Market Status Report – August 2013 to October 2013 *By Ian Andrews*

For Paper, Wood, Steel, Aluminium and Recovery, market prices have softened slightly from their previously low levels due to the current oversupply position. In the markets where undersupply has been evident volatility has remained. Both glass markets have seen a further increase in value with strong demand being placed across all markets and selling volumes continuing to be hard to source. In Plastic prices softened upon news that the undersupply was starting to ease with Q3 supply figures showing a strong growth from the previous quarter's position. Further detail and analysis of the Q3 supply figures is available on page 3.

Trading for the quarter equated to 202,477 tonnes with 98,091 tonnes trading in the Spot market and 104,386 tonnes trading in the Forward markets.

Paper

Excellent volumes of paper traded this quarter across all open 2013 markets. The majority of paper tonnage traded was through the Dec Forward market, despite there being only a small difference in value between the markets. With the Q3 figures at their strongest in comparison to Q1 and Q2, it showed paper was still in strong supply and continuing to trade well.

Plastic

At the start of the period prices held firm as the reported Q2 supply showed further growth was required. In the run up to the release of the Q3 figures supply strengthened with new tonnage and excess tonnage from bi-lateral contracts starting to flow into the market. This new selling started to ease pressure with competition to secure volume trades placing downward pressure on prices. Confirmation that the supply position had started to ease resulted in the prices softening further as, for the first time this year, sellers became concerned about holding volumes and looked to clear their positions. At the end of the period the price eventually settled at £35.00 below the high price traded this year of £70.

Glass

Both of the Glass markets have suffered from a lack of liquidity this quarter with demand continuing to outstrip supply. Buyers in the market have been happy to secure tonnage at the offer price levels but the available volume has not been accessible for them to close their positions. Sellers have been happy to leave tonnage on offer but due to the strong demand, commitment on volume offers has been weak and sellers have taken the opportunity to push prices up in the face of weak supply. The Q3 supply figures provided very little in the way of positive news. The in quarter supply is in line with demand but given that the market has been carrying a deficit supply from Q1 of over 50,000 tonnes, little has been done to make up this shortfall. Glass has performed weakly this year with the high prices being offered providing no growth in supply.

Steel

Good volumes of steel traded this quarter across all open 2013 markets. The release of the Q3 figures showed that supply was contracting however given the strong performance in the previous two quarters this has had little effect on the softening price.

Wood

Trading volumes for the quarter were down as a result of sellers taking the decision to hold their offer prices and forgo general recycling buying opportunities. Supply figures indicate that this market will comfortably meet all demand this year.

Aluminium

With aluminium comfortably meeting demand this year prices for the period continued to soften in the face of strong supply competing against weak demand.

Recovery

The obligations for recovery were already being met part way through Q3 to meet demands for the compliance year. Although recovery has been trading comfortably, we have seen the price remain at £0.30 for quite some time.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	YTD aggregated traded
Paper						
Spot 13	£1.50	£0.90	18,587	£0.91	£0.93	107,958
Oct Fwd 2013	£0.90	£0.90	11,300	£0.90	£0.91	83,541
Dec Fwd 2013	£0.95	£0.90	51,000	£0.93	£0.91	85,902
Plastic						
Spot 13	£68.00	£45.00	37,110	£63.72	£48.61	97,286
Dec Fwd 2013	£62.00	£45.00	7,760	£47.72	£49.73	9,540
Glass Other						
Spot 13	£55.00	£43.00	18,431	£46.89	£45.34	43,302
Oct Fwd 2013	£45.00	£43.00	7,869	£43.16	£46.62	28,091
Dec Fwd 2013	£43.00	£43.00	11,000	£43.00	£48.18	19,347
Glass Remelt						
Spot 13	£73.00	£67.50	14,104	£70.52	£65.58	45,971
Oct Fwd 2013	£72.00	£67.00	3,548	£69.18	£61.80	23,768
Dec Fwd 2013	£67.00	£67.00	2,000	£67.00	£67.00	2,000
Steel						
Spot 13	£10.00	£4.75	5,796	£6.70	£13.13	27,323
Oct Fwd 2013	£9.00	£7.00	5,164	£8.65	£10.23	10,159
Dec Fwd 2013	£5.00	£4.75	4,071	£4.83	£6.31	5,571
Wood						
Spot 13	£2.00	£1.75	2,197	£1.77	£1.67	5,131
Oct Fwd 2013	£1.65	£1.65	274	£1.65	£1.65	5,530
Aluminium						
Spot 13	£6.50	£3.00	964	£4.58	£5.72	1,596
Oct Fwd 2013	£4.95	£4.95	400	£4.95	£8.54	4,093
Recovery						
Spot 13	£0.30	£0.30	902	£0.30	£0.27	21,831

