



The Marketplace for PRNs

Market Status Report By Tom Rickerby, Head of Trading



Quarter 3 has seen a continuation of the strong recycling performance from the first half of the year. Year to date PRN generation is up 8.5% on the same period last year despite challenging trading conditions and a stagnating economy. Plastic and Aluminium both registered their best ever quarters whilst Paper and Wood saw record generation for a 3rd quarter period. Resurgent supply coupled with ongoing weak demand data saw PRN prices fall in the period. In the absence of targets for next year, uptake in the 2024 Forward markets has remained slow.

A total of 367,438 tonnes traded on t2e during Q2, down 8% on the previous quarter and 14% on the same period last year. 255,548 tonnes were traded in the 2023 Spot Market, 51,545 tonnes were traded in the 28 Day Rolling Market and 54,345 tonnes were traded in the 2023 Forward markets and 6,000 tonnes in the 2024 Forward markets.

Paper

A collapse in the Paper PRN price in Q2 has done little to dampen generation. A record Q3 supply maintains Paper's course for its best ever performance within a compliance year, a statistic with which few recovered paper traders will be able to relate in the current climate. Strong supply fundamentals piled more pressure on the price as Spot values plunged 71% to a 19-month low price of £1.90 per tonne. 2024 prices opened at £7.00 in the April and July Forward markets providing sellers with an early indication of potential recovery for next year's market.

Plastic

A record supply quarter coincided with record Plastic trading volume on t2e in Q3. Improved supply data in Q2 brought some much needed stability to the plastic market with prices consolidating at between £275.00 and £285.00 per tonne for much of Q3. Spot prices briefly threatened to break out above resistance at £300.00 on weakening market sentiment, however, the move was quickly snuffed out following the release of strong September monthly data. Further evidence of strong supply in the October monthly data saw the quarter's first significant price action as spot prices fell 20% in the 2 week run up to the Q3 data release. Confirmation of a record quarter added further fuel to the sell off, as Spot prices hit a year low of £120.00 per tonne, down 61% on the quarter high. Prices had rebounded to £130.00 by the quarter close.

Glass

Glass Remelt and Aggregate both clung on to triple digit pricing in Q3 despite mounting evidence of reduced 2023 demand and accumulating surplus in Remelt. Price action in the two materials remains closely correlated with Remelt retaining a small premium over Aggregate. Both materials saw values increase during the quarter but were forced to relinquish gains by the end of the period amid further evidence of sufficient combined supply. Remelt fell to its lowest quarterly average price of the year (£117.09), down 5% on Q2, whilst Aggregate's average (£106.37) remained in line with the previous quarter.

Aluminium

It was strong Q2 supply data at the end of July that popped Aluminium's £200.00 per tonne bubble, however the serious price deflation occurred in Q3. Aluminium prices fell steadily in the period, losing around 80% of

its Spot value and sinking to year low price of £40.00 by the quarter close. A record Q3 supply reinforced the price action in the period and all but condemns Aluminium to a soft final quarter.

Steel

Steel was the only material to suffer a significant dip in supply performance in Q3 – down 14% on the H1 average. Despite the slowdown, Buyers continued to capitalise on the established downward price momentum from Q2. The quarter was characterised by weak buying support evidenced by the lowest quarterly Steel traded volume on t2e for 8 years. As a result spot prices crumbled, falling 74% to a year low of £6.50 per tonne.

Wood

Despite a significant slowdown in the panel board sector, Wood PRN generation is at record levels at the end of Q3. Traded volume in Wood fell to its weakest quarter of the year as prices tracked the paper market south on weak demand. Spot prices fell 80% to close the quarter at £2.00 per tonne.

