

## Use the Power of the Marketplace

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## Quarterly Report

Report 51

August 2011

### The Marketplace for PRNs and WENs



## Market Status Report – May to July 2011

By Ian Andrews

The release of the 2011 obligations at the start of the quarter showed increased obligations in all materials with the exception of Glass which dropped slightly. The largest increase was seen in Plastic

where the obligation grew by 59,686 tonnes (11%). This growth along with a tight Q1 supply figure resulted in some upward pressure on prices and trading reached a level of £8.00 for the first time since February 2010.

At the end of the quarter the release of the Q2 supply figures showed that most material markets were performing well and material specific obligations would be met comfortably. Question marks were raised over the declining volumes in the Wood and Paper markets with supply down on Q1 and the corresponding period last year. This resulted in the prices in both markets firming up at the end of the quarter.

Trading for the quarter equated to 164,762 tonnes with 47,944 tonnes trading in the Spot market and 116,818 tonnes trading in the Forward markets.

### Market Material Analysis

**Paper** – At the start of the quarter Paper values dropped to £1.00, the lowest price seen at this point in the year since the system was introduced. This resulted in the majority of transactions trading through the Forward markets as participants looked to take advantage of the reduced trading fee structure. The release of the Q2 supply figures showed that although supply was up on the corresponding period last year, it was down 3.6% on Q1. Prices firmed up towards the end of the period with supply remaining strong.

**Plastic** – Plastic was the market of interest this quarter with demand up and supply in balance. Strong buying interest at the start of the quarter resulted in the market price increasing to its highest level since February 2010 as sellers held firm on their price expectations. With an 11% increase in obligation and supply figures good but unimpressive this market continues to attract the most attention this year.

**Glass** – Another strong quarter in Glass trading saw the price fluctuate. The release of the demand figures showed minimal growth and this coupled with strong Q1 supply figures resulted in the price hitting a year low of £8.50 in the Spot during May. With many sellers predicting a low Q2 supply figure, prices rallied at the end of June to £12.00 before falling back once the Q2 figures revealed another excellent performance.

**Steel** – With an increase in obligation brought about by the recovery target increase the early expectations were that this market would hold its value. Q1 supply figures showed the market was in balance however this did little to arrest an early price slide with weak market sentiment resulting in limited demand. The release of Q2 supply figures showed strong growth and confirmed that barring a short Q3 figure this market should comfortably meet its target this year.

**Wood** – Wood prices during the quarter continued to hold a premium over the Paper market and subsequently missed out on strong demand for general buying. Obligations have increased and this coupled with the declining availability highlighted in the Agency published Q1 & Q2 figures (Q1 ↓ 11% on 2010 & Q2 ↓ 20% on 2010) has helped to keep the price firm. There is an expectation that we will see a further decline in availability with a large domestic supplier currently out of the market. This will be of more concern to the general buyers as the material specific requirement will be met easily on this year's figure.

**Aluminium** – Two strong supply figures this year have resulted in the price softening on a month on month basis. It would appear that the only risk to supply this year will come about by sellers turning their back on the system because of the low values. Demand remains weak with many buyers targeting better value at the end of the year.

**Recovery** – The availability of recovery tonnage has not been in question this year and is reflected in the historically low values trading across all markets. A price premium is currently being seen in the Spot market for the smaller documents with forward prices remaining static.

