

The Marketplace for PRNs

Market Status Report - November 2013 to January 2014 By Ian Andrews



In the final quarter of the year we managed to reach the 1 million tonne mark. We would like to thank all of our members who helped us to achieve this.

On entering the final quarter of the 2013 compliance year, the lack of liquidity in the Glass markets was still prevalent. As we moved further into November, buyers were able to meet their demands as a surplus supply of Glass became available. Trades in the Glass markets picked up, prices increased throughout November and December in the final few weeks of January supply of Glass Other ceased and buyers were forced to purchase via the Glass Remelt market. With Aluminium, Recovery, Steel, Paper and Wood all in an oversupply, prices softened further in the Spot 2013 market. The 2014 Compliance year is off to a good start, Plastic and Glass appear to be dominating discussions.

Trading for the quarter equated to 326,991 tonnes, with 132,329 tonnes trading in the Spot 2013 market, 72,705 tonnes trading in the Spot 2014 market and 121,957 tonnes trading through the Forward markets.

Paper

Outstanding volumes of paper traded this quarter across all open 2013 and 2014 markets. Surplus supply of paper was seen in Spot 2013 right up until close of the market. Prices softened towards the end of January, with small buyers coming in to purchase as and when required. Volumes of paper traded were highest in the Spot 2014 market, showing a strong start to the compliance year.

Plastic

Plastic traded continuously well over this quarter, with prices softening week by week. Around the middle of December, a seller who was holding large volumes released this onto the market resulting in a sudden price drop, to a low of £6.50. The following week, the price slowly started to rise again and concern over supply became apparent. Supply tightened, the price shot up to £45.00 and continued trading at this price for the remainder of January. Good volumes of plastic traded in the Spot 2014 and Forward markets, with some prices reaching those traded in Spot 2013 market.

Glass

Demand in both of the Glass markets increased this quarter in Spot 2013, with supply of Glass Other decreasing and then coming to an end in the last week of January. With buyers forced to secure their Glass obligations through Glass Remelt, the price stayed high, eventually softening around the middle of January as we came to the end of the compliance year. For Glass Other, three trades of £40.00 were secured in the July, October and December Forward 2014 Markets, showing good support to the start of the 2014 compliance year.

Steel

Overall, good volumes of Steel traded this quarter but the volumes traded were lower than those in Q1, Q2 and Q3. Trades decreased month on month, with 858 tonnes of Steel traded in January. With trading volumes decreasing, the price of Steel softened to a low of £1.90, largely due to surplus supply being offered to the market. In the Forward markets, Steel traded well in volumes of 500 tonnes at a price of £12.00 in the April and July Forward markets.

Wood

Wood traded in very good volumes in the Spot 2013 and December Forward 2013 markets. In both markets, the average

traded prices remained similar, although a low of 90p in the Spot 2013 market was seen. With only one seller offering a small volume of wood to buyers at the end of the 2013 compliance year, the price rose to £2.00 and remained trading at this price for the final three weeks in January.

Aluminium

Having comfortably met demand in the first three quarters, the price of aluminium fell to a low of 90p a tonne where it continued to trade throughout the majority of January. This softening of aluminium prices in the Spot 2013 market was largely attributed to surplus supply over demand, with small buyers coming into the market to purchase what they required – resulting in small clips.

