

## **RECOUP Consultation Response**

**PRO (Packaging Waste) Regulations 2007, PRO (Packaging Waste) Regulations (Northern Ireland) 2007, and call for evidence on the impact of new plastic flow figures, and links with household waste recycling targets.**

**May 2015**

Submitted by email for the attention of :

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## **Introduction**

This document is the RECOUP response to the consultation on PRO (Packaging Waste) Regulations 2007, call for evidence on the impact of new plastic flow figures, and links with household waste recycling targets.

RECOUP is a not for profit membership based organisation with member and director representation from across the plastic supply, use and recycling chain. Contributions and views received from RECOUP members on this matter have been considered in drafting the response which was subsequently reviewed by RECOUP Trustees prior to submission. This response is compiled by the internal RECOUP team who are not sector or politically driven. The views provided may differ from individual member opinions on specific items. The collective aim is the effective development of UK plastic recycling opportunities in a cost efficient, sustainable and environmentally responsible way.

In summary this response confirms;

### **Part I : Batteries**

**Questions 1-4 :** No comments

### **Part II : Packaging**

**Questions 4-6 :** RECOUP support the proposals to remove unnecessary requirements and administrative processes, subject to maintaining the effective and efficient functioning of the system to achieve it's aims. This includes the replacing of operational plans with conditions for scheme approval, transferring of approvals process responsibility to the appropriate agency, and allowing delegation of "approved person" sign off of reports. We have no information which conflicts with the Impact Assessment provided.

### **Part III: Call For Evidence On The Impacts of New Plastic Flow Figures**

**Question 7 :** The referenced 2,260k tonnes UK plastic packaging arisings, and the assumption that this will continue to be steady from 2015 to 2017 is robust and should be adopted. RECOUP also support DEFRA's decision to reject any increases in the current de-minimis level applied to exempt smaller producers.

**Question 8 :** We have provided information relating to the influence of target changes on plastic PRN prices, together with supporting mechanism proposals. We are aware that the increasing business targets from 2013 have increased the producer responsibility cost trends, when compared with the static targets set in 2011 and 2012. But there are also a much wider range of factors that impact on the value of a plastic PRN.

Approaches to mitigate artificial short term PRN price volatility must be considered as it can be difficult to manage and often does not reflect the underlying performance against targets. It is therefore proposed that a mechanism is introduced to create a more stable short term value which creates a PRN market which is easier for the producers and compliance schemes to manage and budget for. Proposals include a floor price for plastic PRN's, limiting the monthly market price movement without constricting price movements due to genuine surplus or shortfall positions, enforcing audit requirements on PERN's with the associated costs admissible under PERN spend, and a review of the approved categories for PRN and PERN fund allocation.

**Question 9 :** We have provided information regarding the potential impacts of amending plastic targets. RECOUP support the continuation of the existing business targets to 2017, to achieve an expected 1.064mt plastic packaging recycled. Provisional targets to 2020 should also be set. The recognition of a reduction in the gap between business and actual targets to an expected 9.9% (57% business target vs 47.1% expected recycling level) is also welcomed in line with previous requests from RECOUP.

Any consideration of reducing or delaying current targets will weaken the legislative pressure on achieving increased plastic packaging recycling, and undermine infrastructure investments and plans based on the set targets. We expect that collected waste plastic packaging made available to market will increase during 2015 – 2017, which suggests momentum to increase plastic packaging recycling, and demand for PRN's, can only be maintained if the 5% yearly business target increases are in place. It is recognised that despite recent high profile market issues, the actual capacity available to sort and reprocess plastic packaging waste does not appear to have been reduced, but this needs to be monitored.

**Part IV : Part IV – Call for evidence to support analysis of the options for meeting the 2020 household waste recycling target.**

**Question 10 :** Approximately £55m has been raised through the plastic PRN system from producers over the past three years. With £11.3m from the £55m raised (20% of total) being allocated towards local authority collections, this is the equivalent of 43p for each household in the UK over that period. Local Authorities were asked as part of the RECOUP annual survey if they see any benefit from plastic PRN monies. Of 199 responses, 39% said yes, 61% stated unsure or no.

When considering the best way forward for household plastic recycling and how producers and compliance schemes can provide support, the significant level of UK corporate led or partnership activities in recent years to increase plastic packaging recycling outside of legislative requirements must be recognised. We are not aware of any measurements to confirm this additional finance and resource.

