

## Market Status – May to July 2006

by Andrew Fendick



The trend of weakening PRN values continued throughout quarter two compounded by very strong recycling and export figures for quarter one. As buyers of large obligations are encouraged to contract up the large majority of their requirements, it is no surprise that we are seeing a shift in trading patterns towards tonnage traded on the forward markets rather than the spot. The extent of this trend can be seen when comparing trading patterns with last year and the year before (see graph on page 2).

Tonnages traded through t2e markets this quarter are 60,421 Spot and 53,664 Forward markets giving a total of 114,085 tonnes, 8% improvement on last quarter's figure of 105,341.

### Market material analysis:

**Paper** – disappointing in overall volume but showed good liquidity in the forward markets where buyers were prepared to pay slightly higher prices to achieve volume trades. A total of 45,725 tonnes traded in the period.

**Plastic** – rapidly falling prices have eroded buying confidence in a market where supply seems to be outstripping demand. Trading in the forward market was sporadic at best with both buyers and sellers unwilling to commit to price or volume. A total of 5,991 tonnes traded across the quarter.

**Steel** – as the quarter progressed prices weakened in line with buyers price expectations. The markets struggled to maintain liquidity and trading was sporadic. Volume remained steady with a total of 6,462 tonnes traded across all four available markets.

**Glass** – was the only market with rising prices this year but as soon as it became clear that supply was outstripping demand prices re-aligned accordingly. Liquidity has been good and trading has been taking place actively in three out of the four available markets. A total of 15,889 tonnes traded in the quarter.

**Wood** – has traded actively across the quarter but has not fought as hard as in quarter one to compete with Paper for General Recycling obligations. Consequently, volumes are down whilst the averages are similar to those of Paper. Total volume for the period is a respectable 13,695 tonnes.

**Recovery** – buyers have chosen this quarter to do some large volume trades. The Spot market has been relatively slow but the Forward markets have been actively used, gaining liquidity as the period went on. Small volume trades commanded premium values of up to £4.00 per ton whilst the larger volumes traded down to £1.75 per ton. Total volume was very good at 23,959 tonnes for the quarter.

**Aluminium** – has traded strongly in both Spot and October Forward markets. Availability remains strong and is in marked comparison to this time last year when availability was so sparse that prices were pushing £195.00 per ton. Total tonnage traded was 2,364 tonnes.

	High this quarter	Low this quarter	Traded this quarter	YTD average traded price	Year to date aggregated traded
<b>PAPER MARKET</b>					
Spot	8.00	4.50	35,561	7.72	77,283
July Fwd	7.00	5.75	10,164	10.43	22,664
Oct fwd	-	-	-	11.50	2,500
Jan fwd	-	-	-	-	-
<b>PLASTIC MARKET</b>					
Spot	26.50	10.00	5,491	25.35	27,059
July Fwd	-	-	-	30	1,500
Oct fwd	14.00	12.00	500	25.75	2,000
Jan fwd	-	-	-	-	-
<b>STEEL MARKET</b>					
Spot	47.50	15.00	3,442	61.44	7,350
July Fwd	38.50	38.50	579	45.98	1,658
Oct fwd	43.00	30.00	1,041	37.81	1,041
Jan fwd	30.00	25.00	1,400	25.71	1,400
<b>GLASS MARKET</b>					
Spot	28.00	17.00	3,733	23.65	14,454
July Fwd	25.00	19.00	3,850	23.40	6,850
Oct fwd	19.00	18.00	8,306	21.00	14,806
Jan fwd	-	-	-	-	-
<b>WOOD MARKET</b>					
Spot	8.00	4.50	8,695	7.75	32,996
July Fwd	7.00	7.00	2,000	7.00	2,000
Oct fwd	6.50	6.50	3,000	6.50	3,000
Jan fwd	-	-	-	-	-
<b>RECOVERY MARKET</b>					
Spot	4.00	2.50	2,135	2.74	8,276
July Fwd	2.25	2.25	480	2.50	1,980
Oct fwd	2.50	1.75	21,344	1.87	22,844
Jan fwd	-	-	-	-	-
<b>ALUMINIUM MARKET</b>					
Spot	120.00	35.00	1,364	92.18	2,555
July Fwd	-	-	-	-	-
Oct fwd	75.00	40.00	1,000	47.00	1,000
Jan fwd	-	-	-	-	-

