

Quarterly Report

Issue No 23
August 2004



Market Status – May to July by Cliff Laundon

The requirement to state the end receiver of a PRN document, effective from June 1st, caused concern across all sectors of the market. Feedback indicated that cost and administrative burdens have increased as incomplete or incorrectly completed documents have been returned to issuing reprocessors, delaying the settlement of contracts and the consequent flow of available funds. With little prospect of a change anytime soon the market can hope that delays will reduce as familiarity with this administrative requirement increases and that a bottleneck in the timely provision of documents at the end of the year can be avoided.

Spot prices began to come under downward pressure in some PRN classes for the first time this year although, except in the cases of Glass and Paper, the seasonal irregularity of trading contributed to this.

Paper traded actively up to £10.50 by the end of May before softening to around the £8 level, having reached a low of £7.50 at the end of June. Aggressive selling resulted in Paper selling to meet General Recycling obligations.

Glass traded actively reaching a high of £28.50 in May before drifting to the low £20's level. In mid July aggressive selling on the back of rumours of a loosening of supply, took prices down further to £18.

Plastic traded in modest volume but in a wide price range (£9 to £20) as the price expectations of buyers and sellers diverged. Buyers covering independent obligations accounted for most of the higher priced trades. In July more selling interest came to the market but at £20 plus, whilst buyers remained at below £10.

Wood traded in fair volume up to £10 before weakening gradually during July to close at £7.50, the lowest level during the quarter.

Some larger volume sellers seemed prepared to wait for prices to reach the £10 level.

Steel prices remained broadly unchanged from the end of the last quarter, touching £20 before reverting to £16.75. Volumes were modest, 3,909 tonnes, as sellers remained reluctant to show selling interest below the £20 level.

Recovery PRNs were traded in small quantities between £1.75 and £3.50 before some aggressive selling interest took the price back to £1 by the close. A single trade of 2,000 tonnes was the only highlight of an otherwise featureless quarter.

Aluminium was lightly traded between £27 and £30, with two exceptional trades at both ends of the price range injecting some volume into this thinly traded market.

Interest in the forward markets continued with a total of 10,250 tonnes traded in the quarter (1,250 for July; 8,000 for October and 1,000 for April 2005). The additional flexibility of the 42 day rolling forward market will attract increased interest particularly from the export sector.

Monthly Average Traded Spot Prices on t2e - 2004





Managing Director's *Quarterly Report*

With just under 80,000 tonnes traded the second quarter has been quieter than the previous one. Life has been busy elsewhere. I have bought back my shares from Valpak. This once again re-inforces the independence of t2e. I have also been visiting our reprocessor and exporter participants, although I appreciate that some are still due a visit.

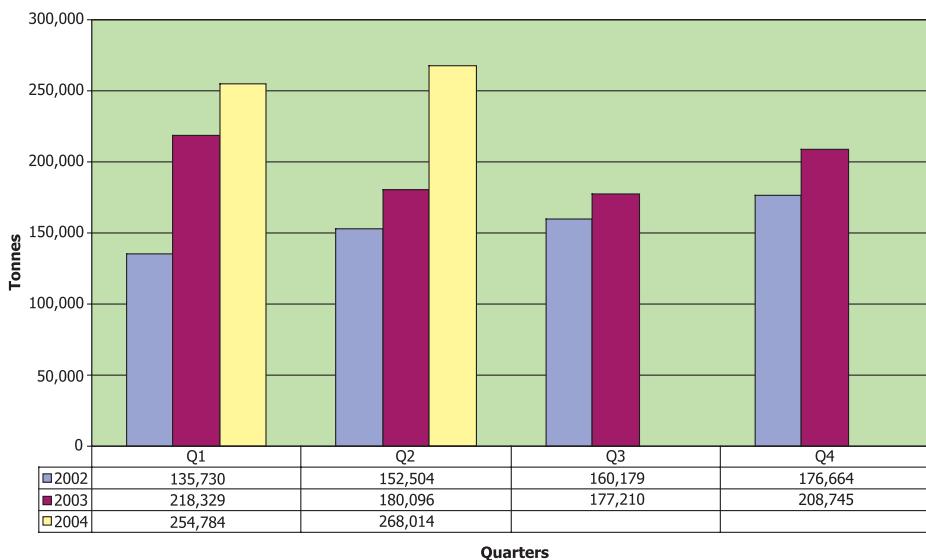
The Agencies are starting a more robust regime on the accreditation of reprocessors. One requirement is for an independent audit to justify the PRNs issued. On page 4 Grant Francklin of Hillier Hopkins raises issues

relevant to auditing. With the help of Hillier Hopkins and representatives of the materials organisations we are initiating the development of consistent cross-sectoral auditing standards. We aim to incorporate these within the increased duty of care that is being imposed on t2e.

