



The Marketplace for PRNs

Market Status Report By Tom Rickerby, Head of Trading



Quarter 3 saw the world tentatively emerge from lockdown. The welcome return of construction, manufacturing, retail, schools, restaurants, bars and office work has seen an increase in packaging waste arisings and helped to re-establish recycling value chains. PRN generation received a significant boost as a result (up 10% on Quarter 2) restoring confidence in the markets but sending most PRN markets into a downward price spiral during the period.

A total of 503,727 tonnes (t) traded during the quarter, down 16% on the previous quarter and 9% on the same period last year. 198,038t were traded in the Spot Market, 59,695t in the 28 Day Rolling Market, 191,744t in the 2020 Forward markets and 54,250t in the 2021 Forward markets.

Paper

Paper markets again showed their resilience in a crisis as Q3 PRN generation returned to more 'normal' levels following significant disruption in the first half of the year. The improvements in quarterly supply mean Paper is back to generating enough PRNs to meet both its own material specific obligation plus all of the General Recycling demand, a scenario that saw prices come under pressure across all materials and markets in Q3. Paper Spot prices tumbled by 87% to a year low of £1.50 as buying support evaporated and attention turned to the 2021 markets. Longer term market uncertainty saw an improved price picture for 2021 with opening trades at £7.50 to £8.35.

Plastic

12 months ago, Plastic had just recorded its highest ever average Spot price for a quarterly period, an astonishing £395.48 per tonne. Fast forward a year and the market price tells a very different story. 2020 Q3's Spot average is 92% down on the same period last year and the closing price of £10.00 is the lowest Plastic price since Q4 2016. The collapse in the 2020 price has triggered a spike in demand for Transitional PRNs as buyers sought early price certainty for 2021 after two bruising and volatile compliance years. Competitive bidding has already pushed Transitional prices up 55% to £65.00 per tonne. The collapse in the PRN value will require a difficult period of adjustment for Recovered Plastic markets and with Brexit, Basel Conventional amendments, low virgin prices, export restrictions and the fallout from the pandemic still to contend with, the biggest challenges may be yet to come.

Glass

Whilst all other materials were shedding value in Q3, Glass saw prices recover in first half of the quarter. Hints of further Covid-19 disruption to Remelt generation in the August Monthly data saw supply concerns resurface. Prices rose 24% to £21.00 in both the Spot and 28 Day Rolling market, a rise that dragged Glass Other values up 33% to £19.00. However, Glass' revival was cut short by an improved picture in the September Monthly data and it was finally reconsigned to a buyer's market with the release of target beating Q3 returns across both Glass classifications. Remelt prices finished the period down 30% on the quarter high. The damage to the Aggregate price was more pronounced, falling 44% to finish the quarter at £10.50. Q3 was a successive record trading quarter for Aggregate Glass on t2e with volume up 24%, buoyed by strong trading across the 2021 markets.

Steel

Covid-19 aside, 2020 has been one of Steel's more routine compliance years. Q3 saw PRN generation rebound strongly from a minor dip during lockdown to register its best quarter of the year so far and the strongest return since Q2 2017. With targets comfortably met for the 3rd quarter in a

row, Spot prices fell to a year low of £4.45 in the Spot. October saw seller's attention turn to securing prices in the 2021 markets, where transitional prices fell 18% from £15.30 to £12.50 on early trading. **[continued on page 4]**