Recovery

With the recovery quarterly obligation having been met part way through Q3 and with recovery trading quite comfortably, prices remained soft for the duration of this quarter. Supply continued to outstrip demand by a large margin. In the Spot 2014 market, a single trade was secured at 45p for 9,100 tonnes. This is a very good start.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	YTD aggregated traded
Paper						
Spot 13	£0.95	£0.25	44,706	£0.63	£0.85	152,664
Spot 14	£0.90	£0.60	52,731	£0.61	£0.61	52,731
Dec Fwd 2013	£0.85	£0.60	23,500	£0.69	£0.87	109,402
Apr Fwd 2014	£0.90	£0.90	21,000	£0.90	£0.90	21,000
July Fwd 2014	£0.80	£0.80	21,000	£0.80	£0.80	21,000
Oct Fwd 2014	£0.70	£0.70	21,000	£0.70	£0.70	21,000
Plastic						
Spot 13	£45.00	£6.50	26,406	£26.01	£43.76	123,839
Spot 14	£45.00	£42.00	9,489	£42.59	£42.59	9,489
Dec Fwd 2013	£42.50	£30.00	4,150	£34.50	£44.94	13,910
Apr Fwd 2014	£45.00	£35.00	1,665	£40.88	£40.88	1,665
Trans Jan 2014	£42.50	£29.70	11,715	£36.22	£36.22	11,715
Glass Other						
Spot 13	£65.00	£53.00	14,716	£62.45	£49.68	58,018
Trans Jan 2014	£62.50	£52.50	200	£62.50	£62.50	200
July Fwd 2014	£40.00	£40.00	300	£40.00	£40.00	300
Oct Fwd 2014	£40.00	£40.00	300	£40.00	£40.00	300
Dec Fwd 2014	£40.00	£40.00	300	£40.00	£40.00	300
Glass Remelt						
Spot 13	£90.00	£64.00	33,750	£81.69	£72.40	79,721
Dec Fwd 2013	£84.50	£75.00	7,000	£80.43	£77.40	9,000
Trans Jan 2014	£90.00	£90.00	1,198	£90.00	£90.00	1,198
Steel						
Spot 13	£4.75	£1.90	4,839	£3.52	£11.68	32,162
Spot 14	£8.50	£6.00	793	£7.64	£7.64	793
Dec Fwd 2013	£4.00	£4.00	300	£4.00	£6.20	5,871
Apr Fwd 2014	£12.00	£12.00	500	£12.00	£12.00	500
July Fwd 2014	£12.00	£12.00	500	£12.00	£12.00	500
Wood						
Spot 13	£2.00	£0.90	4,051	£1.23	£1.48	9,182
Dec Fwd 2013	£1.65	£1.25	6,679	£1.37	£1.39	8,179
Jan Trans 2014	£1.65	£1.65	500	£1.65	£1.65	500
Aluminium						
Spot 13	£2.45	£0.90	1,275	£1.33	£3.77	2,871
Spot 14	£4.95	£4.00	592	£4.83	£4.83	592
Dec Fwd 2013	£2.00	£2.00	150	£2.00	£2.00	150
Recovery						
Spot 13	£0.30	£0.25	2,586	£0.28	£0.27	24,417
Spot 14	£0.45	£0.45	9,100	£0.45	£0.45	9,100

MANAGING DIRECTORS REMARKS – FEB 2014

Another busy quarter as buyers not only tidied up their obligations for last year but also started to fix prices for this year; DEFRA carried out a consultation on the glass recycling targets and Scotland considered the possibility of establishing a Scottish PRN system.

As the market moved towards its close so it became clear that the glass market would remain tight to the end. The shortfall did not arise in the remelt market but in the other (aggregate) one. As a consequence it might be anticipated that the aggregate price would rise to meet the remelt one as glass overall struggled to meet its target. However although it did rise some 39% quarter on quarter as distressed buyers entered the market the remelt one rose a further 16.5%, once again demonstrating that the aggregate market is not currently operating in a logical manner. Faced with concern that glass targets were both becoming too expensive to meet as the industry was facing a more significant step change to meet them than originally anticipated and a report stating that glass packaging placed on the market was lower than originally conceived, DEFRA decided to consider lowering the material specific target. Of the two targets proposed only 77% ensures that the UK would continue to meet its European target. However further research is needed into why such a large 'illegal/unrecorded' element exists and to justify any change in the current split between remelt and other forms of reprocessing.

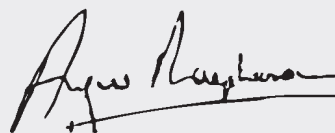
In the other markets apart from a late surge of concern over plastic availability as buyers took transitional tonnage into next year, targets were met with something to spare. However a combination of concerns about the decline in general recycling availability and opportunism saw carry forward increase by almost 100,000 tonnes on the previous year, which assisted t2e to reach a million tonnes traded in the calendar year. Nevertheless despite reports of declining exports to China and reducing collection rates, paper exports have continued to grow achieving the highest level

of exports yet recorded. While on the one hand it is a credit to the ability of the paper exporters, it does raise questions about from where the tonnage might be coming.

DEFRA has recently initiated an investigation into the plastic and metals packaging placed on the market, the next logical step should be to revisit reprocessing and exporting protocols. This should go some way to allaying the concerns in the plastic sector about the unfair benefits that exporters are perceived to gain through the PRN system. Meanwhile the Aluminium industry has questioned the voluntary nature of the accreditation process which may result in the UK being unable to show in some materials the levels of reprocessing that are achieved as, when prices are low, not all tonnage is reported and have called for compulsory reporting. This idea has some merit but should be considered after the issues above so the Government can be confident on the accuracy of reporting.

The Scottish Government anticipating the consequences of the referendum have considered a Scottish PRN. They wish it in addition to its current role to fund litter collection and stimulate growth in the Scottish reprocessing sector. However it will take significantly more than just increased PRN income to stimulate this growth. Experience shows that reprocessors prefer to be close to their end markets and operate global supply chains rather than vice versa.

