

Use the Power

Quarterly Report

Report 43

August 2009

The Market Place for PRNs and WENs



Market Status – May to July 2009

By Ian Andrews

The release of the 2nd quarter figures came a little late to have any real bearing on the market prices for the period. Steel continues to cause concern with prices edging up. Prices across all other markets remain stable.

Once again we have seen an increase in tonnage traded for this period with 212,398 tonnes traded across all markets; 133,359 tonnes traded in the Spot market and 79,039 tonnes traded in the 2009 Forward markets. This figure represents an increase of 35% on the corresponding period from 2008 when 156,187 tonnes were traded across all markets.

Market material analysis:

**Paper** – Remained relatively stable throughout the period with good volume trading across all markets. At the end of the period a strong 2nd quarter figure saw a reduction in the price which resulted in good buying volumes coming to the market.

**Plastic** – After initially falling back at the start of the period, the price recovered upon news of a shortage of container stock and potential bottlenecks in some of the export markets. A good 2nd quarter figure has provided some stability to this market; however demand from the export market will continue to dictate the price picture for the rest of the year.

**Glass** – Traded in excellent volume throughout the period with the price remaining stable. The 2nd quarter figures showed a reduction on availability which led some to predict harder times ahead. The price subsequently firmed up at the end of the period.

**Steel** – Throughout this quarter high levels of demand resulted in sustained price increases. Supply remains tight as the export markets continue to stutter and there are still no signs of the domestic market picking up. The 2nd quarter figures showed a good quarter on quarter increase in available tonnage, however there remains a large deficit in the supply figure and the expectation is that further price increases may be on the horizon.

**Wood** – Better volume traded this quarter as sellers reduced price expectations towards buyer's positions.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	Year to date aggregated traded
<b>PAPER MARKET</b>						
Spot 2009	£5.50	£3.00	57,445	£4.27	£5.06	165,545
Jul Fwd 2009	£4.25	£4.25	20,464	£4.25	£5.17	48,464
Oct Fwd 2009	£4.25	£3.00	26,325	£4.01	£5.09	43,825
<b>PLASTIC MARKET</b>						
Spot 2009	£20.00	£14.00	14,979	£16.87	£21.90	34,097
Jul Fwd 2009	£18.50	£17.50	3,250	£17.58	£21.70	7,498
<b>GLASS MARKET</b>						
Spot 2009	£23.00	£21.75	26,055	£22.48	£22.76	42,725
Jul Fwd 2009	£21.75	£21.75	3,700	£21.75	£23.22	9,700
Oct Fwd 2009	£23.00	£22.50	20,700	£22.69	£22.78	21,950
<b>STEEL MARKET</b>						
Spot 2009	£89.00	£71.00	16,968	£77.81	£64.57	30,767
Jul Fwd 2009	£75.50	£71.00	3,500	£73.00	£61.78	4,500
Oct Fwd 2009	£80.50	£80.50	1,000	£80.50	£45.00	2,500
<b>WOOD MARKET</b>						
Spot 2009	£6.00	£4.75	11,130	£5.11	£5.31	15,124
<b>ALUMINIUM MARKET</b>						
Spot 2009	£75.00	£64.00	1,925	£66.94	£72.83	3,649
Jul Fwd 2009	£70.00	£70.00	100	£70.00	£70.00	100
<b>RECOVERY MARKET</b>						
Spot 2009	£4.00	£3.00	4,857	£3.17	£3.94	10,991

The market continues to provide a price premium above paper as it meets its material specific demands; competition for general obligations should see it realign to the paper price. The 2nd quarter figures were in line with expectations.

**Aluminium** – The spread between buyers and sellers positions resulted in minimal trading this quarter with both entrenched in their positions. The 2nd quarter figures showed excellent growth in domestic capacity and the price started to soften at the end of the period.

**Recovery** – Traded in light volume this quarter with tonnage remaining scarce. During this period annual maintenance programs coupled with holiday shut downs curtailed the availability of tonnage for the spot market with the majority being allocated to contracted positions. Price remained firm throughout the period.



## Managing Director's Report

Another busy quarter, features of the market have been frequent trading and a broadly consistent price, possibly slightly surprising considering the Q1 and Q2 figures, the latter were published within the agreed timetable and then promptly republished. Also the long incubated packaging strategy has been published.

To consider the figures first the obligation is creeping up but still remains some 3.5% below anticipated levels based on last year's obligation. The most significant drop is in wood packaging, which is down some 13%. On the supply side volumes are down too, with Q2 being almost 4% down on the same period last year. PRN production to date has dropped to levels not seen since 2006. As a consequence the market remains tight.

