

The Marketplace for PRNs

Market Status Report By Tom Rickerby, Head of Trading



As the 2020 compliance year (CY) closes, the PRN system can now add a pandemic to the list of market crises it has overcome during its tenure. Despite the challenges of 2020, the PRN system has proved to be a highly reliable compliance mechanism and a vital support to the UK's recycling industry. t2e has seen unprecedented support during the pandemic as contract security, price transparency, centralised market efficiency and market intelligence have

become key for managing risk during the crisis. Trading surpassed 2 million tonnes (t) for the first time ever, up 14% on 2019. We wish all sectors and participants a swift and strong recovery in 2021.

A total of 550,182t traded during Q4, up 9% on Q3 and 10% on Q4 last year. 210,321t were traded in the 2020 Spot Market and 78,991t in the 2021 Spot Market. 78,970t were traded in the 2020 Forward markets and 181,900t in the 2021 Forward markets.

Paper

It has been a tale of two halves for Paper again this year. Weak generation in Q1 and a further decline during Q2's lockdown saw prices escalate on shortage fears. More normal conditions in Q3 followed by the best quarterly Paper return for four years left prices languishing below £1.00 for much of Q4. Most sellers dumped their final cheap PRNs before Christmas but those who held on were rewarded with a flourish of higher values in January. The 2021 Forward markets remained relatively stable, with early prices aligning with the 2020 Spot average (£7.84). 2020 saw record Paper trading on t2e, up 21% on 2019.

Plastic

The demise of the Plastic market following another record return and a price collapse in Q3, may have been premature. Q4 opened with prices still falling, hitting a seven year low of £4.95 in the 2020 Spot market. However, with export volumes appearing to suffer without a strong PRN subsidy, sellers staged one last stand. Prices started climbing in late November and maintained a steady recovery, topping out at £100.00 in the final week of the CY. Strong demand for transitional PRNs saw prices rise 27% to £83.00 in the January Forward Market. This trend continued in the 2021 Spot market where prices closed Q4 above £120.00. Due to a challenging export period and weaker prices, Q4 generation has fallen by a third on the 2020 average and by a similar amount on the same period last year. 2020 has been undermined by accusations of abuse in recovered plastic markets. Export restrictions due to Brexit, the Basel convention amendments, increased EA scrutiny and disclosure requirements within the accreditation process should make it more difficult to defraud the PRN system. This could come at a cost to the stability of the PRN price. 2021 looks to be another unpredictable year for Plastic.

Steel

Steel saw its best trading volume quarter of the year on t2e as PRN prices collapsed to General recycling levels for the second consecutive year. Resurgent ferrous scrap prices during Q4 resulted in the best PRN generation of the year, piling surplus PRNs into a market already bloated with significant excess from the previous three quarters. The 2020 market looks to be 17% oversupplied in-year. 2021 prices have rebounded, trading between £12.00 and £13.50 across the Forward markets as uncertainty over the longer-term economic ramifications of the pandemic persist.

Glass

Despite strong Q3 supply data and a potential record Remelt carry-over, Glass avoided the general market collapse in Q4. Remelt fell 36% to a year low of £8.00 in the Spot market but recovered in the second half of Q4, briefly hitting £17.75 in January. Glass Other showed less resilience, falling 61% to a low of £4.00, whilst it's £5.72 Q4 Spot average was roughly half

that of Remelt.

The new Glass target split for the 2021 CY represents the biggest disruption to Glass pricing in recent years. 2021 Forward trading already shows evidence of this. Remelt prices showed strong support at £18.00 to £18.50. Whereas Glass Other Forward prices traded up to 40% below Remelt as buyers anticipate a fall in obligation and a potential return to surplus. The consumption shift from hospitality to households during the pandemic makes modelling 2021 Glass demand challenging. The initial obligation data release in April will be eagerly awaited and could make or break this year's glass market.