	High	Low	Traded this Quarter	Quarterly Average Price	YTD Average Price	Total Volume
Paper						
Spot 2020	£11.50	£1.50	54,161	£6.12	£10.03	217,076
28 Day Rolling 2020	£9.50	£1.60	21,575	£7.33	£11.16	69,378
OCT Forward 2020	£8.00	£6.00	30,400	£6.78	£11.91	158,400
DEC Forward 2020	£7.50	£3.50	28,000	£6.21	£8.72	41,000
Transitional JAN Forward 2021	£8.35	£7.50	49,350	£7.81	£7.81	49,350
APR Forward 2021	£7.55	£7.50	4,000	£7.51	£7.51	4,000
JUL Forward 2021	£7.50	£7.50	2,000	£7.50	£7.50	2,000
OCT Forward 2021	£7.50	£7.50	2,000	£7.50	£7.50	2,000
Plastic						
Spot 2020	£75.00	£10.00	40,614	£31.38	£192.60	207,485
28 Day Rolling 2020	£50.00	£10.00	6,004	£31.17	£89.74	19,856
OCT Forward 2020	£47.00	£15.00	9,104	£32.53	£124.95	22,627
DEC Forward 2020	£50.00	£10.00	10,700	£26.43	£88.93	16,100
Transitional JAN Forward 2021	£65.00	£42.00	15,390	£57.20	£57.20	15,390
Glass Other						
Spot 2020	£19.00	£10.50	32,207	£14.76	£19.22	82,456
28 Day Rolling 2020	£17.00	£14.00	7,175	£15.19	£17.50	14,975
OCT Forward 2020	£15.00	£15.00	1,000	£15.00	£26.37	7,775
DEC Forward 2020	£15.00	£14.00	2,000	£14.50	£23.54	5,725
Transitional JAN Forward 2021	£14.30	£14.00	6,700	£14.18	£14.18	6,700
APR Forward 2021	£14.50	£14.25	8,500	£14.37	£14.37	8,500
JUL Forward 2021	£14.25	£14.25	6,000	£14.25	£14.25	6,000
OCT Forward 2021	£14.25	£14.25	6,000	£14.25	£14.25	6,000
Glass Remelt						
Spot 2020	£21.00	£10.50	16,136	£17.94	£22.67	91,085
28 Day Rolling 2020	£21.00	£15.25	9,000	£18.06	£21.74	18,300
OCT Forward 2020	£16.50	£16.50	2,500	£16.50	£17.41	5,500
DEC Forward 2020	£16.00	£15.25	4,500	£15.67	£16.73	5,500
Transitional JAN Forward 2021	£15.30	£15.25	4,000	£15.26	£15.26	4,000
APR Forward 2021	£18.50	£17.00	10,500	£18.43	£18.43	10,500
Steel						
Spot 2020	£18.00	£4.45	12,186	£10.20	£20.37	52,120
28 Day Rolling 2020	£18.00	£12.50	1,485	£13.37	£18.64	6,363
OCT Forward 2020	£18.00	£12.50	2,450	£15.19	£25.83	7,163
DEC Forward 2020	£12.50	£12.50	1,250	£12.50	£25.89	3,500
Transitional JAN Forward 2021	£15.30	£12.50	8,850	£13.75	£13.75	8,850
APR Forward 2021	£12.50	£12.50	1,250	£12.50	£12.50	1,250
JUL Forward 2021	£12.50	£12.50	1,250	£12.50	£12.50	1,250
Wood						
Spot 2020	£18.00	£3.50	32,715	£8.00	£13.50	88,154
28 Day Rolling 2020	£14.00	£3.75	13,456	£7.68	£10.33	16,438
OCT Forward 2020	£12.00	£10.00	4,000	£11.00	£12.40	15,500
DEC Forward 2020	£10.00	£4.95	4,000	£7.48	£13.22	8,500
Transitional JAN Forward 2021	£10.00	£9.00	6,950	£9.44	£9.44	6,950
APR Forward 2021	£10.00	£8.00	8,500	£8.91	£8.91	8,500
JUL Forward 2021	£10.00	£8.00	2,750	£8.18	£8.18	2,750
OCT Forward 2021	£8.00	£8.00	1,500	£8.00	£8.00	1,500
Aluminium						
Spot 2020	£38.00	£7.50	2,533	£17.81	£104.67	10,703
DEC Forward 2020	£25.00	£25.00	500	£25.00	£103.18	1,375
Transitional JAN Forward 2021	£35.25	£35.25	100	£35.25	£35.25	100
Recovery						
Spot 2020	£3.00	£1.50	7,486	£2.26	£2.17	15,315
28 Day Rolling 2020	£2.00	£2.00	1,000	£2.00	£2.48	2,686



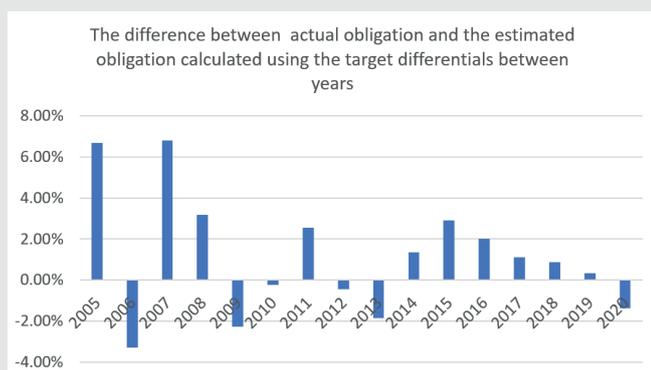
Managing Director's Comments December 2020



Jean-Baptiste Alphonse Karr wrote in January 1849 "plus ça change, plus c'est la même chose"! The same epigram might be appropriate now. Q3 has astonished from a packaging recycling perspective with the impact of Covid-19 minimal. After a somewhat more challenging Q2 everything seems to have returned to normal. A year ago, issues were the outcome of Brexit and potential fraud amongst Plastic exporters. Now the same applies. Although apparently 95% of the Brexit agreement has been written, nothing has yet been agreed. Meanwhile the Agency sent out a warning about claiming for farm plastic and suspended 6 exporters and cancelled a further 4 Plastic accreditations. From a trading perspective it has been another busy quarter.

