

The Marketplace for PRNs

Market Status Report – February 2015 to April 2015 By Ian Andrews, Senior Market Operator



After the 'Storm' we headed into calmer waters this quarter with trading figures substantially down from the last quarter's record tonnage of over 500,000 tonnes. As is often the case when there are few concerns about supply, interest in the markets weakens; which has been the case this quarter where prices have traded at their lowest level for a number of years. Value resided with the buyers

as resistance built from the selling community to sell tonnage at the lower price levels requested. It is during these earlier months that most sellers benefit from the support the market provides but with very little interest even at the weaker price levels one can't help but think that supply pressure will return at some stage.

Trading for the quarter equated to 211,503 tonnes with 52,423 tonnes trading in the Spot 15 market and 159,080 tonnes trading in the Forward markets.

Paper

Paper traded in excellent volume in the forward markets where offer prices provided better value. During the quarter, prices remained stable with supply starting to tighten towards the end and increased prices being offered in the forward markets to reflect this position.

Plastic

At the start of the quarter concerns were raised by some participants on the export side of the market regarding potential shortfalls. This resulted in little activity in the forward markets. Reports of a slow start to the year left many exporters holding their tonnage, unwilling to match the buy prices available. Supply remained good but the gap between buyers and seller's aspirations widened, which lead to a period with little activity.

Glass

A combination of strong forward trading at the end of 2014 and a shift in seller price expectations left many buyers either comfortable with their balances or unconcerned about price increases this year. During the quarter, Remelt supply started to tighten with little volume available in the market, resulting in higher value offers filtering in. Most smaller sellers resisted matching the lower values being requested by buyers and left offers in the market at a higher value, which lead to a standoff.

Steel

At the start of the quarter, available supply was low with many exporters and domestic scrap merchants reporting material volumes were down and that sourcing scrap had become challenging. Larger sellers were happy to provide supply but were steadfast in their refusal to drop prices. The supply position eased during the quarter with smaller volumes being offered into the market, resulting in a softening of the price.

Wood

During the quarter supply remained good and prices stable. Demand was low due to buyers assuming the price should closer reflect the Paper value, however sellers in this market have been unprepared in previous years to drop their prices even in the face of potential revenue loss due to writing back tonnage.

Aluminium

A very weak quarter for aluminium trading with a combination of

removal of the ability to claim on protocols and teething problems in incorporating incinerator bottom ash into the supply equation.

Many believe this is a temporary blip and available supply should ease as we go through the year.

Recovery

Available supply for this market has been considerably reduced this year with the introduction of new standards for UK facilities if they wish to claim the PRN note. Supply from export has grown this quarter and it is thought more new UK facilities will be on line shortly, so it is expected the supply position will ease during the year.

	High	Low	Traded This Quarter	Quarter Average Traded Price	YTD Average Traded Price	Year to date aggregated traded
Paper						
Spot 15	£0.85	£0.65	23,382	£0.75	£0.77	30,992
Apr Fwd 2015	£0.65	£0.65	20,000	£0.65	£0.65	20,000
Jul Fwd 2015	£0.65	£0.65	25,500	£0.65	£0.66	35,500
Oct Fwd 2015	£0.65	£0.65	60,500	£0.65	£0.65	83,500
Dec Fwd 2015	£0.65	£0.65	35,000	£0.65	£0.66	70,598
Plastic						
Spot 15	£29.50	£17.25	18,050	£24.47	£24.36	32,607
Apr Fwd 2015	£30.00	£29.50	880	£29.61	£25.44	2,130
Oct Fwd 2015	£19.50	£19.50	500	£19.50	£19.83	1,500
Dec Fwd 2015	£20.00	£20.00	2,000	£20.00	£20.00	6,000
Glass Other						
Spot 15	£13.00	£12.00	1,120	£12.29	£15.24	7,251
Apr Fwd 2015	£11.50	£11.50	1,500	£11.50	£11.50	1,500
Jul Fwd 2015	£11.50	£11.50	1,500	£11.50	£11.50	1,500
Oct Fwd 2015	£11.50	£11.50	1,500	£11.50	£11.50	1,500
Dec Fwd 2015	£11.50	£11.50	1,500	£11.50	£11.50	1,500
Glass Remelt						
Spot 15	£15.00	£12.00	1,511	£13.16	£17.09	10,445
Apr Fwd 2015	£12.00	£12.00	3,200	£12.00	£12.24	3,300
Jul Fwd 2015	£12.00	£12.00	750	£12.00	£12.00	750
Oct Fwd 2015	£12.00	£12.00	750	£12.00	£12.00	750
Steel						
Spot 15	£15.00	£9.00	4,248	£12.16	£11.03	18,030
Apr Fwd 2015	£13.50	£13.50	1,000	£13.50	£10.58	6,000
Jul Fwd 2015	£13.50	£13.50	1,000	£13.50	£13.50	1,000
Oct Fwd 2015	£13.50	£13.50	1,000	£13.50	£13.50	1,000
Dec Fwd 2015	£13.50	£13.50	1,000	£13.50	£8.92	6,000
Wood						
Spot 15	£1.50	£1.50	3,573	£1.50	£1.46	5,499
Aluminium						
Spot 15	£15.00	£15.00	39	£15.00	£12.35	83
Recovery						
Spot 15	£0.75	£0.70	500	£0.73	£0.73	500

