



THE IMPOSSIBLE STRATEGY FOR PET RECYCLERS

Producers of virgin PET in Europe buy their raw materials to an industry specification and at a price that is related to the price of oil and the supply/demand balances of the materials. This means that PET producers in every European country will pay roughly the same price for their requirements – related to published contract prices.

This is not the case for PET recyclers. They source their raw materials (baled PET bottles) from every country in Europe, and each country's collection system is different, in fact the collection and sorting systems can vary from municipality to municipality. These different systems result in bales of varying quality and composition. Bales from the French system will be very different from those from Italy or Spain. Recyclers in different countries will be equipped differently to deal with their domestic bales.

As well as different collection and sorting systems in each country, the costs and financial instruments are specific to each country. A recycler will have to pay one price for a French bale and another for an Italian bale. The difference between the highest and lowest contract price can be more than 100% for roughly the same quality.

For much of 2008 the price of oil and, hence, PET's oil-based raw materials, were at record levels. The Chinese were buying huge quantities of European plastic bales and other collected plastics as cheap feedstock for their industries and paying high prices for mixed quality (coloured) bales. There was therefore no incentive for many municipalities to spend the extra money to sort the PET bottles to the specification required by the European recyclers. It is also the dubious practice of some countries to send their bales to China as a tactic to keep the price of European bales high.

When the price of oil fell in Q4 2008 and the economic slowdown halted the Chinese demand for baled plastics the resultant European high stocks of poor quality bales caused newspaper headlines.

Unless national recycle support funding is increased, the low spot bale price caused by the withdrawal of Chinese demand will certainly force down the bale contract prices in each European country to the point where collection may not be economically feasible. In Italy the Conai recycling fee paid by the industry (packer/fillers) has been increased from Euro 72.30/te to Euro 105/te from 1 January 2009 and further increases will be required to ensure recycling remains viable.

The Chinese have re-entered the market in Q1, but can a successful PET recycle industry continue to survive such volatility?

The fastest growing and most sustainable markets for RPET are food contact sheet and containers. These require the recycle chain to add extra cleaning stages to their processes to enable them to offer food contact flake or pellets to their customers. These cleaning stages are expensive and it is evident that in the current environment, no matter how much stakeholders would like the price of recycle content resin to be below virgin, a new business model has to be considered. This, of course, makes the assumption that all members in the recycle value chain are permitted to make a profit.

Margins for recyclers have declined by 30% over 2008. With PET resin prices currently close to cash cost, the only way that the recycle chain can grow, or even be sustained is to consider the following:-

- ✓ Increasing income for collection and recycling (cf Conai in Italy);



- ✓ Studying more effective recycling logistics (ie take out stages, transportation and costs) and business rationalisation;
- ✓ Lobbying for legislation to harmonise collection schemes, first of all nationally and then on a European basis;
- ✓ That the cost of being sustainable in the current environment means that recycle content resins could be at a higher price than virgin.

If we are to retain the recycling value chain – which is PET manufacturers, convertors, fillers, sellers, consumers, municipalities, governments, collectors and recyclers – these stakeholders must recognise their individual responsibility to ensure that recycling remains the sustainable option and act now.