

The Marketplace for PRNs

Market Status Report – February 2014 to April 2014 By Ian Andrews



The confirmation of Q4 supply figures at the start of the period provided positive news that again the UK had managed to meet all obligations and produce a healthy surplus to push forward.

The quarter could be best summed up as one with positive news for buyers. The strong Q4 performance, the surplus generation of supply carried forward, the announcement that glass targets were to fall and a strong performance in terms of generation of supply for Q1. Taken together this has resulted in market prices softening even in the materials where there are still some concerns. Buyers have seen prices soften and many, with the belief that this will continue, have decided to hold out of the market for the time being. While it is perfectly reasonable to expect this type of action participants must be aware that to starve the market of demand even when prices are softening can quickly damage the supply and force prices up. The question has to be asked at what point or rather at what value will supply start to be effected? If buyers wait too long or do not support the selling community, they could find that by the time they do decide to buy the prices could have bounced back.

Trading for the quarter equated to 151,880 tonnes with 74,093 tonnes trading in the Spot market and 77,787 tonnes trading in the Forward markets.

Paper

A weak quarter for paper with the volume traded at 20% of that for the same period in 2013. Rumours of a downturn in supply due to container stock issues in the export markets were not reflected in the market with strong selling volumes available below £1.00 throughout the period.

Plastic

Excellent volumes traded this quarter with early buyers supporting the market price and securing volume. In stark contrast to last year when the price spread of £15 - £37 resulted in an undersupply being reported at the end of the first quarter, this year's prices have helped to create a surplus position of 10k for the same period. As a result prices softened as the quarter came to a close.

Glass

Good trading volumes were recorded this quarter with early buyers entering the market to take advantage of prices which were 50% below those in Q4 2013. Confirmation of the revised recycling target along with an amendment to the split between remelt and glass other grades helped to dissipate any concerns the buyers had even in the face of an undersupply position being reported at the end of Q1.

We saw a slower uptake of buyers securing Remelt tonnage this quarter with many reporting that they felt the early values were too high. Most of the activity was recorded before the release of the Q1 supply figures and the announcement of the target amendment. Upon the release of the Q1 supply figures, prices softened as the market digested the positive news that remelt was carrying a small surplus. Even though this market is showing a stronger supply this year, buyers should note that if the glass other grade continues to be undersupplied, it will need this surplus tonnage to ensure compliance with the total glass requirement this year.

Steel

Steel trading for the period was weak with many buyers again feeling offer prices were on the high side. Early selling by one seller in the bilateral contract market in single figures set a false price and when buyers entered the market and could not secure at their desired level a standoff developed. This only broke when supply figures confirmed that the market was undersupplied and buyers decided to increase

their bid levels. Some growth in supply will need to be recorded in the following quarters in order to ensure further upward price pressure is not applied to this market.

Wood

Spot trading activity in wood was weak this quarter with all volume trades being booked through the forward markets. This was a result of the incentivised trading fee rebate structure in place in the forward markets where both parties could secure an additional 40% saving. All markets have had a good spread of selling volumes which may have contributed to the downward pressure on the prices as demand was not so forthcoming.

Aluminium

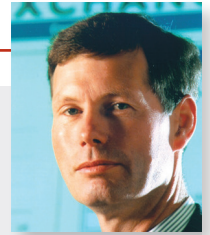
A very slow quarter for aluminium with very little interest being shown by buyers. Due to the limited size of demand in this market, it only suffers from a lack of attention early in the year. The Q1 supply figures showed that Aluminium is sitting in an undersupply position and further supply would need to be generated which resulted in an uplift in value.

Recovery

Selling volumes have been scarce this quarter with many large sellers taking the decision not to accredit this year due to the low values trading throughout 2013. This was reflected in Q1 supply figures with selling volumes now running at 50% below last year and more importantly, despite for the first time being exported, undersupplied to the tune of 25,000 tonnes by the end of the quarter. Underlying availability should not be a problem given the number of EFW plants opening in the UK.

