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PRSE 2024: Key takeaways across the RPET value chain

July 2024

Notable findings at PRSE

The Wood Mackenzie team attended the Plastic Recycling Show Europe (PRSE) that took place in Amsterdam 19-20 June 2024. In this insight, we've highlighted key takeaways identified through discussions with various stakeholders across the RPET value chain.

Navigating near-term headwinds

Global GDP is expected to grow 2.6% in 2024, as monetary policy easing facilitates growth drivers towards investment.

Following the Red Sea crises earlier this year, freight rates skyrocketed as shipping holds firm on elevated prices due to increased risk.

High political uncertainty, with crucial elections set to shape fiscal and trade policies. Impacts of geographical tensions remain to be seen.

Virgin PET maintains a position of global overcapacity, suppressing price action for itself and RPET as an alternative.

On track to surpass short- and mid-term targets, the supply and demand balance is ever crucial to meet longer-term targets

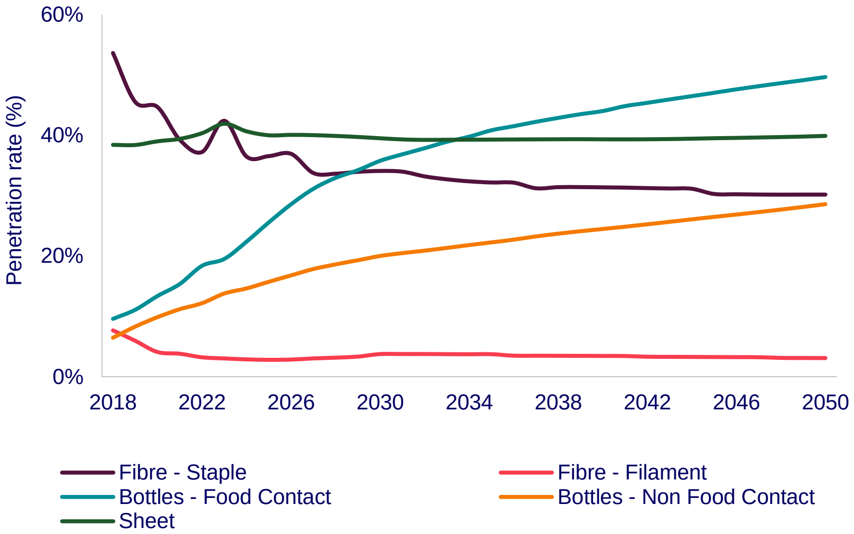
Key themes:

- With the 2025 mandatory recycled content deadline fast-approaching, it's no coincidence that this year's PRSE was the largest one since its inception in 2017. From occupying one hall during its launch to spanning four at the RAI convention centre this year, attention has significantly grown for the dynamic recycled plastic market.
- EU legislation, as well as EPR and plastic tax laws by individual member states, has played a pivotal role in the rising adoption of RPET over the past few years and continues to do so over the coming decade. Whilst most of the buzz was felt around 2025 and 2030 targets, which the EU is on track to surpass, little mention was made of the longer-term target to reach 65% recycled content by 2040.
- After a turbulent 2023, which saw near rock-bottom deals across the RPET value chain, the start of 2024 saw prices rebound at an incredible pace. Despite the market entering a period of stability, the uncertain outlook for the future of RPET prices was front of mind for buyers and sellers alike. Furthermore, varying producer margins exacerbated the confusion as speculation on upcoming price trajectory differed from business to business.
- Many non-EU producers were present at PRSE, demonstrating their fervour to develop business relations. The European RPET market has typically held a heavy bias towards domestic production, due in part to legislation such as the PPWR's mirror clause, yet the mood at PRSE was evolving as conversations on procurement from overseas were ample. The recent logistical complications and increased freight rates have created obstacles to market penetration, but non-EU producers are optimistic that trade flow will improve in due course.

Legislation drives growth in food-contact applications

With the SUPD deadline of 25% recycled content by 2025 fast approaching, existing efforts see the food-contact industry surpassing this target; however, PPWR targets of 65% recycled content by 2040 look overly-optimistic

European RPET market penetration by sector



Source: Wood Mackenzie Global RPET strategic planning outlook, H1 2024

- Market participants across the value chain are confident the EU will meet its recycling content targets, however, the adoption of RPET across the continent is not uniform. Specific brands and countries lead the way in RPET utilisation, exceeding the SUPD targets and driving the average up for all member states.

- Wood Mackenzie expects the food-grade bottle sector to lead growth, in absolute terms, in the European RPET market through to 2050. This is primarily due to the EU's recycled content mandates and brand pledges that extend beyond. Food contact demand is forecast at 3.7% CAGR (2024-2050).

- As legislative drivers see food contact penetration rates increase, flake producers noted the absence of mandatory targets in textile industries sees momentum drifting away from fibres, despite sustainability commitments made by fashion and apparel brands as they struggle to compete for RPET feedstock.

- Investments from collection/sorting to reclamation and extrusion has the EU on track to surpass 2025 and 2030 targets. The outlook further afield though, shows a shortfall of 20% when considering the 65% recycled content target by 2040 as investments are not expected to increase substantially to meet these requirements. PPWR allows material from non-EU, "third countries" to meet targets, but with stringent conditions on collection and import markets adopting greater RPET contents themselves, trade will be insufficient to bridge the gap to the 65% target.