There is a need to ensure that plastic PRN funding is transparent. It is expected that the majority of the funds allocated against 'Funding Collection' and therefore attributed to local authority support are used to inflate the value offered for material from the sorting facility. RECOUP have also been informed that the funds allocated against developing communication strategies refer to trade and corporate communications, rather than consumer facing communications. Therefore the issue of transparency needs to be resolved before considering whether allocating more funding via the current 'funding collections' category is a valid option.

There are also relevant funding pots apart from the PRN that relate to waste or litter, but do not appear to be joined up with relevant waste and recycling priorities. This includes landfill tax, civil sanctions, carrier bag levy funding and DCLG funds. We are attempting to increase plastic recycling in a time of austerity measures and budget cuts, so there is a requirement to introduce joined up thinking and establish an effective overall use of funds that could potentially be made available, including provision of more support for local authority collections if this is a barrier to increased plastic recycling. The landfill tax escalator should be re-established until 2020 with the additional funds raised specifically ring-fenced for waste recycling developments and activities.

## Further Supporting Information

### Part III: Call For Evidence On The Impacts of New Plastic Flow Figures

**Question 7 : Do you have any evidence to support or refute the assumption made in plastic flow that the total weight of plastic packaging placed on the market will continue to be steady from 2015 to 2017?**

The referenced 2,260k tonnes plastic packaging arisings, and the assumption that this will continue to be steady from 2015 to 2017 is robust and should be adopted. The Plastic Flow report was developed and agreed with a relevant stakeholder group. It would be appropriate to informally review the arisings position preceding the start of each year, but no changes should be considered unless strong and transparent evidence is provided and subsequently agreed with the steering group which convened to agree the data in the current report. RECOUP also support DEFRA's decision to reject any increases in the current de-minimis level, as producer responsibility is an appropriate consideration for those operating above the current threshold. Any measures which place additional burden on the larger producers by increasing this de-minimis threshold is not a fair approach.

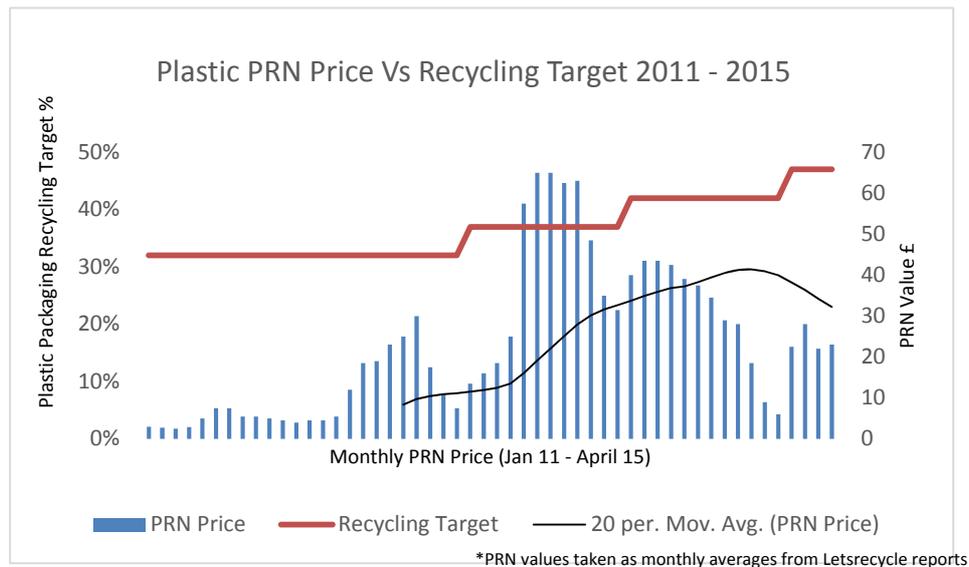
The level of activity under the current de-minimis threshold is not insignificant. Whilst producer responsibility should aspirationally apply to all producers of plastic packaging, it is accepted that the administration required to apply the legislation to the smaller producers would not be practicable. However, as detailed in question 9 the referenced gap between business targets and actual targets needs to be clarified and should be managed.

**Question 8. Are you able to share with us any modelling or evidence that shows how PRN prices could respond to target changes?**

Due to the variables involved, any modelling of future PRN prices would be reliant on a range of market parameters. It is not believed that maintaining the target recycling levels as set out in question 9 will automatically create significant additional producer responsibility burden if the collection, handling and reprocessing infrastructure capacity exists or is developed. However this is still subject to UK or export markets being available to handle and process the required tonnage each year, and this is of particular importance in current market conditions.

