

## The Marketplace for PRNs

### Market Status Report *By Tom Rickerby, Head of Business Development*



The first three months of the compliance year have been marked by a swing towards seller's markets in 6 of the 8 PRN materials. In a quarter that tends to be short on market data and high on conjecture, the 2018 markets have started the year in bullish fashion as China's import restrictions, target increases and plateauing recycling rates have squeezed PRN supply. Disappointing Q1 supply data has backed

up the market sentiment pushing PRN prices into uncomfortable territory. 277,552 tonnes traded during the period, up 6% on the same period last year. 135,949 tonnes were traded in the Spot market and 141,603 tonnes in the Forward markets.

#### Paper

Seller's confidence has been hit hard this quarter as China's import restrictions and new quality standards have caused recovered paper prices to plunge. Whilst the UK recovered paper sector adjusts to the new trading landscape, PRN generation seems to be suffering. Paper PRN prices have surged as a result, up 223% to £5.50 per tonne. The Q1 spot average (£3.47) is the highest opening average price since 2009. A contracting paper market is likely to place serious strain on the General recycling price. Only surplus Steel currently offers a credible alternative to fill General Recycling demand.

#### Plastic

Anticipated disruption to the Plastic export market and forecast demand growth have been priced into the PRN value early this year. Despite the high opening values, spot price rose 14% to a year high of £65.00 per tonne during the quarter. Ongoing uncertainty has limited forward trading opportunities, with most sellers happy to spot trade on a 'hand to mouth' basis. High PRN values should help to support material values as the UK recovered plastics market transitions to life without China but questions still remain over the ability of the UK and alternative overseas markets to meet the new target. The Q1 average price - £60.82, is already up 25% higher than the 2017 average and represents the highest opening quarterly average on record.

#### Glass Remelt

Remelt prices have slowly ticked upwards during the quarter, moving outside of the stable price parameters seen during the previous 2 compliance years. A price signal that may indicate a less predictable period of trading to come. In a market with little surplus to weather even a small decline in generation or demand growth, the remelt price is likely to become increasingly sensitive to any sign of a supply demand imbalance. The Q1 average spot price is up 7% on the same period last year.

#### Glass Other

It's been a weak trading period in Glass Aggregate, reflecting poor availability and a significant drop in generation. Early data suggests Glass Aggregate will be highly dependent on Remelt to cover the supply deficit this year. Quarterly volume traded fell to its lowest level since the Glass split.

#### Recovery

Q1 saw a record volume of Recovery trade in an opening quarter. This was helped by record low opening prices as Recovery values failed to recover from the collapse in 2017. However, a strengthening Paper price has helped to restore some value to the recovery market toward the end of the quarter. Prices more than doubled from 30p to 65p as sellers increased their offer prices to compensate for the additional administrative burden of a growing number of smaller, low value trades.

#### Steel

Steel PRNs values opened flat, trading at between £5.00 and £5.50 in the

Spot market following back to back surplus years. Despite a 3% target increase, 2018 was forecast to be another soft year. Only the rising Paper/General price was seen as a possible threat to the stability of the market. By late April this threat was becoming a reality as the Paper market found price parity with steel – prompting a immediate 9% increase in the Steel price. Steel PRN prices are now likely to be pegged to changes in the paper value, however; sellers will be wary of a scenario where steel is over-bought as a hedge for General Recycling, inadvertently squeezing supply for Steel specific obligations.

#### Aluminium

The extreme and unexpected volatility seen in the end of the 2017 market lead to a murky price picture in the early stages of the 2018 market. It took the best part of a month to find an acceptable middle ground with trading eventually opening at £15.50 in late February. Prices strengthen 30% by the end of the quarter. However, volume was down 20% on the same period last year.

#### Wood

Wood prices have risen steadily during the quarter, building on strong early forward trading during the second half of 2017. Spot prices doubled during the quarter to £20.00 per tonne with strong trading across all 4 forward markets as buyers looked to hedge against further price rises. A poor Q1 supply return will do little to calm buyer's nerves as Wood prices head into uncharted territory.