MANAGING DIRECTOR'S COMMENTS - MAY 2015

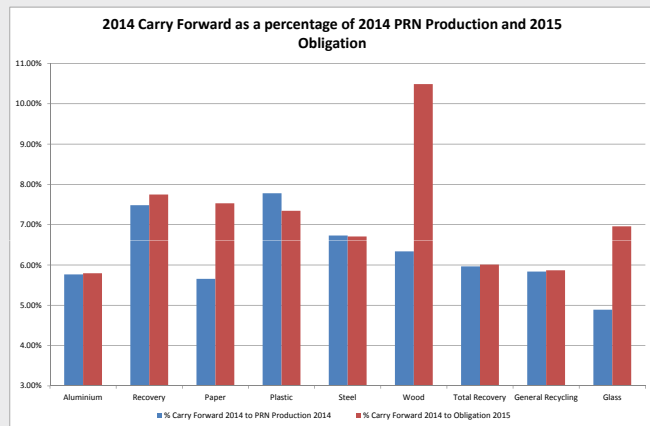


This quarter has seen the final publication of the 2014 figures, the publication of the Q1 figures for 2015 and a DEFRA consultation. From a t2e perspective after the excitements of the final quarter last year this quarter has been far quieter.

A review of 2014

At the beginning of 2014 aluminium, glass and steel were identified as being potential problem materials. As the year progressed so too did aluminium, glass and steel reprocessing, which solved shortfalls in those materials. Despite being on target after the first quarter, plastic remained the material of concern. In paper, wood and recovery low value PRNs reduced interest in PRN generation.

In the end despite all materials other than aluminium, paper and plastic generating less PRNs than the previous year, the UK exceeded its recovery target by 8.75% and carry forward figures increased year on year by 7.53%. The bulk of carry forward growth occurred in glass, aluminium and plastic, the latter two with sizeable target increases perceived as being challenging in 2015 while the former shows a fourfold increase having carried very little forward from 2013. This has created some complacency that targets are easily within reach for 2015. A further symptom of this complacency is possibly the decrease in paper carry forward by 22.5%, 57,040 tonnes.



Q1 2015 Figures

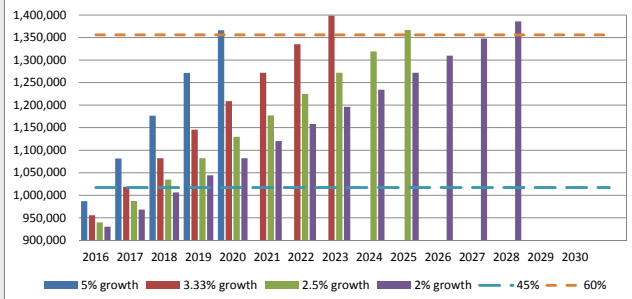
Q1 figures of any year are normally on the low side. Aluminium, glass, plastic and steel have increased targets in 2015. All materials have seen year on year growth other than Aluminium where historic low values, the removal of protocol tonnage and bedding in difficulties with accrediting reprocessors of metals from incinerator bottom ash have combined to create a reduction in both year on year and quarter on quarter PRN generation representing a 17.5%, 3,162 tonne, shortfall on the quarterly requirement.

Despite these increases, the quarterly requirements in both Glass and Plastic have not been met. In both materials the export markets are coming under pressure. This could put upward pressure on prices in these materials as well as move the Glass Other price towards the Remelt one.