Q3 data

On the back of significant growth in Glass Remelt, Plastic and Wood, reprocessing has shown year on year growth of over 10%, while Paper and Steel export growth has stimulated similar quarter on quarter growth in exports, even taking into account a 15% drop in Plastic exports, bringing it back in line with last year. This reinforces once again that packaging use is not linked to UK GDP which according to the office of National Statistics has dropped by 9.7% over the first three quarters of 2020. The impact of this on next year's obligation depends on how companies weather the winter, the Arcadia Group and Debenhams are the latest high-profile casualties. Looking at this year's obligation there remain some 260 companies that registered last year, still to register this year leaving the obligation some 160,000 tonnes (t) lower than predicted at the beginning of the year with Paper and Plastic obligations showing the largest falls.



Online workshops

As the quarter closed a series of online workshops have been initiated by WRAP to create an 'off the shelf' solution for modulated fees for various packaging categories to encourage its recyclability and reduce its use unnecessarily. There is concern that this could be a duplication of effort. The UK has operated a system of modulated

fees for packaging materials since 1998. It would seem sensible to focus on those packaging types that are not currently identified within the system such as composites and source of material (e.g. household and household-like) as desired and set up measurement and encouragement mechanisms such as a specific recycling target to be reached within 5 years to achieve these objectives. This could be further subdivided according to type of composite.

Targets

DEFRA has announced targets for 2021 and 2022. Although understandable under the circumstances, it is disappointing that the formal announcement was both so late in the year and made some time after a series of informal leaks, which meant asymmetrical information existed within the market. The targets themselves were radical in that they removed the Recovery target, also the Re-melt percentage in the Glass target increased, but currently do not look stretching.

Business Targets	2021	2022
Paper	79%	83%
Glass	81%	82%
Of which by Remelt	72%	72%
Aluminium	66%	69%
Steel	86%	87%
Plastic	59%	61%
Wood	35%	35%
General Recycling	76%	77%

Looking forward

A lot depends on the impacts of Brexit on the export of secondary raw materials, currently beyond port disruptions and container availability it looks minimal, the reaction by the Wood recycling sector to a drop in target possibly combined with no replacement for the Renewable Heat Incentive, and the potential loss of obligation caused by bankruptcies in 2020. As a minimum looking forward the general recycling target should become more stretching to compensate for the loss of recycling PRNs used to reach the Recovery element of the overall target.

Thank you to Deep Segar for his guidance on his past and the future direction of the ACP as well as to all those that have supported t2e through the last quarter. May we wish you an enjoyable festive period in what has been a year short of cheer to date. We look forward to being of service to you in the future.

Angus Macpherson
Managing Director



Q3 Supply Analysis By Andrew Letham, Operations Manager



The impact on Recycling due to Covid-19 seems to have been short lived as those materials affected by national lockdown during Q2 look to have rebounded in Q3. Substantial improvement to both the Wood (+59%) and Paper (+15%) returns from Q2 mean overall recycling is up 191,544 tonnes (t) Quarter on Quarter (QoQ) and 28,828t on Q3 last year. Year to date (YTD) recycling volumes are however still down on 2019 by 90,065t with the current obligation (8,130,918t) 19,503t higher than this time last year (8,129,559t).

Overall, there are 282 less producers than at close of play 2019. Many suggest that this is a sign of things to come with the number of obligated businesses registered this year likely to be impacted by Covid-19. Quantifying that impact is much harder with pre-Covid-19 projections (based off 2019 Packaging handled) suggesting a final obligation figure of circa 8,300,000t, representing an increase of ~160,000t from the current position. Reality is probably short of this, with growth from the current obligation but not to the extent outlined above.

The impact on individual materials is even more difficult to predict. The **Plastic** obligation currently sits 712t ahead of the 2019 final figure of 1,106,071t at 1,106,125t and after back-to-back returns of over 300,000t (Q3, 313,223t) prices fell below £5.00 for the first time since 2014. Based off current obligations 84% of target has been met before carry-in (51,959t) and only a further 180,209t are needed to meet target in year. The current difference in price between PRNs valid for 2020 & 2021 will likely see many sellers push as much volume through December as possible. This could result in much shorter returns in the months of October and November, and the possibility of some Transitional tonnage being needed for 2020 requirements resulting in higher prices for late comers to the market. If targets are met in year substantial carry-in can be expected into 2021.

