



Market Status – November to January

by Andrew Fendick



Quarter four has been an active period with trading across all markets, 131,364 tonnes in the Spot and 47,750 tonnes in the Forwards. The year finished strongly with 499,919 tonnes traded in 2005 PRNs along with a further 69,811 tonnes traded in 2006 PRNs (on Spot and Forward contracts) within the 2005 compliance year taking the total traded last year across all markets to 569,730 tonnes.

The quarter ultimately saw more supply than demand, with prices tailing off towards the end of December as sellers of tonnage reprocessed before the end of November neared the deadline by which they had to issue their documents. Trading in documents of smaller denominations continued throughout January as participants completed their end of year requirements.

Market Analysis by Material

(All prices per tonne)

Paper – traded from a high of £13.00 in November to a low of £4.00 in December and returned to £13.50 (for 2005 evidence). 2006 trading in January averaged £10.31 in fair volume. Total volume for the quarter was very good, a total of 72,563 tonnes traded in the spot market and 27,000 tonnes traded in the forward markets. The spot total was a 40.8% increase on the same period in 2004.

Plastic – traded actively all quarter with an average price in November of £40.12. It gradually softened to an average of £32.65 in December and finished in January at £35.18 in small volume. 2006 trading in January averaged £31.13 in good volume. Overall total volume for Plastic in the quarter was 16,223 in the spot market, a 37.4% increase on the same period in 2004.

Glass – traded actively to January when trading decreased sharply. The price has dropped from a high in

November of £15.00 to £5.50 in December. 2005 Glass was barely traded in January. Trading opened with an average of £19.62 for 2006 certificates as the market anticipated demand due to the increase on glass obligations (+18%). Total volume for the quarter was down 42.5% to 13,847 tonnes traded whilst trading forward was good with 6,250 tonnes traded.

Steel – ended the year with a gradual softening of price as the quarter progressed. In November the average price was £186.36 per tonne, December was £176.04 before falling to £97.22 in January – 2006 trading in January averaged £102.00 in small volume. Total tonnage traded for Q4 was 11,354, a 7.5% increase on the same period last year.

Wood – performed well in terms of price but disappointed in terms of volume. Price averages started at £12.56 in November, falling slightly to £10.57 in December before increasing back to £13.37 in January. 2006 trading in January averaged £9.88 in small volume. Total tonnage for the quarter was 10,354 tonnes a 36.2% decrease on the same period in 2004.

Recovery – was another market to perform well on price but disappoint on volume. The average price remained firm at around £2.37 for both November and December and then jumped to £3.67 for January (in small volume and denominations). 2006 trading in January averaged £2.18 in fair volume.

Aluminium – traded steadily throughout the quarter with demand for 2005 evidence tailing off totally in January. The average price for November was £243.86 and for December it was £250.59. Trading opened in January for 2006 evidence at an average of £144.07 with 415 tonnes traded. Volume for the quarter on the whole was down 25.1% to 667 tonnes.



Managing Director's Quarterly Report

As a result of a busy final quarter with active trading in both the spot and forward markets about 8% of the projected volume of PRNs issued in 2005 traded through t2e. Although prices softened during December with anticipated surpluses becoming apparent in glass, paper and plastics, prices held up well and recovered to pre-December levels in January. Carry forward and returned tonnage figures will be revealing with a suspicion remaining that there were restrictions of supply in the metals markets.

In plastics supply surpassed all expectations with the export market particularly buoyant. This puts pressure on supplies to domestic reprocessors and restricts their ability to grow. This is reflected in the graph below where reprocessing levels appear to have marked time since 1999. It is difficult to be certain of this because of the impact of fraud on these figures. Similar concerns about the impact of