|                         | High this quarter | Low this quarter | Traded this quarter | Quarter average traded price | YTD average traded price | YTD aggregated traded |
|-------------------------|-------------------|------------------|---------------------|------------------------------|--------------------------|-----------------------|
| <b>PAPER MARKET</b>     |                   |                  |                     |                              |                          |                       |
| Spot 11                 | £2.50             | £1.20            | 1,387               | £1.31                        | £1.21                    | 14,192                |
| Jul Fwd                 | £1.15             | £1.05            | 28,031              | £1.07                        | £1.08                    | 41,147                |
| Oct Fwd                 | £1.05             | £1.00            | 24,385              | £1.01                        | £1.02                    | 39,738                |
| Dec Fwd                 | £1.00             | £1.00            | 2,000               | £1.00                        | £1.00                    | 2,000                 |
| <b>PLASTIC MARKET</b>   |                   |                  |                     |                              |                          |                       |
| Spot 11                 | £10.00            | £4.45            | 14,764              | £6.38                        | £4.96                    | 25,243                |
| Jul Fwd                 | £6.50             | £4.50            | 8,151               | £5.19                        | £5.09                    | 8,651                 |
| Oct Fwd                 | £5.00             | £5.00            | 1,756               | £5.00                        | £5.00                    | 1,756                 |
| <b>GLASS MARKET</b>     |                   |                  |                     |                              |                          |                       |
| Spot 11                 | £12.00            | £8.50            | 22,324              | £9.15                        | £10.87                   | 60,879                |
| Jul Fwd                 | £9.50             | £9.30            | 17,679              | £9.35                        | £11.51                   | 48,934                |
| Oct Fwd                 | £9.50             | £9.00            | 6,000               | £9.33                        | £14.08                   | 42,755                |
| Dec Fwd                 | £9.50             | £9.00            | 5,899               | £9.46                        | £9.59                    | 7,899                 |
| <b>STEEL MARKET</b>     |                   |                  |                     |                              |                          |                       |
| Spot 11                 | £6.25             | £4.00            | 6,291               | £4.88                        | £5.51                    | 10,034                |
| Jul Fwd                 | £5.25             | £5.25            | 3,000               | £5.25                        | £6.18                    | 3,860                 |
| <b>WOOD MARKET</b>      |                   |                  |                     |                              |                          |                       |
| Spot 11                 | £3.00             | £1.25            | 1,465               | £1.60                        | £1.61                    | 9,227                 |
| Jul Fwd                 | £1.25             | £1.20            | 2,857               | £1.21                        | £1.24                    | 3,103                 |
| Oct Fwd                 | £1.50             | £1.05            | 2,532               | £1.15                        | £1.14                    | 2,532                 |
| <b>ALUMINIUM MARKET</b> |                   |                  |                     |                              |                          |                       |
| Spot 11                 | £11.00            | £4.95            | 1,294               | £6.75                        | £11.12                   | 2,583                 |
| Jul Fwd                 | £6.75             | £5.00            | 570                 | £5.87                        | £6.49                    | 670                   |
| Oct Fwd                 | £5.00             | £5.00            | 250                 | £5.00                        | £6.43                    | 350                   |
| Dec Fwd                 | £5.00             | £5.00            | 250                 | £5.00                        | £5.00                    | 250                   |
| <b>RECOVERY MARKET</b>  |                   |                  |                     |                              |                          |                       |
| Spot 11                 | £0.80             | £0.55            | 419                 | £0.61                        | £0.70                    | 2,509                 |
| Jul Fwd                 | £0.45             | £0.40            | 6,373               | £0.41                        | £0.42                    | 6,697                 |
| Oct Fwd                 | £0.45             | £0.40            | 7,085               | £0.45                        | £0.45                    | 7,085                 |

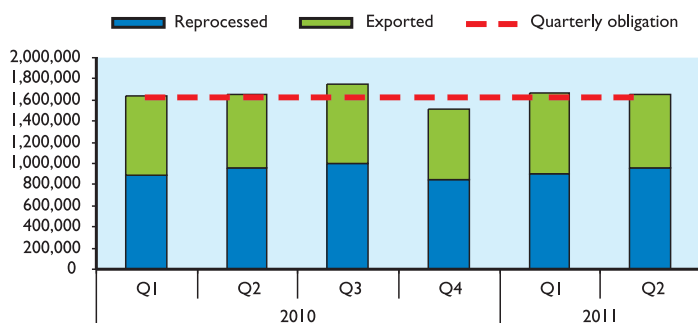


## Managing Director's Report

One quiet quarter moves into another as low prices, plentiful supply and a general lack of urgency continue to linger in the market. The long awaited waste review for England and Wales has arrived to a chorus of disappointment and dismay at the lack of targets. And to the surprise of many just as the quarter was closing Valpak, the largest compliance scheme, announced plans to de-mutualise and effect a management buy-out on the grounds that the PRN system was under threat.

