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Quarterly Report

Report 55

August 2012

The Marketplace for PRNs and WENs



Market Status Report – May 2012 to July 2012

By Patricia Hall

Plastic and Glass were reported as problem materials in Q1 and remain a concern in Q2. Both materials have failed to meet their quarterly target for PRN production, which has brought increased pressure to these markets and resulting price increases.

The General Recycling obligation continued to be met by Paper in Q2. Although some concerns may be raised that the contraction of Glass, Plastic, and Wood will put pressure on its price later in the year, at this stage the carry-in figure for Wood and Paper suggests there is limited danger of missing the General targets.

Trading for the quarter equated to 253,724 tonnes with 91,757 tonnes trading in the Spot markets and 161,967 tonnes trading in the Forward markets.

Market Material Analysis

Paper – The price remained stable. Paper volumes traded were up on Q1. In contrast to Q1 the majority of trades transacted through the Forward Markets. The Q2 figure for Paper was 773,025 tonnes. Although this is down on Q1 (-5.6%), the material specific quarterly target was met comfortably, with a surplus of 21%. At this key mid-year point, Paper has met 63% of its material specific obligation.

Plastic – Plastic volumes traded in Q2 were up on Q1. Last quarter t2e reported how supply problems caused an upward price movement. With the results reported in Q2, this upward trend has gained further strength reaching a high of £26. July was the sixth consecutive month of Plastic price increases on t2e.

Glass – Glass was very actively traded with volumes more than double that of Q1. In the two weeks leading up to the release of the Q2 figures, the Glass offers at £15 sold out and sellers began to restock at higher levels in anticipation of a low figure. On the day Q2 figures were released the Spot price increased by 15% and within two weeks it doubled, reaching a high of £35. Similarly, in the December Forward Market prices increased by 120% on the previous monthly average.

Steel – All Steel trades this quarter were transacted through the Spot market, with total volume up on Q1. The bulk of trading took place in July stimulating a strengthening in price to reach a two-year high of £15.

Wood – The Q2 figures were corrected downwards to 148,911 tonnes. Although this means that with a total of 277,199 tonnes generated so far Wood has already met its material specific obligation (235,658 tonnes), this contraction in supply could put pressure on the Wood and General prices later in the year.

Aluminium – Q2 was a much busier period for Aluminium trading than Q1, mainly in July when the large spread between buyers' and sellers' expectations narrowed following the release of the Q2 figures. A total of 14,024 tonnes were reported for Aluminium (down 14% on Q1), 7% below the quarterly requirement. To some extent this short-fall is off-set by the stronger figure reported in Q1, bringing Aluminium's overall position to 51% of the annual target.

Recovery – Recovery prices remained at administrative levels in Q2 while volumes traded were up on Q1 with trading across different markets. The Q2 figures reported showed that PRN production in Q2 was 186,820 tonnes (down 9.5% on Q1), which is 56% above the quarterly target. Recovery has so far met 82% of its 2012 target.

