

The Marketplace for PRNs

Market Status Report - Nov 2014 to Jan 2015 *By Ian Andrews, Senior Market Operator*



The final quarter's trading has provided some milestones for t2e with trading volumes creeping past 500,000 tonnes for the quarter; the highest quarter recorded, and trading activity being seen across all 8 open markets. Thanks go to all participants who helped us reach these milestones. Trading for the quarter equated to 501,376 tonnes with 255,995 tonnes trading in the Spot 14 market, 31,615

tonnes trading in the Spot 15 market and 245,381 tonnes trading in the Forward markets.

Paper traded in excellent volume this quarter with the largest volumes trading in the 2014 Spot market as last minute buyers came to the market targeting surplus tonnages as the price weakened. Good volumes were transacted forward for delivery in 2015 with prices similar to 2014 levels. Some discount was provided for the larger volumes which were transacted. Once again this market was dominated by low values in 2014 with only a price variation of 60p being recorded for the whole year after trading opened at 90p in December 2013.

Plastic prices fell consistently throughout the quarter as stories of tightening supply were dissipated by good volumes being offered in the 2014 markets. Such was the performance of the sector this year volume offers remained in the market until the end of January and prices crashed to 85p as sellers competed with each other to secure the last buying for the year. Better prices were available to sellers of December tonnage as demand for 2015 tonnage grew with stories of falling oil prices causing some concern. With 2015 prices offering a sizable premium above 2014 prices many have commented that this year we could see a record carry in figure for plastic, however given stories of weakening exports, the market may benefit from a sizable carry in.

Glass Other supply tightened up during the quarter with the net result of a closing of the price spread between the two notes. Prices for both drifted down during the period and then rebounded before Christmas as concern grew over a tightening of supply in both notes. As we entered January additional **Remelt** tonnage was offered into the market and prices started to fall again only rebounding when sellers requested a premium from last minute buyers who came to the market in the final days of the quarter. A small surplus of remelt remained in the 2014 market at the close. Excellent volumes were transacted forward in November as sellers offered competitive prices to lock in tonnage forward.

Steel availability appeared weak as we entered the quarter with selling volumes hard to source. Even in the face of weak supply prices remained flat as buyers failed to be convinced of any problems. As it turns out the buyers were correct to 'stick to their guns' with volume returning to the market via sellers who had harvested tonnage in the second stage of the year. 2014 prices rebounded at the end of the quarter with last minute buyers having to meet sellers increased price expectations. Interest in securing 2015 tonnage grew during the period with volume trades booked for delivery in April and December 2015.

Wood demand in the final quarter grew as buyers entered the market at the death in the hope of picking up some low value tonnage. Although some were successful others encountered resistance from the remaining sellers to drop their price below £1.00 which lead to a small rebound in the price at the end of the period.

Aluminium was the only market where there was some distress from last minute buyers. With volumes becoming harder to source last minute buyers ended up paying a premium in order to cover the increased accreditation costs of a small registered reprocessor. In the end the volume was always available but faced with the increased costs many sellers had already decided to register as small until prices recovered. In this case the costs were covered in the last remaining days of the compliance year. Interest in 2015 tonnage grew during the period but with buyers and sellers price expectations so far apart no agreement could be reached on price.

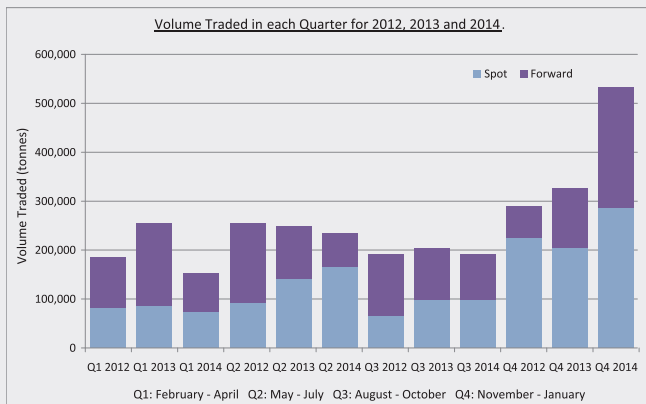
Recovery trading remained weak this quarter with many buyers happy to combine buying requirements and combine their tonnage with their general recycling obligations via the paper market. New accreditation guidelines which state that R1 rated facilities are the only ones able to issue notes this year have created some concern, however most buyers remain comforted by the fact that excess paper and wood PRNs should resolve any concerns.