Managing Director's Report

Another busy quarter, much trading, concerns expressed in the press about the PRN system and a review of extended producer responsibility regimes at European level.

The plastics sector has been suggesting potential changes to the PRN system to rebalance the perceived imbalances in the current system in favour of exporters against domestic reprocessors. These have included splitting the plastics PRN, discounting the export PRN and providing additional incentives to those that use reprocessed material in their packaging or other products. However before suggesting changes the plastics industry should consider whether they are maximising the opportunities that the current PRN system presents.

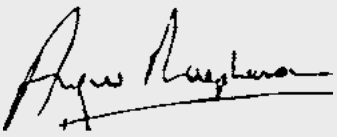
While a split in the plastics industry may superficially seem attractive given the different challenges that face bottle, film and pots and tubs reprocessors, lessons should be learnt of the unexpected consequences that can occur from creating a split. Many expected that the split in glass PRNs would result in aggregate PRNs tumbling to general recycling levels while remelt PRNs prices would rise to a perceived necessary level to encourage glass for remelt. However aggregate glass PRNs have been short, glass remelt prices have soared, aggregate prices are following and closing the differential. This has been unpopular with glass packaging users and rumours suggest that glass is losing its market share to other packaging materials. The price peaks are also attributed to a misjudgement of both the packaging placed on the market and in consequence the targets. These both show how important it is to get the data correct.

Another area where data is important is exports. If, as is quite probable, since many domestic reprocessors find that their raw material is not 100% packaging and the problems caused by the Chinese Green fence, exports do not comprise of 100% packaging then a PERN, which is the evidence of packaging that has been exported for reprocessing, should not be issued on every tonne of plastic that is exported. Instead a protocol should be developed. However without data, a mechanism of verification and the commitment of the Agencies to regulate this area, the aspiration of a level playing field will remain distant.

While never claiming that it is perfect, the PRN system has many merits amongst which is its flexibility. As a market based instrument it can be supplied or sold by accredited reprocessors to any eligible buyer (e.g. a company with an obligation under the regulations – a user of packaging – or their representative). So if an accredited reprocessor wishes to encourage packaging users to purchase their packaging or other products made from reprocessed packaging they can supply the requisite number of PRNs at no or a discounted cost to its customers. At today's price for Plastic PRNs that could provide a significant incentive for those customers to purchase recycled products. Of course those that do not buy the product will only be able to access Plastic PRNs through the open market and there is no better way to demonstrate the benefits the customers are gaining than using the price transparency of selling through The Environment Exchange, effectively a transaction based index.

Meanwhile in Europe a review is on-going as to whether it is possible to harmonise Extended Producer Responsibility Regimes and what benefits might derive from this harmonisation. The general perception is that there are some areas where harmonisation is key, such as definitions and data gathering and reporting but beyond that guidelines rather than further Directives are desired. Competition is generally preferred to monopolies; no matter how much more efficient or benign they might be perceived. There is also a hint that some form of clearing housed is desirable but this seems more closely aligned to the NPWD than a regulated marketplace. Consistency of regulation has also been perceived as both desirable and a single market issue.

Thank you to Matthieu for his enlightenment on this review. Thank you to all who use our service. We wish all a very enjoyable festive season and a prosperous 2014.



