

Use the Power

Providing the UK's PRN marketplace since 1998

Quarterly Report

Report 47

August 2010

The Market Place for PRNs and WENs



Market Status – May to July 2010

By Ian Andrews

At the start of the quarter, notification of the UK's demand figure for 2010 saw most markets drop in value due to an overall decrease in demand by 2%.

Towards the end of the quarter the release of the Q2 supply figures showed good supply in most materials and produced further downward pressure on prices. Question marks remain over the supply of Aluminium which, although not in a perilous position, requires a slight increase to alleviate concerns.

Trading for the quarter equated to 191,151 tonnes with 101,513 tonnes trading in the Spot market and 89,638 trading in the Forward markets.

Market material analysis:

Paper – The Paper price has remained stable this quarter with external supply factors having little effect. At the start of the quarter a slight decrease in demand for export market material was quickly rectified by an increase in UK domestic reprocessing levels. Although the Q2 supply figures showed a slight decrease in paper PRN generation (4.2%) increased levels in other materials meant this had no effect on prices.

Plastic – This has been a quiet period for Plastic with poor demand from buyers being met with disillusioned sellers complaining of low prices. Volatility in the underlying material markets has had little effect on the market prices. The reported export levels have fallen between Q1 and Q2 by 7.6% but this has failed to create concern as the market already reported an 8% oversupply during this period.

Glass – The Glass market provided mixed messages this quarter. With many believing that demand would be down, the release of the demand figures at the start of the period showed a slight increase and provided some stability. As the period progressed, a lack of buying resulted in the price softening and some sellers – eager to move tonnage – agreed to deliver contracts through into early 2011 at Spot market price levels. The release of the Q2 supply figures towards the end of the period resulted in the price softening further when it was reported that available tonnage was up 19.2% on Q1.

Steel – As with the other markets, demand for Steel was reduced (6%) this year and this coupled with the good supply reported in Q1 meant that prices continued to soften. The Q2 supply figure showed that export levels had fallen on Q1 by 23.5%, however this coupled with falling demand and a strong carry in figure had little effect on the market.

Wood – The Wood market has seen its highest volume traded per quarter this year. This has been down to sellers reducing their price expectations to pick up good volume for general obligations and winning the battle with Paper. As a market that is constantly oversupplied it will need to continue to pick up these opportunities to retain value.

Aluminium – This remains the only market to have concerns this year. With an increased obligation reported, coupled with a slight reduction in supply tonnage in Q1 and Q2, extra volume will need to be found in the remaining months of the year to avoid relying solely on carry in tonnage.

Recovery – As prices softened in the lower value material markets, the Recovery market followed suit. The price drop was accelerated by the reporting of excellent supply figures in Q2, which facilitated excellent volume trading in the forward markets.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	Year to date aggregated traded
PAPER MARKET						
Spot 10	£1.85	£1.50	31,745	£1.69	£1.91	77,870
Jul Fwd	£1.65	£1.65	8,441	£1.65	£3.15	63,441
PLASTIC MARKET						
Spot 10	£4.40	£2.50	17,950	£3.53	£4.03	32,367
Jul Fwd	£3.70	£3.00	4,434	£3.48	£8.65	12,434
Oct Fwd	£3.70	£3.00	1,362	£3.51	£6.61	7,862
GLASS MARKET						
Spot 10	£19.75	£17.50	25,266	£17.73	£19.26	44,562
Jul Fwd	£18.75	£17.50	24,964	£17.74	£19.86	45,164
Oct Fwd	£20.50	£17.50	12,000	£18.75	£20.05	49,950
Jan 11 (Trans) Fwd	£18.50	£18.50	1,000	£18.50	£18.50	1,000
Apr 11 Fwd	£18.50	£18.50	1,000	£18.50	£18.50	1,000
STEEL MARKET						
Spot 10	£14.75	£6.50	7,697	£9.10	£17.55	19,379
Jul Fwd	£8.50	£8.00	1,359	£8.17	£21.18	11,069
Oct Fwd	£9.00	£9.00	1,000	£9.00	£20.14	8,700
Dec Fwd	£9.00	£9.00	1,000	£9.00	£9.00	500
Jan 11 (Trans) Fwd	£9.00	£9.00	500	£9.00	£9.00	500
Apr 11 Fwd	£9.00	£9.00	500	£9.00	£9.00	500
WOOD MARKET						
Spot 10	£3.25	£1.65	12,137	£1.84	£2.07	17,064
Jul Fwd	£1.75	£1.75	413	£1.75	£1.75	413
ALUMINIUM MARKET						
Spot 10	£20.00	£16.25	809	£17.41	£20.84	2,533
Jul Fwd	£13.00	£13.00	200	£13.00	£17.00	300
Oct Fwd	£15.50	£11.00	500	£12.80	£14.83	600
Dec Fwd	£24.00	£15.50	600	£18.33	£18.33	600
RECOVERY MARKET						
Spot 10	£1.20	£0.75	5,909	£0.93	£1.28	14,568
Jul Fwd	£1.15	£0.75	1,744	£0.75	£1.30	5,994
Oct Fwd	£0.75	£0.75	29,034	£0.75	£0.76	29,534