| | High this quarter | Low this quarter | Traded this quarter | Quarter average traded price | YTD average traded price | YTD aggregated traded |
|-------------------------|-------------------|------------------|---------------------|------------------------------|--------------------------|-----------------------|
| PAPER MARKET | | | | | | |
| Spot 12 | £1.30 | £0.90 | 9,890 | £0.93 | £0.88 | 69,788 |
| Jul Fwd 2012 | £1.00 | £0.80 | 36,565 | £0.85 | £0.89 | 59,765 |
| Oct Fwd 2012 | £1.00 | £0.80 | 35,683 | £0.82 | £0.83 | 54,683 |
| Dec Fwd 2012 | £0.80 | £0.80 | 27,500 | £0.80 | £0.80 | 44,500 |
| Total | | | 109,638 | | | 228,736 |
| PLASTIC MARKET | | | | | | |
| Spot 12 | £26.00 | £16.00 | 16,470 | £19.64 | £14.14 | 30,383 |
| Jul Fwd 2012 | £21.00 | £18.50 | 7,263 | £19.38 | £12.13 | 17,378 |
| Oct Fwd 2012 | £25.00 | £19.80 | 10,600 | £24.71 | £20.94 | 13,600 |
| Total | | | 34,333 | | | 61,361 |
| GLASS MARKET | | | | | | |
| Spot 12 | £35.00 | £10.00 | 46,937 | £19.95 | £18.11 | 55,967 |
| Jul Fwd 2012 | £15.00 | £13.00 | 6,000 | £14.33 | £10.22 | 22,300 |
| Oct Fwd 2012 | £35.00 | £15.00 | 17,286 | £25.75 | £21.30 | 23,373 |
| Dec Fwd 2012 | £30.00 | £20.00 | 4,000 | £27.50 | £13.30 | 17,200 |
| Total | | | 74,223 | | | 118,840 |
| STEEL MARKET | | | | | | |
| Spot 12 | £15.00 | £5.50 | 10,325 | £8.95 | £7.91 | 14,413 |
| Total | | | 10,325 | | | 14,413 |
| WOOD MARKET | | | | | | |
| Spot 12 | £2.00 | £1.30 | 2,105 | £1.57 | £1.60 | 6,776 |
| Jul Fwd 2012 | £1.35 | £1.35 | 500 | £1.35 | £1.24 | 2,000 |
| Oct Fwd 2012 | £1.30 | £1.20 | 11,139 | £1.29 | £1.28 | 12,139 |
| Dec Fwd 2012 | £1.25 | £1.25 | 500 | £1.25 | £1.25 | 500 |
| Total | | | 14,244 | | | 21,415 |
| ALUMINIUM MARKET | | | | | | |
| Spot 12 | £14.00 | £7.50 | 1,406 | £8.31 | £7.74 | 1,709 |
| Oct Fwd 2012 | £8.50 | £8.50 | 1,235 | £8.50 | £8.50 | 1,235 |
| Total | | | 2,641 | | | 2,944 |
| RECOVERY MARKET | | | | | | |
| Spot 12 | £0.50 | £0.30 | 4,570 | £0.32 | £0.34 | 18,917 |
| Jul Fwd 2012 | £0.35 | £0.30 | 3,423 | £0.32 | £0.35 | 7,294 |
| Oct Fwd 2012 | £0.30 | £0.30 | 273 | £0.30 | £0.34 | 6,002 |
| Total | | | 8,266 | | | 32,213 |

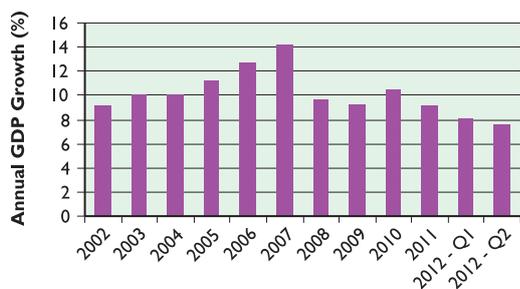


Managing Director's Report

While some may feel stressed about a lack of summer this year, the producer responsibility regimes are being stress tested in a manner previously unseen as Q2 figures identify challenges in meeting material specific targets, PRN prices rise, the ACP publishes its annual report making far reaching recommendations and DEFRA and the Agencies review the Producer Responsibility regimes with a view to their harmonisation.

While problems had been identified in plastics last quarter it was anticipated that these would be ironed out in the second quarter. However PRN prices did not fall and when Q2 figures were published they confirmed that issues remain. Glass continues to concern and in all probability 2013 will start with a clean sheet with no December carry forward from 2012. Maybe this is a year to consider allowing the carry back of January tonnage to balance any carry forward? This was far lower than the market anticipated as a result Glass PRN prices doubled in July. With the closure of Sonae wood reprocessing will drop further, and the bulk of the general recycling obligation will fall on paper. If the general malaise in China caused partially by its 'controlled economic soft-landing' and partially by a drop in demand from the West, continues to impact on Chinese industrial activity and commodities demand, even this market will become tight.

China's Annual GDP Growth 2002 – 2011 (%) and Q1 & Q2 2012 GDP Growth

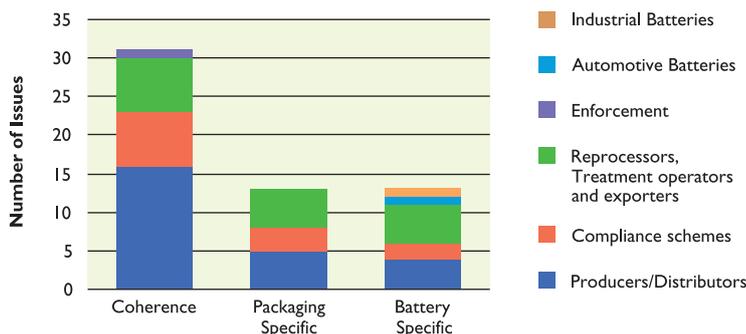


Source: World Bank

The ACP published its annual report making 8 recommendations and laying out a programme of tasks for next year. They have tried to address the tortuous issue of quality by imposing an obligation on councils to be suppliers of secondary raw materials as well as waste collectors. As a mind set this is to be encouraged. Councils must be aware and relay onto their constituents that in times of low commodity demand the material with the greatest impurities is likely to be the least desirable which not only undermines their ambitions to reach recycling targets but also the reputation of the United Kingdom as a source of secondary raw materials.