	High	Low	Traded This Quarter	Quarter Average Traded Price	YTD Average Traded Price	Year to date aggregated traded
<b>Paper</b>						
Spot 2018	£5.50	£1.70	29,225	£3.47	£2.45	53,976
Apr Fwd 2018	£3.15	£1.70	38,824	£2.53	£1.32	171,324
Jul Fwd 2018	£5.50	£1.70	24,099	£2.77	£1.38	126,599
<b>Plastic</b>						
Spot 2018	£65.00	£57.00	62,562	£60.82	£59.17	82,193
Apr Fwd 2018	£60.00	£55.00	1,900	£58.95	£58.95	1,900
Jul Fwd 2018	£65.00	£60.00	5,964	£64.53	£64.53	5,964
Oct Fwd 2018	£60.00	£60.00	1,300	£60.00	£60.00	1,300
<b>Glass Other</b>						
Spot 2018	£12.00	£12.00	934	£12.00	£11.55	1,206
<b>Glass Remelt</b>						
Spot 2018	£18.00	£12.00	3,635	£13.81	£13.51	4,446
Apr Fwd 2018	£12.50	£12.50	2,500	£12.50	£12.77	5,500
<b>Steel</b>						
Spot 2018	£6.00	£4.95	13,129	£5.49	£5.59	21,495
Apr Fwd 2018	£5.50	£5.00	4,803	£5.03	£5.16	11,803
Jul Fwd 2018	£6.00	£6.00	3,783	£6.00	£6.00	3,783
<b>Wood</b>						
Spot 2018	£20.00	£10.00	6,073	£13.54	£11.94	7,981
Apr Fwd 2018	£12.50	£10.00	2,500	£12.25	£5.88	16,000
Jul Fwd 2018	£15.00	£10.00	2,500	£13.25	£6.32	11,500
Oct Fwd 2018	£19.50	£10.00	3,000	£15.21	£15.21	3,000
Dec Fwd 2018	£12.50	£10.00	2,500	£12.25	£12.25	2,500
<b>Aluminium</b>						
Spot 2018	£20.00	£15.50	1,421	£16.75	£16.56	1,677
<b>Recovery</b>						
Spot 2018	£0.70	£0.30	18,970	£0.31	£0.31	22,970
Apr Fwd 2018	£0.30	£0.30	680	£0.30	£0.30	680
Jul Fwd 2018	£0.50	£0.30	21,250	£0.31	£0.31	21,250

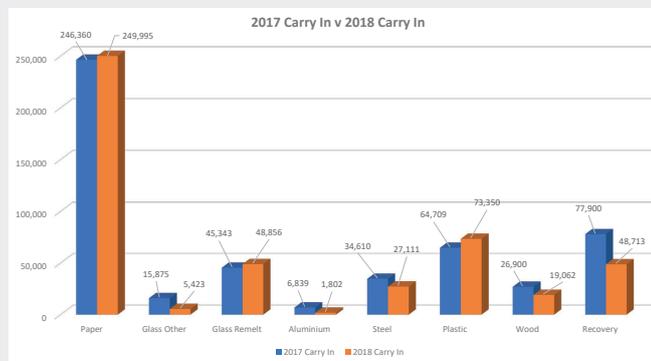
## The Marketplace for PRNs

# Managing Director's Comments – May 2018



A challenging quarter marked with the anticipated turning into reality. More uncertain is what if anything may be the reaction from the UK Government. The final figures from 2017 have been confirmed by the NPWD as have the first quarter ones for 2018. Both in their ways make uncomfortable reading. Brexit progresses and remains the major focus of

Government but the speed of progress and the fast approaching Brexit date are causing concern to the manufacturing industry, many of whom are accredited reprocessors, deterring investment which in turn is creating uncertainty within the population. In Brussels the packaging element of the Circular Economy package has been passed to which the UK has said it will adhere. Within DEFRA the major focus remains the Resources Policy.



