

The Marketplace for PRNs

Market Status Report – May 2013 to July 2013 By Ian Andrews



At the end of Q1 initial concerns were raised regarding the availability of both Plastic and Glass with all other materials reporting strong supply. This view was carried throughout the quarter with the two markets mentioned receiving the majority of interest. Prices in both continued to increase throughout the period. All other materials were in good supply with the Aluminium and Steel prices softening upon news of excellent supply reported in Q2.

The Q2 figures provided positive news for all materials. Plastic tonnage grew by 6.5% to report a supply figure of 165k against a demand figure of 174k. Although there will need to be further growth in the last two quarters, many commented that the figures were very positive in light of the fact that the export markets in China were proving troublesome. In Glass both grades saw increases with Remelt reporting a 10% increase on Q1 and Aggregate reporting a 40% increase. While these numbers provide some relief to what has become an overheated market it must be pointed out that although the Q2 figures look more balanced, the market hasn't created the surplus required to address the shortfalls in Q1 so further work will need to be done this year if we are to see any softening of prices. Trading for the quarter equated to 247,955 tonnes with 140,111 tonnes trading in the Spot 2013 market and 107,844 tonnes trading in the Forward markets.

Paper

Paper traded in excellent volumes across all markets during the period. Prices remained rooted at administrative levels with the Q2 supply figures confirming that the implementation of the Chinese 'Green Fence' policy had little bearing on paper availability. The introduction of the lower rate trading fee across all markets has helped to increase Spot trading levels and with this market providing the best value, all general buying filtered through paper during the quarter.

Plastic

The problems in plastic were evident during the quarter with demand continuing to outstrip supply. With the knowledge that substantial growth was required this year many buyers were active during the period even in the face of what appeared to be positive news in the Q2 supply figure release. The Q2 figures showed that supply had increased on the Q1 period by 10,000 tonnes. This meant that in a quarter when the market struggled to get material moving into China we still managed to almost meet the required demand, falling short by just 9,000 tonnes. If we were to include the 40k of carry over tonnage into this year's figures the situation in plastic starts to look a lot more positive. However given that strong demand remains evident in the market and due to the fact that we cannot determine the viable tipping point as to when the new export markets become unavailable it would appear that market sentiment continues to win over hard facts.

Glass

Glass tonnage in both grades traded in good volumes. A lack of liquidity in both markets helped to keep price firm during the period. There would appear to be a situation developing where many are focusing on the Remelt market and paying little attention to the Glass Other grades but buyers should be aware that Glass Other demand for the year is currently running at 600k and in 2012 the Glass aggregate market only managed to produce 550k. If the situation were to continue many last minute buyers will be forced to procure the more expensive remelt note. During the period supply grew in both grades with Remelt up 14k on Q1 and Glass Other increasing by 45k. While the figures provide positive news in terms of supply growth, there is still a deficit that needs to be addressed from Q1.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	YTD aggregated traded
Paper						
Spot 13	£0.95	£0.95	53,412	£0.95	£0.94	89,371
Jul Fwd 2013	£0.95	£0.95	9,299	£0.95	£0.92	36,799
Oct Fwd 2013	£0.95	£0.90	13,741	£0.92	£0.91	72,241
Plastic						
Spot 13	£70.00	£42.00	30,203	£61.04	£42.11	60,323
Jul Fwd 2013	£68.00	£45.00	3,749	£57.95	£57.95	3,749
Oct Fwd 2013	£75.00	£55.00	5,200	£64.62	£63.43	5,200
Dec Fwd 2013	£65.00	£53.00	2,000	£54.50	£57.67	2,000
Glass Other						
Spot 13	£50.00	£45.00	14,683	£45.74	£45.41	24,871
Jul Fwd 2013	£55.00	£55.00	250	£55.00	£40.71	5,250
Oct Fwd 2013	£50.00	£45.00	20,000	£48.00	£46.67	20,222
Dec Fwd 2013	£55.00	£55.00	8,347	£55.00	£55.00	8,347
Glass Remelt						
Spot 13	£75.00	£65.00	25,941	£66.15	£62.87	31,867
Oct Fwd 2013	£61.25	£60.00	17,000	£60.66	£59.04	20,220
Steel						
Spot 13	£17.50	£9.00	9,571	£13.39	£15.06	21,527
Jul Fwd 2013	£15.00	£12.00	3,400	£12.59	£15.01	5,550
Oct Fwd 2013	£12.00	£11.00	4,995	£11.86	£11.70	4,995
Dec Fwd 2013	£11.00	£10.00	1,500	£10.33	£10.50	1,500
Wood						
Spot 13	£2.50	£1.50	2,045	£1.61	£1.68	2,934
Jul Fwd 2013	£1.65	£1.65	4,696	£1.65	£1.65	4,696
Oct Fwd 2013	£1.65	£1.65	5,256	£1.65	£1.65	5,256
Dec Fwd 2013	£1.50	£1.50	1,500	£1.50	£1.50	1,500
Aluminium						
Spot 13	£13.00	£7.50	442	£7.85	£7.95	632
Jul Fwd 2013	£8.00	£8.00	1,000	£8.00	£8.00	1,000
Oct Fwd 2013	£10.00	£9.00	1,957	£9.76	£8.71	3,693
Recovery						
Spot 13	£0.30	£0.30	3,814	£0.30	£0.34	20,929
Jul Fwd 2013	£0.30	£0.30	1,643	£0.30	£0.30	11,643
Oct Fwd 2013	£0.30	£0.30	251	£0.30	£0.30	10,251
Dec Fwd 2013	£0.30	£0.30	2,060	£0.30	£0.30	2,060

