the quarter at £35.00. However, Q3 will be the first real test of the Steel market's ability to adapt to life without the UK's largest domestic scrap buyer. Good volume traded in Q2 (up 40% on Q1) as buyers looked to secure price certainty in the Forward markets.

Aluminium

Early trading saw a continuation of the upward price trend established on the back of weak Q1 supply. Prices rose 36% to a year high of £170.00 by the beginning of June. However, momentum quickly stalled as buyers pulled back in an attempt to cool a market that is prone to overheating. A 2-week hiatus followed that saw no Aluminum trades on the Exchange. The standoff finally broke to the downside, trading at £130.00. A correction that would ultimately trigger ***[Continued on page 4]***

Managing Director's Comments August 2024

A quiet quarter with much of the effort concentrated on Extended Producer Responsibility (EPR) and data gathering. Tension and trading in the PRN market is subdued due to the absence of demand combined with expanded PRN production. As the quarter closes there are signs that this may be slowing up as consumption slows but whether to a level sufficient to increase PRN values is far from clear.

Extended Producer Responsibility

As the quarter closed illustrative EPR fees were produced by DEFRA. Although they were anticipated to introduce a step change in cost from the PRN, the sheer size of them has surprised many, with Fibre based composites and Plastic topping the range closely followed by Aluminium and Glass, and Paper bringing up the rear.

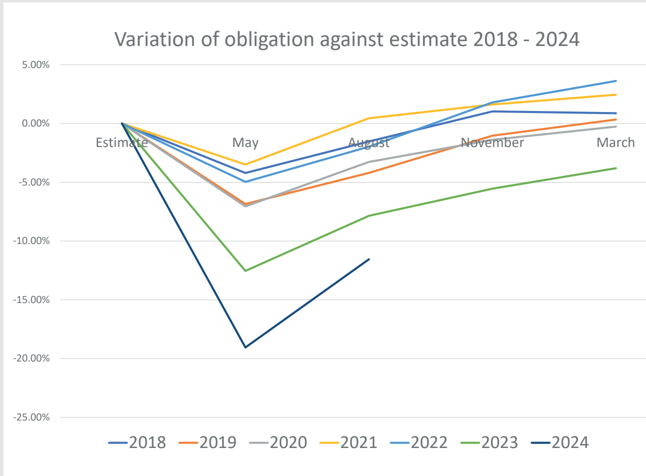
Material	Lower (in £/ tonne)	Intermediate (in £/tonne)	Higher (in £/ tonne)
Fibre-based composites	£410.00	£525.00	£655.00
Plastic	£355.00	£515.00	£610.00
Aluminium	£245.00	£495.00	£655.00
Steel	£170.00	£295.00	£420.00
Wood	£225.00	£265.00	£330.00
Other	£225.00	£265.00	£330.00
Paper or board	£185.00	£260.00	£350.00
Glass	£130.00	£260.00	£330.00

Some of these costs and income are based on 2017 estimates so it must be assumed that things have changed since then! These are the net costs to local authorities. If so, their costs are significantly higher than used packaging collected from non-household sources. This is anticipated and hence why households pay Council Tax! These illustrative fees are due to be re-evaluated in September with the first invoices going out to Producers (Brand Owners) in early summer 2025. It is estimated that the fees from 2026 onwards will be based on more accurate data, but no indication is given as to whether the impact will be upward or downward. It is difficult to see how Producers are going to be able to bear these costs other than to pass them onto the consumer. At first glance they seem to favour the lighter weight materials and with potential income at these levels significant incentives for local authorities to increase packaging recycling. It remains to be seen whether the differential between this and PRN values will incentivise the collection of non-household used packaging to current levels.

Scheme Administrator

Progression towards a fully functioning Scheme Administrator is being blurred by a desire by the Food and Drink Federation to take over some of its role and possibly to take over at some stage the ownership of used packaging. It is hard to see how this can be achieved without establishing a duplicate organisation which at this stage would appear to be costly and not in the best interests of all. Replicating the costly German DSD or Belgian Fost Plus system would not seem a desirable ambition.

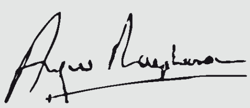
Q2 PRN Data



Against a backdrop of increased packaging reprocessing from a reduced packaging use, PRN values are dropping rapidly as recycling rates increase. However, concerns exist over the reported obligation as people look to the increased costs that EPR presents. The packaging obligation reported in 2024 is 11.55% or 1 million tonnes below estimates based on the 2023 obligation which was 3.81% or 320,000 tonnes below estimates based on the 2022 obligation. Where has all the packaging gone? Particularly when more and more is being reported in the waste stream.

As the Government wishes a fixed sum from its first year of EPR fees, the less packaging that is reported, and there is no indication that significantly more packaging is being reported on the new Rapid Packaging Database (RPD) than the National Packaging Waste Database (NPWD) as was anticipated, the more expensive the EPR fees will be per tonne.

Thank you to Matt Croker for his insightful comments. Thank you as well for your support this quarter. We look forward to continuing to be of service to you in a year that is so full of unknowns. There will no doubt be many hurdles to jump before the year ends.