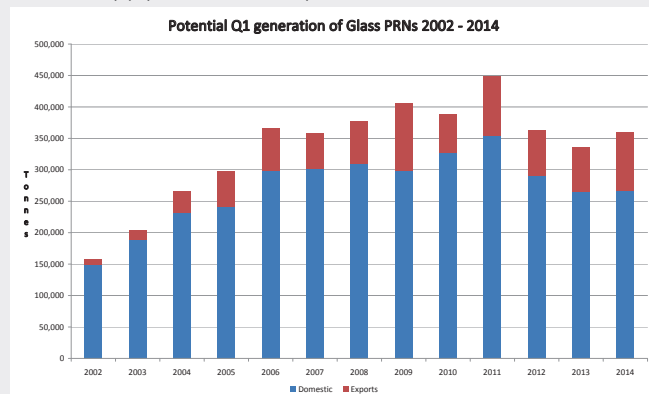
	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	YTD aggregated traded
Paper						
Spot 14	£0.90	£0.85	32,807	£0.85	£0.70	86,475
Jul Fwd 2014	£0.85	£0.85	1,891	£0.85	£0.80	22,891
Plastic						
Spot 14	£45.50	£38.00	18,667	£43.84	£43.41	28,179
Apr Fwd 2014	£45.00	£44.30	3,800	£44.29	£43.25	5,465
Jul Fwd 2014	£43.00	£40.00	2,135	£41.87	£41.87	2,135
Oct Fwd 2014	£45.00	£38.00	6,740	£42.77	£42.77	6,740
Dec Fwd 2014	£42.00	£42.00	500	£42.00	£42.00	500
Jan Fwd (Trans)	£45.00	£45.00	1,500	£45.00	£45.00	1,500
Glass Other						
Spot 14	£32.20	£28.00	5,984	£30.03	£30.03	5,984
Apr Fwd 2014	£32.20	£30.30	11,800	£30.57	£30.57	11,800
Jul Fwd 2014	£32.20	£30.30	9,400	£31.31	£31.58	9,700
Oct Fwd 2014	£32.20	£30.30	10,400	£31.58	£31.81	10,700
Dec Fwd 2014	£30.30	£30.30	3,000	£30.30	£31.18	3,300
Glass Remelt						
Spot 14	£50.00	£47.00	9,293	£48.91	£48.39	11,293
Apr Fwd 2014	£50.00	£50.00	250	£50.00	£50.00	250
Jul Fwd 2014	£50.00	£50.00	2,600	£50.00	£50.00	2,600
Oct Fwd 2014	£50.00	£50.00	5,100	£50.00	£50.00	5,100
Dec Fwd 2014	£50.00	£50.00	3,100	£50.00	£50.00	3,100
Steel						
Spot 14	£20.00	£12.50	3,509	£13.83	£12.69	4,302
Oct Fwd 2014	£12.50	£12.50	1,000	£12.50	£12.50	1,000
Wood						
Spot 14	£2.00	£1.75	919	£1.78	£1.78	919
Apr Fwd 2014	£1.65	£1.65	2,838	£1.65	£1.65	2,838
Jul Fwd 2014	£1.35	£1.35	11,733	£1.35	£1.35	11,733
Aluminium						
Spot 14	£10.00	£4.30	486	£6.94	£5.78	1,078
Recovery						
Spot 14	£0.50	£0.50	2,428	£0.50	£0.46	11,528

MANAGING DIRECTORS REMARKS – MAY 2014



As I look back to this time last year, much of the discussion was about glass and plastic. The same two issues dominate conversations today. Against the backdrop of a lightly traded quarter, less PRNs were issued in the first quarter of 2014 than have been since Q1 2010, which in itself was an unusually low year; there remains doubt on the correct prices for both Glass and Plastic. Concurrently DEFRA is conducting a wider review of the Regulations and the Advisory Committee on Packaging (ACP) is concerned that there is an underlying lack of understanding of the purpose or the mechanics of the PRN in particular and the Regulations in general.