There has been a substantial reduction of Recovery PRNs. This is mainly attributed to a change in accreditation

requirements. While not excessively onerous there is some cost involved and the current and historic low value of Recovery PRNs has to date provided insufficient incentive to pay it. As any PRN can be used to fulfil a recovery obligation there is normally an excess of PRNs available, so a shortfall in Recovery PRNs would not be considered an issue; but given the reduction in carry forward of Paper PRNs and decline in availability of Wood PRNs there could be a tightening of this and the General Recycling market which could see Recovery PRN prices rise towards General Recycling PRN prices and possibly should exports of paper in particular slow down a rise in the General Recycling and consequently the Paper PRN price.

Achievement of European 60% plastic recycling target by 2030 using target growth rates of 5%, 3.33%, 2.5% and 2% per annum



DEFRA Consultation

DEFRA's consultation looks to simplify and harmonise the packaging regulations with the other producer responsibility regimes. Additionally it explored both the impacts of the Pack Flow report on plastic packaging on future targets and if there were any barriers to involvement by or with local authorities. While there is much merit in both simplifying and harmonising all the producer responsibility regimes, the opportunity needs to be taken to improve the regulations as well as simply making them less onerous.

Given the revised figures for plastic packaging will reduce the estimated amount placed on the market and noting the potential challenges that might arise from trying to meet this year's target, consideration could be given to reviewing future plastic targets downwards while still keeping them suitably challenging to meet the projected European targets for either 2020 or 2030.

While there are no specific barriers to prevent local authorities being involved in the PRN system, and indeed from time to time some have become involved, direct involvement with local authorities is challenging for most producers.

Many thanks for your patience with the tardiness of this quarterly. I shall strive to ensure the next one is more prompt. Thank you too for your support over the last quarter we look forward to being of service to you.

Angus Macpherson
Managing Director

The Marketplace for PRNs

Review of Q1 Supply Figures *by Kirsty Anderson, Account Manager*



The Reprocessing and Exporting figures were released on the 22nd April and these gave the PRN supply position for the first Quarter of this Compliance Year. These eagerly awaited figures also give an indication of what might be in store for the rest of the year. When comparing Q1 2014 with Q1 2015, overall PRN production is down 17,922 tonnes. The materials which have seen a growth in supply are Paper, Glass (Remelt and Other), Steel and Plastic. Materials which have contracted are Aluminium, Wood and Recovery.

Material	Q1 2014	Q1 2015	Q1 Supply 2015 vs 2014	Q1 Supply 2015 vs 2014
Paper	854,722	892,439	37,717	4%
Glass (Other)	106,722	119,008	12,286	12%
Glass (Remelt)	252,491	256,483	3,992	2%
Aluminium	16,081	14,956	-1,125	-7%
Steel	78,912	98,308	19,396	25%
Plastic	191,817	199,426	7,609	4%
Wood	104,570	94,825	-9,745	-9%
Efw	109,570	55,663	-53,907	-50%

Table 1. The difference between the reported supply figures for Q1 2014 and Q1 2015 for all materials.

Paper

Paper supply in Q1 2015 is up on the corresponding period last year by 37,717 tonnes (4%). Based on the quarterly obligation figure for 2015 being 653,067 tonnes, Paper would have met the quarterly obligation with some 239,372 tonnes of surplus volume (36%). Despite this impressive oversupply, it is important not to rely too heavily on excess volume to satisfy other demands such as General Recycling and Recovery.

Glass (other)

The Q1 2015 supply figure was up by 12,286 tonnes (12%) compared with Q1 2014. However the obligation figure for 2015, Glass (Other) has failed to meet the quarterly obligation by approximately 10,356 tonnes (9%). It is thought that Glass (Other) volume will continue to decline, but with an excess in Glass (Remelt) volume, the total Glass obligation should hopefully be met. The market will only run into problems if Glass (Remelt) cannot supply enough Glass to cover the demand.

Glass (remelt)

The Q1 2015 figure is up on Q1 2014 by 3,992 (2%). With split percentage between the two Glass notes increased by 1% for Glass (Remelt), demand for Remelt will be up this year. Based on the obligation figure for 2015, Glass (Remelt) would have narrowly met the required obligation by 5,364 tonnes (2%). Prices opened in the 2015 market at the lowest levels ever seen and it appears some UK Glass sellers have a desire to keep PRN prices low. Some perceive that higher PRN prices provide an incentive to export, so to protect domestic supply material; it is in Reprocessor's interest to see lower PRN prices.