Q3 Aug - Oct 23	High	Low	Traded this quarter	Quarterly Average Price	YTD Average Price	Total Volume
Paper						
Spot 2023	£7.00	£1.90	84,966	£3.41	£12.83	212,867
28 Day Rolling 2023	£6.50	£2.00	9,267	£3.81	£16.25	100,344
OCT Forward 2023	£6.00	£2.50	28,500	£4.20	£7.87	43,250
DEC Forward 2023	£2.50	£2.50	2,500	£2.50	£13.89	7,500
APR Forward 2024	£7.00	£7.00	4,000	£7.00	£7.00	4,000
JUL Forward 2024	£7.00	£7.00	2,000	£7.00	£7.00	2,000
Plastic						
Spot 2023	£310.00	£120.00	70,501	£270.62	£288.68	202,175
28 Day Rolling 2023	£305.50	£120.00	28,152	£267.74	£285.94	63,809
OCT Forward 2023	£302.50	£276.00	10,436	£285.22	£302.51	18,636
DEC Forward 2023	£285.00	£180.00	1,300	£268.46	£329.98	6,390
Transitional JAN Forward 2024	£297.50	£150.00	4,600	£255.71	£255.71	4,600
Glass Other						
Spot 2023	£115.00	£100.00	21,001	£106.37	£107.67	71,623
28 Day Rolling 2023	£110.00	£100.00	2,445	£105.00	£106.60	13,914
Glass Remelt						
Spot 2023	£125.00	£108.00	37,985	£117.09	£124.68	101,494
28 Day Rolling 2023	£120.00	£112.00	6,350	£115.98	£123.15	16,300
Transitional JAN Forward 2024	£117.50	£117.50	5,000	£117.50	£119.58	6,000
Steel						
Spot 2023	£25.00	£6.50	8,132	£12.69	£28.25	29,517
28 Day Rolling 2023	£9.00	£6.50	350	£7.93	£35.62	8,287
Wood						
Spot 2023	£9.95	£2.00	29,191	£3.70	£14.15	98,625
28 Day Rolling 2023	£4.50	£2.00	3,220	£2.17	£12.86	6,220
Aluminium						
Spot 2023	£195.00	£40.00	3,772	£107.78	£166.24	11,526
28 Day Rolling 2023	£145.00	£79.00	1,761	£120.06	£150.47	3,505
OCT Forward 2023	£190.00	£140.00	1,109	£144.91	£175.50	4,659
Transitional JAN Forward 2024	£90.00	£75.00	900	£83.33	£83.33	900

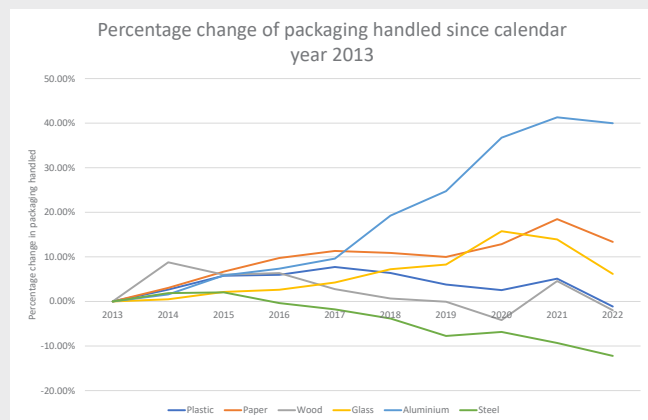
Managing Director's Comments December 2023



While quieter on a trading front, Quarter 3 (Q3) has been busy on the political front, although activity has been stalling in the UK as everything focuses on the economy. In the UK responses have been submitted to the consultation and targets for 2024 have been announced, although disappointingly not yet for 2025 and beyond. In Europe it has been proposed that exemptions from deposit return schemes (DRS) should be granted to member states where the collection of packaging is above 78%. While not directly relevant, it may either delay the introduction of a DRS in the UK or allow it to be much more material specific. If the current collection rates are maintained, 78% could exempt Glass, Paper and Steel and, if reuse was included quite probably Wood.