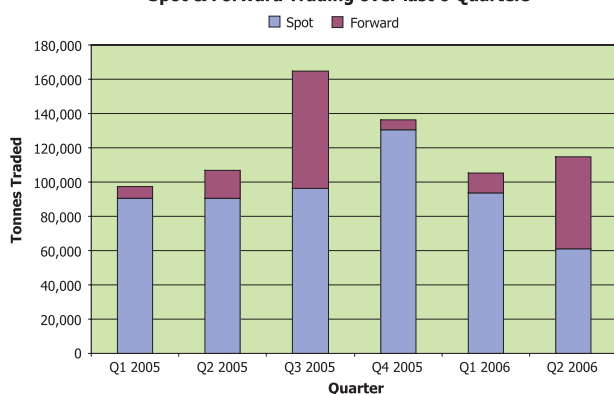


## Managing Director's Quarterly Report

Quarter two has seen year on year and quarter on quarter growth. Also a significant shift from spot to forward trading (15% in 2005, 47% in 2006) as participants appreciate the merits of securing in advance a known price, for a known volume for delivery on a known date. Some sellers have been surprised these contracts require deposits from both parties. It is a key part of providing security for the contract. If it is unpaid the contract still has to be honoured by the non-payer BUT the counter-party may cancel the contract at any time up to delivery date.

their quarter one and quarter two ones from 21 April to 2 August 2006. This lack of action on behalf of the Agencies increases the possibility of undetected fraud taking place and places the whole market at risk. The Agencies must take responsibility for the consequences of their tardiness. The suggestion in the consultation that changes in status must be reported in 5 calendar days is an improvement but there is no benefit in speeding up external reporting unless internal activity is also accelerated.

Spot & Forward Trading over last 6 Quarters



Since the quarter has been completed a number of documents have been published: the projected obligation for 2006; revised quarter one and quarter two statistics (that were promptly revised!); the results of DEFRA's investigation into fraud in the paper exporting sector and a consultation which addresses a wide range of issues.

The statistics are a cause of concern from two perspectives. Firstly they make uncomfortable reading and secondly the lack of urgency of the Agencies to suspend those that had failed to send their quarterly returns on time. The Government anticipated that earlier changes in the regulations would increase the total packaging reported by obligated companies by approximately 350,000 tonnes. In fact to date the percentage reported has dropped by about 2% or 140,000 tonnes. While Agency activities will mean the tonnage reported will increase, they have never previously achieved this volume of change. Consequently demand is significantly below anticipated levels and supply, led by the export sector, continues to grow with all 2009 targets already met in all materials except glass. This imbalance has been anticipated by producers and is reflected in the weak prices. Many are now asking why the Government is not looking to increase targets in their consultation.

It took from 21 July until 18 August 2006 for the Agencies to suspend reprocessors and exporters who had failed to send in returns for the second quarter and if the same two wood reprocessors failed to submit

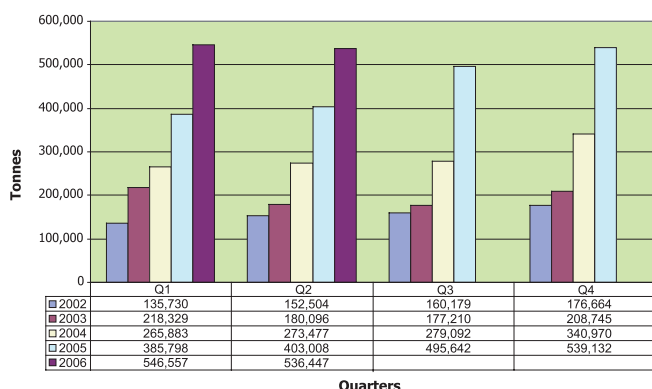
Although DEFRA'S report into the paper export sector did not identify fraud, what is clear is that the accreditation process to date has been inadequate in identifying whether or not packaging waste is actually being exported. This is an issue that the independent audit is now doing much to address. Thanks to the input from the Institute of Chartered Accountants this process will be improved for 2007 and the PERN as a commodity will become more robust. With this background it is astonishing that the Government should be considering broadening those that are competent to carry out these audits to environmental auditors who have neither the structure nor the training of Chartered Auditors. There are opportunities for environmental auditors to become involved in the development of sampling and inspection plans another vital element in the accreditation process. The sooner that common standards are produced in this area the better.