### 2017 Compliance

After some uncertainties 2017 compliance was achieved with relative ease, although carry forward overall reduced in comparison to the carry in from 2016. Carry in of paper, plastic and glass remelt increased while reductions were seen in recovery, steel, glass aggregate and surprisingly aluminium and concerning wood. The latter has been the prelude to restricted supply of Wood PRNs in 2018 and steeply rising prices. Some anticipate that this combined with the late accreditation of some reprocessors will increase supply to meet demand but at this stage that is far from clear. The shortfall in the Aluminium carry forward remains mysterious with some 10% of Aluminium PRNs in 2017 not issued it has significantly reduced availability in the 2018 Aluminium market with consequent price rises. Overall although recycling dropped year on year for the first time since 2012 it still remained the second highest annual level ever.

### 2018 Compliance

Nevertheless challenges remain for 2018 with the first quarter showing shortfalls in aluminium, glass and wood as well as general recycling as paper exports continue to struggle. Market prices are being pulled upwards from the bottom as wood purchases are used to meet wood obligations and steel and paper used to meet general recycling obligations. Even recovery has seen an uplift as obligated companies identify marked price differentials between recycling and recovery PRNs. With no clear indication that exports to China are going to return to former levels, exporters

are seeking new markets to fill the gap. It is to be hoped in the short term these searches are successful as it is unlikely that domestic reprocessing capacity will be able to expand sufficiently to pick up the shortfall.

### Circular economy

Meanwhile in Brussels the much anticipated Circular Economy package has been approved. The UK has said that it will abide by its targets and aspirations. The targets are less demanding than originally proposed and should be achievable. More thought will be required on how best to set out to comply with some of the financial obligations put on the industry under producer responsibility. Producers are asked to meet up to 80% of the net cost of collection and processing of packaging. Net costs means collection and reprocessing costs after the income received from the sales of secondary raw materials and deposit schemes is taken into account. Easy to say but difficult to measure. Within the UK the sales of secondary raw materials represent substantial income streams to collectors. Frequently these more than match the costs of collection and processing but on occasion due to the volatility of secondary raw materials losses occur. Without a mechanism to gather the true costs of collection it is difficult to establish when these occur or quantify the loss, but PRN income has in the past effectively covered these costs and arrived at and resolved the crisis points. In 2017 this totalled some £55 million. In 2018 all indications are that this sum will be greater. There is no reason to believe that this will not continue.



One way to identify the true costs of collection is to impose the obligation on industry to not only pay for the collection but also organise it outwith the current collection system. This is unlikely to be popular with either those that currently collect packaging or those on whom those costs are imposed as it is possible that this will impose extra costs on both, but it could produce increased transparency to the true costs.

Once again thank you for your support. We look forward to continuing to be of service to you in what could be a difficult year.

**Angus Macpherson**  
Managing Director

## The Marketplace for PRNs

### Q1 Supply Analysis *By Andrew Letham, Sales and Marketing Manager*



The initial release of both supply and demand data in 2018 has shown overall recycling to be down 171,911 tonnes (t) from the same period in 2017. However, despite target increases across the board the total obligation has fallen 36,370t with packaging handled down by 167,992t. At the time of writing (17.05.18) there were 400 less producers registered than at the close of the 2017 compliance year. Growth is therefore expected but the extent of which is harder to gauge. An increase of 331 registered producers generated an additional 206,399t of obligation in 2017. If Packaging handled remains consistent with 2017 and similar growth levels are experienced this compliance year, we enter Q2 facing an uphill battle to meet the overall recycling target in a challenging and changing environment.

With a 16% increase in recycling target, Wood has been one of the most significant price movers in the early part of the year. An additional 154,236t are required to achieve target this year compared to last, a feat made more difficult by a poor Q1 return. 84,298t were recycled in Q1, 16,540t short of the quarterly target and meaning a 20% uplift in recycling is required in the next three quarters if we are to achieve target. A significant player in the market now being accredited will go some way to bridge the gap but little to no contribution to General recycling can be expected.

Paper posted its worst quarter since Q3, 2012. 823, 673t were recycled, representing a drop of 12% (110,646t) on the average 2017 return of 933,022t. The material specific target of 2,841,078t will be comfortably met but the downturn in generation has wider ramifications for the rest of the PRN market. If Q1 returns were to be replicated for the next three quarters Paper's contribution to the general recycling pot would be approximately 35% (390,00t) down on last year.