Aluminium

With the new guidelines being replaced by the ability to claim tonnage on Incinerator Bottom Ash (IBA) this year, concerns regarding supply at the beginning of the year have been well documented. This Q1 2015 Aluminium supply figure was down 1,125 tonnes (7%) when compared to Q1 2014. With an increase

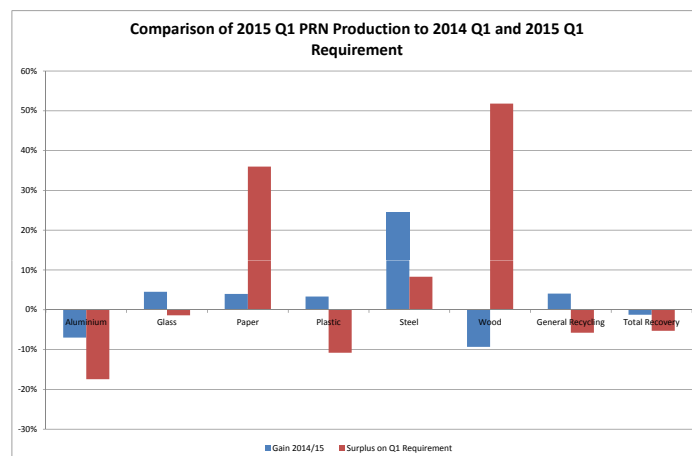
in demand for this material, due to an increased recovery target of 3%, the market will need to see a growth in volumes being claimed on IBA or it may result in prices becoming quite volatile. Aluminium has missed the 2015 quarterly obligation by 3,116 tonnes (20%).

Steel

The Steel market performed very well in Q1 2015, up by 19,396 tonnes (25%) on Q1 2014. When looking at 2015 demand, Steel would have met the quarterly obligation by 8,932 tonnes (10%). Steel also benefitted from a strong carry-in figure for this Compliance Year (23,948) and this coupled with the strong supply in Q1 resulted in Steel prices softening.

Plastic

With the 5% target increase in Plastic this year; additional supply is required in order to meet the increased demand. With various talking points, such as the falling oil price and poor trading conditions in the export market – participants thought that the Q1 2015 supply figure would be a lot lower than it was. The Q1 2015 supply figure was up by 7,609 tonnes (4%) when compared to Q1 2014. However, when looking at the 2015 quarterly obligation figure, plastic would have in fact been undersupplied by 23,658 tonnes (10%).



Wood

Wood volumes have continued to decline in recent years and the Q1 2015 reported supply figure was 9,745 tonnes (9%) below the corresponding period last year. When looking at the 2015 quarterly demand, Wood will have met this in excess of 32,648 tonnes (35%). Despite this, Wood along with Paper volume is required to secure General Recycling and currently Recovery requirements so we need to be aware that we may run into problems of undersupply.

Efw

The Recovery supply figure for Q1 2015 was 53,907 tonnes (50%), lower than for the same period in 2014. With the new accreditation guidelines stating that only RI rated facilities can issue PRNs, there is a reduced number of sellers in the market. Recovery has missed the 2015 quarterly obligation by 79,522 tonnes (59%). This market must keep prices pegged below Paper prices otherwise Recovery volume will be secured through buying Paper. This will only become a problem if Paper supply starts to tighten, which may result in an increase in Paper prices.

Our colleague Kirsty Anderson has moved on to take up a marketing position in the financial sector. Kirsty was a well liked and valued member of the team with a strong work ethic. We will miss Kirsty and want to thank her for her support and hard work and wish her all the success in the new role.

The Marketplace for PRNs

Some thoughts on DEFRA's Consultation *by Angus Macpherson, Managing Director, The Environment Exchange*

DEFRA's consultation which closed in May looked at three issues: harmonising and simplifying some aspects of the Packaging and Batteries Producer Compliance Regimes; the potential impact of the revised figures for plastic placed on the market and how those involved with the packaging waste regulations might assist local authorities in delivering their recycling targets.

The harmonising and simplifying issues considered were the removal of the requirement for operational plans and independent audit reports on treatment facilities and transferring the approval process of schemes to the Agencies and the submission of information by obligated companies to approved persons rather than Directors.

t2e supports anything that results in the simplification of all Producer Responsibility Obligations as many producers find the administrative aspects of the Regulations the most challenging. However this simplification should not be done at the expense of the effectiveness of the regulation and all Producer Responsibility Regulations including WEEE and ELV would benefit from harmonisation.