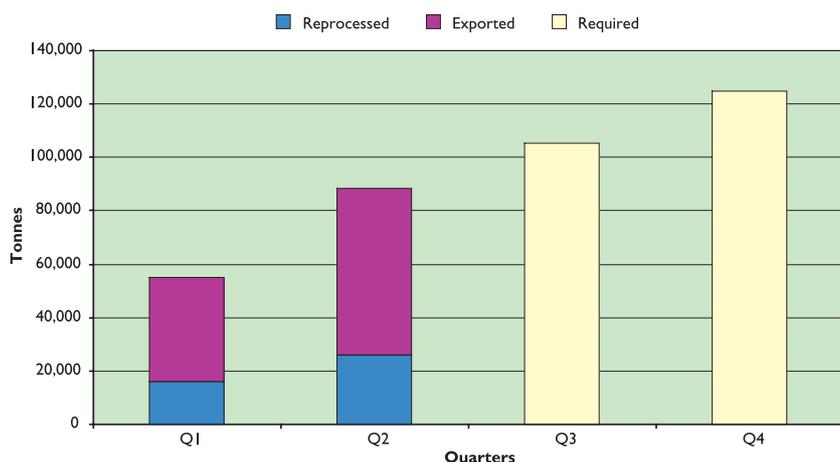
The majority of attention remains focused on steel. Domestic production of PRNs is running at 33.5% of last year however the good news is that it is increasing, up 63.5% from Q1 and exports, although not yet up to the levels at the back end of last year, have increased significantly to compensate. However a further 19% increase will be required in each of the next two quarters, a total increase of 36,159 tonnes, to achieve compliance. DEFRA has made clear that it is not prepared to consider adjusting the steel target as a result steel prices are increasing rapidly as the

date the price has remained bullish and supply scarce. The packaging strategy proposes to ban aluminium packaging from landfill, while welcomed in environmental terms local authorities have expressed concerns as to whether it is achievable in practical terms. Regardless supply will most probably increase further. PRN suppliers may wish to consider the benefits of fixing prices forward.

Elsewhere paper reprocessing continues to decline in contrast exports boom with the second best export quarter ever. The impact of closed loop recycling has yet to be seen on the plastic reprocessing numbers, while trouble getting material into China has been reflected in a drop in export tonnage both year on year and quarter on quarter. Glass compliance for 2009 looks borderline. With targets increasing again, next year begins to look challenging and prices are beginning to be fixed in the 2010 forward markets.

The packaging strategy talks about packaging optimisation but remains keen on reduction with encouragement for eco-design and reuse, although it accepts this is potentially expensive. Consumer awareness on excess packaging will be raised and a helpline introduced to report any identified. This raises the prospects of many intriguing telephone conversations! There will also be a statutory recycled content for public procurement from 2010 onwards and an aspiration to standardise local authority recycling systems which would be welcomed by the public.

**Growth required in Steel PRN production in Q3 and Q4 to meet 2009 targets**



quarter closes. Corus have confirmed their re-entry into the market which will no doubt steady this rise, however it is as yet not clear whether this will bring new tonnage to the market or just divert tonnage previously going to the export market.

From the perspective of meeting the metals target, a UK issue rather than a producer one, the 30% increase in aluminium reprocessing and exporting is a welcome relief. This means that unlike last year the aluminium business target will be met with considerable ease. Despite this to

It acknowledges that the market-based PRN system has delivered significant increases in packaging recycling and at a lower cost to both industry and the consumer than elsewhere in Europe but views that this is the result of good luck rather than planning and without benefit to local authorities! The oft repeated cries of splitting targets between household and non-household packaging; increasing transparency of use of PRN funds and removing the right of individual compliance, which has no clear justification, are all re-raised. Newer proposals are to improve the reporting of packaging placed on the market, which seems logical as the strategy is based on these figures, increase recovery targets to 75% by 2014 so that the

UK can remain 'best of class' in Europe and introduce administrative penalties for defaulters to reduce the bureaucratic burden of prosecution.

Many thanks for your support and to Dick Searle and Rebecca Cocking for their contributions. I look forward to seeing you at RWM in September.

  
**Angus Macpherson**  
Managing Director

## New Member to our Team



**Patricia Hall** — Account Manager

*I went to university in Aberdeen, where I studied Tropical Environmental Science. Environmental politics and management played a significant role in this course and the tropical element introduced the requirement for a second language. Fortunately I was required to do a project in a tropical region. I chose sustainable coffee management in Mexico. Being more drawn to the business world than that of science, combined with an interest in languages, I soon started working in corporate language training, managing accounts for clients in Aberdeen, mainly within the oil industry. Being keen to maintain focus in the environmental industry, I was happy to join the Environment Exchange.*

## BAE Systems Bike Charity Cycling Event – 4th to 6th June 2009



**Dianne Ferry** — Account Manager

*Since 1997 the BAE Systems Bike charity cycling event has travelled the length and breadth of Scotland and raised £170,000 for charities.*

