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Quarterly Report

Report 58 May 2013

The Marketplace for PRNs and WENs

February to April 2013

By Ian Andrews

At the start of the quarter, the release of the 2012 Q4 supply figures confirmed that we had crossed the finish line with tonnage to spare across all markets. Glass supply recovered from its deficit position to report a record breaking quarterly supply of 560k. This was achieved due to the high values of £75 which traded during the final months of the year. While these increased costs are never well received by producers it must be noted that it was these high prices which provided the incentive for sellers to produce enough supply for UK business to achieve 2012 compliance.

Trading for the period started slowly with the 2012 problem materials seeing the most activity in the early part of the quarter. In March, the Chinese authorities' decision to take a firmer position on the implementation of their 'Green Fence' protocol for mixed plastic bottles resulted in upward pressure on plastic prices with many exporters unable to commit tonnage to the market. This situation continued throughout the quarter with prices increasing above the higher levels posted in the middle of 2012. Prices in glass remained firm initially but started to increase during the period when limited supply was met with healthy demand. All other markets remained stable with selling volumes in good supply.

Trading for the quarter equated to 254,842 tonnes with 85,940 tonnes trading in the Spot 2013 market and 168,902 tonnes trading in the Forward markets.

Market Material Analysis

Paper – Paper traded in excellent volume with prices remaining at administrative levels. Supply remained strong with tonnage available across all markets at below £1.00. Towards the end of the period, buyers, concerned that the recently invigorated Chinese authorities' implementation of the 'Green Fence' policy could start to focus on UK Paper exports, entered the market to secure volume tonnage for delivery throughout the year.

Plastic – The Q4 supply figures showed that plastic was the second market to see a turnaround in fortunes with supply meeting all 2012 demand and providing a strong 2013 carry in figure of 40k. This provided the market with some comfort with many predicting a hard year ahead in the face of a 5% target increase. Unfortunately the sense of comfort did not last long as in March the movement of mixed plastics through Chinese borders reduced to a snails pace as the newly enforced 'Green Fence' policy started to take effect. Prices continued to increase throughout the period as buyers entered the market trying to secure the limited tonnages available. Sellers have steadfastly refused to commit tonnage forward as their confidence in securing end destinations has been shaken.

Glass – After the issues faced in 2012 were addressed by the record supply recorded in Q4 it was no surprise that available tonnage was in short supply in the early part of the quarter. The introduction of the split note created some problems in the export market with sellers reporting a delay in uploading full remelt tonnages on to the system. Regulators requested supporting evidence that remelt material had be reprocessed at end destinations before the full balance of material could be claimed. This occurred towards the end of the Q1 buying period at a time when buyers, searching for available tonnage, were met with limited supply resulting in an upward swing in prices. With many market commentators believing that demand will fall this year it was hoped that prices would return to pre 2012 levels. Sellers have stated many times that the ability to comply in 2012 was met by using existing stock glass and with a lack of stock material available this year they are predicting an equally challenging year.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	YTD aggregated traded
PAPER MARKET						
Spot 13	£0.95	£0.90	34,640	£0.92	£0.92	35,959
Apr Fwd 2013	£1.00	£0.90	4,150	£0.91	£0.96	6,292
Jul Fwd 2013	£0.90	£0.85	26,500	£0.89	£0.91	27,500
Oct Fwd 2013	£0.95	£0.80	56,500	£0.90	£0.91	58,500
Dec Fwd 2013	£0.90	£0.75	34,902	£0.89	£0.88	34,902
PLASTIC MARKET						
Spot 13	£40.00	£15.25	20,510	£18.90	£17.50	30,120
Apr Fwd 2013	£23.50	£18.50	10,000	£20.88	£19.90	12,500
GLASS Other						
Spot 13	£50.00	£35.00	10,188	£41.95	£41.95	10,188
Apr Fwd 2013	£40.00	£37.00	4,000	£38.50	£38.50	4,000
Jul Fwd 2013	£40.00	£40.00	5,000	£40.00	£40.00	5,000
GLASS Remelt						
Spot 13	£60.00	£47.50	5,926	£51.35	£51.35	5,926
Apr Fwd 2013	£52.50	£52.50	2,000	£52.50	£52.50	2,000
Jul Fwd 2013	£50.00	£50.00	10,000	£50.00	£50.00	10,000
Oct Fwd 2013	£60.00	£60.00	3,000	£60.00	£59.66	3,220
STEEL MARKET						
Spot 13	£17.00	£15.00	10,467	£16.28	£16.07	11,956
Apr Fwd 2013	£17.00	£17.00	1,300	£17.00	£20.55	2,550
Jul Fwd 2013	£15.00	£15.00	1,000	£15.00	£18.84	2,150
WOOD MARKET						
Spot 13	£2.00	£1.50	729	£1.57	£1.58	889
Apr Fwd 2013	£1.50	£1.50	8,814	£1.50	£1.53	11,814
ALUMINIUM MARKET						
Spot 13	£9.00	£8.00	71	£8.64	£6.55	190
Oct Fwd 2013	£8.00	£8.00	1,736	£8.00	£8.00	1,736
RECOVERY MARKET						
Spot 13	£1.00	£0.30	3,409	£0.33	£0.27	17,115