	High	Low	Traded This Quarter	Quarter Average Traded Price	YTD Average Traded Price	Year to date aggregated traded
Paper						
Spot 14	£0.90	£0.30	137,158	£0.44	£0.60	280,196
Spot 15	£0.60	£0.50	565	£0.58	£0.58	565
Dec Fwd 2014	£0.70	£0.60	3,000	£0.63	£0.68	13,000
Jul Fwd 2015	£0.70	£0.70	10,000	£0.70	£0.70	10,000
Oct Fwd 2015	£0.70	£0.60	72,000	£0.69	£0.69	72,000
Dec Fwd 2015	£0.60	£0.60	8,000	£0.60	£0.60	8,000
Plastic						
Spot 14	£10.50	£0.85	22,681	£6.33	£27.95	123,171
Spot 15	£27.00	£20.50	9,724	£24.64	£24.64	9,724
Dec Fwd 2014	£4.75	£4.75	750	£4.75	£20.95	9,743
Jan Fwd (Trans)	£23.00	£21.50	9,655	£22.47	£24.87	14,755
Apr Fwd 2015	£22.50	£22.50	1,750	£22.50	£22.50	1,750
Glass						
Spot 14	£20.00	£11.00	10,658	£12.48	£20.34	37,912
Spot 15	£17.00	£15.00	4,531	£16.76	£16.76	4,531
Jan Fwd (Trans)	£19.00	£19.00	892	£19.00	£19.58	8,155
Apr Fwd 2015	£20.00	£20.00	13,000	£20.00	£20.00	16,000
Jul Fwd 2015	£20.00	£20.00	6,000	£20.00	£20.00	6,000
Oct Fwd 2015	£20.00	£20.00	12,000	£20.00	£20.00	12,000
Glass Remelt						
Spot 14	£25.00	£7.50	41,187	£11.51	£24.20	78,384
Spot 15	£23.00	£15.00	8,934	£17.75	£17.75	8,934
Jan Fwd (Trans)	£22.00	£19.00	3,612	£21.28	£25.55	15,600
Apr Fwd 2015	£24.00	£20.00	32,550	£20.61	£22.28	43,550
Jul Fwd 2015	£24.00	£20.00	17,500	£21.14	£21.14	17,500
Oct Fwd 2015	£20.00	£20.00	10,000	£20.00	£20.00	10,000
Steel						
Spot 14	£20.00	£4.00	8,902	£4.62	£10.19	35,348
Spot 15	£10.00	£9.00	6,817	£9.54	£9.54	6,817
Dec Fwd 2014	£5.00	£5.00	1,610	£5.00	£8.24	11,142
Apr Fwd 2015	£10.00	£10.00	5,000	£10.00	£10.00	5,000
Dec Fwd 2015	£8.00	£8.00	5,000	£8.00	£8.00	5,000
Wood						
Spot 14	£1.20	£0.50	30,505	£0.69	£0.83	36,510
Spot 15	£1.25	£1.25	1,000	£1.25	£1.25	1,000
Dec Fwd 2014	£1.00	£1.00	1,197	£1.00	£1.00	1,197
Aluminium						
Spot 14	£35.00	£4.95	2,651	£8.17	£8.56	8,998
Spot 15	£10.00	£10.00	44	£10.00	£10.00	44
Dec Fwd 2014	£8.50	£8.50	250	£8.50	£9.48	718
Recovery						
Spot 14	£0.75	£0.60	2,253	£0.62	£0.57	22,598

MANAGING DIRECTOR'S COMMENTS



For t2e 2014 finished like a lion having spent much of the year exhibiting lamb like tendencies. The markets having been in the doldrums for most of the first three quarters sparked into life for the final quarter with over half a million tonnes being traded for the first time ever. Concurrently targets seem to have been reached with some room to spare with an increased carry forward in most materials and we have seen the appointment of a new Chairman to the Advisory Committee on Packaging. As the quarter closed the European Commission's much vaunted circular economy package has been withdrawn with a promise that it will return "improved and more ambitious".