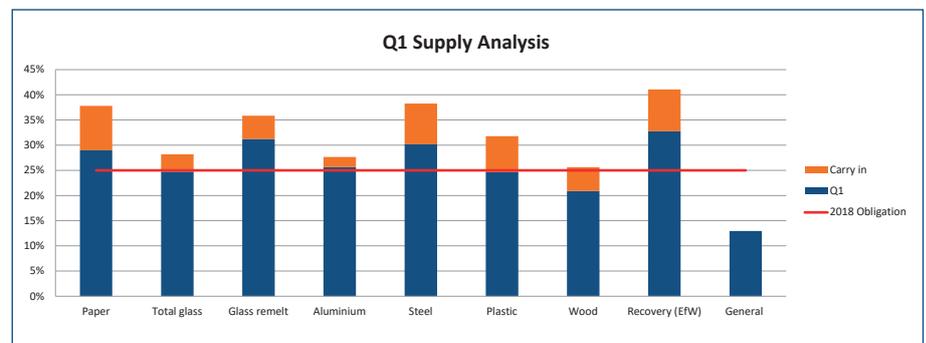
Plastic has been well supported in the early part of 2018, trading consistently above £60 since early February. A modest Q1 return of 252,268t did little to affect price with the record carry-in of 73,350t offering a level of comfort in a tight market. The initial 2018 obligation figure showed a slight decline from the end of the 2017 compliance year coming in at 1,024,120t but this is expected to grow closer to 1,060,000(t) by the end of the year, which although achievable requires continued support from producers.

Glass targets went up 1% this year as carry-in fell for the second year in a row to a combined total of 54,279t. Q1 data showed that a total of 393,259t were recycled with Aggregate down 40% from the 2017 average at 60,920t with some of that material now going into Remelt which showed a higher than normal return of 332,339t.

Material	Carry In	Q1	2017 Obligation	YTD Supply + Carry In	Balance
Paper	249,995	823,673	2,841,078	1,073,668	-1,767,410
Total Glass*	54,279	393,259	1,587,956	447,538	-1,140,418
Glass remelt	48,856	332,339	1,063,931	381,195	-682,736
Aluminium	1,802	23,105	90,106	24,907	-65,199
Steel	27,111	101,306	335,765	128,417	-207,348
Plastic	73,350	252,268	1,024,120	325,618	-698,502
Wood	19,062	84,298	403,350	103,360	-299,990
EfW	48,713	192,301	587,084	241,014	-346,070
General *	0	107,315	828,042		
Total	474,312	1,870,210	7,697,501	2,344,522	-5,352,979

\*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.



The initial obligation figure was down 2% from 2017 at 1,587,956t but additional growth could see it returning to similar if not higher levels than 2017 by the end of the year which will tighten up the market significantly.

Steel recycling continued at good levels in Q1 with the 101,306t reported 20% ahead of the required quarterly target of 83,941t. Prices had started to soften early in the quarter with compliance thought to be a foregone conclusion, but the poor levels of Paper recycling reported have ensured every spare tonne will be considered for General Recycling and prices have subsequently increased.

Aluminium again looks to be tight with a 3% target increase and the lowest carry-in on record after over 8,000 tonnes were written off in Q4, 2017. As it stands the 23,105t recycled in Q1 would be enough to achieve target if replicated for the next three quarters however Aluminium showed the biggest increase in obligation last year growing 5% off a lesser target.

Overall most materials look to be able to meet their individual material specific targets but the 107,305t available to use to meet the General Recycling target in Q1 gives serious cause for concern. Growth in obligations will put further strain on what are already tight markets and materials not currently being considered for general recycling may well become attractive if prices continue to escalate.

## The Marketplace for PRNs

### Brexit & Industrial Strategy *Andrew Large, Director General, Confederation of Paper Industries (CPI)*



At the time of writing, we are ten months from 29th March 2019, the date of Brexit. Negotiations have stalled and talks about the future EU/UK trading relationship are yet to start. Although the Withdrawal Treaty has been agreed in principle, including a transitional period to the end of 2020, it will not enter into force unless agreement can be reached with the EU27 on the question of the Irish Border; an agreement that currently looks remote.