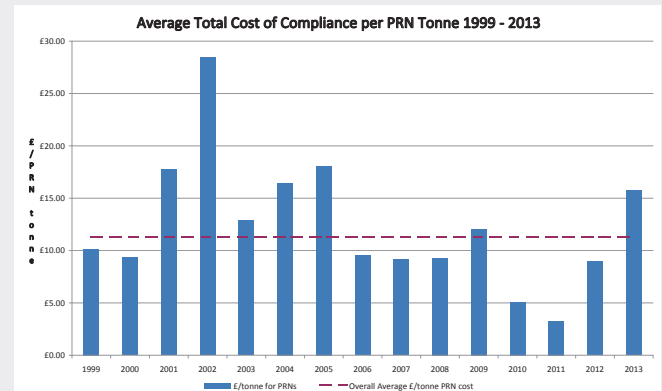
Q1 2014 shows for the third year in a row a potential shortfall in Glass PRN supply. It is below every Q1 back to 2005 other than last year. Once again the shortfall is in the supply of non-remelt PRNs. However there is a groundswell within the market that the credibility of these figures has been undermined as in both previous years' supply appeared, as if by magic, in Q4. While in 2012 this may have been explained by a rapid escalation in PRN prices the same did not apply last year, so further explanation is required to justify the changes on preceding years. Price doubts are enhanced since this year the obligation has both been reduced by DEFRA and, when reported by businesses, dropped a further 32,500 tonnes on anticipated levels. As a result pressure is being put on Glass PRN prices but it is not clear whether they will fall or what impact a fall might have on the supply towards the year end.



Plastic in contrast faced with a further increase in targets has responded well both to the anticipated increase in demand and the boost received from PRN income in 2013. While domestic reprocessing has increased substantially, some 40% year on year, exporting has returned back to levels not seen since 2010 prior to the introduction of the Chinese Green Fence, which contrasts with reports of a slowdown in China. As a result Plastic is comfortably exceeding demand which has unexpectedly dropped by some 3% tonnes on anticipated levels. There is uncertainty if this can be attributed to lightweighting.

Paper, in particular, and wood continue to comfortably exceed both their targets and the general recycling target even though paper exports dropped almost 100,000

tonnes in comparison to Q4 2013. In contrast aluminium and steel have both struggled this quarter and currently are not matching quarterly demand. This may well be attributed to the low prices at the end of 2013 deterring reaccreditation in 2014. In the past this has been resolved by a single good quarter for exports but will need to be watched.



One of the aims of DEFRA's wider review has been to reduce the burden on small businesses. While this is an admirable ambition the fact that there are businesses with turnovers of £2 million that handle more than 50 tonnes of packaging suggest that a simple increase in the minimum turnover may have more significant impacts on the obligation than might be anticipated. As the Glass review identified there is a significant element of glass packaging that arrives in the UK waste stream that cannot be traced to an obligated business, if the minimum turnover is raised this element must be anticipated to increase. An alternative would be to investigate raising the turnover limit for protocol tonnage. Another unrelated area worth exploring is how to encourage accredited reprocessors and exporters to demonstrate how they have spent PRN funds.

The Advisory Committee on Packaging has raised concerns that many are unaware of the work that the ACP does and, when raising faults with the PRN system, do not fully understand how it works. While it would be quite wrong to suggest that the PRN system is fault free, it has worked very effectively in delivering the targets flexibly within a competitive market at low cost, all be it 2013 was the most costly year for obligated businesses since 2002! It would seem strange to fundamentally change it at a time when it is getting increasingly admiring glances from the remainder of Europe.

Thank you for all your support this quarter. There is still much to be done before 2014 is over. Thank you too to Bob Lisney, the Chairman of the ACP, for his contribution.

Angus Macpherson
Managing Director

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



The Reprocessing and Exporting figures released on 22 April give the PRN supply position for the first Quarter of this Compliance Year and give an indication of what might be in store for the remainder of the year. t2e assesses how this first quarter compares with previous quarters and makes projections based on this year's obligation. When comparing Q1 2014 with Q1 2013 PRN production overall is down 94,434 tonnes, nearly 6%. Materials which have seen a growth in reported supply are Glass Other, Glass Remelt and Plastic. The materials which have contracted are Paper, Aluminium, Steel, Wood and Recovery.

Material	Q1 2013	Q1 2014	2013 vs 2014	2013 vs 2014 %
Paper	835,445	816,327	-19,118	-2.29%
Glass Other	102,045	106,710	4,665	4.57%
Glass Remelt	234,726	253,300	18,574	7.91%
Aluminium	17,239	16,147	-1,092	-6.33%
Steel	108,474	78,912	-29,562	-27.25%
Plastic	157,146	201,040	43,894	27.93%
Wood	111,827	104,570	-7,257	-6.49%
Efw	210,488	105,950	-104,538	-49.66%

Table: Analysis of the difference between reported supply figures for all materials, Q1 2013 and Q1 2014.