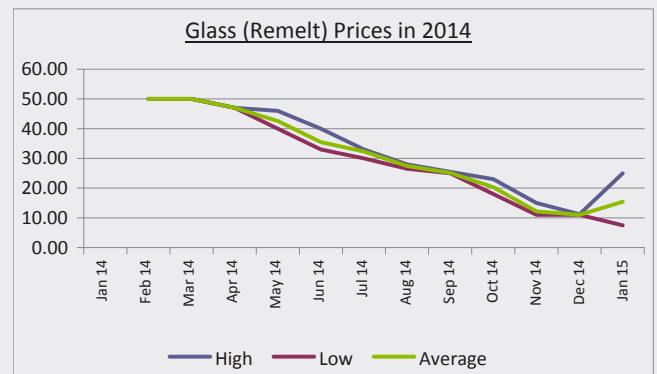
Whenever targets are achieved simply and PRN prices diminish to nominal or administrative values, questions begin to be asked as to whether the United Kingdom's Extended Producer Responsibility System is fit for purpose. Should PRNs be scrapped is the cry as our continental cousins look across the channel with envy at a system that has shown itself robust enough to survive all the kicks that fate has aimed at it. The United Kingdom has consistently achieved its targets at lower costs than its neighbours. It has successfully grown the existing recycling system rather than duplicating it. It has incorporated local authorities and waste management companies. It has not managed to keep reprocessing within the United Kingdom but despite significant efforts nothing else has either! Can packaging producers really take the blame for the closure of Aylesford Newsprint mill or a paper making machine at Shotton? Have the economics of Eco-plastics truly foundered on PRN prices? Has Scotland failed to find a plastic reprocessor who wishes to set up within its boundaries because it has not got a Scottish PRN? The answer to all these questions must be no. Could the system be flexible enough to deliver these outcomes if so targeted? Possibly and certainly as effectively as any other system.

In Austria prices for producers are 20 times greater than in the UK. The reason is quite simple. Packaging producers are now picking up the full costs of waste collection for local authorities. In Munich where packaging is estimated to make up 6% of the municipal waste stream, the municipality is wishing to take on the producer responsibility or at least receive the revenue for it. In the UK, packaging protocols suggest that 19% of the residual municipal waste stream is made up of packaging. Is it fair therefore to anticipate that packaging producers should be responsible for those parts of the waste that are not packaging?

Will householders be as willing to pay council tax if they become aware that waste collection, one of the services that impacts on them most frequently, is not being paid by them? Will this cause packaging producers to feel any more connected to the system than they do now? Doubtful!

During a recent conference in Brussels the question was asked whether producer responsibility fees are public or private funds? After some debate it was agreed that it was private finance to assist in the delivery of public obligations. While in those countries in which a tax existed fees became public funds since industry has no role in delivering those public obligations and the tax becomes a revenue raising exercise. It also became clear that although there is a wish to harmonise definitions and enforcement throughout the European Union that there are so many variables between each country's waste management systems and start points that there were inevitably going to be differences between implementation. Also what became clear is that the issues faced by the original EU15 in their implementation of the regulations had considerably more in common than those that have joined more recently, where the pressure for monopoly compliance schemes and funding municipal collections was greater.

So what might the United Kingdom learn from this debate. Firstly that our system works at not undue cost to the producers and has the flexibility to cope with the unexpected, secondly that it has a reliable regulatory regime, something that our neighbours both near and far envy, thirdly the existence of the NPWD, or clearing house as it is more commonly referred to in Europe, is a great strength.



And for what might we aspire? Firstly greater clarity on the use of funds and the quantities involved. Secondly greater reassurance that those funds are being well spent including a review of the protocols and whether parity is being achieved between exports and domestic reprocessing within that context the suggestion of a global accreditation system for secondary raw material reprocessors/mills was floated.

