

Quarterly Report

Issue No 11 – August 2001

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2001 PRN Prices

Trade weighted average PRN prices to 31st July 2001



Agency Clarification

There has been some confusion about the eligibility of reprocessors and exporters and others to purchase or sell PRNs/PERNs through the Environment Exchange. Following discussion with the Agencies the situation has been clarified as follows.

The Environment Exchange is open to Agency accredited reprocessors, exporters, compliance schemes and individually registered companies or representatives of one or more of the above.

Any authorised user of The Environment Exchange is permitted to buy or sell PRNs/PERNs through The Environment Exchange so long as it is to match an obligation or to dispose of a surplus to requirement.

In the event that a reprocessor or exporter purchases PRNs/PERNs and then wishes to transfer that tonnage to eligible third parties they are not permitted to issue new PRNs/PERNs on the basis of these purchases. They must transfer the original documents, split as necessary, to the third parties. Any splitting that occurs must be done by the original issuer of the PRN/PERN.

Trading Desk Direct – Cliff Laundon on 0870 607 1354
- All other inquiries to 0207 065 8570 -



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Managing Director's Quarterly Report



The Environment Exchange (t2e) has had a busy quarter. Although traded volumes are down on this stage last year, transaction volumes are up by almost 70% and traded prices in many cases are double those at this time last year. As a result, in July we have passed £2 million in turnover since launch.



The tonnage drop and the price increase reflect that PRNs and PERNs are increasingly difficult to come by as reprocessors and exporters are both struggling to meet contractual agreements and source supplies of raw material. Many reprocessors are finding themselves trapped having entered into contractual agreements with compliance schemes when the market was weak without taking into consideration any form of risk management strategy either in their supply chain or the forward price of PRNs. As a result they have found it increasingly difficult to compete in the market for material.



It is strongly recommended that all involved in forward planning should incorporate the forward contracts that are available on t2e within their risk management strategies. These contracts have the benefits of both flexibility and certainty and can be used to hedge against any potential shortfall or surplus and against all price movements both up and down. If you wish to learn more about suitable tactics and strategies do not hesitate to get in touch or come to one of the seminars that we are involved with during the autumn.

There has been some uncertainty about whether natural sellers can be buyers on t2e and vice versa. Following discussion with the Agencies their position is clear, so long as purchases of PRNs or PERNs were originally intended to offset an obligation and there is no duplication in the issuing of PRNs then there is no concern from the Agencies of a role reversal. The complete text agreed with the Agencies can be seen in this newsletter.

Once again those that need to purchase PRNs are recommended not to leave purchases to the last safe moment at the end of January. Equally reprocessors that are in contractual shortfall situations should give early indications. The market is tight this year and while no one can predict with certainty in which direction the price might move it is unlikely to show the same falls as previous years.

On another note many congratulations to SEPA on their extremely informative report for 2000 – 2001. We look forward to this being duplicated by the Environment Agency and the Environment and Heritage Service in Northern Ireland. From this it is clear that the 31 accredited reprocessors in Scotland have increased their activities since 1998. Due to the inclusion of wood reprocessors in 2000 the exact percentage expansion is not clearly identifiable.

The declared average price per tonne that accredited reprocessors and exporters sold PRNs/PERNs through all sources was £7.32. This very closely reflects the average price of £7.41 that reprocessors and exporters achieved through t2e. If the compliance option that you selected was more costly than this or if as a reprocessor or exporter your received income was less you should ask your representatives in this market to justify that difference.

Once again many thanks for your continued support we look forward to seeing you at one of our Autumn events and to being of service to you before the compliance year ends but do not leave it too late!

Angus Macpherson
Managing Director

BRIDGING THE GAP BETWEEN BUYERS AND SELLERS

Trading Through a Representative

To use The Environment Exchange, representatives are required to sign a representative agreement which shows whom they are representing and that the latter are eligible to participate on The Environment Exchange.

It is a three way agreement between the obligated party, the representative and The Environment Exchange. Once the representative has secured that agreement the eligible party is not permitted to approach The Environment Exchange directly without the agreement of the approved representative. The information in the representative agreement is solely disclosed to The Environment Exchange and to the appropriate Environment Agency, the latter only if requested in writing.