Managing Director's Report

Uncertainty has contributed to a busy start to 2013 with prices in Glass starting high and plastic escalating significantly. As the final figures are released for 2012 and the initial data for 2013 is published a picture is beginning to form of what occurred in 2012 and what direction 2013 may take. Concurrently the Agencies are consulting on harmonising the producer responsibility regimes, a desirable aim but challenging as for historic reasons two different government departments are responsible for these regimes.

Confusion remains about how glass packaging targets were met in 2012. On the surface the PRN system worked with higher prices successfully driving increased recycling and targets being met. However it is far from clear how the growth required in Q4 2012 occurred. Furthermore that it may have happened in aggregates, an area that has been abused in the past, raises concerns about what might occur with the Glass PRN split in 2013. It is also possible that material that otherwise would be available for 2013 was accepted in 2012 to meet those targets exacerbating the problem for 2013. To meet its targets glass needs the input of aggregate, known as "other", PRNs, but while the container and fibreglass markets continuously need cullet for re-melt, it would appear that the same drivers are not in place for aggregates. Q1 2013 figures suggest that a similar shortfall to 2012 may occur again.

While demand has gone down a substantial challenge remains to meet this year's glass targets. With local authorities complaining that they are seeing no financial benefit from the high PRN price of last year and lack the flexibility to take advantage of it, the glass industry faces a substantial challenge to show they are installing the required infrastructure to maintain recycling at the new levels required to meet future targets and to justify to obligated businesses the on-going high PRN prices.

In contrast the plastic industry faces a challenging escalation in targets. As the industry gets to grips with this they have been further challenged by the introduction of China's Green Fence policy. The latter was introduced to stop 'foreign waste' being imported into China, however the politics behind it are probably more complex and there are suggestions that it is linked to the Chinese Government's anti-corruption agenda, as well as a consequence of falling European markets for the end products of Chinese manufacturers and a desire to grow the Chinese domestic collection infrastructure. Regardless it has impacted significantly on the plastic export market to China. CCIC state that 56% of all loads rejected are plastic, which probably reinforces the concerns expressed by the plastic reprocessing industry that the quantity of contraries, non-plastic elements, in exports is unacceptable and the PERN should be downgraded. Once again it is up to the plastic reprocessing industry to demonstrate that they are using PRN funds wisely to grow the collection infrastructure and assist in the development of pragmatic identifiable, measurable and verifiable quality measurement standards.

The move towards harmonisation of the producer responsibility regimes has been broadly welcomed. The focus is on reducing the bureaucratic burden on small and medium producers as well as the Agencies and hence the costs. This is an admirable ambition but it could occur at the cost of losing the original environmental purpose of the regimes. Hence it is disappointing that this review has not considered harmonising the enforcement regimes, where civil sanctions and environmental undertakings have been very effective in the packaging regime, and imposing pressure on all accredited reprocessors and exporters (operators as it is intended to call them) to publicly declare retrospectively how PRN income was intended to be spent and was actually spent. The later would do much to reassure public scepticism that money received from PRNs is used for anything other than its purposes of reducing packaging and if it cannot be reduced; encouraging its reuse and if it cannot be reused increasing its recycling. This has been achieved within the UK but the public and those representing the politicians need to be reassured otherwise the risk is that, as public bodies seek funds, a more expensive and potentially less effective and flexible system will be introduced to replace it.

Thank you to Dominic Hogg for his insights. Eunomia has been appointed by the European Commission to review the producer responsibility regimes. Once again many thanks too for your support. We look forward to being of assistance to you as this unpredictable year progresses.

Angus Macpherson
Managing Director

Market Material Analysis *- continued from page 1*

Steel – The market saw reasonable trading levels this period. Prices opened at levels 3 times higher than the corresponding period in 2012 and this resulted in some buyers shifting purchasing plans until later in the year. With strong supply being offered against a backdrop of limited demand the prices softened slightly during the period. The release of the Q1 supply figure towards the end of the quarter helped to alleviate any concerns of supply issues and prices softened further.