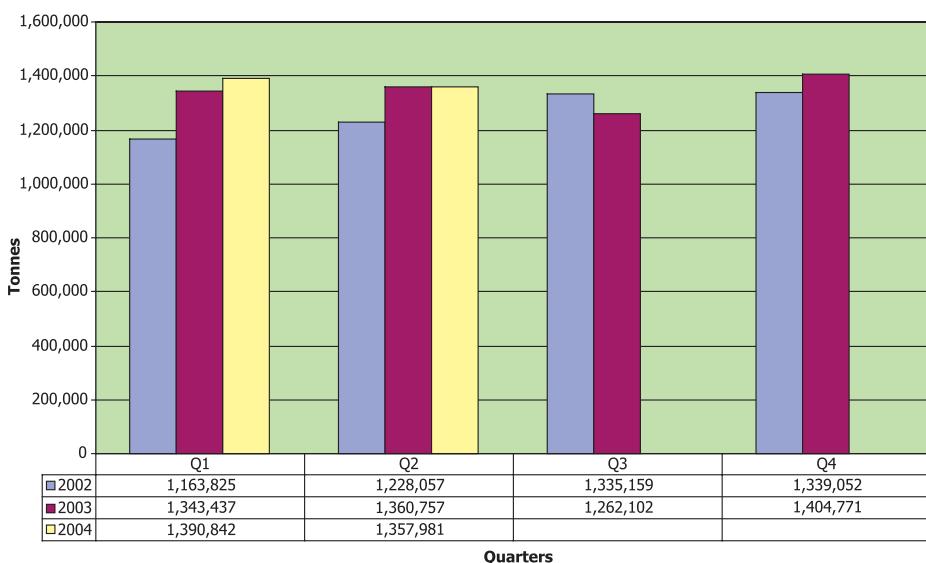
In response to the clarification of reporting requirements on PRNs I also chair a PRN Stakeholder Group which is committed to allowing PRN prices to be determined by supply and demand based on the best available market information while assisting the Agencies in the elimination of fraud. If anyone is interested in contributing to either of these groups please let me know.

Increased interest has been shown in the newer contracts with more use of the switch and forward contracts and for the first time trading in the January forward option contract. It is good to see greater comfort and willingness to use instruments that are used frequently in other markets to manage risk. As September approaches it looks as though the third quarter will be a record quarter with buyers and sellers returning from their summer breaks ready to trade.

UK Exporting by Quarter Between 2002 and 2004



UK Reprocessing and Exporting by Quarter Between 2002 and 2004



The total obligation for 2004 is larger than many expected. But reprocessing and exporting figures are down with the second quarter lower than either of the previous two or the equivalent quarter last year. Overall it is difficult to identify a consistent trend in the quarterly figures.

Year on year growth in glass reprocessing continues to grow but not at the same spectacular rates as the last 3 quarters – and paper exports are not far behind. The latter is fortunate with the troubles at Papermarc Mill and the closure of BPB's plant in Purfleet. A significant surplus is developing in the wood sector but with a general recycling obligation of over 1 million tonnes and a larger obligation next year this surplus will be important.

The flip side is that steel and plastic reprocessing and exporting are both down on last year and at these levels both could miss their material specific targets. Both are very reliant on the export market so things could change quite rapidly. With aluminium only just reaching its target, metals are struggling to show the growth required to reach the 2008 targets.

Doubts still exist about the quantity of PRNs carried forward into 2004 and with the market looking well balanced at the moment decisions taken now about the best options for transitional tonnage for 2004 could have significant impacts on prices at the year end. Prices in the January Forward option contract currently look attractive.

Many thanks for your support. Everyone is welcome at our stand at RWM at the NEC in Birmingham between 14 and 16 September 2004.

Angus Macpherson
Managing Director

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The 42 Day Rolling Contract

42 Day Rolling contract

On July 14th t2e launched a new forward contract, settling 42 days after the date of trade. This contrasts with the previous four quarterly forward contracts settling on the 11th of January, April, July and October.

This "rolling" style of contract has been used in the trading of non-ferrous metals on the London Metal Exchange for many years.