Once again thank you to all who assisted t2e in achieving a million tonnes traded. We look forward to continuing to be of service to you throughout 2014, which will have its challenges. Thank you too to James Piper for his contributions.



Angus Macpherson
Managing Director



A Compliance Scheme's views on glass *By James Piper, Compliance Scheme Manager*

Budget Pack is a Packaging, WEEE and Batteries compliance scheme, supporting companies across all Producer Responsibility regulations and Waste and Resource Management.

The price of glass PRNs in 2012 and 2013 meant that members who would traditionally have had manageable and budgeted costs saw these increase beyond previously forecasted levels. As an example, a small wine importer, with 1,000 tonne glass obligation would have had costs of around £10,000 in 2011; last year these costs would have been nearer £60,000.

Our drive as a scheme is to achieve low cost PRNs, mainly to reduce the impact these regulations have on our registered members. This will also ensure the continuation of the PRN system at a time where the Government is looking to reduce costs to businesses. In order to ensure the current impact of glass PRNs on producers is fair, the industry has been assessing whether the original recycling targets are representative of

actual recycling happening.

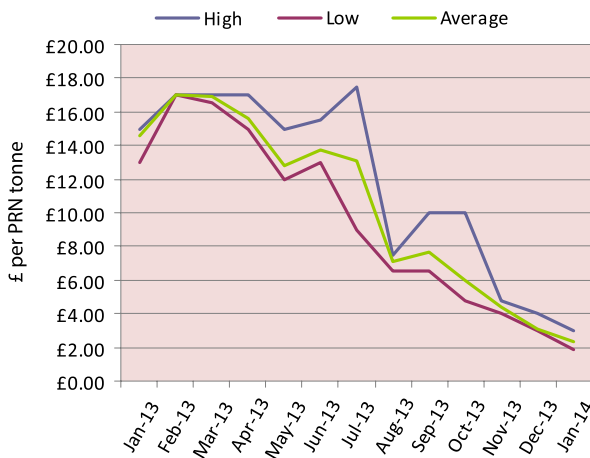
The first step in this is on the 19th March when the results of the glass consultation, released in December, will be announced; the expectation is this will lower the glass recycling target to either 75% or 77% (down from the current 81%). Ultimately, this should lower the cost of the glass PRN, with Budget Pack forecasting average glass rates of £33, compared with around £50 today.

Budget Pack exists to offer market savings and budget certainty to all members; artificially volatile and expensive PRNs go against this and do not reflect what the system was designed to do. Budget Pack strives for fair and transparent pricing based on actual recycling. In the long run this will be best for both reprocessors and producers and will ensure the system continues to encourage recycling.



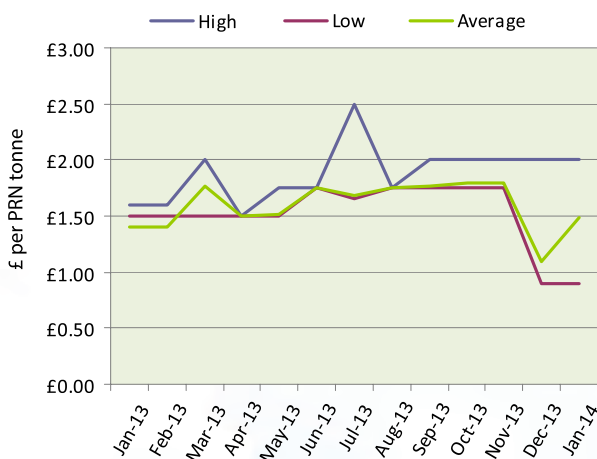
2013 Annual Review *continued from page 4*

Steel



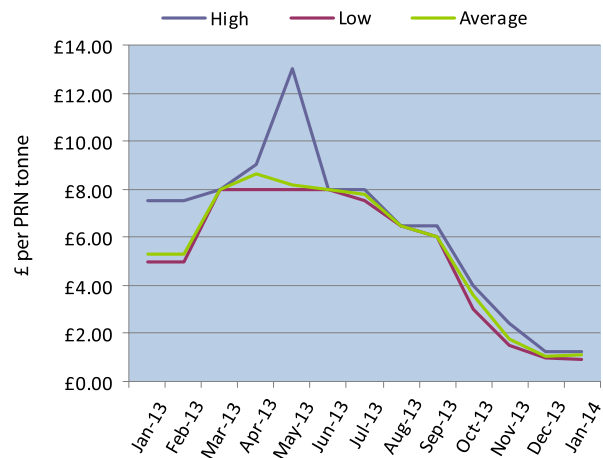
The early release of the Q4 figures showed a strong performance from Steel in 2013 along with a good carry forward figure of around 23,000 tonnes. At the start of January 2013, Steel was trading at an average of £14.00 a tonne. From February the average price rose to around the £17.00 mark until the release of the Q1 figures which showed a large oversupply in Steel. The price slowly began to soften, although we saw a sharp price peak to £17.50 in July, followed by a further softening in prices. With the release of the Q1 and Q2 figures showing that Steel targets were being met each quarter and due to on-going oversupply, prices continued to soften right up until the end of the compliance year, when prices reached a low of £1.85.