They have also recommended that the de minimis level should be raised to £4 million, which when considering inflation would not be dissimilar to £2 million in 2000, when the regulations first embraced smaller companies. They estimate this would remove 556 producers and 51,714 tonnes of PRN demand. It may also significantly reduce the number of 'free riders'. To compensate for this lost obligation they recommend that the wholesaler, Class D, obligation should be restored. Although some have suggested that any exemptions should be based on tonnage of packaging handled to keep businesses focused on reducing excess packaging rather than turnover, there is logic in this suggestion as it might not only reduce the burden on the Agencies to chase 'free riders' but also might result in some 'lost' imported tonnage being found. It may be anticipated that the recommendation will not be universally welcomed and may throw up some unexpected anomalies. It also overlaps with one of DEFRA's proposed areas for regulatory review.

Issues to be Considered in DEFRA's Review by Theme and Category



Most of DEFRA's proposed areas of regulatory review will, if implemented sensibly, reduce the regulatory burden and will be supported. One to be particularly applauded is the potential introduction of a 'fit and competent' person register. More controversial areas are addressing a perceived benefit to exporters over domestic reprocessors in the PRN system, which is focusing on quality, split targets for plastics, a review of registration fees and enforcement procedures, responsibility deals, a mandatory code of practice for compliance schemes and the potential introduction of Scottish PRNs. It is also to be hoped that the review of the WEEE regulations takes into consideration the outcomes of this review.

Thank you to Tim Gent for his thoughts and for your support. We look forward to being of service to you during what is looking like a fairly rocky end to 2012.

Angus Macpherson
Managing Director



Q2 PRN Report – Reprocessing & Exporting Figures

By Patricia Hall

The focus of Q2 was the reprocessing and exporting figures released on Monday 23rd July and published on 10th August 2012, which revealed some dismal results for a number of materials. All materials were down on Q1 with the exception of Plastic and Recovery. The final figures were updated with a 36,000 tonne reduction to the Wood figure, bringing total PRN production for Q2 down to 1,687,604 tonnes (down 5% on Q1, and 3% below the quarterly requirement).

Figure 1 shows the amount of obligation met so far in each material. The line shows the mid-year obligation (i.e. 50% of total obligation) and clearly indicates those materials which are undersupplied at this stage.

Table 1 illustrates how this year's Q2 figure compares with that of previous years (2008 – 2011)

Figure 1: Mid-year Analysis

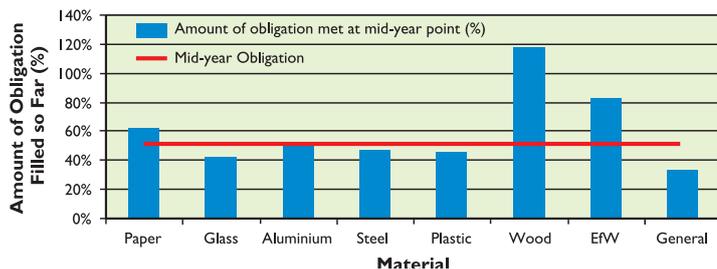


Table 1: % Change in Q2 PRN Production 2008 – 2012

| | 2009 vs. 2008 | 2010 vs. 2009 | 2011 vs. 2010 | 2012 vs 2011 |
|--------------|---------------|---------------|---------------|--------------|
| Paper | 3.7% | -1.0% | 2.6% | 1.3% |
| Glass | -6.3% | 13.9% | -3.4% | -20.9% |
| Aluminium | 31.9% | -16.3% | 31.9% | -23.1% |
| Steel | -7.6% | 1.8% | 16.5% | -30.3% |
| Plastic | -1.6% | 7.2% | 8.8% | -11.5% |
| Wood | -19.6% | 2.1% | -20.0% | -7.9% |
| EFW | 14.3% | 60.3% | -11.6% | 13.0% |
| Total | -2.3% | 7.7% | -1.4% | -7.1% |

Uncharted Territory

While Steel has been in a similar situation in the past (i.e. slightly undersupplied at this point in the year), this is a rare occurrence for Glass and unprecedented for Plastic and General, which in previous years have always met 50% or more of their target at this mid-point. In terms of General, there is still hope. The carry-in figure for Wood and Paper combined with the surplus generated in these materials during Q1 and Q2 should supply enough to meet the target. Looking at the PRN market as a whole, although there are two more quarters and a bank of carry-in tonnage to make up the short-fall, this is uncharted territory.

Prices

Figure 2 shows the average weekly PRN price in all materials during Q2. As the chart demonstrates, the three main materials of concern (Plastic, Glass, and Steel) all saw significant increases following the release of the Q2 figures at the end of July.