Paper

Paper is showing a slight tightness in supply with the reported supply figure down around 19,118 tonnes (nearly 2.5%) when comparing Q1 2014 with Q1 2013. The last time paper supply was at a level lower than Q1 2014 was in Q2 2012 which showed a supply figure of 799,230 tonnes. Based on the Obligation Figure for 2014, Paper has met the quarterly obligation in Q1 in excess of 191,950 tonnes.

Glass Other

The reported Glass Other supply figure was up by 4,665 tonnes (4.5%) in Q1 2014 compared with Q1 2013. However, the 106,710 tonnes reported in Q1 2014 was lower than the tonnage reported in Q2, Q3 and Q4 2013, by 28%, 29% and 38% respectively. Based on the Obligation Figure for 2014, Glass Other is down 24,400 tonnes in Q1.

Glass Remelt

The reported Glass Remelt supply figure of Q1 2014 was 253,300 tonnes and in comparison to Q1 2013, this was an increase of 18,574 tonnes (8%). As Glass Remelt is the preferential note to Glass Other, its surplus volume can be used to make up any shortfall that Glass Other may have in making up the overall Glass demand. Despite this strong figure for Q1 2014, it was lower than the tonnage reported in Q2, Q3 and Q4 2013, by 3%, 5% and 16% respectively. Based on the obligation figure for 2014, Glass Remelt met the quarterly obligation in Q1 in excess of 11,931 tonnes.

Aluminium

Supply of Aluminium in Q1 2014 is down nearly 7% (1,092 tonnes) to the supply figure recorded in Q1 2013, but the low value being paid for Aluminium PRNs in this first quarter has done little to incentivise supply. Aluminium export volume dropped quarter on quarter in 2013, but a small growth (148 tonnes) has been seen in Q1 2014 compared with Q4 2013. Reprocessing volume grew from Q1 to Q3 2013 with a drop in Q4 2013, then an increase in Q1 2014. Despite this small increase in exports and domestic reprocessing in Q1 2014 from Q4 2013, Aluminium failed to meet the obligation figure in Q1 2014 by 936 tonnes.

Steel

The Steel market has proved to be quite challenging this quarter, largely attributed to a downturn in domestic supply along with reported falling export values which has curtailed selling opportunities in the export market. Steel supply in Q1 2014 was down 29,562 tonnes (around 27%) when compared to Q1 2013 and export volume is down 18,588 tonnes in Q1 2014 compared with exports in Q1 2013. This drop has contributed significantly to the lower Q1 2014 supply figure. Based on the obligation figure for 2014, Steel failed to meet the obligation figure in Q1 2014 by 6,371 tonnes.

Plastic

Plastic benefitted from a strong supply figure in Q1 2014. The reported Q1 figure was 201,040 tonnes, up by 43,894 (28%) compared to Q1 2013. Moreover, the Q1 2014 figure was higher than any Quarter in 2013. As there is an increased material specific recycling target this year (up from 37% to 42%) it is thought a supply figure, such as that reported in Q1 2014, is what will be required each quarter this year to meet demand. Based on the obligation figure for 2014, Plastic has met the quarterly obligation in Q1 in excess of 8,341 tonnes.

Wood

Supply of Wood in Q1 2014 was, down nearly 7% (7,257 tonnes) compared to Q1 2013. Additionally, the Q1 2014 figure was also lower than the supply figure from Q1, Q2 and Q3 reported in 2013. It is believed that there is an increased demand for biomass and with this growth of the biomass market, it is leading to a reduced volume of wood available in the market for PRNs. Based on the obligation figure for 2014, Wood met the quarterly obligation in Q1 with an excess 47,395 tonnes.

Recovery

The number of Reprocessors getting accredited this year has fallen which has resulted in a downturn in Recovery supply of nearly 50% (104,538 tonnes) compared to the reported Q1 2013 figure. It is thought that the low value of the Recovery PRN has provided a disincentive for these Reprocessors in getting accredited. Recovery missed the quarterly obligation in Q1 by 23,913 tonnes.

THE PRN SYSTEM; LEARN TO LOVE IT *by Bob Lisney OBE Chairman Advisory Committee on Packaging*



The mini crisis in glass recovery in 2012 led to serious concerns that the packaging targets would not be met. More worrying for obligated companies was the price they had to pay for PRN's. As often happens at such times there are claims that the PRN system is not working and needs to be changed. So vociferous was

the concerns that questions were asked in Parliament and as a result the ACP was asked to review the situation.