Angus Macpherson
Managing Director

Christmas Holidays:

The Environment Exchange will be closed:

25th, 26th, 27th December 2013
& 1st January 2014

Review of Q3 Supply Return

As the dark nights of winter close in the release of the Q3 supply figures provided some comfort with plastic reporting excellent growth and creating a surplus supply for the first time this year. Glass again underwhelmed with figures which if viewed in the context of the quarter looked very promising but compared against in year demand still look some way off perfection. All other materials look very comfortable with prices across all markets softening to reflect the position.

Plastic

Following on from the strong performance in Q2, plastic has reported a surplus for the first time this year with volumes recorded at 195,000 tonnes for the quarter, up 19% from Q2 (165,510t) and up 25% on Q1 (157,146t). With a quarterly demand figure of 175,000t this increase in volume gives the clearest evidence yet that the PRN system is working. The high values traded over Q1 and Q2 have incentivised collectors to secure more material and feed it into the system. In the week leading up to the Q3 supply figures release, market prices started to soften in anticipation of a strong return. Sellers, who were being released from bi-lateral agreements, returned to the market along with newly accredited businesses who upon entry decided to sell against the best buy prices available.

Once the numbers were released and the true picture was provided it resulted in a procession of sellers coming to the market and releasing tonnage against pre-existing bids which caused a further softening of the price. The prices very quickly fell from £65 down to £35 in the space of a couple of weeks with buyers now aware of the price slide feeding bids into the market at below last traded levels. While it is comforting to see the system working it would be foolish not to point out that if the prices were to continue softening it would eventually lead to the point where it became uneconomic to process the material and the high values would eventually return. Buyer's should take note that any devaluing of the PRN in the 4th quarter could have serious consequences for Q1 supply in 2014, when demand will be approximately 195,000t per quarter because of next year's 5% target increase.

Glass

The glass market continues to be undersupplied this year. As mentioned earlier if the supply figures were compared against the quarterly demand, buyers may feel comforted but, given that the glass market has been carrying a deficit from Q1, the numbers still do not stack up. The Glass other market has been carrying a shortfall of 50,000 tonnes since Q1 and although quarterly supply has become more balanced in Q2 and Q3 no additional tonnage has been created to alleviate the pressure. In Glass remelt the situation looks more positive with this market actually showing a reasonable performance for the year. Even in the face of a strong position, the Glass remelt market continues to see price increases due to the fact that it remains the option note whereby it should ride to the rescue if Glass other supply fails to meet its demand. Where glass prices are to eventually finish this year is anyone's guess.

We have now entered the final quarter of the year and without any supply information being released from the regulator until the 31st March 2014 the market will have no indication other than trading prices to judge whether we will make it over the line or not. Maybe the sellers in the market can pull another rabbit out of the hat as they did last year to get all demand satisfied. However it should be pointed out that last year's strong Q4 performance will have sown the seeds to the current Glass other undersupply in Q1. 2014 will be an interesting year for glass with the upcoming consultation on glass targets to be debated.

All other materials are expected to close the year comfortably on target with market prices currently at a level which reflects this.

2013	Carry In	Q1 Supply	Q2 Supply	Q3 Supply	Quarterly Obligation	Obligation 2013	Balance (Total Supply - Demand ex. Carry In)	Balance (incl. Carry In)
Paper	126,496	835,445	829,013	849,301	634,117	2,536,468	-22,709	103,787
Glass Other	6,169	102,045	149,109	149,811	151,742	606,966	-206,001	-199,832
Glass Remelt	10,505	234,726	261,961	266,899	256,074	1,024,294	-260,708	-250,203
Aluminium	2,893	17,239	20,025	19,543	16,387	65,547	-8,740	-5,847
Steel	23,886	108,474	104,985	88,906	85,826	343,304	-40,939	-17,053
Plastic	40,617	157,146	165,510	195,888	174,801	699,205	-180,661	-140,044
Wood	13,550	111,827	113,057	110,037	55,569	222,274	112,647	126,197
EfW	39,039	210,488	209,319	205,673	120,048	480,190	145,290	184,329
General	0	192,386	269,144	305,869	232,057	928,229	160,830	160,830

Towards guiding principles on Extended Producer Responsibility in Europe

Extended Producer Responsibility: a widely used environmental policy, applicable to (almost) every product category...