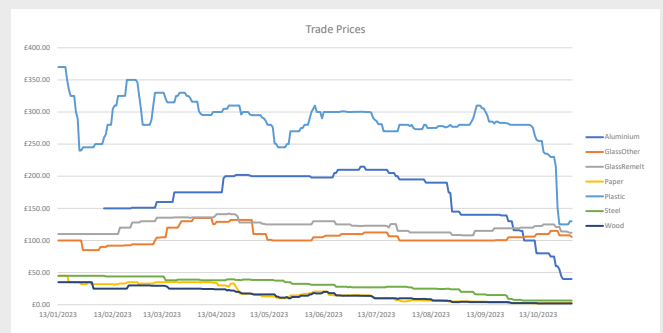
Falling prices

Q3 data confirmed, as the market had predicted, that 2023 was less tight than anticipated. A significant element of demand has gone from the market, whether this reflects reduced packaging use in 2022 as household expenditure was diverted to travel rather than consumption or a reduction of packaging weights or revisiting of packaging calculations is not clear. The current obligation more closely reflects that of 2021 than a projection based on 2022 figures. While there has been a drop of packaging use in all packaging materials, it is particularly significant in Glass (7.74%), Plastic (6.25%) and Wood (6.55%).



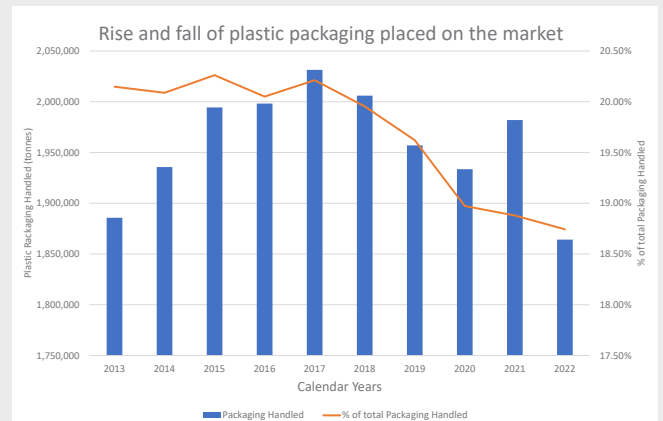
While Plastic Packaging Tax, introduced on 1 April 2022, may have contributed to the fall, reported plastic packaging use has been reducing since 2017 both in tonnage and as a proportion of packaging handled. The annual variation between materials of proportions of packaging handled is one of the reasons why it is so important to retain the General Recycling Obligation if the UK is to meet its overall packaging recycling target. In contrast plastic packaging waste tonnage recycled has flattened from that date, all be it that recycling rates have improved, and may have reached close to 60% in 2022.

While demand has dropped, Q3 data shows, to the mild astonishment of many involved in the sector, growth in all materials to potentially record tonnage levels, except for Glass and Steel. This imbalance between supply and demand has put a downward pressure on the price of all materials apart from Glass Other which has drifted slightly upwards towards the Glass Remelt price reflecting the greater tightness in the overall Glass market.



Extended Producer Responsibility (EPR)

Acknowledging the difficulties of entering EPR data onto the Report Packaging Database (RPD), the Environment Agencies has extended until 31 May 2024 the window in which large producers, those with a turnover over £2 million and supply 50 tonnes of packaging, can submit their packaging used in 2023. Fortunately the PRN obligation will still be calculated on the NPWD but it will give an early opportunity to contrast the two data gathering mechanisms and the potential impact on the recycling obligation in 2025, compliance with which must be done by the acquisition of PRNs or PERNs.



The PRN and its accreditation system has been included in the draft regulations. It is a tried and tested system, accepted by industry and a provider of good quality information. Therefore, there is much merit in using it as the universal measuring point for the recycling of all packaging materials regardless of whether it is included in a DRS Scheme or disposal fees. This will make everything far simpler particularly when trying to assess the achievement of overall packaging recycling targets.

The draft Regulations exempt those that are partaking in a DRS from these recycling obligations. It makes no logical sense that packaging collected under the DRS should be exempt from recycling obligations. That packaging should be exempt from the disposal fee obligations as packaging that goes through the DRS will not have been collected in the local authority household waste stream.