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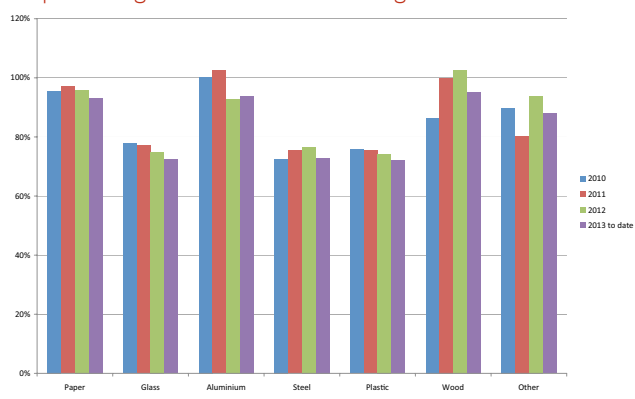
Managing Director's Comments – August 2013

Another busy trading quarter: as in 2012 the significant challenge that faces the glass industry to meet their targets has been foremost in many people's minds; while the impact of the Green Fence operation in China on the export markets for paper and plastic and to a lesser extent metals has also been a subject for discussion.

For glass, although the re-melt targets are demanding they look achievable. It is the overall target to which aggregates contribute where the compliance challenge remains. As stated in the last quarterly the normal dynamics of supply and demand appear not to work effectively in this market and while the growth in export has to some extent offset this quirk there is still a long way to go.

Concurrently there has been an investigation into the divergence between the glass estimated to be placed on the market by the material organisations and used by DEFRA and that reported by obligated companies. Initial indications are that some of the assumptions on which the estimates of glass packaging placed on the market were based have been overtaken by time and an over-estimate has been made. Whether this translates into lower targets for 2014 and beyond remains to be seen, what is clear is that complying in 2013 remains a significant challenge for all, particularly as it would be unusual if the same spectacular 4th quarter performance seen in 2012 could be replicated in 2013.

Packaging placed on the market reported to NPWD as a percentage of DEFRA/material organisation estimates



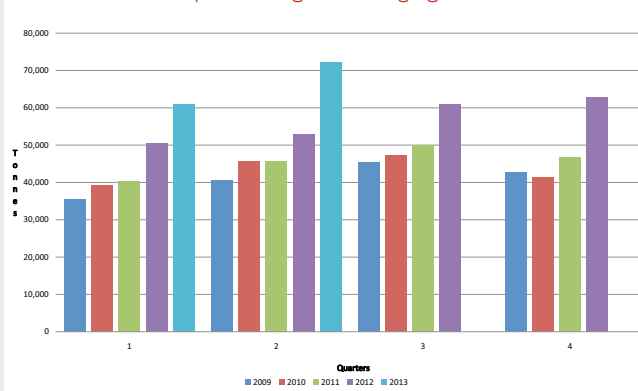
Given the divergences between the tonnage reported by obligated companies in other materials and materials organisation's estimates, it would seem sensible that this exercise is carried out for all materials, starting with plastic and steel. Concurrently the protocols should be revisited. Public statements that the Green Fence has meant that better quality material is now being exported to China suggests that there should have been protocols on exports in paper and plastic for years.

After an initial hiatus the impact of the Green Fence operations on exports from the UK appears to have

been slight although rumours continue to circulate about on-going problems linked to demurrage costs caused by delays at ports as customs carried out 100% inspections on loads and the possibility that some loads are still waiting to be returned. However to date this has little impact on the number of paper and plastic PERNs issued. In plastics there is an astonishing similarity between PERNs issued in 2012 and 2013. From a compliance perspective this is fortunate but, as highlighted on page 4, exports are causing significant stresses to the plastic film recycling industry. Yet overall the plastic industry should be proud of the growth that has been achieved in domestic reprocessing and collection.