Wood



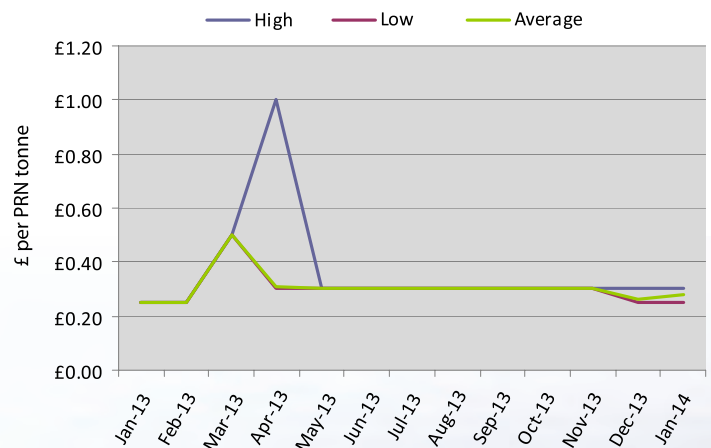
Obligation targets in 2013 for wood were met within the first two quarters of the year. Although wood still met the quarterly obligation target in Q3 and in Q4 as indicated in the pre-release of the figures, overall the tonnage actually being recycled has decreased year on year. Many believe that this is due to an increased demand for biomass reducing the amount of wood available on the market for PRNs. In saying this, supply was available in the market right up until the end of the compliance year, although not in huge quantities, and prices remained soft throughout the year fluctuating between 90p and £2.00.

Aluminium



Aluminium opened well in 2013 and just met the quarterly obligation in Q1. From the release of the Q1 figures, aluminium prices increased and then in May, prices peaked to a high of £13.00 per tonne. In June, Aluminium was trading at around £8.00 and due to oversupply, prices softened month on month until the end of the compliance year. The early release of the Q4 figures showed that Aluminium had a significantly worse 4th quarter than the previous three quarters. Although Aluminium met the overall obligation target for 2013, questions remain as to why performance was so poor in this final quarter. Concerns have now been raised for the 2014 compliance year as Aluminium will struggle to meet the 2014 obligation targets if the decline seen in the Q4 figures continues.

Recovery



Recovery traded very well throughout 2013 and met every quarterly obligation by almost double. A small peak of £1.00 was seen in April after the release of the Q1 figure, even though the first quarterly target was met. Prices dropped to 30p in May and generally traded here throughout 2013, fluctuating between 30p and 25p towards the end of the compliance year when a large oversupply position was seen. Despite the large oversupply position, the Q4 figures showed Recovery performed extremely well in the final quarter.

*High, Low and Average show the highest, lowest and average price traded within each calendar month

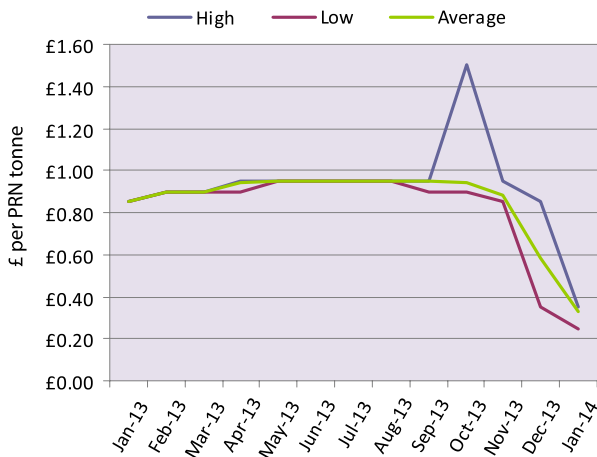
2013 Annual Review by Kirsty Anderson, Account Manager, PRN Market



As the 2013 compliance year has now come to an end, The Environment Exchange takes a look back at the past year which saw some materials experience considerable price fluctuations and others become exceedingly volatile. Additionally, with the early release of the Q4 figures being published, the implications of these