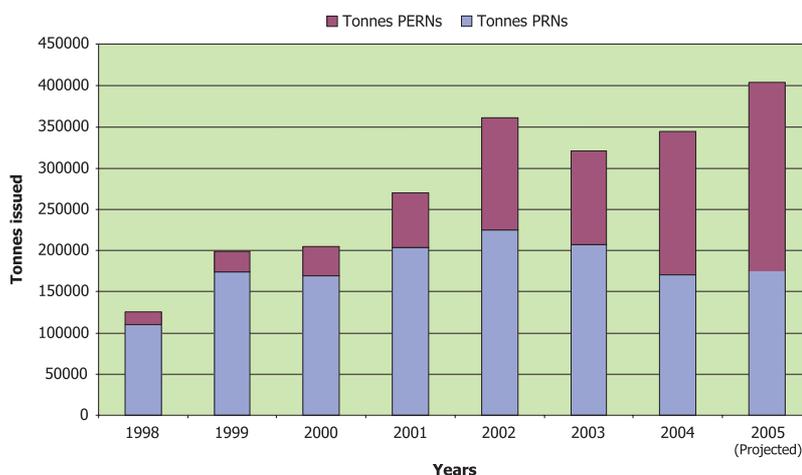
out PRN audits because of the anticipated risks. As a result many have opted to use the t2e independent service as it saves time and effort for those audited. The auditors are totally independent of t2e and the reports produced are confidential between the auditor, his client and ultimately the recipient Agency. On the basis of what the auditors have learned we have been assisting the Institute of Chartered Accountants and the Agencies to develop more generic guidelines. The Agencies have made clear that although they will initiate suspension for all reprocessors and exporters that have not submitted their reports by 28 February they will consider each case on its merits.

Looking forward for 2006 there are many imponderables. Will the independent audit restrict supply? Will the export markets that the UK is so reliant on dry up? Will the UK reprocessing infrastructure further contract? Will the obligated tonnage increase significantly (DEFRA predict 6% growth) as a result of the inclusion of leased packaging, all imported packaging (even if it is re-used) and franchises? How many small businesses (sub £5 million) will opt for the turnover based obligations which might increase their obligation in a single material, although in some cases it will undoubtedly reduce their obligation, but would reduce their requirement for a range of materials and the time and effort to calculate the obligation?

Export growth will probably continue, the growth in targets look achievable (even the +18% growth in glass) and data gatherers predict that DEFRA's figures are over stated. So compliance in 2006 could be achieved at a lower cost than 2005.

Once again many thanks for all your support in 2005. We look forward to being of service to you in 2006.

Plastics PRNs & PERNS



exports on the domestic reprocessing industry are being expressed by the paper industry. From a market perspective the solution is simple the material should go to the best price. The moral and sustainability arguments are more complex. Nevertheless all those involved in the PRN/PERN market are clear that exports are a fact of life, not a pariah, and without them Europe would struggle to achieve its producer responsibility targets. Thank you to both Alan Davey and Raj Iqbal for their contributions on this subject on page 4.

The purpose of the independent audit is to maximise consistency and fraud deterrence. Reprocessors and exporters have been surprised to discover that their auditors were unwilling to carry

Angus Macpherson
Managing Director



Interactive Trading on t2e

In the next phase of the development of the t2e website, you will be able to submit **bids** and **offers** directly onto the website as well as **modifying** or **deleting** your orders using The Environment Exchange (t2e) online trading facility.

If you are currently a participant of The Environment Exchange you can log on to the interactive demonstration website. Interactive trading will not go live to any participant without authorisation; participants will be given the facility to trade interactively on an individual basis.

- Click on **update bid** (or offer) to enter your bid or offer;
- **Confirm bid (or offer) update** under pending bids (or offers) now ready to enter the market. At this stage you have a final opportunity to either modify or cancel your order;
- **View bid or offer or transaction confirmation** – these documents confirm that, at the date and time stated, you placed your order(s) on the PRN market. The contract number(s) listed reflect the contract between you and The Environment Exchange. The status of this order can be viewed on www.t2e.co.uk. Your orders will be highlighted in yellow. The most recent orders placed on the market are highlighted in orange. In the event that orders have been placed since you last logged in, they are highlighted in red. When a transaction occurs, you will be issued a new contract number for each transaction on the Transaction Confirmation Notice.

You will continue to receive confirmations by fax but may also request to receive additional copies by e-mail.

The rules of The Environment Exchange apply to all orders to buy and sell whether you are trading interactively or contacting us by phone to place your orders through

our market operator. You can still contact us and use the trading line for all your enquiries on trading activity during office hours on 0870 607 1354. All calls are recorded for monitoring purposes and in the event of a dispute. Market supervision requirements mean that the hours of trading remain the same. The market is open from 10am-4pm, bids and offers cannot queue up outside these hours.

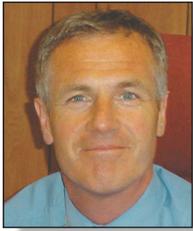
When you log on as an interactive trader you will see how much time is remaining before the market closes at 4pm. When you use this service you can check your personal trade history; your trades made through t2e are shown alongside the trade history of all trades made through t2e.