Angus Macpherson
Managing Director

Q2, 2024 Supply Analysis

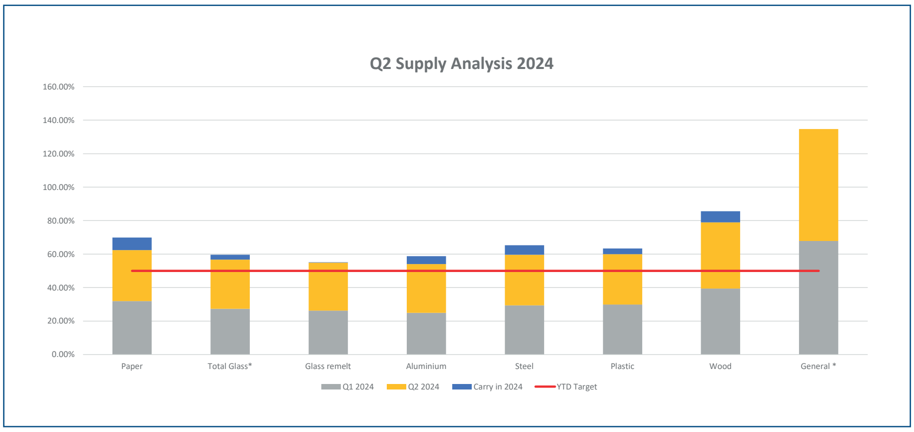
By Andrew Letham, Operations Manager

Despite a notable decline in PRN prices by the end of Quarter Two (Q2), the overall supply of PRNs only slightly contracted, decreasing by 6,242 tonnes (t) quarter-on-quarter (QoQ) to 2,068,750t. All materials, except for Paper, experienced QoQ growth, and despite the downturn, Paper still reported a healthy recycling return, down just 1% compared to last year's average of 995,054t. As the downward price pressure arrived too late to affect supply in Q2, its impact is expected to be felt in the upcoming quarters. Whether this contraction will exert pressure on markets that are currently robust remains to be seen.

An additional 401 Producers have registered since the end of Q1, contributing a total of 642,525t of obligation across all materials. The total number of registered Producers remains 613 short of last year's total, with a few notable absences. At the time of writing, total obligations stand at 7,319,167t, which is 7.8% (619,896t) below the final obligation figure for 2023. Growth in the Wood and General Recycling targets is likely to see us surpass last year's total obligations, and a substantial increase from the current position can therefore be expected.

Material	Carry In	Q1	Q2	2024 Obligation	YTD Supply + Carry In	Balance
Paper	244,510	1,039,248	988,712	3,250,507	2,272,470	-978,037
Total Glass*	45,163	435,034	468,065	1,590,568	948,262	-642,306
Glass remelt	2,755	313,808	341,890	1,192,926	658,453	-534,473
Aluminium	6,733	34,993	40,960	140,563	82,686	-57,877
Steel	18,857	97,988	100,314	332,599	217,159	-115,440
Plastic	33,940	304,606	307,527	1,020,064	646,073	-373,991
Wood	27,647	163,143	163,172	413,240	353,962	-59,278
General *	0	388,127	381,865	571,625		
Total	*376,850*	*2,075,012*	*2,068,750*	*7,319,166*	*4,520,612*	*-2,226,929*

**Total Glass consists of the combined total supply of Glass Remelt and Glass aggregate. *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.*



Plastic built on the record-setting opening quarter with another strong return in Q2. Up a modest 1% QoQ, it is currently tracking 5.6% ahead of the same period last year. A total of 307,527t was reported as recycled in Q2, which led to a drop in prices to their lowest level since January 2022 by the end of the quarter. This price decline is likely to have a major impact on the market, particularly at the lower quality end. However, with approximately 60% of the presumed obligation already met, excluding a 33,940t carry-in, buyers are likely to feel relatively relaxed heading into Q3.

Paper was the only material not to experience growth QoQ, as prices gradually declined throughout Q2. A lack of urgency from buyers made it difficult to move volume, leading to regular price corrections. Recycling decreased by 50,526 tonnes QoQ, falling to 988,712 tonnes from 1,039,238 tonnes in Q1. With obligations currently tracking approximately 200,000t lower than at this time last year, buyers might assume that current trends will continue. However, with prices approaching administrative levels, we are likely to see tonnage exit the market from disinterested sellers as obligations continue to grow in both Paper and General Recycling.

Overall, **Glass** recycling increased by 7.5% QoQ, with 8.9% and 4% growth in Remelt and Aggregate, respectively. The total obligation currently sits 224,512t below last year's final figure, with some suggesting that this figure won't be reached this year. The change in the split target has made it increasingly likely that Aggregate will meet its own obligation, while Remelt remains tight. Applying the new Remelt target (75%) to the 2023 obligations suggests that a quarterly supply of 340,000t is required. We are currently tracking just below 330,000t, although with a carry-in of 42,408t from last year.

Steel recycling improved slightly in Q2, up 2.4% QoQ, and broadly consistent with last year's average. As Tata continues with its plans to close Port Talbot at the beginning of October, concerns have been raised about the demand in the Exports market for the increased steel can capacity. In Q2, Steel packaging grades were exported 80% more than they were reprocessed domestically.