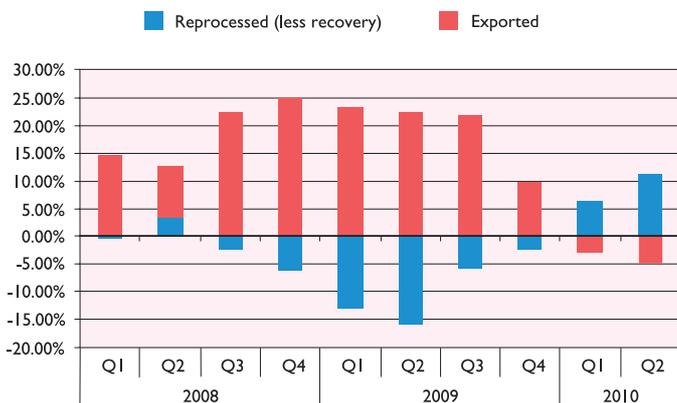


Managing Director's Report

A Quarter of bedding in with a hint of optimism but still no clarity, the new ACP met in June to draw up their workplan for the next 3 – 4 years. Quarter 2 figures continued to show growth in domestic reprocessing and obligation increased, although insufficient to maintain PRN prices in most materials, but with a waste review under way and Parliament in recess, uncertainty exists on future targets. This has been reflected in a shift of trading away from the forward markets. Even so trading in the first two quarters remains above the record levels of last year.

The ACP met in June for the first time under its new Chairman Bob Lisney, who has given his vision of where we might be in 2020 on page 4. It raised concerns with DEFRA about the lack of targets and data divergence between estimated packaging waste arisings and reported obligated tonnage. It may well be that DEFRA and the Agencies could learn from some of the rules being established for the Carbon Reduction Commitment to ensure that businesses do not avoid their obligations. The intention is to identify 5 key areas on which the ACP will work. The established metals taskforce have set up a timetable to review their protocols and possibly introduce some new ones. A plastics taskforce has been re-established and a local authority one has been proposed. From the perspective of the legislation a greater emphasis on auditing the system at both ends (e.g. obligated industry as well as reprocessors and exporters) rather than focusing solely on the financial aspects would be beneficial. I wish the Committee well in their deliberations and look forward to them entering into constructive and inclusive discussions with all those affected by the regulations.

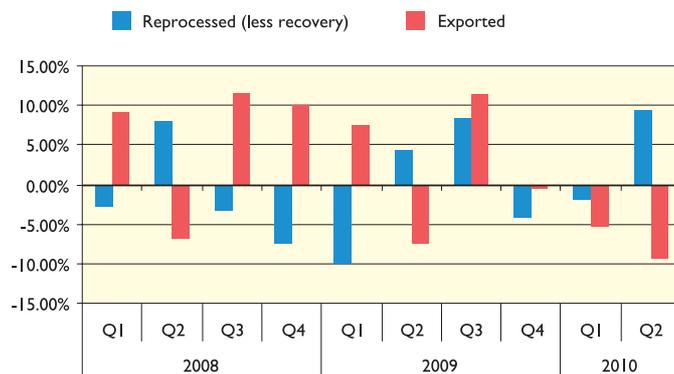
% Growth in packaging recovery year on year 2008 - 10 split between domestic reprocessing and exports



Quarter 2 figures from a domestic reprocessing perspective are very positive with both year on year and quarter on quarter growth. The only exception is aluminium. In contrast exports, excluding glass, have continued to decline. Whether this is due to exchange rate changes, a decline in waste arisings – this would appear to clash with an increased overall figure for packaging waste collected – quality issues or a slowdown in global and in particular

Chinese demand is difficult to identify. The optimistic view might be that the manufacturing industry is leading Britain out of recession but the threat of cuts in Government spending, high unemployment rates, persistent inflation and a requirement to adjust to lower property prices would suggest the future for many will continue to be difficult. Sadly as with the pension problems it appears many of the consequences of the excesses of the last decade could be inflicted on the nation's youth.