Thank you for your support through 2023. We wish you an enjoyable and happy festive period and look forward to being of service to you in 2024, where there are many unknowns.

Angus Macpherson

Angus Macpherson
Managing Director

Q3 Supply Analysis By Andrew Letham, Operations Manager



Concerns regarding a challenging third quarter (Q3) were quickly dispelled upon the release of Q3 data, which revealed strong performance across all materials except for steel.

Overall recycling increased by 19,345 tonnes (t) compared to Q2, with a record-breaking quarter in Plastic and Paper, where recycling continues to thrive despite industry reports suggesting a downturn in consumption and production.

The number of registered producers grew by 195 quarter-on-quarter (QoQ) to reach 6,895, adding an additional 202,562t to the obligation. Currently, there are 298 fewer producers compared to the end of 2022 (7,193), and the overall obligation sits 446,698t below last year's final figure. Although the possibility of substantial increases in obligation affecting compliance in the market cannot be entirely ruled out, it appears increasingly unlikely, leaving a significant amount of transitional tonnage available for carry-over into the 2024 compliance year.

The exceptional performance of **Plastic**, which achieved a record recycling quarter totalling 318,430t, combined with modest obligation growth, has transformed what initially seemed to be a tight market into a balanced one. Despite evident slowdowns and shutdowns in Europe, the resurgent Turkish and Far Eastern markets led to growth in export up 9.5 % on the year-to-date (YTD) average with UK reprocessing also up 3%. The obligation saw only a modest increase QoQ (+1.5%) to its current level of 1,135,629t, trailing last year by 75,231t. If current recycling rates persist, carry-out is poised to return to 2021 levels (c.64,555t). However, a sharp decline in PRN prices and heightened agency enforcement may result in a relatively tight end to the year.

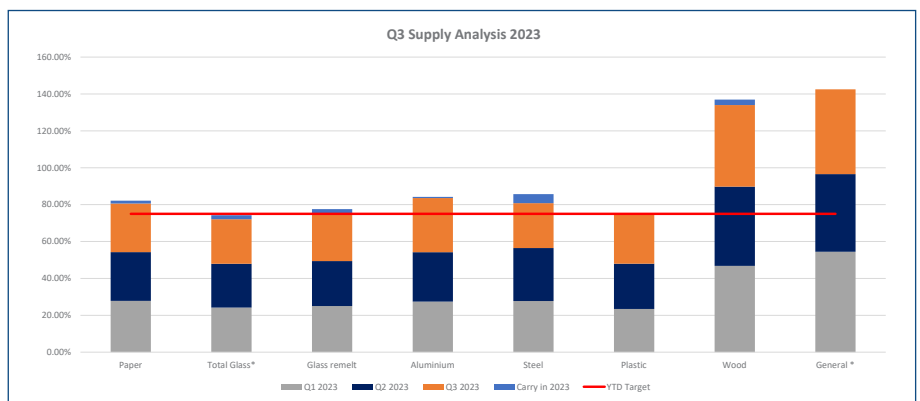
Despite a significant drop in PRN prices, **Paper** continued to yield impressive recycling returns in Q3, with 973,127t reported as recycled, only marginally down (-1,540t) QoQ. Surprisingly, industry data shows a decrease in consumption (-10.6%) and production (-7.8%) compared to 2022 which contradicts export data showing growth of more than 400,000t, 300,000t of which being OCC, following a 97.5% protocol. With the obligation currently 185,289t below 2022 levels at 3,521,406t and supply up 311,755t YTD, paper will be a significant contributor to the General Recycling pool, likely resulting in a softer year-end than in 2022.