A poor first recycling quarter in **Aluminium** led to high prices and anxious buyers as we entered Q2. Some relief would have been felt as recycling increased by 17% QoQ, with the 40,589t reported also slightly above last year's average of 40,589t. Last year, 37,500t was required each quarter to meet the target, and it is believed that at least that amount will be required this year. The year-to-date (YTD) average currently sits at 37,976t, with a very healthy 6,733t available to be used if required.

Wood recycling remained incredibly stable in Q2, fluctuating by just 29t from Q1. The increase in the target means that Wood is likely to meet its material-specific obligation towards the end of Q3, rather than in Q2 as it did last year. Falling prices may cause some sellers to lose interest, which will only be of concern if Paper also experiences a significant downturn.

Introducing Matt Croker

I have worked in the waste and environmental sector for over 35 years, including 27 years with the Environment Agency (EA) and 8 years as an independent consultant. During my time with the EA, I held a variety of roles in both operational and policy areas. My last position at the EA was as Deputy Director of Waste and Illegals, where I oversaw waste regulation and the fight against environmental crime across England.

I thoroughly enjoyed my time with the EA, finding it highly motivating to work for an organisation whose mission is to "create a better place." However, I realised that if I never left, I would miss the opportunity to explore new challenges. So, in 2016, I chose to leave the EA and branch out as an independent consultant.

During my tenure at the EA, a significant portion of my focus was on leading teams to combat the ever-increasing tide of criminality in the waste sector. Unfortunately, this problem worsened year by year and continues to grow even after my departure from the EA.

The latest 2023 waste crime survey conducted by the EA revealed that nearly 20% of all waste operators are suspected of engaging in illegal activities, with a significant portion linked to organised crime. Fraud and landfill tax evasion are key drivers, allowing perpetrators to illegally boost their profits. Legitimate waste operators are undercut by criminals offering services below market rates, and shockingly, 75% of all waste crimes go unreported.

In 2021, I collaborated with Ray Purdy from University College Dublin on a research project investigating unregistered waste carriers in the UK. Our findings showed that nearly two-thirds (63%) of businesses offering waste handling services appear to be unregistered. We estimated that 284,215 individuals or organisations could be operating in the waste transportation sector without proper registration across the UK—a figure that I would have found hard to believe before conducting the research.

The transition to a more circular economy hinges on a robust waste management infrastructure. However, the pervasive issue of waste crime and subpar performance within the sector threatens to derail these ambitious goals. Illegal activities such as fly-tipping, PRN and landfill tax fraud, illegal waste exports, and the mismanagement of hazardous materials not only damage the environment but also undermine legitimate businesses and erode public trust. Moreover, inefficient waste collection and processing practices contribute to the loss of valuable resources that could otherwise be diverted from landfill. To achieve a truly circular economy, it is imperative to address these challenges head-on.

Amidst these challenges, I do see a bright spot of opportunity and progress. This comes from the reputable companies in the sector who are exercising their Duty of Care, going beyond their legislative requirements, and challenging poor performance by refusing to work with those engaged in incompetent or criminal activities. After all, a waste criminal without any waste is just a criminal.

The past 8 years have been a fascinating experience, allowing me to step to the "other side" and see the world from the perspective of regulated companies. I've enjoyed continuing to play my part in helping the reputable part of the industry identify and avoid the incompetent and criminal elements.

I have been impressed by t2e's commitment to taking strict measures to avoid connections with companies and individuals who do not meet required standards. I look forward to working with them in the coming months.

[Continued from page 1] a month long sell off, with prices sliding as low as £50 in the Spot (a 70% drop on the quarter high price). A record Q2 supply (up 17% on Q1) has validated the price correction and looks to have returned the Aluminum market to an oversupplied position.

Glass Remelt

Improved pricing in late Q1 brought renewed selling enthusiasm to the Remelt market in Q2 – traded volume was up 280% on Q1. Spot prices initially strengthened to a year high price of £130.00 but failed to consolidate at this level. A collapse in the Aggregate Glass PRN price and a bearish mood across the wider PRN market dragged Remelt into the deflationary market trend. Buying support faded during the period with Spot prices softening to £120 in June, predicating a sharper correction to £102 following the release of improved Q2 supply data (up 9% on Q1). Remelt markets have now given up all of their 2024 gains and may well be heading into more clear-cut bear market territory in Q3 on the back of an improved supply picture.

Glass Other

Buyers took firm control of the Aggregate market in Q2 supported by a growing sense of oversupply. H1 supply is up 4% on last year despite a 38% drop in average price for the period. Spot prices tumbled, falling 76% to £20 – the lowest Q2 close since 2021.

The significant correction in Glass PRN prices in Q2 and the widening price differential between Remelt and Other is likely to have major implications for recovered Glass supply chains. Further disruption is possible following the EA's Regulatory Position Statement outlining stricter coding protocols and contamination tolerances for Waste Glass and the implications this may have on export and licensing for Aggregate manufacturers. Both factors may contribute to a more uncertain narrative in Q3.