The Government have acted on our proposals announcing revised glass packaging tonnage flows and targets. We could make such recommendations because the base figures formerly being used to set the targets were too high. I believe we now have the right balance between

- Ensuring that the UK continues to meet its commitments to European targets,
- Reducing costs to producers to a more sustainable level, and
- Continuing to provide a stable platform and future visibility for reprocessors so that they can continue to invest appropriately.

I was pleased with the input of the supply chain in the sharing of non-confidential and non-commercial data as this was critical to the supply chain's awareness of flows and greatly assisted in enabling compliance. Information which previously had been guarded as being of commercial value proved not to be so and was better used by being shared. The trust that was created in the chain was substantial. And I am pleased to see similar cooperation now taking place on both metals and plastics data.

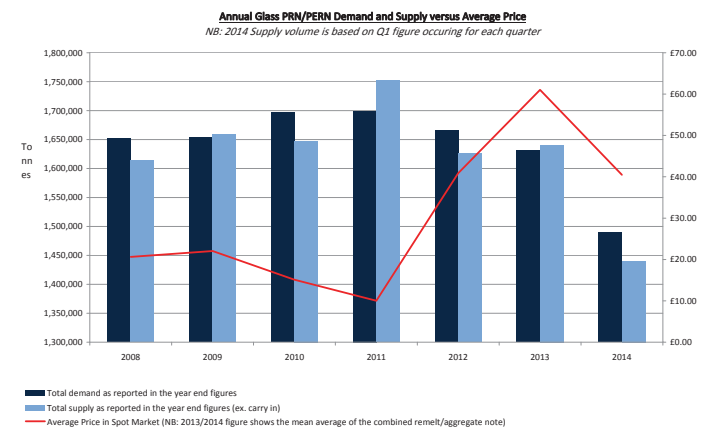
What this collaborative process demonstrated was that the PRN system was not commonly understood. So how can there be calls for its change when a lot of those involved do not understand it?

It was developed as a market system within a market system and for a long time market conditions were reasonably stable; targets were being met and the annual cost had been absorbed into company's annual budgets with no great expectancy for major fluctuation. But when the budget began to be greatly exceeded it was not long before Boards demanded explanations.

New Export Guidelines Introduced

Reprocessors may issue a PRN once the packaging waste has been processed but their PRN issuing capacity is limited by both the weight of packaging waste that enters the process and the efficiency of that process. Meanwhile, when a bale of the same material is exported a PERN can be issued on 100% of that material. In the light of concerns expressed by some Reprocessors that as a result the PRN system favours Exporters, The Environment Agency has clarified the definition of packaging waste.

The market mechanism of supply and demand was working well. There was little supply and thus prices went up. As a result there was a major focus on how the market worked and this market within a market seemed to suddenly become an area of major scrutiny. (A good history and explanation of the system is available on <https://npwd.environment-agency.gov.uk/default.aspx?ReturnUrlId=3e8c3064-2cc6-e311-9ba7-b8ac6f957991>)



Despite these calls I have not had any firm economic proposals to consider. If we didn't have the PRN system then we would have to have something else instead. (A complete change to the PRN system is not likely. To replace it would take several years with consultations and the subsequent legislative process a timetable for replacement could easily take until nearly 2020.) We currently have targets on all packaging materials to be met by 2017 so it would be counterproductive to undertake a major change and jeopardize the existing market place.

That is not to say that it can't be improved. If there are any reasonable amendments needed that can be handled within existing regulatory procedures we will consider them and advise government accordingly.

The ACP's future work will include receiving and commenting on the Plastics Road map work that WRAP is conducting, work with DEFRA on revisions to the Producer Responsibility arrangements and keeping an eye on the EU review of the waste directive which will undoubtedly consider packaging targets within a resource economy. Unlike interest rates, in packaging, targets are only likely to increase.

The updated definition establishes a more 'level playing field'. Now exporters will have to show that exported waste not only complies with the Transfrontier Shipment of Waste Regulations but also is packaging waste sourced from the UK that will be further processed overseas and on which no PRN has been claimed in the UK. This could result in less PERNs being issued per load with a consequent impact on PRN/PERN availability. It is anticipated that the greatest impact will be in the plastic sector. For more information, please see: <https://www.gov.uk/packaging-waste-apply-to-be-an-accredited-reprocessor-or-exporter>