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	High	Low	Traded this Quarter	Quarterly Average Price	YTD Average Price	Total Volume
Paper						
Spot 2020	£7.50	£0.45	67,850	0.83	7.84	284,926
Spot 2021	£7.00	£6.50	42,281	6.50	6.50	42,281
DEC Forward 2020	£0.75	£0.50	4,455	0.70	7.93	45,455
Transitional JAN Forward 2021	£7.65	£7.00	38,494	7.14	7.52	87,844
APR Forward 2021	£7.50	£6.50	60,500	7.09	7.11	64,500
JUL Forward 2021	£7.50	£7.50	12,000	7.50	7.50	14,000
OCT Forward 2021	£7.50	£7.50	6,000	7.50	7.50	8,000
Plastic						
Spot 2020	£100.00	£4.95	31,483	17.39	169.51	238,968
Spot 2021	£120.75	£75.00	10,133	100.27	100.27	10,133
DEC Forward 2020	£9.50	£6.00	2,739	6.31	76.92	18,839
Transitional JAN Forward 2021	£83.00	£65.25	9,237	73.10	63.16	24,627
APR Forward 2021	£80.00	£70.00	3,500	75.29	75.29	3,500
JUL Forward 2021	£120.00	£80.00	700	108.57	108.57	700
Glass Other						
Spot 2020	£12.00	£4.00	23,523	5.72	16.22	105,979
Spot 2021	£10.00	£8.00	7,047	9.78	9.78	7,047
Transitional JAN Forward 2021	£13.00	£9.50	4,454	10.46	12.69	11,154
APR Forward 2021	£14.00	£11.50	15,000	13.47	13.79	23,500
JUL Forward 2021	£12.50	£11.50	4,000	12.25	13.45	10,000
OCT Forward 2021	£11.50	£11.50	1,000	11.50	13.86	7,000
Glass Remelt						
Spot 2020	£17.75	£7.50	16,283	10.43	20.81	107,368
Spot 2021	£17.00	£17.00	2,359	17.00	17.00	2,359
Transitional JAN Forward 2021	£18.50	£16.50	8,910	18.27	17.34	12,910
APR Forward 2021	£18.50	£18.00	43,000	18.23	18.27	53,500
JUL Forward 2021	£18.50	£18.50	10,500	18.50	18.50	10,500
OCT Forward 2021	£18.50	£18.50	3,000	18.50	18.50	3,000
Steel						
Spot 2020	£4.95	£0.75	22,332	1.47	14.70	74,452
Spot 2021	£14.00	£11.50	1,911	13.21	13.21	1,911
Transitional JAN Forward 2021	£13.00	£12.00	3,437	12.63	13.44	12,287
APR Forward 2021	£13.50	£12.00	5,500	12.27	12.31	6,750
JUL Forward 2021	£13.00	£13.00	2,500	13.00	12.83	3,750
OCT Forward 2021	£13.00	£13.00	2,500	13.00	13.00	2,500
Wood						
Spot 2020	£4.95	£0.90	34,528	1.77	10.20	122,682
Spot 2021	£5.50	£4.50	13,034	4.79	4.79	13,034
DEC Forward 2020	£2.00	£0.95	1,500	1.30	11.44	10,000
Transitional JAN Forward 2021	£8.00	£5.50	4,184	7.59	8.74	11,134
APR Forward 2021	£7.50	£7.00	4,000	7.19	8.36	12,500
JUL Forward 2021	£7.50	£7.00	1,700	7.15	7.79	4,450
OCT Forward 2021	£7.50	£7.00	6,000	7.42	7.53	7,500
Aluminium						
Spot 2020	£9.50	£0.75	4,434	3.30	74.97	15,137
Spot 2021	£35.00	£26.00	2,226	28.10	28.10	2,226
Transitional JAN Forward 2021	£38.00	£30.00	1,560	34.15	34.22	1,660
APR Forward 2021	£35.25	£35.25	500	35.25	42.63	1,000
Recovery						
Spot 2020	£0.75	£0.40	9,888	0.58	1.55	25,203