Extended Producer Responsibility (EPR), *"an environmental policy approach in which a producer's responsibility for a product is extended to the post-consumer stage of a product's life cycle"*, first appeared in the early 1980's, and since then it has continuously spread around Europe (and abroad). Beyond product categories for which European legislation has introduced EPR (vehicles, batteries and electrical and electronic equipment), EPR is widely used for packaging, tyres and oils. In some countries, EPR schemes are also in place for medical waste, graphic paper, furniture, textile, etc. Virtually all product categories may be covered by EPR.

The European Commission has launched a study in December 2012, aiming at describing, comparing and analysing different types of EPR systems operating in the EU in order to identify guiding principles for their functioning.

This ongoing study, carried out by BIO Intelligence Service, has looked at 36 case studies of EPR schemes around Europe, covering batteries, packaging, electrical and electronic equipment, graphic paper, oils and vehicles.

... with a large variety of implementation models and results

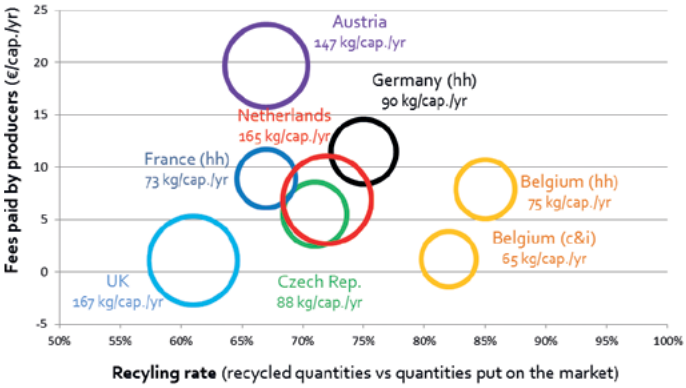
EPR policies have been designed and implemented in a very heterogeneous manner. Among the many design and implementation features to be considered, several key topics were identified and analysed in this study:

- Division of responsibilities among stakeholders: the responsibility of producers may range from simple financial responsibility to full organisational responsibility
- Costs coverage: what types of costs are covered by EPR and in which proportions? To what extent does the producer's financial contribution reflect truly the end-of-life costs of its products?
- Fair competition: how is economic competition organised within EPR schemes, in particular at the level of Producer Responsibility Organisations (PROs) and waste management operations?
- Transparency and control: which are the reporting requirements for each actor? Who controls the different aspects of an EPR scheme and how?

Although EPR has triggered improvements in waste recovery and recycling, large gaps between Member States exist. In addition to gaps in technical performance (e.g. recycling rates) there are many discrepancies regarding proportion of free-riders, financial performance, quality of recycling and recovery operations, illegal exportation of waste outside the EU, etc.

In particular, the analysis of cost-effectiveness of a sample of EPR schemes showed that, even among a sample of relatively well performing EPR schemes, the total amount of fees paid by producers to EPR schemes for a given product category may vary by up to 20 times (this may be due to differences in perimeter and cost-coverage).

Figure : Recycling rates vs. annual fees paid by producers: illustration with packaging



EPR scheme covering household packaging; c&i: EPR scheme covering commercial and industrial packaging (when no specification, the EPR scheme covers packaging from all sources). The circles areas represent the quantities put on the market and covered by the EPR scheme.

A need for clarification and harmonisation leading to a set of recommendations

The quantitative benchmark itself, due to several methodological difficulties, does not provide clear evidence that one model of EPR would be better performing and more cost-effective than another. However, the large stakeholder consultation carried out during this study allowed the identification of several topics on which guidance, clarification and harmonisation at European level is needed.

The case study analysis and the stakeholder consultation lead to 10 recommendations, based on which the European Commission may decide to propose regulatory action or guidance. These recommendations deal with the definition of EPR, share of responsibilities, cost coverage, fair competition, transparency and control. They have been submitted to consultation on the project website.

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Additional information

All the information and documentation is available on the project's website: **http://epr.eu-smr.eu** Any question or further information on the project can be sent to **guidance-epr@bios.com**