Thank you to all for your support during this final quarter. Thank you to Phil for his stimulating contribution. We look forward to continue being of service to you.

Angus Macpherson
Managing Director

The Marketplace for PRNs

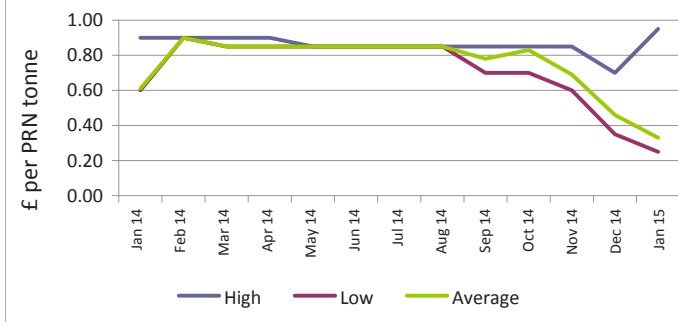
2014 Annual Review *by Kirsty Anderson, Account Manager*



With the 2014 Compliance Year now closed, The Environment Exchange takes a look back at the past year which saw Aluminium protocols abolished and replaced with new protocols, Plastic in January reach its lowest trading price since 2010 and new Recovery regulations introduced stating that only RI rated facilities can issue PRNs.

Paper

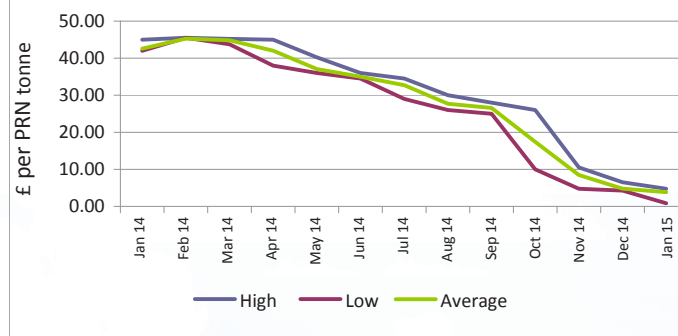
Paper Prices in 2014



The average opening Spot 2014 price of 61p in January rose to 90p before softening to 85p, where it held until the end of August. Due to the large oversupply position seen each quarter, prices dropped to a low of 60p in November; after low and high prices plateaued through September and October. In December, prices softened to 25p when large volume trades occurred. For final buyers entering the market at the end of January, sellers left their remaining tonnage in the market at 95p to extract as much value as possible.

Plastic

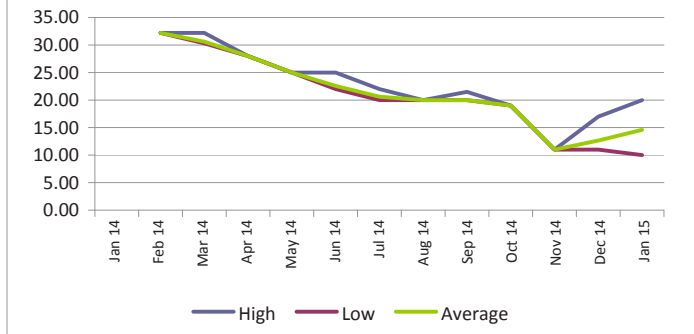
Plastic Prices in 2014



Plastic prices were fairly consistent in the Spot 2014 Market at the start of the year, with prices trading above £40.00. Prices began to soften ahead of the release of the Q1 supply figures in March and after a revised set of figures were released confirming plastic was actually undersupplied by 6,360 tonnes, prices only marginally softened until June. Ahead of the Q2 figures being released in July, prices softened again and continued to drop until September. When the Q3 figures were released and confirmed Plastic was oversupplied, prices dropped to a low of £10.00 in October, before dropping further to a low of £4.25 in November. Prices dropped again in December as sellers flooded the market with excess volume and in January, sellers competed to be in the best selling position, which resulted in the last traded price for the year to be 85p.