Wood – Limited volumes traded through the Spot market this quarter with buyers and sellers preferring to trade in the forward markets to achieve better value on discounted trading fees. The number of accredited reprocessors has continued to decline with supply volumes now being reported at around 60% of previous years. Even in the face of declining supply this market hasn't been subject to any upward pressure on prices given that the material specific demand is so low.

Aluminium – Demand for aluminium has been weak during the quarter with buyers, unconcerned about supply issues, unwilling to enter the market at this early stage. Small buyers picked up single digit documents in the Spot market with larger volume buyers targeting the forward markets. Q1 supply figures when coupled with the carry in figure showed there is very little pressure on this market and prices remained stable during the period.

Recovery – After achieving compliance in record time last year, this market would appear to be heading towards a similar conclusion this year. Supply remains very strong and this market has the potential produce double the required tonnage this year. Prices remain rooted at 30p for volume buyers with small buyers paying a slight premium for single digit documents.

t2e's Response to the Discussion Paper on Coherence Across Producer Responsibility Regimes

Please find below a short summary of t2e's responses on the recent government discussion paper.

t2e supports:

- the aspirations and in concept the majority of the suggestions in the consultation.
- the introduction of 'fit and proper' criteria fo accredited reprocessors and exporters and would wish to see similar criteria introduced for the operation of compliance schemes, individually registered companies and their representatives in all producer responsibility regimes.
- and understands the desire of the Agencies to harmonise their charging regimes and focus a greater element of their resources on compliance schemes but this should not be done in such a manner that the option of individual registration either as a direct registrant or, in those regimes in which that is not permitted, a single member compliance scheme prohibitively expensive.
- the encouragement of compliance schemes to take greater responsibility for the accuracy of the data they submit but the ultimate responsibility for the accuracy of the data submitted must remain with the businesses with legal obligations.
- t2e wonders whether to simplify the administration of the small business regime something could be included in the annual return made by registered companies to Companies House in which a business would confirm that it meets the criteria required in each regulation to fall below the de minimis level in that regulation.
- the removal of operational plans and independent audit reports and notes that the Agencies have improved their detection of fraud and early warning of non-compliance. Nevertheless the risk and consequence of both remains great and t2e reinforces that this is an area that needs continuous improvement.
- the potential introduction of 'carry forward' into regulations other than the Packaging. Furthermore it advocates for the introduction of 'carry back' emphasising that its merits as a mechanism for countering a situation where one producer has carried forward evidence and as a consequence no evidence being available for another to comply, far outweigh any risk of national non-compliance which could occur already under the current carry forward regime.

Additionally t2e notes that no proposal is made to bring coherence to the enforcement regimes for these regulations and feels that this is an opportunity missed.

If you would like to view a more detailed response to the discussion paper then please visit our press release library on the website. The press release library can be found under the 'Keeping You Informed' section on the main login page and is accessible to non members.

Change in UK Business Obligations 2012 v 2013

On the 15th May, the release of the latest demand figures revealed a downturn in all categories with the exception of Plastic and Aluminium. The fall in Glass demand was expected with many market commentators pointing towards the problems in supply last year as an early indication that this years demand would fall. Steel saw the largest fall reporting a 8% drop on the previous year and overall the total demand figure fell by just over 3%.

It should be noted that these are the first set of figures to be reported this year and they are likely to change as more companies register on the system.

	PRN Business Obligations			2013 Quarterly obligation	Amount of 2013 obligation filled in Q1 (tonnes)	Amount of 2013 obligation filled in Q1 (%)
	2012	2013	Change (%)			
Aluminium	59,819	62,222	4.00%	15,556	17,149	28%
Glass	1,665,360	1,583,701	-5.00%	395,925	336,794	21%
Paper	2,580,858	2,496,453	-3.30%	624,113	833,425	33%
Plastic	608,957	683,887	12.00%	170,972	155,234	23%
Recovery	480,872	469,007	-2.47%	117,252	194,983	42%
Steel	354,210	325,409	-8.14%	81,352	107,964	33%
Wood	236,135	218,460	-7.5%	54,615	111,827	51%
General Recycling	985,201	913,594	-7.30%	228,399	219,815*	24%*
Total	6,971,412	6,752,733	-3.14%	1,688,183	1,757,376	26%

Table 1: Change in PRN business obligations (2013 vs. 2012), 2013 quarterly obligation, and % obligation filled in Q1

*Total Q1 PRN production minus material specific obligation gives the PRN surplus used to meet General Recycling target