Reprocessors and exporters are reminded that in the event that they are approached directly by a representative, it is their responsibility to satisfy themselves and if requested, The Agencies that the representative is a bona fide representative of an accredited exporter, reprocessor, compliance scheme or an obligated company.

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NEWS RELEASE

From the Environment Exchange Press Office

Packaging Waste

Reprocessors can now hedge against negative Market Movement

Almost exactly a year ago, the Environment Exchange introduced the option of forward trading, where a reprocessor is able to cover itself against being caught out by negative PRN price movement when the obligation year ends on January 31st (or earlier).

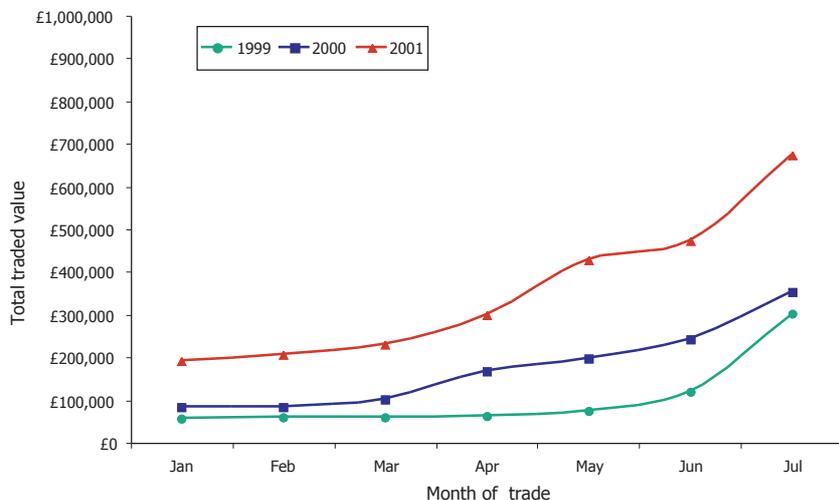
Extraordinarily, the facility has yet to attract a meaningful number of reprocessors, reports the Exchange.

"However, we are able to boast quite a few market participants, who are fast becoming sophisticated in trading this class of derivative. What has happened is that they have recognised the value of this service and have bought forward to guarantee a price towards the year end, when traditionally prices on the Exchange have been at their most volatile," explains Environment Exchange MD Angus Macpherson.

The problem would seem to have been that most market participants have yet to become comfortable with the notion of forward trading and the guaranteed price.

With prices at present showing every indication of rising further, there may be a temptation to wait for the anticipated end of year bonanza. But Macpherson argues that responsible companies should not be gambling on higher prices.

Trading by PRN Class to date



'Overall tonnages traded are down on last year but this has been more than made up from transaction volumes which are up by almost 70% and prices which have nearly doubled'. Angus Macpherson

Workshops & Exhibition Events

The Environment Exchange is sponsoring the following workshops. Please telephone as soon as possible to reserve your place.

Date	Venue	Workshops Contact
20 Sep	The Guinness Club Park Royal Industrial Estate London NW10	Groundwork West London Mike Robey / Bekir Andrews Tel: 020 8743 3040
11 Oct	The East London Centre Stratford London E15	Business Link for London Emma Burlow Tel: 07779 717054
13 Nov	The Jupiter Centre Sunderland	Environmental Industries Federation Joanne Bennison Tel: 0191 229 1824
Nov/Dec	Birmingham	To be confirmed

Workshop topics include Climate Change Levy & Energy Saving, Environmental Legislation, Environmental Management Systems, Facilities Management, Packaging Waste Regulations, Recycling, Transport, Waste Management.

Another chance to see us is at **The Recycling & Waste Management Exhibition** at NEC Birmingham between September 11th and 13th. Ring us on 0207 0658 570 for your free admission ticket.

Reminder

*We have moved from Canon Street to 131 Finsbury Pavement, London EC2A 1NT
Trading: 0870 607 1354 Marketing: 0207 065 8570 Fax: 0207 065 8687*