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Managing Director's Comments March 2021

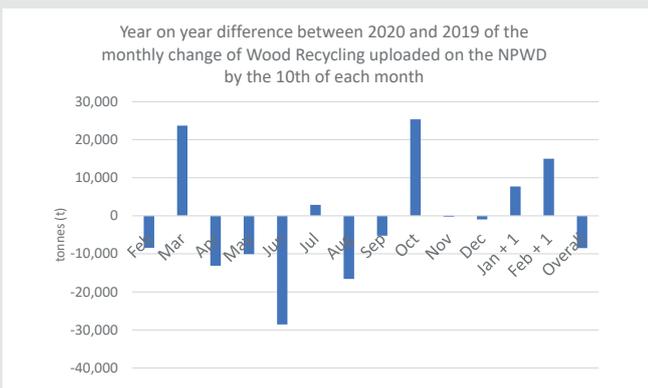


A busy but relatively trouble free finish to 2020 as compliance was achieved with comparatively little challenge and every semblance of a significant, possibly record carry forward into 2021. While everyone is in limbo without the publication of up to date data, it appears that the obligation is down on 2019 with some 150+ companies not

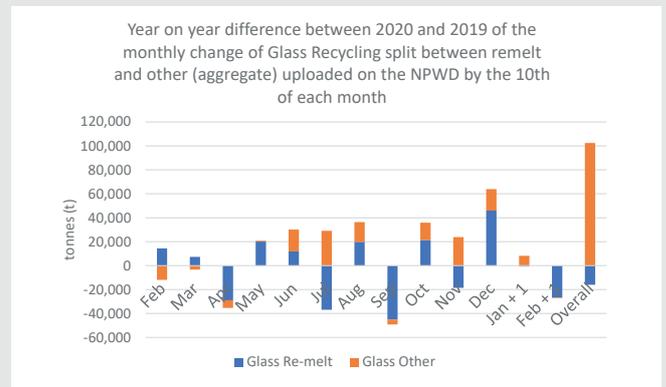
registering. Early indications of the obligation in 2021 show some clear winners and losers both in producers and materials reflecting the move towards household consumption and the rise of home delivery. We also remain in limbo waiting for the Government's Consultation on Extended Producer Responsibility. Against this backdrop of uncertainty, t2e has had an excellent Quarter (Q) and a record year.

2020 Compliance

The NPWD's unverified monthly reports put the in-year surplus at over 300,000 tonnes (t), this will inevitably increase, to which a carry forward of almost 450,000t is added creating an astonishing surplus of 750,000t. Despite difficult circumstances the recycling industry may have exceeded 2019, which was a record year. There has been growth in all materials except Paper, which struggled throughout 2020, and possibly Wood, whose monthly figures very clearly reflect their struggles while Household Waste Recycling Centres were closed in the first phase of the Covid lockdown. The most significant growth is in Aluminium, throughout the year, Steel, particularly in Q1, and Glass Aggregate after Q1. In comparison to earlier quarters Plastic appears to have had a difficult Q4. On current predictions only Glass Remelt failed to achieve in 2020 its 2021 target.