In Q3, **Glass** recycling decreased by 9.3% year-on-year (YoY), although supply remains slightly ahead (5,794t) of 2022 YTD with improvements in both Q1 and Q2. Despite similar recycling performance, obligations

Material	Carry In	Q1	Q2	Q3	2023 Obligation	YTD Supply + Carry In	Balance
Paper	56,652	1,028,290	974,667	973,127	3,521,406	3,032,736	-488,670
Total Glass*	41,219	465,173	456,322	463,092	1,786,728	1,425,806	-360,922
Glass remelt	34,605	346,266	337,313	354,555	1,286,444	1,072,739	-213,705
Aluminium	914	41,110	40,053	43,933	148,096	126,010	-22,086
Steel	18,587	105,233	108,670	92,152	367,600	324,642	-42,958
Plastic	12,198	283,151	296,616	318,430	1,135,629	910,395	-225,234
Wood	11,442	179,368	164,596	169,535	367,573	524,941	157,368
General *	0	270,567	209,166	228,511	479,530		
Total	141,012	2,102,325	2,040,924	2,060,269	7,806,562	6,344,530	-1,196,207

*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.



are currently 134,653t short of the final 2022 figure, requiring a modest 400,000t (YTD average = 461,529t) across both grades in Q4 to meet targets before considering a 41,219t carry-in. At current recycling rates, Aggregate appears likely to fall short of its individual target, keeping the prices of both grades closely aligned for the rest of the year.

Steel faced a challenging quarter, with a 15% QoQ drop, reporting 92,152t as recycled. Nevertheless, strong performance in the first half of the year means only a further 61,545t are needed to meet the annual target, with obligations down by 3.6% (13,758t). Additionally, 18,547t of carry-in is available, potentially allowing for a maximum carry-out of c.35,000t for 2024.

Despite having nearly met the material-specific target (367,573t) in the first half of the year, **Wood** continued to perform strongly in Q3, recycling 169,535t. Currently, the market is oversupplied by 157,368t, including carry-in. Given the anticipated oversupply of Paper, along with a maximum carry-out of around 55,000t, there is a strong possibility that a substantial quantity of Wood PRNs remains unsold.

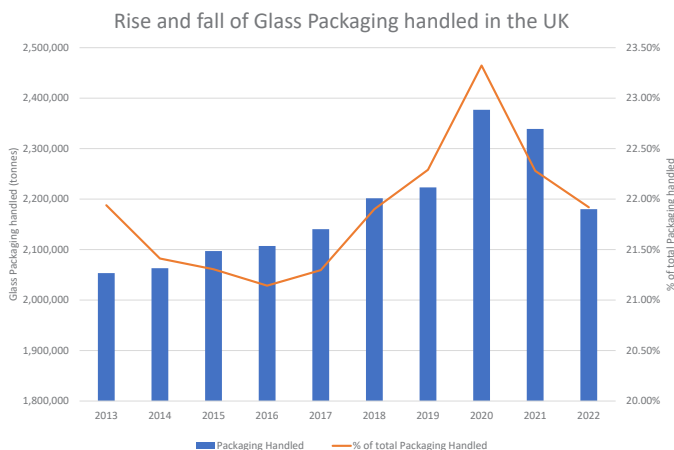
Aluminium posted its largest recycling return of the year at 43,933t. 85% of the current 148,096t obligation has now been met, with a further 23,000t needed to meet the target this year. With the quarterly average currently at 41,699t, this should be easily achieved, leaving substantial carry-out available for 2024.



HOW CHALLENGING WILL IT BE TO MEET THE RECYCLING OBLIGATION TARGETS IN 2024?

Packaging recycling targets for 2024 crept out through a draft Northern Ireland Regulation, after which they were confirmed by DEFRA. There are three changes. The Glass Remelt target has increased to 75% of the Total Glass obligation, the Wood target has increased to 42% and most significantly the General Recycling target has been increased to 80%. The latter will potentially add some 300,000 tonnes to the obligation. It is good to see that DEFRA are willing to use this important tool after threatening to remove it in the draft 2024 Regulations.