An Evaluation of Producer Responsibility

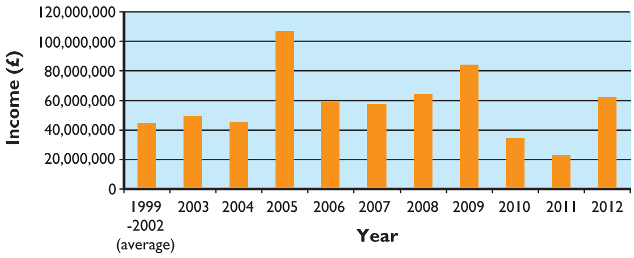
By Dominic Hogg, Chairman, Eunomia Research and Consulting Ltd.

Perhaps the most damning thing that could be said of a system of a producer responsibility is that it does not make producers responsible for very much. The UK system for packaging comes very close to this.

The performance of the UK in respect of packaging recycling has shown enormous improvement since the first set of Regulations was introduced in the late 1990s, with recycling rates rising from around 28% to 61% in 2012. Proportionately, the increase appears to have been greatest from local authority collected wastes, though recycling rates achieved currently are most likely highest in the commercial and industrial streams. Of the 3.7 million tonnes increase in the quantity of packaging recycled since 1998 (*see graphic right*), the majority has come from local authority collected sources. The increase in packaging collected for recycling has not been without cost. We estimate that the costs of running the collection and sorting services for households is costing local authorities something of the order £200 million annually. It should be noted that this is net of revenues, with the gross costs being of the order half a billion pounds, and the authorities and their contractors sharing (in varying ways) the risk associated with the fluctuating material prices.

Over the same period, the annual quantum of PRN and PERN revenue has averaged just under £60 million, but the revenue is unstable, dropping close to £20 million in some years, and rising close to £100 million when supply of evidence is tight relative to demand. In 2012, of the £62 million in revenue, £45 million was related to PRNs and PERNs for glass as the clamp down on fraudulent activity gave rise to concerns in the market for evidence.

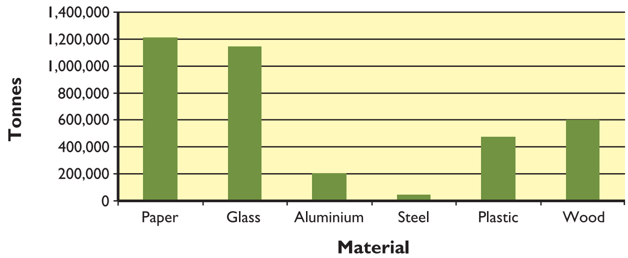
Revenue from Sale or PRMs and PERNs



The increase in recycling has not led to a massive increase in UK based reprocessing: on the contrary, the majority of the increase in collected packaging has been exported to be recycled overseas. Furthermore, the proportion of revenues related to PERNs, as opposed to PRNs, has increased from just over 10% in the early 2000s to around 50% (and sometimes more) in recent years.

It can be readily appreciated, I think, that producers have contributed rather little to the increase in recycling of local authority collected packaging waste, the increase in which has been critical for their obligation to be discharged. Because the funding drawn from producers relates to what happens at the margin, then the stream of revenue is too uncertain for it to sustain local authority contracts: the promise of some (unknown, and fluctuating) amount of top up cash in one year where 'things are changing' is unlikely to influence the design and structure of a seven year local authority waste collection contract.

Increase in Recycled Packaging since 1998



The current system 'works', but it works principally as a mechanism for market clearing and administering compliance rather than as a mechanism that calls forward, itself, a significant amount of additional material. It certainly does not fund it. Where local authority collected waste is concerned, the supply of recycled packaging is, at the aggregate level, highly inelastic in the short-term. The supply of packaging for recycling from local authority collected waste continues to rely upon tax revenues: the system could easily have been designed to be funded through, effectively, the consumption of packaged goods, with taxpayers paying less and producers (and hence, consumers) paying more.

So what does the system really contribute? Is the UK system 'value for money'? I rather suspect not. Herein lies the paradox – those who have an obligation, and who experience packaging systems in other countries, might well think the system is cheap. But being cheap is not the same as being 'good value'. The PRN system offers funding support that is marginal, and mostly meaningless, in supporting sustained increases in collection, whereas in some other countries, the fees paid by producers directly support the collection and sorting of waste for recycling. The UK operates a cheap system for producers, but it's not at all obvious what the obligated producers are really getting for what they are paying. As for 'responsibility', where household collections are concerned, this still rests firmly with taxpayers.

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