Paper recycling drastically improved in Q3, with the 930,782t reported as recycled up 15% (123,521t) QoQ but 3% (26,121t) short of the 2019 average (956,901t). Overall Paper is down 259,406t on the same period last year however the 284,433t of carry-in available means a modest 165,125t are needed to meet the current material specific obligation of 3,081,384t. Any subsequent volume will be eligible for General Recycling and there should be enough to satisfy the majority of the current 588,2784t obligation. Initial reports suggest that demand for recovered paper has remained strong at the back end of the year despite China exiting the market last month with significant uplift to volume moving to both Vietnam and Thailand in the second half of the year.

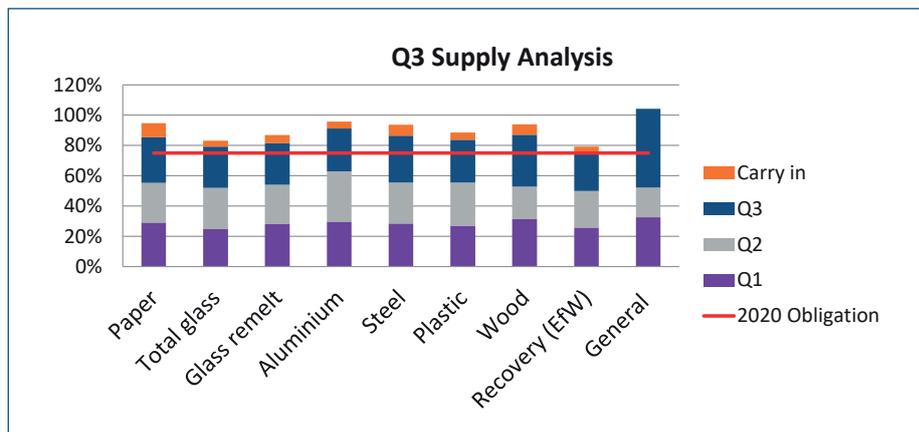
Unsurprisingly **Wood** saw the biggest turn around in Q3 with collection from HWRC's having been severely hampered in Q2 due to national lockdown. The 169,587t reported shows a 59% (62,688t) increase QoQ and the largest return since Q1, 2011. This has put Wood back on course to meet its 494,450t obligation without the need for transitional tonnage which should all be available for 2021.

Steel recycling has remained incredibly consistent over the last few years and despite Covid-19, 2020 has been no different. 115,417t were recycled in Q3, up 16% (15,926t) on last year's average (99,491t) which has largely been attributed to increased sales of Steel cans during the

Material	Carry In	Q1	Q2	Q3	Q4	YTD 2020 Obligation	YTD Supply + Carry In	Balance
Paper	284,433	893,785	807,259	930,782		3,081,384	2,916,259	-165,125
Total Glass*	70,895	438,176	480,887	478,538		1,765,257	1,468,496	-296,761
Glass remelt	65,535	332,169	307,810	323,118		1,182,722	1,028,632	-154,090
Aluminium	5,360	36,151	40,671	34,601		122,030	116,783	-5,247
Steel	26,991	106,577	101,185	115,417		373,913	350,170	-23,743
Plastic	52,614	298,520	314,169	313,227		1,106,125	978,530	-127,595
Wood	33,330	154,585	106,437	169,587		494,450	463,939	-30,511
EFW	23,730	157,707	147,678	155,815		612,465	484,930	-127,535
General *	0	192,004	114,818	306,362	-1,735,790	588,784		
Total	497,353	2,085,501	1,998,286	2,197,967		8,144,408	6,779,107	-930,607

*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.



pandemic. The current obligation (373,913t) sits 7,817t below last year and should be easily met even if further growth is experienced in line with target increases.

Aggregate continued to outperform its monthly target in Q3 (145,349t) with the 155,420t reported as recycled contributing to a total **Glass** return of 478,538t. At current levels, the overall target of 1,761,810t would be met with a ~100,000t surplus and Aggregate would meet its individual target for the first time since the split was introduced in 2013. Changes to the percentage split next year could see a shift of ~75,000t of obligation from Aggregate to Remelt with a substantial price difference (36%) between the two grades already evident in early forward trading.