The screenshot shows the t2e website interface. At the top, it says "This is the Development Site". Below this, there are navigation links and a "Last Trade" box. The main content area displays a table for "Spot 2006 PRN Prices" with columns for "Paper" and "Gen. Recycling". A "Steel" table is also visible, showing columns for "SIZE", "BUY PRICE", and "SELL PRICE". A "Modify Bid" form is shown at the bottom left, with fields for "Market", "Product", "Bid Price", "Bid Quantity", and "Bid Expires". A "update bid" button is located at the bottom of the form. A "Spot 2006 Steel" table is also visible at the bottom right, showing columns for "SELL PRICE" and "SIZE".

To use the service:

- 1 left click on prices – modify (M) or delete (D) your order. For added security **you must confirm your log in details** – entering your user name and password.
- 2 **trading online – buying or selling**
If you require a bid to match multiple offers enter the total tonnage required as well as the best available price. This bid will then trade with matching offers until either your total tonnage has been fulfilled or no matching offers remain. If this bid only partially trades you will be able update the price to the next best available offer price.

Are Exports Helping the UK Market Reach it's Long-term Plastics Target?



A UK Reprocessors View

Alan Davey
General Manager - Linpac Plastics Recycling

As the recycling arm of a large group of companies, we must temper our views on how packaging waste legislation is affecting reprocessors with those of our sister companies who have significant obligations for compliance under the regulations.

It turns out that this is not difficult to do.

Clearly enough, achievement of ever increasing targets is intimately tied up with a successful and thriving local plastic recycling industry. At the moment, this requirement is severely jeopardised by the rapid build up of export routes for UK plastic packaging scrap.

We are the UK's largest recycler of rigid packaging plastics, have built a business over fourteen years based on providing a quality range of products tailored to the many dozens of requirements of our customers. Meeting their needs consistently has allowed double digit growth year after year. But all that has now come to an end for us and for our competitors, as we struggle to acquire adequate feed stocks to sustain existing levels of demand, never mind supporting growth.

Demand for raw materials from the Far East, and especially from China, is sucking those materials out of the UK. The need to return empty shipping containers, which have been used to deliver Chinese goods to Western Europe, means that it is possible to land goods in Hong Kong cheaper than in Calais. Low labour and utility costs, allied to low standards of health and hygiene, safety and environmental responsibility mean that export buyers are able to offer realistic pricing and to capture important and valuable feed stock lines. If this continues at current rates, it will drive UK recyclers out of business.

We are exporting jobs to a country with low labour standards. And perhaps more tellingly, we put future compliance against UK packaging waste targets in the hands of a nation who openly declare that they are at war with us. A trade war, but a war none the less. When (not if) the flow of material to the Far East is interrupted, how shall we then comply? Domestic capacity will have been destroyed and carefully nurtured markets eradicated.



A UK Exporters View

Raj R Iqbal
Chairman, Choice Waste Management Limited

Exports of packaging waste, especially to China, have seen an exponential growth since 1998. This has created, in the UK industry, many concerns; most of which originate from UK reprocessors naturally keen to protect their own business. However their concerns are much overstated and exporters play an important part in ensuring that EU targets are achieved within the set timescales.

The two main areas of concern that are voiced are:

- Exporters issuing PERNs have an advantage over UK reprocessors issuing PRNs:
This is based on various assertions but there are two areas where there is general agreement from both sides of the argument. It is easier for exporters to satisfy the regulatory agencies' requirements than it is for domestic reprocessors and an underlying concern of fraudulent use of PERNs;
There is no strong evidence to support either of these but with better and more visible implementation of existing audit/regulatory requirements by the agencies, reputable exporters will be able to operate without concern of such vilification.
- Overseas recyclers, especially in Asia, operate to lower standards than UK reprocessors:
Again there are a number of factors, which fall in to two categories, namely lower standards/criteria and lower costs. UK reprocessors call for "broadly equivalent standards" but this will have no more than a brief impact because the main competitive advantages in the export markets are the result of low labour costs, lower capital investment costs, stronger market demand, relatively low transport costs and less regulatory overheads (particularly in China).

The ACP Export Task Force, from where the above comments are derived, continues the agencies' support for the whole recycling industry and is a forum where all challenges can be assessed based on sound evidence and data.

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