Why list yet another forward contract?

A number of sellers had commented that the opportunity to trade forward for delivery on fixed dates did not allow them sufficient flexibility.

Reprocessors were reluctant to sell beyond what they could safely produce in a month and, with contract settlement dates being anything up to a year in the future, the longer dated forwards did not meet their requirements. Exporters were fearful that unanticipated market conditions could leave them unable to ship sufficient tonnage to meet forward PERN commitments.

Recently some buyers have been seeking short deferrals on settlement dates. Unless a convenient shortly-to-expire fixed term forward position was available at the time of trading the forward market could not offer an alternative to the spot market.

Why 42 days?

Barring the effects of non-business days a contract traded on a Tuesday will settle in six Tuesdays' time.

For those working on a monthly production or purchasing cycle this contract can be traded to cover the month in question plus two further weeks to review and prepare for settlement.

The six week interval between the trading and settlement dates should be of particular interest to exporters who may wish to lock in a PERN value in the same way that they might lock in a forward particular shipment. They would have enough time to ship a prompt delivery before having to negotiate documents and receive payment before having to

Using the contract

The contract will be quoted continuously just as the spot market. Indeed it can be regarded as an extended version of the spot contract: Trade today and settle in 42 days rather than three.

As with the fixed date forwards, cash deposits of 10% of the contract value will be called from both buyer and seller to secure each transaction. Interest will be paid on these deposits after settlement.

Over the coming months we will review the progress of the forward contracts with a view to either replacing the fixed date forward contracts with rolling contracts or running the two types in parallel.



Independent Audit Requirements Under the amended Packaging Waste Regulations

By Grant Franklin of Hillier Hopkins LLP, Chartered Accountants

The amended Producer Responsibility Obligations (*Packaging Waste*) Regulations 97 require that reprocessors and exporters who reprocess or export more than 400 tonnes of UK Packaging Waste per annum provide an independent auditors report to the appropriate Agency by 28 February each year. This report is required to confirm that PRNs or PERNs issued by the reprocessor or exporter in the previous accreditation year are consistent with the tonnage of packaging waste received or exported for that year.

This report, and the requirement for the reprocessor and exporter to provide a sampling and inspection plan dealing with matters such as supplier checks, periodic sampling of loads and internal inspection systems, represents a significant change in the monitoring process.

Whilst auditors are required to have knowledge and understanding of the business which they are auditing in order to effectively plan and conduct their work they are not generally required to have a detailed knowledge of all laws and regulations relevant to that business. However the making of a report to a third party requires the auditor to obtain a more thorough understanding of the regulatory framework under which he is reporting and the underlying operational processes relevant to his report. It also imposes a requirement in certain circumstances to report other matters of significance to the regulator.

The amended Regulations do not provide any detailed guidance as to the scope or nature of testing to be undertaken in order for the auditor to satisfy himself that the requirements have been met. Although the accreditation guidance notes issued by the Environment Agency offer useful industry protocols it will ultimately be a matter of professional judgement for an auditor based on the results of his testing and assessment. In addition systems weaknesses and other matters identified during this review, even if not sufficiently material to affect the auditor's opinion and report, should be fed back to management to improve procedures and practices in the future.

The establishment of guidelines setting out best practice in terms of risk assessment, sample testing and overall scope would be a welcome development and it is hoped that this, coupled with well established and accepted industry protocols, would go a long way to ensuring a consistent approach to this new audit requirement across the sector.

The 2004 Caledonian Challenge



The Environment Exchange sponsored the (*in hindsight, very aptly named*) Blister Bunch, a team from Morton Fraser Solicitors, to take part in the 2004 Caledonian Challenge. The Challenge takes place in June each year and is a sponsored 54 mile non-stop walk along part of the West Highland Way. Money raised goes to the Scottish Community Foundation, which then provides grants to small community groups and charities across Scotland.

The weather held out for the team, and thankfully, the snow which was forecast for the third stage did not materialise. Debbie Downie and Lindsay Anderson (*also of Morton Fraser*) did a superb job supporting the team, changing their socks and nursing the wounded (*generally by plying them with vodka*).

We are delighted to report that the Blister Bunch successfully made it through the rigours of the Challenge well within the deadline of 24 hours and raised more than £2,000, which is a fantastic amount. We congratulate them all on their superb efforts and understand all have now fully recovered from the aches and pains sustained! Roll on next year...? A t2e team??



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