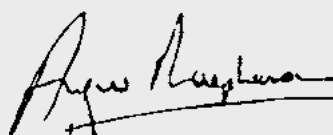


Growth in UK Reprocessing of Packaging Plastic 2009 - 2013



Looking forward challenges still remain in complying in 2013 and beyond. While alternative markets have been found for exports there are still stories of stockpiles of poor quality plastic within the United Kingdom. Equally the rapid decline in wood reprocessing as the biomass markets come on stream and the loss of Sonae has resulted in a drop from a peak in 2008 of 120,000 tonnes a quarter. While currently it looks as though the surpluses in paper, steel and aluminium will make up for this shortfall in 2013 the general recycling pool is becoming progressively tighter.

Thank you for your support through a busy quarter. Thank you to Mike Baxter for his contribution. Many congratulations to Paul Vallis and the IT team on completing the upgrading of our back office systems and the new website. This should not only enhance our ability to be of service to you but also provide you with a whole range of the new tools.



Angus Macpherson
Managing Director
The Environment Exchange

The Marketplace for PRNs

New System Update *by Paul Vallis, T2e IT Manager and Software Engineer*



Over the past few months we've made some exciting changes and improvements to our IT systems, including completely re-launching our PRN Trading website – markets.t2e.co.uk – using the latest web technologies to offer you a smarter, simpler and safer online experience. Security has been completely overhauled and our new system has been designed from the ground up with your security in mind. Your passwords are stored in a non-recoverable encrypted format that means even staff at t2e cannot access them. A security question and answer that is unique to you can be used to reset your password if necessary.

We have also moved our entire site over to HTTPS which is a secure way for your browser to communicate with our web servers; everything you send and receive from our site is encrypted and cannot be read or tampered with by anyone else. This enhances the security and reliability of the online trading platform for PRNs even if you're using an un-trusted network connection like public WiFi.

New features have also been added to the website to give you better data visualisation and access to information. Flexible interactive graphs of historical and current data show you price spreads and trade weighted averages broken down by year, market and material as required.

On the Prices pages you can view trends and traded prices over the course of a market; when viewing prices you will see a small red graph icon next to each material. Clicking on this will present you with a line graph showing prices that have been traded in the market to date. Hovering over the graph gives you extra information about traded quantities. You can use this graph to give you a better understanding of trends in prices and the direction of movement in the market. All graphs can be exported as images or PDFs allowing you to store them for future reference or use them in presentations.

Finally, the My History page now includes links to PDF copies of your Transaction Confirmation Notices (which are your invoices and VAT receipts for your contract transactions). These can be viewed by clicking on the 'C' icon next to any of your previous trades and can be accessed and downloaded at any time for your convenience. We hope that you will enjoy using our updated site and welcome any feedback or feature suggestions that you may have.

Market Status Report *Continued from Page 1*

Steel

Prices during the period were relatively stable with buyers happy to trade across all markets. At the start of the period the Q1 supply figures provided positive news reporting that over 100k was produced in the first three months of the year. This was followed by an equally impressive Q2 figure which again reported over 100k for the quarter. If one were to examine the last three quarters it would appear that we are seeing a trend of over 100k produced per quarter. To put this into some context the quarterly demand figure is currently 85k so the market is managing to comfortably meet demand this year. Upon release of the Q2 supply figures the market dropped back into single figure trading levels.

Wood

Wood sellers have continued to maintain their price premium above paper this quarter and have subsequently missed volume trading opportunities for general buying. After a couple of years where we have seen some large reproprocessors leave the market we are starting to see quarterly supply stabilise and report 110k against a demand figure of 55k. Sellers in the market have a firm idea of what income they expect to receive and if buyers are unwilling to pay the premium then they will happily write back the tonnage to the agency as this market continues to add little value to their operations.

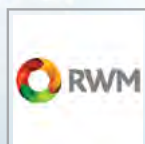
Aluminium

Even in the face of the target increase this market has continued to trade at the lower end of the scale due to a continued oversupply position. After the Q1 figures showed that the market was already in surplus, supply grew by approximately 15% between Q1 and Q2 making compliance in this market relatively easy this year.

Recovery

This market has already achieved compliance this year as at the end of the second quarter it was only required to produce an additional 35k to meet all demand. With the average monthly supply currently being 70k it is reasonable to assume that by the end of August we had produced enough to get us over the line. Prices during the period remained rooted at £0.30 and without being a killjoy to the recovery sellers in the market it would appear the chances of improvement are very remote. On a more positive note 2014 is only 5 months away.