Although trading this quarter has increased by almost 40% on a very quiet first quarter nothing has alleviated the general complacency in the market. Plastics and metals recycling has increased, aluminium recycling spectacularly so, while glass, paper and wood have declined. While the ability to achieve the material specific recycling obligations do not appear threatened in any material, although plastic continues to cut it fine, the overall general recycling obligation has begun to look challenging for the first time in a decade. While there is a lot of the year still left, a quiet summer and rumours of a slowdown in the Far East may combine to reveal a poor third quarter and a late tension in the market as producers and their representatives try to balance their books before the compliance year end.

### Total waste reprocessed and exported by quarter 2010 - 2011 compared to 2011 quarterly obligation

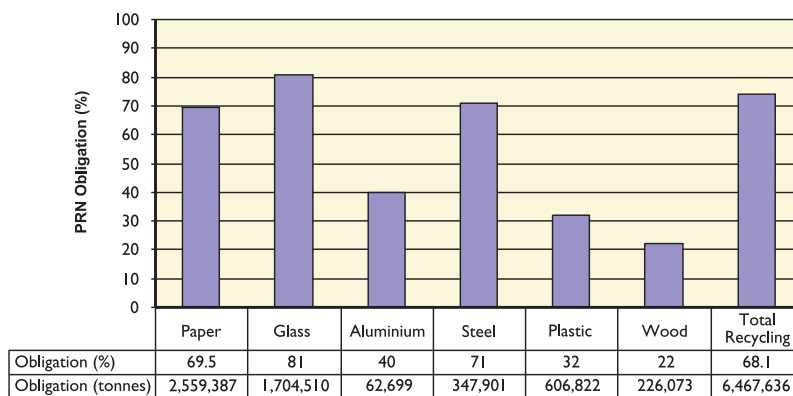


To focus solely on a lack of targets as a source of dismay at the Waste Review is a superficial analysis. The review makes commitments to review specific aspects including the Packaging Waste Regulations within fixed timeframes which provides the basis for much optimism in the future. It is very clear that significant concerns for this Government are litter, whether fly tipping or 'on the go', a desire to return to basics – waste legislation exists to protect the environment and human health - and minimise the burden of regulation.

Against this background they have made a commitment to review the targets by the 2012 budget. The emphasis is on

raising metals and plastic recycling rates and going by the increases that have been seen this year, these industries are already responding. However the Government wishes to continue this momentum of growth by looking for voluntary agreements and may consider increasing targets. It would be as well to review the metals protocols at the same time to encourage source segregation in line with the Waste Framework Directive and ensure that producers are not so exposed to global markets to ensure compliance. It is a mistaken presumption that secondary raw material should de facto be either less valuable or less volatile markets than primary raw materials.

### 2011 PRN Obligation for all Materials



|                     | Paper     | Glass     | Aluminium | Steel   | Plastic | Wood    | Total Recycling |
|---------------------|-----------|-----------|-----------|---------|---------|---------|-----------------|
| Obligation (%)      | 69.5      | 81        | 40        | 71      | 32      | 22      | 68.1            |
| Obligation (tonnes) | 2,559,387 | 1,704,510 | 62,699    | 347,901 | 606,822 | 226,073 | 6,467,636       |

At the same time it should be remembered that as environmental legislation there needs to be an environmental justification for any target selected and any differentiation rather than solely an ambition or limitation imposed by industry, which is effectively as the original legislation recognised anti-competitive. Also any target is only as good as the underlying data and the Government is encouraged to spend time improving the accuracy and consistency of packaging data from the packaging industry, producers, reprocessors and exports.

That the management of Valpak might find the restrictions of operating a mutual organisation rather cumbersome and wish a change is not surprising. However the decision that they should do so on the grounds that the PRN system is threatened is. This Government like its predecessor has made its commitment to the system clear.

Thank you to Lord Henley for his article. We look forward to seeing the consultation promised for this autumn and submitting our response as well as continuing to being of service to you our participants and readers.