We are aware that the increasing targets from 2013 has also increased the producer responsibility cost trends, when compared with the unchallenging targets set in 2011 and 2012. However, the PRN price can change on a daily basis based on availability and purchasing trends with publicly reported values sometimes influenced by small level purchases. It is also influenced by official data that is reported quarterly during the year. Approaches to mitigate artificial short term price volatility must be considered as they can be difficult to manage and often do not reflect the underlying performance against targets.

The graph below is generated from published information and tracks the PRN cost against the business recycling target for each year.



It is therefore proposed that a mechanism is introduced to enable more stable short term prices to create a plastic PRN market which is easier for the producers and compliance schemes to manage and budget for.

Larger traders and reprocessors have the ability to withhold or move significant material tonnage stocks for legitimate business reasons, but in doing so can also have a temporary but significant impact on the perceived shortfall or oversupply of PRN's, and therefore the value. If a shortfall is reported for this reason, the PRN value impact should be mitigated.

There is also a need for the PRN funding to be more transparent. As identified in question 9, very little funding is attributed to communications. In comparison, £7.5m has been 'retained for future investment' over last three years with over 70% of that by those issuing export PRN's. Amendments to the accepted PRN spend categories and a better understanding of where these funds are used against established priorities is needed.

There are four recommendations that RECOUP believe merit detailed consideration and further feasibility assessment;

- 1) Plastic packaging targets will increase. Temporary over supply of material to market results in an artificial lowering of obligation costs (Q4 2014 as an example), despite longer term trends. Producer responsibility should apply even if targets are being met in the short term. A default minimum value for plastic PRN's of £20 per tonne should be considered for 2016 and 2017, and reviewed at the end of that period. The floor price would be reset at the beginning of each year. There are models such as the carbon floor price which provide a reference point for this approach.

The expected benefits would include additional confidence in PRN values for producer budgeting each year, and encouragement for reprocessors and exporters to be registered and accredited every year. There are also risks that need to be mitigated including the incorrect issuing of PRN's against non packaging plastics, or double counting in the system.

This approach may also involve consideration of hedging which itself will not reduce the price fluctuation in the markets but it will provide more certainty. RECOUP do not believe

that trading forward is common in plastics, but this is a facility available to the plastics industry through established systems such as that offered by t2e (<http://www.t2e.co.uk>).

- 2) A mechanism is needed to restrict the volatility of the short term plastic PRN price. This would take the form of a percentage limit on the monthly value range changes applied to a PRN using an independent and public reference point. For example a maximum price change of 20% in any one month would still provide value flexibility based on demand. It should be considered that the changing PRN values can often influence the values being offered to local authorities and waste management companies. Market competition for material is encouraged and necessary, but considerable daily or weekly material price changes purely due to PRN value amendments are not.

When considering how the system currently works, if a sudden issue led to the dramatic increase of obligation costs in a short period, it is very unlikely that this additional revenue will resolve the issue within a time frame that allows an annual target to be met. There are also no guarantees that the additional funds raised will go towards resolving that issue anyway as it will be allocated in line with declarations within the appropriate accreditation applications.

This proposal will mitigate the impact of a temporary over capacity or shortfall, and the immediate impact on the producer responsibility costs is minimised. If changing PRN supply or demand represents a genuine market adjustment, then the longer term values will continue to move up or down accordingly, a characteristic of the PRN system that works well and must be retained.

- 3) RECOUP do not advocate any splitting of targets by format or market destination, or discounting of a PERN. All exports must be completed legally as monitored by the Environment Agencies. But there is a requirement for exported material to follow a transparent and auditable route that the producers, consumers, local authorities and waste management companies can have confidence in. Creating a more positive and acceptable view of export markets based on a better understanding of those markets is critical, particularly non EU or non OECD destinations.

A strong UK reprocessing sector is also needed and RECOUP will continue to advocate its development, but the reality is that over 60% of the plastic packaging recycling tonnage reported in 2014 was against export activity and those markets are likely to continue to be viable and competitive. Whilst some organisations already undertake auditing on a voluntary basis to better understand their market outlets and protect their integrity, this is an investment that should be made by all involved in trading material and issuing PERN's.

RECOUP request that further consideration is given towards making an appropriate auditing and reporting system mandatory as part of plastic packaging recycling export activities. The costs of that activity will be recognised as eligible against PERN funds under the current 'costs of complying with the regulations' category. This system will require some control and management in terms of auditor competence and approach.

The German legal requirements relating to end market audits should be considered, and also how other certification systems might be applied to develop a fair protocol and accreditation system for the UK. This includes the EU Certplast programme ([www.eucertplast.eu](http://www.eucertplast.eu)) and Sedex approach to managing responsible practices in the supply chain. ([www.sedexglobal.com](http://www.sedexglobal.com)).