The consultation proposes that the Agency should be permitted to reject accreditation applications if companies have committed relevant convictions. It is logical to expand this to embrace the company's directors as well and that this should apply in other areas of the Agencies activities. This combined with a proposed requirement for exporters to nominate the recipient reprocessing site and verify that those sites work to broadly equivalent standards to EU sites, which may conflict with many current trading practices, could result in a reduction in the number of PRNs and PERNs next year. The closure of Taplow Mill and speculation about Corus's future could further restrict availability. Yet export markets continue to boom. New markets are being found outside China. Exports in all materials, except paper, are at their highest levels yet recorded and show no signs of flagging. Uncertainty remains on the Agencies success or otherwise in finding additional obligated tonnage. In an uncertain world the certainty of forward contracts continues to look attractive.

The consultation also proposes the introduction of electronic PRNs. This is something that I and others have been advocating for since the introduction of the regulations. Their introduction will reduce administration and opportunities for fraud and allow the Agencies to regulate both more effectively and more efficiently. The question has always been who should be responsible for



UK Exporting by quarter between 2002 and 2006



paying for this system. Now that industry has substantially covered the costs of its creation, it is difficult to see why discounts to Agency registration fees are not justified. It is hard to believe that the Agencies can identify no cost savings from its introduction. To ask for additional funding appears greedy. Additional funds alone will not resolve internal inadequacies.

Clarified and simplified t2e rules are being introduced with effect 1 December 2006. They will be displayed on the website shortly. As a consequence we will be asking all participants to renew their participation documentation. We will also take this opportunity to ensure that we have recorded all your details correctly. I apologise for this bureaucratic headache and ask that

you are both patient with us and respond swiftly to our requests.

We will be running a roadshow in September and October 2006 for those that wish to propose changes or be refreshed on the rules. Also it will be an opportunity to learn about interactive trading, independent audits and the implications of DEFRA's consultation. Please let Anna Lamin know on [info@t2e.co.uk](mailto:info@t2e.co.uk) if you are interested in attending.

Sadly we are moving from Charlotte Square. We are fortunate to have secured delightful and bigger offices in Albany Street to where we will be moving on 23 September 2006. You should notice no difference in the level of service. The trading number 0870 607 1234 will remain the same. However please ensure that PRNs and cheques are sent to the new address to avoid delays in the completion of contracts.

As always thank you to all for your support. I look forward to seeing many of you at stand 153 at RWM '06 at the NEC, Birmingham between 12 and 14 September 2006.

**Angus Macpherson**  
Managing Director

## Forthcoming Events

### Roadshow

- What:** t2e will be running a roadshow open to participants and non-participants at which we will consult on our revised rules and our response to DEFRA's consultation and present on forward contracts, interactive trading and independent audits.
- Why:** t2e rules are very complex. We have shortened, simplified and clarified these rules. There are no fundamental changes. We are now giving an opportunity for participants to remind themselves of the rules and input changes as appropriate. At the same time participants will have the chance to learn about our new services and input into our consultation response.
- When:** The first seminar will take place at **11.00 on Thursday 14 September 2006** during **RWM '06 (12 - 14 September)**. The remainder will be carried out during September and **9 - 12 October 2006**.
- Where:** The first seminar will be held in Room 3, Hall 19 at the NEC, Birmingham. Directions will be available from our stand 153 at **RWM '06** in Halls 17 & 18 to the room. Subsequent events, during 9-12 October, will be held in Edinburgh, Newcastle, Leeds, Manchester, Birmingham, Belfast and London. Depending on demand additional locations will be added.
- Who:** Directors, Company Secretaries, Traders, Environmental Managers and Finance controllers from participants and non-participants will all learn from these seminars.
- How much:** No charge.
- What should I do:** If you wish to attend one of the roadshow seminars you should contact Anna Lamin on [info@t2e.co.uk](mailto:info@t2e.co.uk).