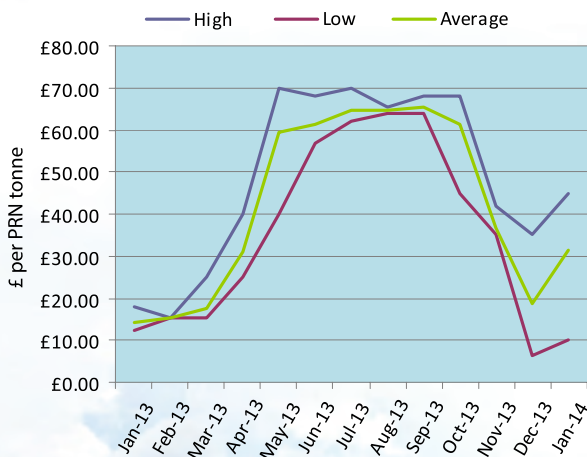
will be touched on.

Paper



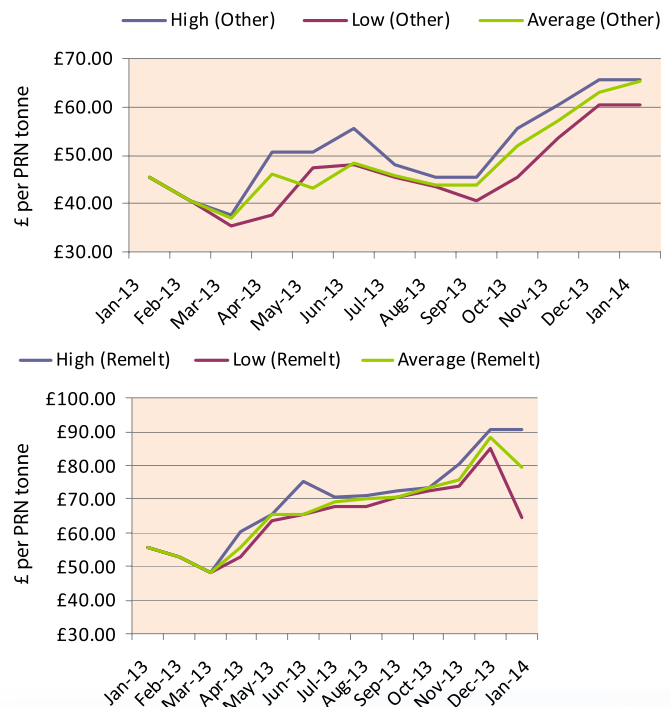
From the early release of the Q4 figures, we saw paper had a record exporting quarter and with this strong performance, had exceeded obligation targets. The opening Spot 2013 price of 85p held for the first few months of the year. In March, once the Q1 figures were released, it showed paper was in a strong supply position. Despite this, prices held and paper traded above 80p for some time. With a peak in October of a high of £1.50 per tonne, came a quick softening of prices towards the end of the compliance year to a low of 25p per tonne, largely due to a huge oversupply position with exporters eager to shift volumes. Looking forward, the substantial majority of the increase in the carry forward figure for the 2014 compliance year is in paper.

Plastic



Plastic had a fairly consistent trading price in the Spot market at the start of the 2013 compliance year. Once the Q1 figures were released and it was established that plastic had not met the quarterly obligation target, the price rose fairly dramatically. The price fluctuated around £70.00 per tonne for a few months until October when the price slowly softened. A large supply of plastic was put onto the market in December which caused a sudden price drop to a low of £6.50. Towards the end of the compliance year, supply started to tighten up causing the price to rise to £45.00 per tonne. The Q4 figures show that plastic had a strong final quarter and that targets were met during 2013, the carry over figure is around 8,000 tonnes more for this year in comparison to last year. With the target set to increase to 42%, if plastic has similar year in 2014 as it had in 2013 – the figures suggest that that this is entirely achievable.

Glass



With the 2012 compliance year ending with record prices being recorded it was no surprise that the early traded prices remained high. The introduction of the split glass note was welcomed by many and it was hoped would help to alleviate the higher values that we had seen in the previous year. This proved not to be the case with supply in both grades remaining tight throughout the year. At the end of Q1 supply was still struggling to meet demand with a combined shortfall of 70,000 tonnes reported which resulted in prices increasing once again.

The price differential between the two notes remained at around £20 throughout the year with many aggregate sellers taking the option to export unsorted mixed glass and claim the higher value PRN rather than send the material into the UK market. This was confirmed at the end of the year when the aggregate supply underachieved by 5% with the remelt supply providing the tonnage to get us over the line.

*High, Low and Average show the highest, lowest and average price traded within each calendar month

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