Glass

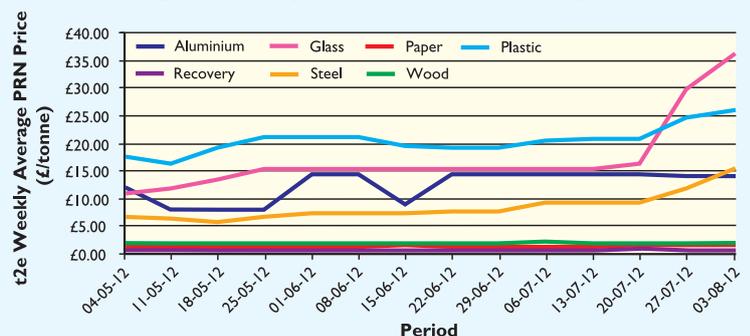
After the shortfall reported in Q1, Glass again failed to meet its quarterly obligation. The two quarters combined (Q1: 379,463, Q2: 349,231) give a total of 728,694 tonnes. This is only 43% of the annual target. With two undersupplied quarters, the market has to make up an additional 120,000 tonnes in the next two quarters in order to meet targets. Once these figures were released, confirming expectations, the price shot up across all markets.

Plastic

Rather than a sharp increase, the Plastic price climbed gradually during the period, in anticipation of a tight Q2 figure, and by the end of the quarter it had increased by 36%. Total PRN production in Q2 was 140,294 tonnes (up 6.5% on Q1). With a quarterly target of some 150,000 tonnes, Plastic again failed to meet its quarterly target, this time by 7%.

While an increase in PRN generation was reported in Q2 giving buyers some cause for optimism, sellers are still reporting difficult trading conditions and falling material prices. With two undersupplied quarters, prices are likely to remain firm for the foreseeable future.

Figure 2: Change in t2e Spot Weekly Average in Q2



Steel

While the Q1 figure for Steel was 5% above the quarterly target, Q2 was 15% below target at 75,299 tonnes (down 19% on Q1). So far Steel has met 48% of its annual target; an additional 8,400 tonnes is needed to make up ground between now and the end of the compliance year.

As Figure 2 shows, the Steel price was relatively stable from the beginning of the period until the release of the Q2 figures, when the price increased sharply and finished the period at £15. The last time Steel was below its mid-year requirement was Q2 2009 at which time the quarterly average was £77. Although there is no cause for panic yet, unless the market is brought back into balance, prices could remain firm for some time yet.



Glass: View from a Reprocessor

Tim Gent - Recresco Ltd

The current crisis in the glass PRN market is difficult to understand. Have the population of the UK decided not to recycle their glass after all? Or maybe they never did recycle as much as we all thought! If this is true the market has been getting cheap compliance for quite a few years, so the current higher prices should go some way to make up for the artificially low prices of the previous two years. Of course if we do fail to comply on the scale that the first two quarters suggest then I don't think the government would be too happy with DEFRA or the recycling industry, after all it is DEFRA's job to set the targets and its the producers job to make sure those targets are met.

The PRN system is supposed to ensure that sufficient money is available for this to take place. The theory is good, and should work, as long as the targets rise at appropriate speed, as they did. And yet here we are with a problem, suddenly there aren't enough to go around. In reality the increase in price will probably flush out sufficient glass from the system to reach the target this year but none of December's will be carried over and that will have a knock on effect for next year. There is still plenty of glass out there that is too badly contaminated to recycle viably. This will change in the face of a very valuable PRN and if this tonnage can be diverted back into the market place then we should be all right.

Here at Recresco we have invested heavily into technology so that now all of our plants can cope with MRF glass regardless of quality however there is still more to be done and the increase in PRN value will speed up this type of investment. How high will the price of PRNs have to climb to ensure compliance this year and next? I am not totally sure but I don't think we are there yet!

Where to see us next



**t2e will be exhibiting on Stand 19T49
on 11th – 13th September 2012**

Please come by the stand during the exhibition, or contact us in advance to arrange a meeting. We look forward to greeting all our members at the stand as well as welcoming new faces.

To arrange a meeting or for more information, please contact the trading team on 0844 800 9943, or email press@t2e.co.uk.

Member Information

Payments by Cheque

As cheques now take longer to process than the settlement period allows, t2e intends to stop accepting cheques with effect 1 October 2012. Thereafter payment should be by CHAPS, BACS, and Direct Debit. This change will improve both the efficiency of the t2e Settlements Team and the service we offer our participants. If you would like to discuss this or request a Direct Debit mandate, please contact Cath Thomas in Settlements on 0131 473 2327.