Where to see
t2e next



10th - 12th September 2013



16th - 18th October 2013



24th - 27th October 2013



30th - 31st October 2013

The UK Plastic Films Recycling Sector Time for a critical analysis?



As we approach the opening of this year's RWM, when the 'great and the good' of the UK waste management sector gather in Birmingham for the annual rituals of award ceremonies and (yet more) policy pronouncements, I thought this might be an appropriate moment to examine two issues from a slightly different perspective. Firstly, "how is the UK plastic films recycling industry viewed by the outside world?" i.e. the great British public, and secondly "how is the health of the UK plastic films recycling sector?" Both of these issues are related – although this may not be immediately apparent.

For the UK plastic films recycling sector, press headlines for the last 12 months have been dominated by references to fires at plastic recycling centres. These fires have been headline news and have led to calls for an examination of the current regulations, the last thing the struggling UK based plastic films recycling sector needs! Indeed, one of the UK's leading plastic trade publications recently led with the headline: "Politicians voice fears over recycling safety – A spate of large and highly damaging blazes at recycling plants across the UK has triggered exchanges in the House of Commons about the industry's safety record". Faced with this type of press coverage, it is little wonder that our sector does not currently portray a positive image to the general public.

As far as I am aware, most of the major fires reported in the last 12 months have been at plastic films and paper storage facilities, not factories actually recycling plastic waste. At many of these facilities collected waste films are stored, baled and packed into containers and exported for recycling overseas, not in the UK. To my 'old fashioned' way of thinking a plastics recycling factory is a business which takes waste plastic films and recycles this into a pellet or crumb, for subsequent extrusion or moulding into a finished product. Why the press continue to refer to these fires at recycling plants baffles me and gives totally the wrong impression.

So, how is the health of the UK plastic films recycling sector? Anecdotal evidence suggests those remaining UK based recyclers often struggle to access suitable materials for recycling. The UK market is dominated by 'traders' who find exporting waste films and issuing a PERN so much easier than selling to a UK film recycler who subsequently issues a PRN. The much talked about Chinese 'Green Fence' has had little impact so far because much of the plastic film exported is polythene transit packaging of good quality, leaving UK recyclers with mostly lower quality contaminated films – hardly a suitable business model for investment to meet the higher targets demanded in the future. Where the Green Fence has created obstacles to the shipment of more down-graded waste to China, these waste streams have found new outlets in Vietnam, the Philippines and Indonesia. To be fair to the current Government, this situation is nothing new, the increase in the export of plastic films for recycling overseas has been a constant feature since the introduction of the Packaging Waste Regulations in 1998. Indeed, we have been warning since then that it does not represent sensible risk management for the UK to rely so heavily on these export markets to meet 60-70% of its recycling obligation. The UK recycling industry has seen significant retrenchment over the last ten years as a result, but it retains much of the capacity and the willingness to invest in order to work with the major waste holders to ensure that more waste is recycled in the UK.

The potential supplies of all waste plastics, theoretically available for UK recyclers, are significant. According to DEFRA the supply of plastic packaging onto the UK market in 2012 was approximately 2.6 million tonnes. (It should be pointed out that there are many within the UK plastics packaging sector who believe this is an over estimate. The ACP Task Group is currently working to clarify this number). 620,000 tonnes of plastic packaging was recycled in 2012, an overall recycling rate of 24%. However 65% of this volume was recycled overseas, mainly in the Far East, and only 35% was recycled in the UK. Of the 620,000 tonnes collected for recycling approximately 50% comprised plastic bottles, 40% C & I plastic films, the remaining 10% made up of rigid plastics such as pots, tubs and trays.

Everyone in our industry is aware of the increased plastics recycling targets which came into effect this year and will continue rising until 2017. In this article I do not propose to comment on why the UK Government has chosen to do this – it just has! The UK based plastic films recycling industry can, and should, play a vital role in helping to achieve the new targets, but to do so the industry needs to be sure that Government will take positive steps to support UK recyclers. As I have already said, the current Administration and its regulators appear to be listening to our industry's concerns – whether this will translate into anything positive remains to be seen. At present all we can look forward to is the introduction of the EU Emissions Trading System in 2014 which will significantly increase energy costs for UK plastic films recyclers, together with the threat of further regulation because of fires at exporters' storage yards, making it even more difficult for UK recyclers to compete for materials with the largely un-regulated Far East recyclers. Enjoy your visit to RWM if you are going!

Mike Baxter:

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British Polythene Industries.*