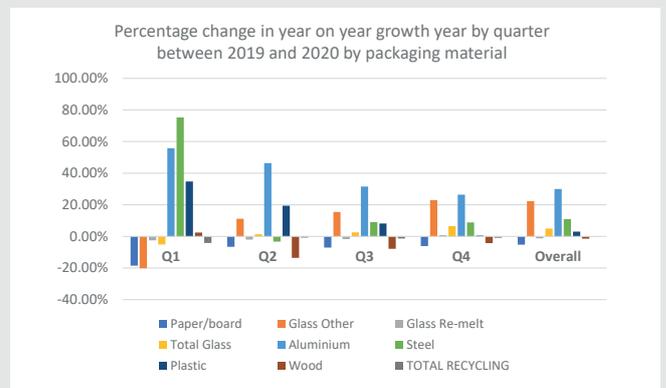


With such spectacular figures sadly accusations of fraud arise. Glass Other and Plastic are the focus of greatest attention. The Agencies have indicated that they may not accept PRNs issued by accredited reproprocessors and exporters registered on the NPWD as evidence of compliance. This potentially undermines the PRN and raises the potential of a duplicate accreditation system, which would cause confusion. All legitimate operators would prefer to see the Agencies regulate the system more effectively, robustly and swiftly with early suspension of potential defaulters. It is good to see the signs that this message has been heard by those in a position to implement it. It is less, better regulated regulations that are desired not more!



Extended Producer Responsibility

The final consultations on Extended Producer Responsibility are expected imminently. Plastic packaging tax has already been implemented with introduction on 1 April 2022. Deposit schemes are well-advanced with Scotland's expected to start on 1 July 2022 with the remainder of the United Kingdom anticipated to follow shortly thereafter. The devil remains in the detail of future targets, modulated fees, consistent collections and full net costs for local authorities and how that will be implemented with the current arrangements in Northern Ireland and integrated within the other strands of Producer Responsibility. Extensions should build on what has been achieved so far without losing the flexibility and ring fenced funding, which has enabled the recycling industry to deliver the targets to date. There will undoubtedly be winners and losers. Let us hope that there are more of the former than the latter.



2020 has been a record year for t2e. Despite a substantial, possibly record carry forward, 2021 will no doubt be as unpredictable as any of its predecessors. The export markets remain uncertain, shipping unpredictable and the location and quantity of packaging waste arisings changed, whether for the better or a permanent change remains to be seen. Thank you to everyone for their support. Thank you too to Simon Ellin for his thoughts. Stay safe.

Angus Macpherson

Angus Macpherson
Managing Director

The EPR and DRS consultations have now been published and are available online:

EPR <https://consult.defra.gov.uk/extended-producer-responsibility/extended-producer-responsibility-for-packaging/>

DRS <https://consult.defra.gov.uk/environment/consultation-on-introducing-a-drs/>

t2e will be submitting a response and encourages all stakeholders to do the same.

A Reminder of the Merits of the Current EPR System

A precis of a submission by Angus Macpherson to the Environmental Audit Committee as part of a call for evidence on the Deposit Scheme in England and how it interacts with other EPR schemes.

Producer Responsibility was introduced to encourage packaging reduction and re-use, to support the packaging recycling industry and to hold the entire packaging chain accountable for the funding of this system. It has successfully delivered recycling targets year on year and generated a funding stream to supplement the packaging recycling industry. The PRN is the evidence of compliance.

Extended Producer Responsibility

The Government set out four strands in the Resource and Waste Strategy to extend producer responsibility:

1. A tax on plastic packaging with a recycled content below 30%.
2. A nationwide Deposit Return Scheme (DRS), to be implemented at different times in the devolved nations.
3. Modulated fees for difficult to recycle packaging.
4. Extended producer responsibility so that producers pay the full net cost of recycling packaging waste.

These should build on the existing system, not replace it.

Local authorities are to increase recycling levels by introducing consistent collections and improving the quality of household collections.

The Current System

The PRN system has been effective. It has supplemented the secondary raw material industry within the UK, raised producer awareness of packaging and materials and supported the UK reprocessing industry with clear signs of growth in Glass and Plastic.

On the demand side there are concerns of 'free-riders' and that the de minimis of £2 million turnover and 50t of packaging does not capture enough obligation. Achieving a consistent calculation of the obligation would be more effective than the significant administrative challenge of reducing the tonnage turnover.

Uniform material specific targets would stop some materials from unevenly carrying the burden of reaching the targets. Targets could also be subdivided between domestic capacity and exports, household and commercial packaging waste, Plastic polymer types and forms of composite packaging. The complexity of these changes would be no different from the additional complexity of introducing a new system.