Glass

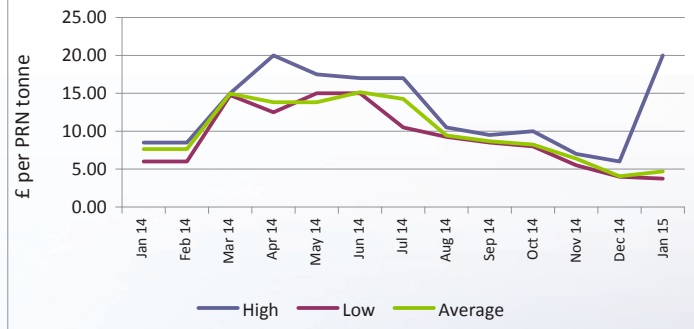
Glass (Other) Prices in 2014



With many participants unsure about what might be in store for the Glass markets in 2014 and with uncertainty surrounding the new Glass targets, trading didn't occur until February for both notes. Once a price had been set, £32.20 for Glass (Other) and £50.00 in Glass (Remelt), trading activity in the marketplace picked up. Despite Glass (Other) being undersupplied in Q1 and in Q3, this was more than compensated by the oversupply in Glass (Remelt) so the price softened throughout the year trading around the £20.00 mark from July until October. In November, despite showing an undersupply of 14,745 tonnes, the price dropped further to a low of £11.00 and the price gap between Remelt and Other closed. In January, one trade occurred at £10.00 with the final trades of the year rising to £20.00 for last minute buyers. For Glass (Remelt), quarter 1, 2 and 3 showed an oversupply and this was reflected in the price throughout the year until October. Once the Q3 figures were released and showed Glass (Remelt) was oversupplied again, the price softened to a low of £11.00 in December, with many participants securing their Glass buying through the Remelt note as the prices were the same as Glass (Other). In January, prices varied from £7.50, with many last minute buyers paying between £10.00 and £19.50.

Steel

Steel Prices in 2014



At the start of the year, Steel traded at a low of £6.00. With early reports of a possible undersupply in the first quarter, Steel prices rose sharply in March to £14.75 just before the Q1 figures were released. In April, following the release of the figures, Steel prices reached a high of £20.00 then traded between £15.00 and £17.00 until June. Following the release of the Q2 figures in July which showed steel was oversupplied, prices softened to a low of £10.50. Prices continued to soften, trading between £9.50 down to £4.00 in December. With Steel reaching a low of £3.75 in January, a high price of £20.00 was secured when last minute buyers entered the market at the end of the month.

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Thoughts on 2015 from the New ACP Chairman *by Phil Conran*



The Advisory Committee on Packaging has been in place since the Regulations began. Over the last 18 years, it has largely been a mechanism for industry views to be taken into account in the ongoing development and operation of the system. How well that system has worked over the years depends on your point of view, but it has become increasingly clear that the system is in need

of review.

Other than a slight hiccup in 2001, the EU targets have been met and the amount of packaging recycled has more than doubled since 1998. However, with the Circular Economy Package having been withdrawn, the question has to be asked as to what we are now trying to achieve with these Regulations and is the current market-led system the best way to achieve that?

The ACP is therefore entering a new phase where we must consider whether the PRN is fit for purpose in its current form and whether it can achieve the UK's objectives, whatever they might be. Packaging recycling has been broadly flat for the last five years, but over that same period, around £400m has been paid by producers for PRNs and PERNs. There is a disconnect between the packaging producer – who often just sees this as an unavoidable tax – and the waste producer. Local Authorities in particular feel disenfranchised. And yet, as the supporters of the system will point out, we have generally enjoyed far lower compliance costs than much of Europe. But the majority of packaging recycling growth has been achieved through exports and there is considerable unease at our reliance on markets that do little to support UK infrastructure, employment and social benefit.