% Growth in packaging recovery quarter on quarter split between domestic reprocessing and exports



Although there have been significant increases in the glass, aluminium and overall recovery obligations, there appears to be more than sufficient PRN availability in all materials other than aluminium to meet demand. As a result PRN prices are drifting to an administrative level. This has allowed some the luxury of looking forward to next year and increasing concern is being raised about the lack of targets which is restricting planning. Both the concern and the lack of targets are understandable. What is possibly more concerning is that within DEFRA's portfolio of Ministerial responsibilities, waste and recycling only gets a single mention within 65 priorities. With the new Government conducting a waste review it is understandable that they should not wish to rush out targets without consideration to the wider picture. Concerns have also been raised that the Government may wish to abolish the PRN system. This would appear unlikely and a step too far, failing to appreciate what has been achieved to date and effectively throwing the baby out with the bath water. While the regulations are not perfect, they are the best we have got and with very few amendments fit for purpose. While it is frustrating that targets have not appeared, nor any analysis to the consultation responses, and may well not appear until after Parliament returns from its recess, a simple solution to the uncertainty is to use the forward markets. It also offers the opportunity for buyers to acquire PRNs in the forward markets at potentially low values.

Thank you for your support and to Bob Lisney for his article. We look forward to meeting you at RWM or Future Horizons for Packaging Waste and continuing to be of service to you.

Angus Macpherson
Angus Macpherson
Managing Director

The % Change in Producer Obligations between 2006 and 2010: Actual vs. Projected



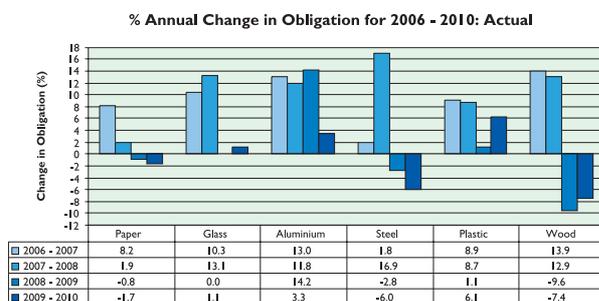
Chart 1 Changes in obligation were calculated using the annual obligations reported by business to the National Packaging Waste Database (NPWD). Projected changes in obligation were calculated by dividing the difference in targets between the years by the target in the preceding year. This process was repeated for each year.

The significant changes in obligation in 2006 are a result of the changes to legislation introduced in 2006 which included franchises and leasing of packaging (e.g. pallets). The drop in between 2008 and 2009 was unexpected in that it suggests that the recession started earlier than everyone was aware since obligations are calculated on the preceding year. To see the obligation

drop again between 2009 and 2010 suggests that the recession deepened further in 2009. A continuation of this trend between 2010 and 2011 would be bad news for everyone.

The slightly surprising aspect of these figures is that in every year between 2006 and 2009 a greater tonnage of packaging waste has been reprocessed and that trend looks as though it will continue in 2010.

Chart 2 The percentage change in actual material specific obligations for all materials based on the reported packaging obligations published on the NPWD shows significant drops in reported packaging in paper, steel and wood. The drop in the use of wood may be attributable to the problems in the construction industry and collection tonnages have dropped. Paper has reported problems with collection tonnages. These problems have not been reflected in the steel industry where collection tonnages have increased.



% Annual Change in Overall Recycling Obligations for 2006 - 2010 Actual vs. Projected

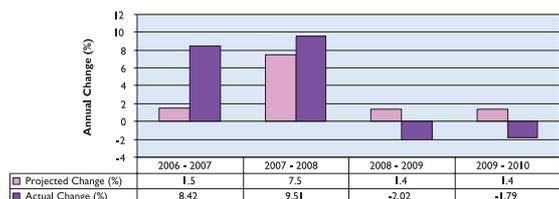


Chart 3 This shows the expected versus actual changes in material specific demand based on the packaging recycling targets set by DEFRA between 2006 and 2010. A comparison between this graph and the previous one suggests that the majority of the increased obligation between 2006 and 2007 – as a result of legislation – came in paper, glass and wood, which are the three largest packaging sectors by weight, whereas the remaining growth came as a result of increased obligations. When compared with the anticipated growth in obligations over the last two years the drops in paper, steel and wood obligations become even more significant.