- 4) A review of the current approved categories for PRN spending is required. This includes the inclusion of consumer communications within 'funding collections', a separate category for price support, and removing the 'retaining of funds' option as funds are raised against the need to address a market shortfall in any given year, not to be spent at a later date.

**Question 9. Do you have other evidence about the potential impacts of keeping the plastic targets as they are, or changing them?**

DEFRA state in this consultation that they expect to achieve a 47.1% plastic packaging recycling rate by 2017, equating to 1.064 mt.

RECOUP issued a formal response to the DEFRA 2011 – 2020 packaging targets consultation, and the consultation regarding Recovery and Recycling Targets for Packaging Waste 2013 – 2017. The response specified with accompanying evidence, that due to the options set out in that consultation being either too low and obstructive to practical growth in plastic recycling, or over-ambitious and unrealistic in the short term based on available infrastructure and markets, RECOUP recommend an actual recycling tonnage of 1.078mt in 2017.

This was subject to a number of caveats including the essential development of additional infrastructure, sorting technologies and end markets. It would also still need to recognise the importance of achieving minimum plastic quality requirements irrespective of the end markets used.

In the 2013 – 2017 targets consultation document, DEFRA also referenced 1.22mt of plastic packaging to be recycled in 2017 based on a 57% business target relating to a 42.1% actual tonnage delivery. The RECOUP response recognised that the gap between the business and actual targets in DEFRA data increased significantly, reaching 14.9% in 2017(57% vs 42.1%). The RECOUP recommendation was that the government aim between 2013 and 2017 should be to reduce this gap, rather than predict an increase. The RECOUP recommendation was to reduce the obligation gap to 6% by 2017.

Therefore in line with the response provided previously, RECOUP would support the continuation of the existing targets to 2017, to achieve an expected 1.064mt plastic packaging recycled. The recognition of a reduction in the gap between business and actual targets to an expected 9.9% (57% business target vs 47.1% expected recycling level) is also welcomed in line with previous requests.

Any consideration of reducing or delaying current targets will weaken the legislative pressure on achieving increased plastic packaging recycling, and undermine infrastructure investments and plans based on the set targets. We expect that collected waste plastic packaging made available to market will increase during 2015 – 2017. This suggests momentum to increase plastic packaging recycling, and demand for PRN's, can only be maintained if the 5% yearly business target increases are in place. It is recognised that despite recent high profile market issues, the actual capacity available to sort and reprocess plastic material does not appear to have been reduced, but this needs to be monitored.

Notwithstanding the requirement for a sensible approach to de-minimis rules, an aspirational longer term goal of business targets being set at 5% higher than actual targets from 2020 onwards should be considered.

From 2018 onwards, provisional business targets should be identified to achieve 50% actual plastics packaging recycling by 2020. Infrastructure requirements and market opportunity are based on actual tonnages, not business targets. This longer term thinking will help with medium term

strategies and investments, and also provide some direction given the anticipated requirements of any new EU recycling targets under the circular economy package.

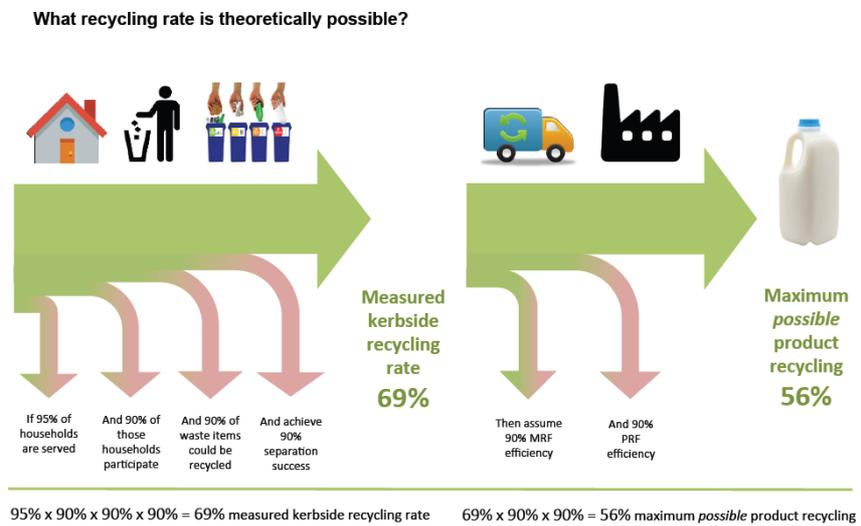
There is a need to ensure viable end markets for the recycled plastic flakes or pellets are maintained and expanded. It is believed by some RECOUP members that a suitable mechanism must be identified to ensure commitments and drivers to use recycled content exist, particularly as recycling targets increase further. The alternative will be to establish an unwanted position where energy from waste is accepted as the primary option for waste plastics at times when it is temporarily more cost effective than recycling, and the recycling targets downgraded during those times when demand for recycled plastic is suppressed. This does not fit with resource preservation or circular economy aims.