*As a native of Estonia I have always thought it would be nice to see more of Scotland by riding a bike through the beautiful Scottish Highlands. So this year I decided to join my husband on the challenging coastal route from Glencoe all the way to Ullapool, including Morar, Skye and the infamous Bealach-Na-Ba (Gaelic for Pass of the Cattle) - 626m from sea level to the pass is the greatest ascent of any road climb in the UK.*

*Having recently taken delivery of a shiny blue state-of-the-art Tandem we decided to ride the challenge on a bicycle made for two.*

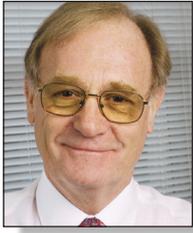
**4th June:** *We rode from Glencoe to Plockton, an 86 mile bike ride. The highlights of the first day were the beautiful white sandy beaches on the way to Mallaig Ferry, a very windy crossing back to the mainland over the Skye Bridge, and the tropical village of Plockton with its Palm trees.*

**5th June:** *Took us from Plockton to Torridon, 67 miles which felt very much longer as we had to pass the mighty Bealach-Na-Ba. Whilst crossing the mountain we had it all - sun, rain, hail, wind and, yes, even snow in June! The climb was hard and the descent was not for the faint hearted either - we had to pause several times for the wheel rims to cool down from the braking!*

**6th June:** *We rode from Torridon to Ullapool, a 87 mile journey accompanied again by midges, wind, rain and some big climbs and dramatic scenery culminating in the road through the Redwoods along Loch Broom.*



*We raised money for Sue Rider Care and many thanks to all the sponsors including the t2e team. I definitely got the cycling bug and will be back on the bike again as long as it's not wet, windy or raining!*



## **An Interesting Year . . .**

*Dick Searle - Chief Executive, The Packaging Federation*

This time last year, we were all staring down the barrel of a gun with most of the media screaming recession. What a difference a year makes with the same media now looking for signs of recovery – let's hope that they're right. Certainly, for the UK packaging manufacturing industry, life is looking a little less fragile than at the start of the year when demand was generally very erratic with massive destocking in most areas. But, true to form, our industry has been a lot less affected than most of UK manufacturing

with a lot of its business oriented towards food and drink. Indeed, some sectors have seen improved activity as consumers have moved more towards processed foods.

Given that there are few clear demand patterns emerging yet, it's not surprising that there has been no rush by Defra to change 2009 target levels. Clearly there are ongoing problems for steel PRN's but in most other areas, normality has been restored. However, there are some interesting trends emerging between domestic and export numbers and this should be sounding warning bells for our politicians. Make no mistake, UK manufacturing is under real long term threat and end markets for recycled materials will reflect this.

Now, I'm from the "old school" that believes that economies need wealth creation and that manufacturing is the major source of this. And yet, we see issues like energy costs, credit insurance and lack of funds putting UK manufacturing at a real disadvantage and continuing to drive it away from our shores. All of this is further exacerbated by the UK Government's relentless drive to be the world's conscience for global warming and in the process massively driving up costs for UK manufacturing.

So let's see some political reality recognising that global warming is a global problem that won't be resolved by crippling UK industry. It needs society as a whole to recognise that all of us need to be aware of our contribution to the problem – and that it is not just for business to solve. And a good start point would to recognise that modern packaging actually reduces carbon impacts – and for politicians to focus on the things that are much bigger issues, like household food waste!



## **Glass Recycling in the UK**

*Rebecca Cocking - Recycling Manager, British Glass - Packaging Directorate*

The last 12 months for the glass industry have been mixed in terms of production of new bottles and jars. The industry has seen a decline during the last quarter of 2008 and first quarter of 2009 due to the current economic climate. On the other hand glass recycling has been positive with the UK exceeding the EU 60% target for glass in 2008 and glass PRN prices remaining static throughout.

Quarter 1 and 2 recycling figures although not as positive as 2008 are still encouraging and whilst challenging going forward, are not unachievable. What happens in the future will very much depend on what is included in the long awaited consultation from DEFRA due to be released later this year.

There has been a lot of discussion about differential PRNs for glass either by colour or by environmental end use, with the intention of phasing out the use of glass as an aggregate.

There is a concern that from a UK point of view recycling rates for glass could decline in coming years if aggregate use is phased out. The concern is that the quality deterioration seen over the last couple of years has forced glass down the aggregate route. If the reliance on glass aggregate reduces over the coming years and quality does not drastically improve, then the only real option will be landfill.

For the UK to be successful in meeting future targets for glass the supply chain and in some instances Government needs to move away from the current short term approach aimed at meeting short term targets and concentrate on long term sustainability.

Many in the supply chain believe that UK glass manufacturers should offer higher prices for processed recycled glass because of the environmental benefits associated with using it, but what many people do not understand is that the price of recycled glass is already more expensive than the raw material equivalent. Without the PRN system some may choose not to use as much UK generated recycled glass.

**Come and visit us at Stand 1732 at RWM '09  
in Hall 17 at NEC Birmingham  
between 15 and 17 September 2009**