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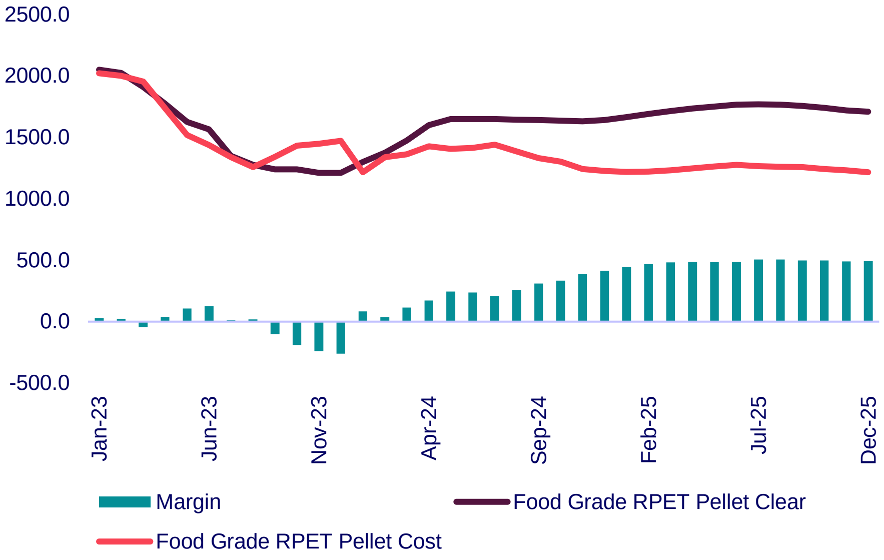
Near-term pricing dynamics favour integrated producers

After a rocky 2023, margins for integrated RPET pellet producers are expected to increase over 2024, as the delta between bale and pellet expands. Flake-to-pellet producers will, however, find margins extremely tight

European RPET Food-Grade Pellet Margins



Source: Wood Mackenzie Global RPET strategic planning outlook, H1 2024

- With the turbulence of high utility costs and extremely low demand driven by a cost-of-living crisis in 2023 behind us, pellet producers across the board at PRSE exhibited a real sense of relief, however, sentiment for the future varies from producer to producer.
- Flake prices are holding steady above VPET and, whilst demand for food-grade pellet has slightly improved compared to last year, it remains underwhelming; limiting the price increases seen at the end of the value chain. Bale availability has considerably improved over Q2 2024 after seeing phenomenal price action in Q1 due to tight availability, allowing bale prices to ease.
- As the delta between bale and flake is significantly higher than the delta between flake and pellet, integrated producers who process bale through to pellet find themselves holding the advantage as their margins begin to improve and are set to look healthy into 2025.
- With conversion costs anticipated to hold steady, the cost of production for RPET pellet will be greatly reliant on the cost of bale in the near term; which, after a period of rising due to tight availability in Q1, is expected to fall towards the end of this year and follow seasonal trends in 2025.

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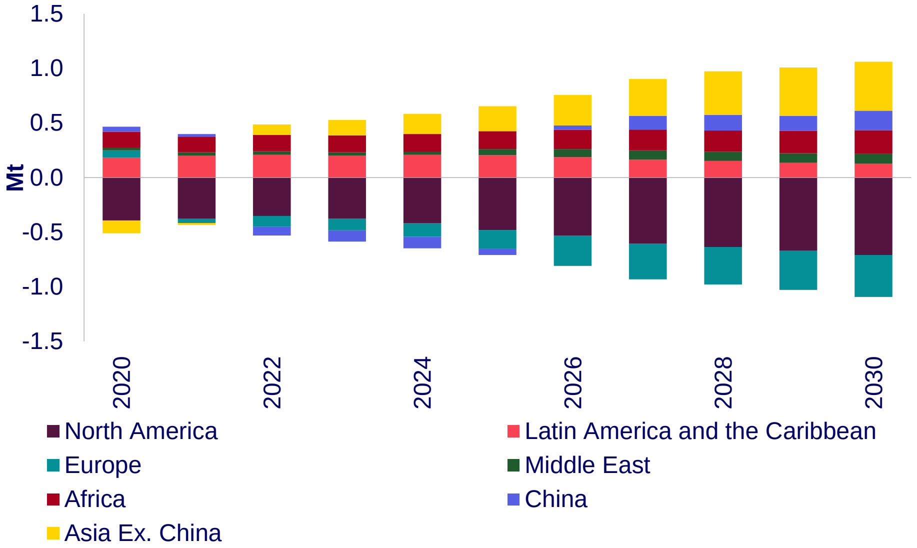
Imports into the EU are expected to increase at a lag

PRSE stands provided a flavour of quality RPET flake and pellet from around the globe. Historically, preferences have been very EU-centric, but it appears buyers are starting to develop an appetite for “third country” RPET

Global RPET Flake Trade Flows



Source: Wood Mackenzie Global RPET strategic planning outlook, H1 2024

- As flake to pellet production in Europe struggles to maintain competitiveness against integrated producers, and RPET pellet is forecast to hold a significant premium over VPET, a greater appetite has been noted for material from overseas.
- Following the introduction of a ‘mirror clause’ by the EU Commission, recycled plastic imports entering the EU market must meet the same standards imposed on Member States, including separate collection and emissions limits.
- One method of verifying standards is through an audit certification by Recyclass, yet, with limited geographical scope, some non-EU flake producers have found it will take some time before they can achieve this qualification for their material.
- Nevertheless, many non-EU producers of RPET food-grade pellet already hold EFSA certifications which permit the placement of their product on the EU market under Regulation (EU) 2022/1616. This has opened the EU market to imports and explains the significant presence of non-EU RPET producers at PRSE.
- Historically, reservations have been held by EU buyers around quality of non-EU material and ease of returns if a delivery batch was poor. However, quality tests have shown material from overseas can be robust and, whilst protected in the near-term by high freight rates and delays in Recyclass certifications, it’s apparent that imports will play a growing role in supplying EU demand over the next few years.

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