An Analysis of 2010 Reprocessing and Recycling Figures: Q1 - Q2

Reductions in the supply of Paper, Plastic, and Steel PRNs were reported for Q2. Despite this a large carry in figure, surplus tonnage generated in Q1, and in the case of Plastic and Steel a small reduction in obligation, have protected these markets from the effects of the fall in Q2 PRN generation. Wood and Recovery saw increases in Q2 PRN production; the combination of this and the reduced obligation figures has created downward pressure on the price in all these markets.

In Aluminium, the decrease in Q2 supply, albeit a slight one, coupled with a reported increase in obligation has meant that this market is in balance and the price has strengthened. The large Q2 reprocessing figure reported for Glass has brought the market back in line with demand, which has slightly reduced, prompting a softening in price.

Material	Q1	Q2	Change (tonnes)	% Change
Paper	759,901	730,983	-28,918	-3.8%
Glass	396,720	472,917	76,197	19.2%
Aluminium	13,927	13,797	-130	-0.9%
Steel	115,883	91,854	-24,029	-20.7%
Plastic	160,966	146,493	-14,473	-9.0%
Wood	197,479	202,047	4,568	2.3%
EFW	157,451	186,360	28,909	18.4%
Total	1,802,327	1,844,451	42,124	2.3%

Come and Listen to t2e's Managing Director, Angus Macpherson:



Fresh Horizons for Packaging Waste: Financial pressures, new policies and higher targets

The conference will be held at the Wellcome Collection, London on 30 September 2010.

Brought to you by letsrecycle.com, Fresh Horizons for Packaging Waste is a one day conference which will address key issues on packaging policy, higher targets and PRN revenues.

11:30 Session 2: Finance and Packaging Waste

t2e Managing Director, Angus Macpherson will be giving a review of the PRN market in 2009 - 2010 and beyond.

t2e MEMBERS SPECIAL OFFER: quote PACKT2E and receive 10% off your registration fee.



Back to the Future, 2020

By Bob Lisney – Chairman of ACP

The new ACP chairman imagines looking back on the progress of the UK packaging recycling industry from 2020

Today packaging is not an issue for society. Following five lean years in the early part of the decade society realised that life depended on the better use of resources. This new recovery society sees it as natural to return things when they are no longer needed. We now have containers everywhere to capture materials in the street, at events, on industrial estates and better systems to enable us to return packaging. Some 70% of packaging is recovered.

Following its policy review early in the decade the Government worked hard to promote a resource society, something that fitted in well with the 'big society' agenda.

The challenges that had been foreseen in 2010 had been overcome and positive incremental progress had been made in the quality of recovered materials because of greater efficiency in collection. This meant better income from the global market place. Investment in systems and processing was stimulated and hundreds of so called 'green jobs' were created.

Looking back we can point to some key features of change.

Producers got tired of being reliant on others in the supply chain to help them meet their increasing obligated targets and so worked together to specify what was needed in quality and quantity as well as systems options and processing technology. This meant that those in the supply chain had to change.

This producer 'client' became the driver for change. By showing how their material could be recovered the supply chain then understood how to respond. This prompted a major response by two key players who then helped greatly; local government and 'the waste industry'.

Local government realised that they had a duty to business to help them recover. This could be done as well as their statutory duty to 'manage waste'. Once it was realised that achieving 60% domestic recycling was achievable and that recovered materials had high values if you recovered them to the standards that an ever fussy market place needed, they decided that they should review how they delivered services and moved away from a 'waste' mindset. Their role was to supply materials and to contribute to energy production.

By 2018 gone were the days of the 'bin men' and new coalitions and partnerships had developed to offer services. The third sector developed a range of local and cost effective means of helping local authorities collect a vast range of goods and materials. After a while the 'waste' majors decided to offer a much broader range of services and gradually reengineered their whole approach to vehicles, to systems and to the materials recovery facilities using much more computerised technology to separate materials. The retailers played a key role in education of the public in what could be recycled and how to do it. Their close working with local councils was also a breakthrough.

The public were incentivised by a range of approaches mainly by non cost items such as better tailored communication. Small businesses soon adopted regimes of separating materials as soon as they were offered cheaper services to do so. Recycling became what we did by natural response and not by urging.

The ACP got the ball rolling by presenting a set of proposals in 2011 to the coalition government. These were backed by sound evidence and provoked a healthy and lively debate around the country. By the time the debate was over we were all facing in the same direction and helping each other out. Packaging became the catalyst for Government to move to the resource society.