Insufficient transparency is another criticism levelled at the PRN system, although the Agencies annually publish PRN revenue reports. Reprocessors and exporters could be asked to publish a report on how they utilise PRN income as should any future beneficiaries of producer responsibility funds be held to the same standards.

PRN price movement

The PRN has received criticism for both high and low PRN prices as well as movement between the two. This movement has raised awareness amongst boardrooms, a key element of increasing focus on more sustainable uses of packaging. A solution to price volatility is to arrange fixed price deals bi-laterally or through t2e's forward markets.

The EA compiles data on supply and demand which is published on the National Packaging Waste Database (NPWD). The delay in publishing verified data creates uncertainty and speculation that exacerbates PRN price movement. Unpredictable external market influences such as shipping rates also play a part in the PRN's volatility.

Exports

Domestic and overseas reprocessors receive the same material although overseas reprocessors pay the additional cost of import. This appears to be equal unless different protocols are applied to the same material when it is exported, in which case this can and should be corrected.

Under the Basel Convention the UK has rules regarding quality standards for exporting packaging and other waste out of the country. In practice these are challenging to implement and regulate. This is not a problem unique to Producer Responsibility and will remain unless implementation and regulation is improved.

Local Authorities

Local Authorities benefit from PRN funds, as do all collectors, through the sale of material they collect; prices are based on the quality and the tonnage of the material. The balance between supply and demand influences the PRN price and consequently the material price, yet under all circumstances the producer provides the stimulus necessary to meet the recycling target.

Issues for consideration

The PRN is well established and effective on delivering targets and should be retained. The current system of measurement through the accreditation of reprocessors and exporters by the EA would be effective in aiding future initiatives to meet UK recycling targets for all packaging.

Deposit schemes are costly to society, particularly the consumer. The material from the scheme should still be eligible to claim a PRN on, and producers who participate should not see a reduction in their obligation. The scheme may reduce local authority litter collection costs, remove packaging from litter, impact the financial viability of local authority recycling collections or - as some argue - it could aid the introduction of consistent collections.

The PRN already modulates, as the PRN value is affected by the recyclability of the material. This would be more effective if there were uniform material recycling targets, and more differentiation made between composites and polymer types.

Payment to local authorities by packaging producers could be based on either a fixed amount per tonne of recyclable material collected or a variable amount per tonne based on the quality of material received. The DRS will likely negatively impact the total tonnage collected and possibly the quality. Until there is greater clarity on the details, it is difficult to judge what further impacts there might be or the optimum additional payment route.

Ultimately any changes will make complying with Extended Producer Responsibility more complex for those involved and challenging to regulate. The packaging chain and obligated industry would be grateful for minimum divergence between regulations across the devolved nations.

The Marketplace for PRNs

Market Insight: Plastic and Paper



Simon Ellin
Chief Executive,
The Recycling Association

The start of 2021 has been a very challenging one for those who export recyclable materials.

Of course, we knew that the Chinese ban on solid waste imports would begin from 1st January 2021.

We also knew that Basel Convention amendments on plastics would be introduced. For both, the recycling sector had put preparations in place.

What we could not plan for was a Brexit deal that was only agreed on Christmas Eve that was due to be implemented on 1st January 2021, and a surprise regarding exports suddenly becoming illegal to non-OECD countries. It was also a shock that Turkey brought in new rules on plastic imports.

With Brexit, the key issues have been haulage and bureaucracy. Although there has been good demand for material from our European recycling industry partners, it has been difficult to find vehicles to transport the material.

Some hauliers have taken the decision to suspend operations to Europe until they can get on top of the new rules, while others have been stuck in longer queues at port. Some European hauliers that used to take material on their way back from deliveries of other goods here have also decided it is not worth the hassle of coming to the UK.

Exporters to Europe have also had to get on top of new forms to fill in, understanding a new VAT regime, working out cross-border haulage paperwork, new customs charges and getting their customers to understand their new responsibilities too.