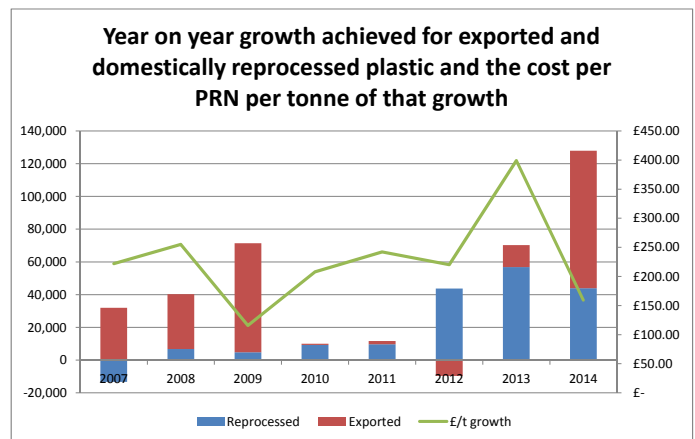
If operational planes are removed the Government may wish the Agencies to monitor those that are sufficiently large that if they failed to comply they would impact on the UK's ability to comply with the Directive; for example retaining operational plans for those that have an obligation in excess of 1% of the total national obligation, 70,000 tonnes, and/or 2% of any individual material obligation.

The accurate issuing of evidence of compliance is a key aspect in ensuring that the UK meets the Directive targets. The independent audit complimented the checks being implemented by the Agencies to assist in minimising the possibility of incorrect issuing due to concerns about the consistency, capability and commitment of the Agencies in carrying out their checks. To a great extent these concerns have been allayed and therefore the need for an independent audit has reduced. However if the Agencies no longer retain the capability to carry out these audits then the desirability of an independent third party to carry out these audits financed by the accreditation fees should be reconsidered.

authority to submit reports and returns should increase the flexibility of the regulations. Both these changes give the Government and the Agencies the opportunity to ensure that those that submit returns have completed some training in the regulations and are 'fit and competent' to gather and submit information. Like all continuous professional development there should be encouragement to update knowledge on a regular basis.

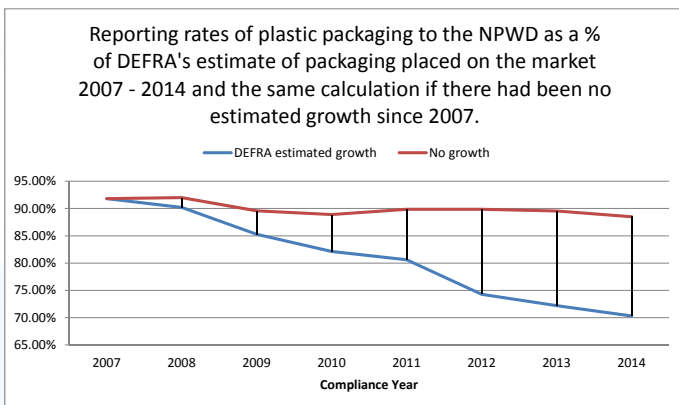
Another potential simplification provides a solution to the problem of 'free riding' by including a disclaimer in the annual return to Companies House stating that the company was below the de minimis requirements for each Producer Responsibility Regulation.

The revision of the figures for plastic packaging placed on the market reflects both an increasing reality highlighted by the annual returns by obliged companies and corrects a mis-judgement. Growth appears to have been static over the last five years whereas it had been estimated that it would grow by 2% per annum. As can be seen above the divergence has been considerable. As a result business targets have been set much higher than was necessary to meet any of the anticipated targets within the revised circular economy package. While this has imposed additional cost on industry it cannot be easily identified whether this has benefitted domestic reprocessors or exporters more as can be seen in the graph below.



Should the targets therefore be revised? On the face of it, yes, however caution is required to ensure that any revision of the targets does not set the current recycling levels back, potentially compromising the ability to meet future targets. A reduction from 5% to 2% per annum target growth from 2016 onwards would reduce the annual cost to industry and yet still ensure that over the longer term the same support for the plastic packaging recycling industry is available.

It is possible for obligated companies and producer compliance schemes to assist local authorities to deliver on their targets. The proposed bargain is that local authorities increase their recycling rates to meet their targets, which assists industry in meeting its producer obligations and in exchange receive income from producer compliance schemes. However there are a number of challenges. To overcome them it would assist if there was a consistency of approach to recycling within local authorities.



For the Agencies to approve compliance schemes makes sense and should reduce the administrative burden. Nevertheless some form of appeal process in which the Government is involved will be needed. Likewise giving companies the ability to delegate the