**Angus Macpherson**  
Managing Director



## Summary of Q2 Reprocessing & Exporting Figures, 2011

By Patricia Hall

The Q2 reprocessing and exporting figures were reported on 22nd July by the Environment Agency and revealed an overall reduction in PRN generation of almost 1.5% on Q2 last year and a reduction on Q1 of 1%. However, figures for Aluminium, Steel and Plastic were up on Q1. With little evidence of any problems affecting the material specific markets, concerns may develop around the availability of general supply with the notable decline in Paper and Wood volumes (3.6% and 8.5%, respectively (Table 1)).

**Table 1: Change (%) in Q2 PRN Generation between 2008 and 2011; Change (%) between Q2 and Q1 2011; Change (%) in total waste received to date (2011 vs 2010)**

|           | Change (%) in Q2 PRN generation |               |               | Change (%) Q2 vs. Q1 2011 | Change (%) in total waste received to date 2011 vs. 2010 |
|-----------|---------------------------------|---------------|---------------|---------------------------|--|
|           | 2009 vs. 2008                   | 2010 vs. 2009 | 2011 vs. 2010 |                           |  |
| Paper     | 3.7%                            | -1.0%         | 2.6%          | -3.6%                     | 2.5%   |
| Glass     | -6.3%                           | 13.9%         | -3.4%         | -1.8%                     | 5.4%   |
| Aluminium | 31.9%                           | -16.3%        | 31.9%         | 1.6%                      | 30.4%  |
| Steel     | -7.6%                           | 1.8%          | 16.5%         | 22.1%                     | -6.1%  |
| Plastic   | -1.6%                           | 7.2%          | 8.8%          | 11.8%                     | -2.2%  |
| Wood      | -19.6%                          | 2.1%          | -20.0%        | -8.5%                     | -15.2%   |
| EfW       | 14.3%                           | 60.3%         | -11.6%        | -2.8%                     | -2.8%  |
| Total     | -2.3%                           | 7.7%          | -1.4%         | -1.1%                     | 0.0% (-25,263 t)   |

### Glass

The Q2 Glass figure was down year-on-year and quarter-on-quarter, but after a bumper start to the year in Q1 (one of the highest quarters on record for Glass), the total waste received to date was up (5.4%) on last year. Domestic Glass reprocessing was up nearly 4% on Q2 last year and up almost 5% on Q1 of this year. With an oversupply of around 40,000 tonnes, prices have trended downward and the Spot average fell below £10 as early as May (Fig 1), making it one of the lowest Glass monthly averages on record for this time of year.

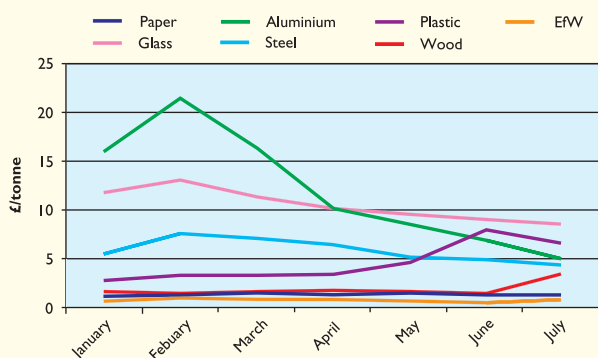
### Plastic

Q2 PRN generation in Plastic was up (8.8%) year-on-year and (11.8%) quarter-on-quarter, however, the total waste received to date was down on 2010 by some 2%, possibly due to the tight Q1 figure reported in April. With the Plastic supply figure slightly lower than in previous years, the PRN price slowly but surely firmed up from £2.65 in January to £6.50 in July (Fig 1). In addition, Plastic was the only material that had not yet met at least 50% of its obligation by the end of Q2 (Fig 2). Domestic reprocessing was down 2.5% on this time last year, but up slightly (0.3%) on Q1.