Some are finding a way eventually to get material to European buyers, but others are finding it more of a struggle.

Over the Christmas period, I was in touch with Defra and the UK environment agencies as it suddenly became clear that new EU rules regarding pre-notification of plastics to non-OECD countries would be carried over into the new UK-EU trade deal.

However, the problem with this is that the pre-notification structure to these non-OECD countries was not in place. As a result, Defra has written to key destinations asking for their requirements on how to pre-notify them of permitted plastic exports.

Malaysia had become a key destination for UK plastic, but now it is illegal

to export there until pre-notification arrangements are agreed between UK and Malaysia.

Possibly as a defensive move, Turkey also introduced new rules on the import of plastics. Certain grades, most notably mixed plastics, are now banned. It also confirmed a cut of quota to 50% from 80% of the country's recycling capacity in order to stimulate more domestic demand. Added to this, we cannot currently export plastics that have been mechanically sorted at a MRF or elsewhere.

This has shown that our export markets are increasingly precious. We are a country that consumes more than we produce, and it is vital that we have access to markets where these goods can be turned back into new products.

While we have seen a shift of much of the paper and cardboard that used to go to China go to places such as India, Malaysia, Vietnam, Turkey and to a degree elsewhere in Europe, we have got to learn the lessons of why China eventually decided to ban all imports.

Plastics of course were banned by China in 2018, and with the exception of Malaysia, we have largely seen a move westward for plastic recycling destinations.

The beginning of the year also saw The Recycling Association launch our Quality First Roadmap. Four years ago, our Quality First campaign began with the intention of raising the issue of quality. Local authorities, retailers, manufacturers, and recycling industry stakeholders all helped to raise quality, but it became clear that we needed to take the next step.

Our Quality First Roadmap calls for separate collection of paper and cardboard by 2025 and a move towards End-of-Waste status for paper by this date. We would also like other materials such as plastics achieve this same status by 2030 at the latest.

Designed to complement the measures in the Environment Bill, our Quality First Roadmap wants us to move towards the commodification of secondary materials and away from being called waste. The lessons of the last few years are that export markets, but also our domestic recycling industry, require high quality materials that work seamlessly as part of a circular economy.

By separating paper and cardboard as a minimum, we will create better feedstock for all recyclers, while also allowing for the collection of food and beverage cartons and plastic film & flexibles as core materials, which is being considered by Government.

While we are facing a tricky beginning to 2021, it is also an opportunity for us to consider the long-term and how we keep our markets open through quality.

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Aluminium

Aluminium has seen the largest supply/demand imbalance of any material with over 29,000t (24%) of in-year oversupply. A surge in the commodity price in Q4 has led to another bumper PRN return leaving many frustrated sellers holding worthless PRNs at the end of the CY. £3.30 is the lowest quarterly Spot average since Q4 2013 and is in stark contrast to the record prices seen in 2019. 2020 saw record Aluminium PRN generation (up 30% on 2019) as can sales surged during the pandemic, which will likely see a rise in obligation for 2021.

Wood

Q4 saw a 44% increase in traded volume from Q4 2019 as the Wood price tracked Paper's slide to £1.00. Another strong supply quarter will likely see a significant number of PRNs written off and a maximum allocation

of transitional PRNs into 2021. A strong carry-in combined with the significant reduction in the Wood recycling target has already put 2021 prices on the back foot. 2021 Forward markets opened in line with the Paper price but weak buying appetite in the Spot and transitional market saw values drop below Paper at the quarter close, a move rarely seen in the beginning of a new CY.

Recovery

2020 is the final year that Recovery will be included in PRN obligations and it is unlikely to be missed. The 2020 average Recovery price of £1.34 is only the second time in the past decade that the Recovery average has broken above £1.00. Recent years have seen oversupply render the Recovery PRN close to worthless despite higher values in the initial years of the PRN system. So as the 2020 CY ends, we bid a final farewell to the Recovery PRN. It's been... frankly, a bit dull.