The surprise of the 2023 obligation is how far it differs from that predicted from the 2022 obligation. It turns out that 2021, the year on which the 2022 obligation was calculated, was an exceptional year for consumption stimulated by stored up savings and pent up purchasing desire from the lockdown in 2020. Most distinct is the increase in Glass packaging use in 2020 and 2021. But in 2021 there was exceptional growth in Paper, Plastic and Wood packaging handled as well. In contrast 2022, a year of travel for many, more closely resembled 2019 in packaging handled.



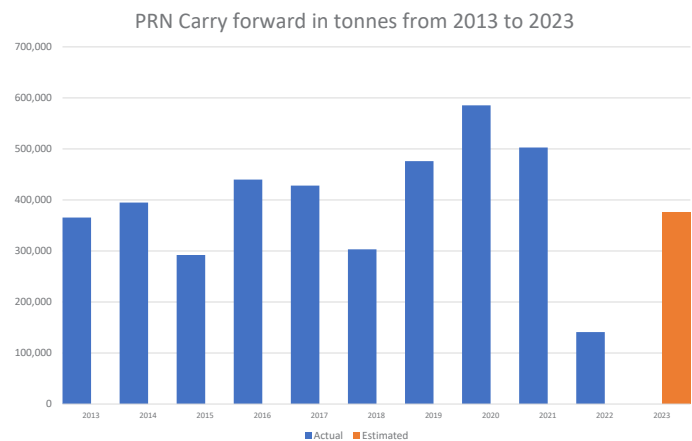
Looking forward to the 2024 obligation it is difficult to predict what sort of a year from a packaging handled perspective 2023 has been, what residual growth exists in the 2023 obligation and what, if any, impact taking data concurrently through the National Packaging Waste Database (NPWD), as currently, and the Report Packaging Database (RPD), the future determinant of the obligation, will have.

Residual growth

Since 2018 the average obligation growth between Q3 data publication and the final publication in March is 1.28%, the highest of these was in 2022 with a growth of 1.79%. If we apply the average growth to the current Overall Obligation it will expand from 7,795,987 tonnes(t) to 7,896,151t or by an additional 100,164t. When this is divided by 77 and multiplied by 80 to reflect the growth in the General Recycling Obligation between 2023 and 2024 the Overall Obligation becomes 8,203,793t or a growth of 307,642t from 2023. This figure closely resembles the current prediction on packaging waste recycled in 2023, 8,271,811t, which will exceed the adjusted 2023 obligation, 7,896,151t, by up to 375,660t. So

in all probability carry forward will be up on last year, but still less than many previous years. So 2024 might not be quite as tight a year as initial calculations suggest.

Similarly, while there might be some tightness in the Glass and Plastic material specific obligations, overall there appears to be some leeway in all materials.



What sort of a year has 2023 been?

But life is never that predictable. Shops in 2023 have reported footfall and sales volume down as has the proportion of sales made online reduced. This is reinforced by the CPI reporting paper consumption year on year is down by 10%. So the 2024 obligation could be down again on the 2023 one. 2023 certainly feels to many to have been a year of belt tightening as inflation, particularly food price inflation has eroded income. Many still prefer part time employment to full time employment, making it difficult for employers to recruit. While pushing up wages for some, presumably it further erodes household income for others. Potentially increasing household debt made more expensive by increases in interest rates and reducing the propensity to consume.

But there are two sides to the picture. PRN levels have been higher in 2023 than ever before. This suggests that both demand for secondary raw materials is buoyant and material is available in the UK to be recycled. So 2023 consumption may not have restricted packaging use as much as it appears. If the perceived reduction in consumption comes into reality in 2024, it will mean that there will less packaging waste about to collect and reprocess and therefore less PRNs available to meet compliance.

For 2024 it looks like the obligation will increase and PRN availability may be under pressure. The market although slow to contract forward appears to have factored these variables into the current price, which has opened lower than in 2022 and at the start of 2023. As ever each compliance year will be different and challenging from a PRN perspective ... and in 2024 there are also the challenges of EPR and establishing the Scheme Administrator to administer it!