## The WEEE Exchange

by Angus Macpherson

Since the last quarterly informal consultations have turned into formal ones. Issues are becoming clearer although there are still crucial areas that require clarification.

To recap. Producers and importers must join compliance schemes. Compliance schemes have to arrange collection of household WEEE which has been separately collected at Designated Collection Facilities (DCFs), established by Distributor Takeback Schemes (DTSS), and business WEEE, where that EEE was created post 13 August 2005 and is being replaced on a like for like basis. They must then ensure that the WEEE goes to an Accredited Treatment Facility (ATF) and from there to an accredited reprocessor. Both the ATF and the reprocessor may be overseas. The compliance scheme may charge its members in addition to administrative costs and Agency registration fees (£707), fees to cover the cost of the collection, treatment and reprocessing of this WEEE.

To comply by 1 May (2008 initially) compliance schemes need to acquire evidence from ATFs showing the tonnage of household WEEE received and treated equivalent to their members' proportion of each of 10 EEE markets and a further evidence note from a reprocessor or exporter showing that the material sub-elements of WEEE have been reprocessed. In addition in 2007 the Secretary of State will generate evidence based on information supplied by waste disposal authorities paid direct by the Government to carry out the role of compliance schemes between 1 April and 1 July. It is also anticipated that some DCFs will fail to establish arrangements with compliance schemes and that compliance schemes will invariably acquire the wrong balance of evidence during the compliance year. Hence an end of year reconciliation will be required.

The WEEE exchange will operate a marketplace regulated by the Secretary of State in which this reconciliation takes place. However this mandate is complicated by:

- at the end of year compliance schemes must not only show that all WEEE has been treated and reprocessed at accredited facilities but also that specific levels of recovery and recycling have been achieved in each WEEE category. The potential for error, abuse or sub-efficient treatment to take place unidentified with a split two tier evidence system is immense. A more robust approach is for ATFs to acquire evidence from reproducers and on the basis of this evidence issue percentage based evidence for compliance schemes. Hence ATFs or their representatives acquire evidence from reproducers and exporters, allocate it to household and non-household WEEE, and compliance schemes, producers, importers and their representatives acquire evidence from ATFs;
- all evidence must be acquired by compliance schemes. All surplus and unclaimed evidence is pooled and then allocated at an average cost to the compliance schemes as appropriate. From 2008 between 1 April and 1 May the Exchange will supervise settlement and delivery and any splitting of evidence notes as necessary. Establishing true costs will be testing.

One further thought, at this stage the exchange is only anticipated to operate for one month a year. This is an inefficient use of resources. Evidence is expected to be traded so why not a trading facility and price transparency throughout the year? Without how can producers or importers establish whether compliance schemes, DCFs, ATFs, exporters and reproducers are providing optimum value?

As from **Monday 25 September 2006** our new address will be:

**The Environment Exchange Ltd**  
**Hudson House**  
**8 Albany Street**  
**Edinburgh**  
**EH1 3QB**

our new office and fax numbers are: **General Enquiries: 0131 473 2330**  
**Fax: 0131 473 2326**

**Settlements: 0131 473 2327**  
**Marketing: 0131 473 2328**

Please note our Trading Line remains: **0870 607 1354** as do our email addresses.

**The Environment Exchange**  
**41 Charlotte Square, Edinburgh, EH2 4HQ**  
**Tel: +44 131 220 4870 Fax: +44 131 220 4847**