UK business urgently needs clarity from the Government about the future trading arrangements and the rules and procedures that will govern commercial relationships across the Channel. Investment is already under scrutiny, and the future competitiveness of the UK economy is at stake.

The UK's paper-based industries are fully integrated into the EU market. As such we need continuity of our existing supply chains for both goods and services. We need the ability to continue to serve our customers across the EU. We need the continued alignment of standards between the UK and EU27, and mutual recognition of compliance and monitoring procedures and we need to be able to move skilled people into and out of the UK for training, development and to meet business needs. Any friction in these areas will make the UK a less attractive place to do business for the global investors on which the UK's Paper-based Industries depend.

It was a gross error for the UK to invoke Article 50 in the absence of a clear Brexit policy supported by both the Cabinet and Parliament. We

can only hope that in remaining weeks and months, cool negotiating heads can agree a viable long-term relationship between the UK and EU27.

In the context of Brexit, the proposed UK Industrial Strategy is a welcome development. It implicitly recognises the downside risks to business of Brexit and seeks to align Government policy to support UK business through the transition out of the EU and into the future.

From the point of view of the UK's paper-based industries, we are fully engaged in the develop of the Industrial Strategy and its implementation. For us, there are two key aspects that need to be addressed.

The first is the cost of energy for business users. UK electricity bills for large industrial users are the highest in Europe and a serious competitive drag on investment in energy intensive industry in the UK. The Government commissioned Helm Review reported in October 2017 and was clear in its conclusions that the cost of industrial energy in the UK had been inflated by poor Government policy choices over many years. We urge the Government to address this quickly and ensure that industrial decarbonisation can be achieved at reasonable cost and in a manner that allows UK energy intensive industries like paper making to grow and thrive.

The second area of interest to us is the possibility of a Sector Deal. The Confederation of Paper Industries has proposed a negotiating process for such a deal to BEIS and we are in the early stages of discussions. Our proposals are focused on the Government's priority Clean Growth agenda and we believe that paper and its products can make a significant contribution to the UK economy's future.

### Meet the Team



Kevin Deeney has recently joined the t2e trading team as our new Account Manager. Over his career Kevin has gained a range of skills and experience in the financial services industry and most recently working for a not for profit business consultancy.

Kevin has extensive experience as an Account Manager and values his ability to build and maintain strong working relationships with clients. Outside of work Kevin enjoys the simpler things like cooking, walking and traveling and spending time with his fiancé Megan and young daughter Emily.

### General Data Protection Regulations (GDPR)

In light of the introduction of General Data Protection Regulations The Environment Exchange (t2e) has reviewed its privacy policy, which can be viewed at <https://www.t2e.co.uk/t2ePrivacyStatement.pdf>.

In summary, recipients of the t2e PRN Quarterly are either an authorised representative of a t2e participant or an individual with an interest in the PRN market, t2e holds your personal details (name, address, telephone number; e-mail address, etc) which will:

- be held by the Company on a secure database.
- be used to keep you informed about the PRN market through the t2e Quarterly.
- not be disclosed to a third party unless required by law.

- be deleted from our database should you request to cease receiving a t2e PRN Quarterly unless they are required for some other purpose in the delivery of t2e's services.

If you no longer wish to receive a PRN Quarterly you should do one or more of:

1. Notify t2e using the enclosed fax back.
2. E-mail [info@t2e.co.uk](mailto:info@t2e.co.uk).
3. Write to t2e's Data Controller at the address below.

Confidentiality of data remains at the core of all t2e's services, which we look forward to continuing to provide you."

 **RWM** IN PARTNERSHIP WITH   
12-13 September 2018 | NEC Birmingham

Visit us at stand  
**4J46-K47** for your  
**FREE**  
PRN Consultation  
  

THE ENVIRONMENT EXCHANGE  
[www.t2e.co.uk](http://www.t2e.co.uk)  
smart, simple, safe trading