***Is 100% recycling possible in principle?***

The aim is to increase plastic packaging recycling, with 100% inferred as the maximum target. However, focus must be on what is achievable and fundamental changes to systems would be needed to increase plastic recycling levels above 60%. Some of these changes would impact the design of packaging and collection approaches. Given that recycling is not the only environmental and sustainability performance indicator for packaging, it would need to be clarified that the further increases in recycling levels are the best approach. However, it is clear that increasing recycling levels is fundamental to achieving circular economy models for plastics packaging.

RECOUP estimate that there are at least 125,000 tonnes of bottles, pots, tubs or trays that are not capable of being recycled. This is primarily due to their small size or dark colouring, and are estimated to represent 11% of the total consumer bottle and pots, tubs and trays fraction. Research is ongoing to develop the recycling opportunity in some areas including PET trays, black items and flexible plastics. These are areas in which DEFRA must continue to support industry groups to develop sustainable and cost effective solutions to help achieve future increased recycling targets.

There have been some good reference papers produced on the topic of optimal recycling rates which should be considered by DEFRA. A paper from Axion Consulting in September 2014 reviews expected efficiencies from existing systems. It identifies that taking the ‘process chain’ of individual efficiencies and assuming the maximum possible efficiency that each step could achieve given optimal performance, the possible product recycling figure is 56% (as measured at the output of the product reprocessor). The diagram below shows the multiple-stages involved in reaching this figure and it also indicates that the ‘kerbside recycling’ value, as currently measured would be a maximum of 69% using these assumptions.



**Part IV Question 10. Do you have any evidence about the opportunities and barriers, costs and benefits for producers and compliance schemes to work with Local Authorities to increase the extent of collection of household packaging waste for recycling?**

Based on published information, approximately £55m has been raised through the plastic PRN system from producers (as defined by producer responsibility obligations) over the past three years. With £11.3m from the £55m raised (20% of total) being allocated towards local authority collections, this is the equivalent of 43p for each household in the UK over that period. Local Authorities were asked as part of the RECOUP annual survey if they see any benefit from plastic PRN monies. Of 199 responses, 39% said yes, 61% stated unsure or no.

There is a need to ensure that plastic PRN funding is transparent. It is expected that the majority of the funds allocated against 'Funding Collection' and therefore attributed to local authority support are used to inflate the value offered for material from the sorting facility. Therefore the issue of transparency needs to be resolved before considering whether allocating more funding via the current 'funding collections' category is a valid option.

Local authorities generally have more limited communications funds and resources available at a time when packaging recycling targets are increasing. RECOUP have been informed that the PRN funds allocated against developing communication strategies refer to trade and corporate communications, rather than consumer facing communications which is an identified priority. Stable and ongoing funding support for programmes such as Pledge4plastics will assist in helping local authorities to achieve increased plastic collections, and also provides obligated companies with an opportunity to financially assist with consumer engagement activities.

Apart from the plastic PRN, the significant level of UK corporate led or partnership activities in recent years to increase plastic packaging recycling outside of legislative requirements must be recognised. We are not aware of any measurements to confirm this additional finance and resource.

When considering the way forward for household plastic recycling and how best to support it, there are also other relevant funds that do not appear to be joined up with local authority priorities. This includes landfill taxes, civil sanctions, carrier bag levy funding, and DCLG funds. When distributed via different routes and not aligned with priorities, it demonstrates a lack of joined up thinking, ineffective overall use of funds, and a missed opportunity to provide more effective financial support to local authority recycling activities if this a priority for DEFRA.

Landfill tax funding should be re-opened for waste and recycling projects and the parameters widened, as will be the case in Scotland. RECOUP also believe that increasing landfill tax is a strong driver for assisting plastics packaging recycling growth. Re-establishing the landfill tax escalator until 2020, with the additional funds being ring-fenced for waste recycling developments and activities would again provide some direction regarding infrastructure development and business planning, and ensure that we continue to work towards the aims of increased recycling.

It will become increasingly important for the collection systems to be aligned, and for producers to support local authority collections where that is an identified barrier to increased recycling levels. A natural alignment of household plastic collection services is already occurring and should improve further over the next 5 years as more systems offer a wider plastic collection service.