Despite the 34,601t of **Aluminium** reported as recycled in Q3 being the lowest return seen this year it is still represents a 19% (5,433t) increase on last year's average and when added to the as yet unverified monthly return for October confirms that the 122,030t obligation can be satisfied. All December generation will now likely be pushed into the 2021 compliance year however with 40,000t (32% of total market) of PRNs currently unissued there could still be a few surprises in store.

Compliance in 2020 now looks to be within touching distance as all materials are at a healthy level of supply for this stage of the year. The current difference in price between PRNs valid for 2020 & 2021 will ensure that most December tonnes are traded into next year resulting in not only substantial carry-in for 2021 but also the potential for upward price movement for those scrambling around to fill obligations late on. For some 2021 cannot come soon enough but with changes to the packaging targets, amendments to the Basel agreement and increased scrutiny on accreditations it might not be all plain sailing.



Q and A with Deep Sagar Chair of the Advisory Committee on Packaging



Deep Sagar has previously worked as a marketing, sales, logistics and general manager/director for packaged goods multinationals such as Coca-Cola and Unilever. More recently he has occupied the position of non-executive director or chair in public and charity sectors, advising governments on issues including manufacturing and working with environmental regulators on floods. In

October 2020, DEFRA appointed Deep Sagar as the new Chair of the Advisory Committee on Packaging (ACP), taking over from Phil Conran who previously held the position for more than five years.

Q: What is your previous experience and how will it shape your approach to the role of chairman on the Advisory Committee of Packaging (ACP)?

I have worked on packaging and disposal issues when leading marketing or logistics. I also have experience of advising Government and Devolved Administrations and involving industry in initiatives. This experience will inform my approach as Chair. It will help me pick up issues and expertise from the market and industry and then advise government to get policy and systems right, for both industry and the public benefit.

Q: What were your prior impressions of the ACP and what led you to apply to this role?

I saw the ACP as a very valuable committee that has helped all four administrations in getting packaging policy right. I applied to further sustainable development. I believe in a healthy environment and packaging, both are essential. I also value industry and private-sector expertise. I think their help makes government and the state better for the public.

Q: Have you had any previous involvement in packaging or Packaging Recovery Notes (PRNs)?

I have had no previous involvement in PRNs. But I have had detailed experience of packaging. Making micro decisions on packaging formats, like using paper or plastic, thin or thick, reusable, or returnable to macro decisions about costs and links to business models.

Q: As the new chairman of the ACP what are your goals for the future in

a) The short-term

My aim is to effectively lead the ACP so that it continues advising all four administrations robustly on the reformed packaging producer responsibility policy due for consultation in 2021. Also, ensure that the present system continues to work well until the new one comes in. Packaging recycling targets for 2021 and 2022 have just been announced; ensuring these are met will remain a priority. Of course, we need to go on monitoring the impact of the pandemic on businesses using packaging or producing packaging waste. I also want to look at continuing change in industry, in packaging materials used, online purchasing increase and concerns around exports and access to international material markets.

b) The long-term

The reformed system with Extended Producer Responsibility introduced alongside a Deposit Return Scheme will be one main area of focus. Helping the packaging industry and others in the supply or related chains will be a priority; the ACP must advise Government towards making implementation be successful. Although that will be a full agenda, I hope to discuss with all four administrations, local authorities, and the industry to explore public engagement and development of packaging.

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Aluminium

It has been largely one-way traffic for the Aluminium price this year as supply has consistently outstripped demand. Q3 saw a continuation of this trend as spot prices fell 80% to a 34-month low of £7.50. Volumes were down 64% on the same period last year.

Wood

Wood waste supply chains fired up again in Q3 after Q2's lockdown disruption. Pent up recycling activity saw PRN generation rebound strongly, rising 58% on Q2 and hitting a 9-year high. A resurgent recycling market coincided with a record trading quarter on t2e. Traded Wood volume was up 124% on the previous quarter. Spot prices fell 80% to £3.50 as supply concerns eased and Wood was dragged into Paper/General Recycling's

race to the bottom. Good volume traded across all 2021 Forward markets where prices look destined to be pegged more closely to the Paper/General price again following the announcement that the 2021 Wood target would be reduced from 48% to 35%.

Recovery

The collapse of the Paper price to £1.50 spells the end of one of Recovery's strongest pricing runs in recent years. The tightness of supply that has kept Recovery prices buoyant for much of 2020 was evident again in the Q3 data. However, with the announcement that the Recovery target is to be scrapped from 2021 onwards and with cheap surplus PRNs now flooding the 2020 market, Recovery looks set to bow out of the PRN system trading at the sub £1.00 levels that have defined its tenure. Average Spot prices were down 14% on the previous quarter.