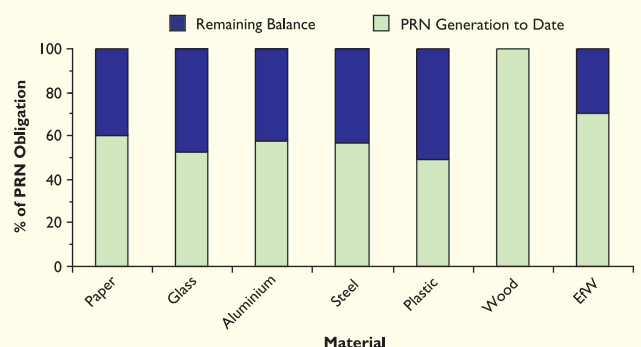
### Aluminium

Aluminium performed tremendously over the period, with an increase of 31.9% year-on-year and a 1.6% increase on Q1. This year's Q2 is the highest quarter on record for Aluminium, and contributes to the high volume of PRNs generated to date, which is up 30% on last year. There was only a slight change in the balance between export and domestic activity, with an increase in exporting activity of 1.3% both year-on-year and quarter-on-quarter. The Spot monthly average for Aluminium fell from £15.96 in January to £4.99 in July (Fig 1).

**Figure 1: Change in t2e 2011 Spot Monthly Average from January to July in all materials**



**Figure 2: Chart showing remaining balance of PRNs to be generated in each material and PRN generation to date, as a percentage of the total obligation**





**Lord Henley**, *The Parliamentary Under-Secretary of State, Department of Environment, Food and Rural Affairs*

## **A reflection of industry's achievements so far, and challenges going forward**

In 2010 the UK recycled 60% of all packaging, achieving our national and European targets. I would like to take this opportunity to extend my thanks and congratulations to all those who have been involved in making this happen.

The Waste Review published in July this year identified some key areas where further progress on recycling packaging can be made. Improving plastic and aluminium packaging recycling rates was identified as a priority, not only are there the obvious economic benefits but with these two Carbon is a key factor. For every tonne of aluminium recycled roughly nine tonnes of carbon equivalent emissions are saved from being emitted. For plastics roughly 1 – 1.5 tonnes of carbon equivalent emissions are saved, the equivalent of driving a small petrol car 3400 miles.

While we've made progress I'd like us to do more. In 2010 the UK recycled nearly 600kt or 24% of our plastic packaging. This shows significant progress compared to 1997 when the UK recycled a mere 7% of plastic, however, it does show that 73% of our plastic packaging isn't being recycled. For aluminium the UK recycled 60kt or 41%, again this shows significant progress compared to 10 years ago when we recycled 13% but, as with plastic packaging, it highlights that a lot more needs to be done.

How we ensure that more of these materials are recycled is something Government will be exploring with industry. We have the Producer Responsibility Regulations, which have achieved a great deal since they were made, helping to raise overall recycling rates from 28% when they were introduced in 1997 to over 60% last year.

We announced in the Waste Review that we intend to consult on higher producer responsibility targets for these Regulations later this year. Whilst legislative producer responsibility can be an important driver for change Government is keen to explore what else can be done. Of particular interest are developments in the packaging chain which have seen a number of businesses who handle packaging taking more responsibility for getting their material back. They have set out their ambition to work directly with different parts of the packaging chain including local authorities, waste management companies and reproprocessors to bolster the recycling of packaging. These types of initiatives make good business and environmental sense, they are excellent examples of producer responsibility and I'd be pleased to see more of this practice.

We announced in the Waste Review that Government is keen to explore with producers how this type of collaborative thinking could be developed through a responsibility deal specifically on metal and plastic packaging. Our aim is to help business to boost recycling rates and deliver the significant and important environmental and economic benefits.

We'll look forward to hearing from as many of you as possible in response to the consultation we will launch later this year.

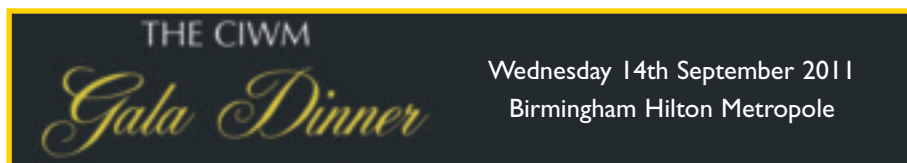
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between 13 and 15 September 2011**

t2e Managing Director, Angus Macpherson, will be taking part in the panel debate  
***Does quality matter?***  
in the Local Authority Theatre on Tuesday 13 at 11.00 am

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The Environment Exchange Ltd  
Hudson House, 8 Albany Street, Edinburgh EH1 3QB  
Tel: +44 131 473 2330 Fax: +44 131 473 2326



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