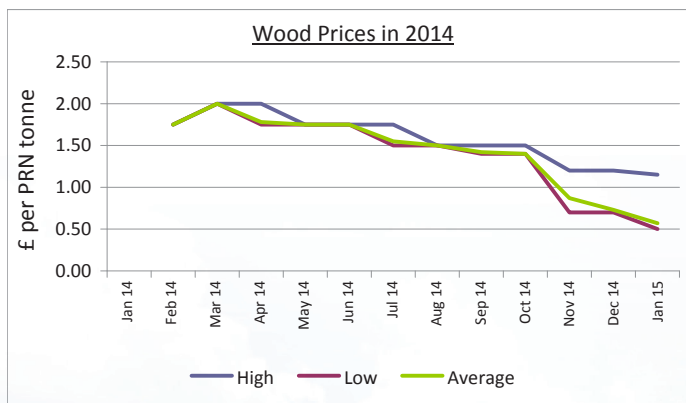
This is not saying the current system is bad, just that it needs a review and potential reform to ensure that it is fit for whatever it has to achieve, be they the new – likely to be pretty challenging – Circular Economy Targets, support to meet the 2020 household targets or just a more strategic and fairer system of accountability and environmental purpose.

We have set the ball rolling at our first meeting on 28th January by creating three Task Forces. These will look at how the Regulations might be used to help the UK towards the 2020 targets; consider how PRN revenue flows might be made more transparent; and provide Defra with evidence support in their input to the EU Circular Economy review. But equally importantly, we have also revived the Agency Industry Packaging Operation Liaison Group – AIPOLG for short. This will give operators a forum to engage with the Agencies over technical issues, the most immediate being clarity over contamination levels that are acceptable for PRN and PERN issue. The first meeting will hopefully be early March and will include representatives from Schemes, reproducers and exporters.

The members of the ACP are all highly experienced in both the Regulations and their own sectors. I believe we are in an extremely strong position to create change. But there is no point in change for the sake of change and we all recognise the need for open debate, transparency and inclusiveness to ensure that any recommendations made are based on evidence and the best interests of the UK as a whole. Who knows what the political landscape will be after May and what the Government's key environmental priorities will be, if, indeed, they have any. Regardless of that, we have a duty to ensure that the regulations achieve the best outcome and I hope that as an Advisory Committee, we will be able to demonstrate real, tangible and beneficial results.

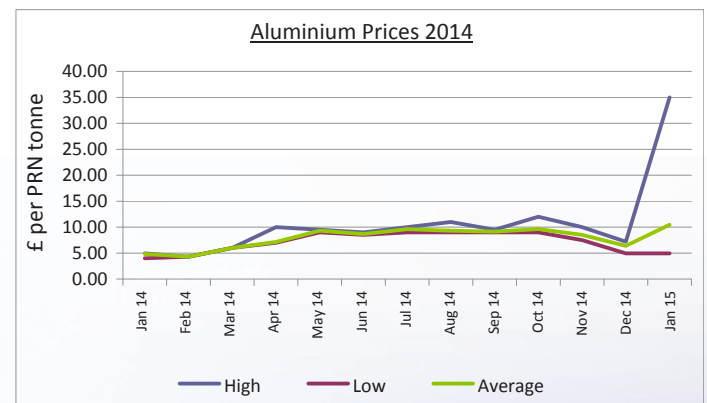
2014 Annual Review *continued from page 3*

Wood



A small volume of Wood traded at the start of the year for £1.75 before prices rose to £2.00 in March. In April, the price dropped back down to £1.75 where it continued to trade at this level for many months until the start of July. Ahead of the Q2 supply figures being released, prices softened to £1.50 towards the middle of July and continued trading at this price and at £1.40 until October. Following the release of the Q3 figures, prices softened and reached a low of 70p in November before rising immediately to a high price of £1.20 in December. With large supply volume being offered in the market, prices softened to 50p in January and rose again to £1.15 when demand from last minute buyers grew.

Aluminium



Aluminium had a slow start to the year, with prices trading between £4.00 and £4.95. In April, once the Q1 figures were released and showed Aluminium was undersupplied, prices rose to £10.00. Prices continued to trade between £10.00 and £8.50, before a higher price of £11.00 was seen in August for small documents. The market began to soften in October, once the Q3 figures had been released and showed Aluminium was oversupplied, with a low price of £4.95 seen in December. Uplift in value was seen in January from £4.95 up to £12.00 before final transactions of the compliance year occurred at £18.80 and £35.00 for last minute buyers.