

Use the Power

Quarterly Report

Report 45

February 2010

The Market Place for PRNs and WENs



Market Status – November 2009 to January 2010

By Ian Andrews

The release of the 3rd quarter figures provided better news for the market with Steel reporting a figure of 115,000 tonnes, a 30% increase on the previous quarter. This figure put the market back in balance and resulted in a softening of the price. Most markets looked to be in good surplus with plastic the most heavily over supplied. Consequently, its price has softened down to general buying levels. The final months of 2009 took on the familiar theme of lack of demand coupled with oversupply resulting in a softening of prices across the board.

Once again t2e landmarks were reached during the period. The highest ever traded volume in the quarter, the calendar and compliance years were achieved. The latter two exceeded 1 million tonnes for the first time in t2e's history.

Trading for the period equated to 355,209 tonnes, with 150,165 tonnes traded in the Spot 2009 market, 51,673 tonnes in the Spot 2010 market and 153,371 tonnes traded across the Forward Markets.

Market material analysis:

Paper – Traded in excellent volume this quarter with good availability. A lack of demand and competition from other materials for general buying resulting in a softening price as the quarter progressed.

Plastic – Prices continued to fall following the release of the 3rd quarter figures confirming that the market was carrying a large surplus. This downward trend accelerated towards the end of the period as competition increased between Plastic, Paper and Wood for the remaining general buying.

Glass – Traded in good volume this quarter with prices remaining firm. Although the 3rd quarter figure showed good growth for the sector, volume trading in the final months of 2009 helped to absorb any surplus tonnage and allowed buyers to take committed December tonnage forward into 2010.

Steel – Excellent volume was reported in the 3rd quarter figures taking some pressure out of the market. This coupled with falling demand resulted in a softening of the price across all markets throughout the period.

Wood – After holding a price premium above paper for the majority of the year, sellers finally reduced their price

expectations in order to compete for the remaining general buying. This resulted in a sharp decline in value over the period.

Aluminium – An influx of volume sellers towards the end of the year coupled with a lack of demand resulted in a price crash at the end of the year. At the end of January there was still 2009 tonnage available for sale, which either had to be sold by the end of the month or written back to the agency.

Recovery – Good volume traded throughout the quarter with prices reducing in line with the lower value PRN material 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 09	£2.50	£0.60	35,499	£1.14	£4.20	239,841
Spot 10	£2.25	£2.00	30,819	£2.07	£2.07	30,819
Dec Fwd	£1.25	£1.25	40,675	£1.25	£1.25	40,675
Jan Fwd	£2.50	£2.25	7,400	£2.35	£2.82	39,900
Apr Fwd	£3.00	£3.00	1,000	£3.00	£3.55	39,000
Jul Fwd	£3.00	£3.00	1,000	£3.00	£3.57	48,000
Oct Fwd	£3.00	£2.75	41,000	£2.76	£2.84	46,000
PLASTIC MARKET						
Spot 09	£2.50	£0.45	29,331	£1.00	£12.18	79,748
Spot 10	£6.50	£5.50	2,976	£6.19	£6.19	2,976
Jan Fwd	£8.50	£6.50	7,700	£7.40	£9.58	11,900
Apr Fwd	£8.75	£6.50	1,500	£7.25	£12.31	4,500
GLASS MARKET						
Spot 09	£30.00	£16.00	32,753	£20.76	£22.06	113,137
Spot 10	£23.50	£20.00	3,570	£22.10	£22.10	3,570
Dec Fwd	£18.00	£18.00	30,000	£18.00	£18.60	34,779
Jan Fwd	£26.00	£22.00	5,956	£23.18	£23.55	10,956
Apr Fwd	£23.00	£23.00	2,000	£23.00	£23.71	10,250
Jul Fwd	£23.00	£23.00	2,750	£23.00	£23.72	13,500
Oct Fwd	£23.00	£23.00	2,750	£23.00	£23.00	2,750
STEEL MARKET						
Spot 09	£40.00	£14.50	13,377	£32.10	£68.22	72,925
Spot 10	£35.00	£22.00	5,885	£26.28	£26.28	5,855
Jan Fwd	£35.00	£30.25	1,390	£32.61	£37.21	1,890
Apr Fwd	£35.00	£35.00	150	£35.00	£46.54	650
Jul Fwd	£35.00	£27.50	4,010	£28.25	£30.67	4,510
Oct Fwd	£35.00	£27.50	3,500	£28.06	£28.06	3,500
WOOD MARKET						
Spot 09	£5.00	£0.75	26,281	£0.98	£2.56	64,940
Spot 10	£3.50	£2.25	2,897	£2.34	£2.34	2,897
Jan Fwd	£2.50	£2.50	400	£2.50	£2.50	400
ALUMINIUM MARKET						
Spot 09	£20.00	£3.50	1,824	£8.50	£54.29	8,689
Spot 10	£30.00	£21.00	924	£24.36	£24.36	924
Jan Fwd	£35.00	£25.00	190	£28.95	£28.95	190
RECOVERY MARKET						
Spot 09	£0.75	£0.50	11,100	£0.62	£2.34	25,784
Spot 10	£2.00	£1.50	4,602	£1.52	£1.52	4,602

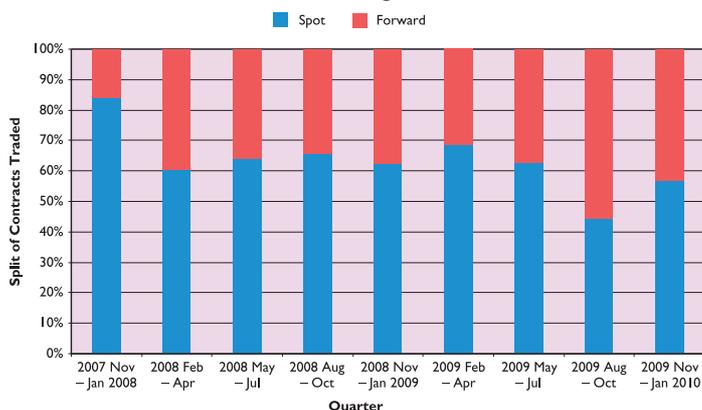


Managing Director's Report

The records keep tumbling at t2e. Not only has there been a second successive record breaking quarter but we have also achieved one million tonnes traded in both the 2009 calendar and compliance years. As our way of saying thank you for

this support we are reducing our trading fees by 40% in all 2010 forward markets.

Percentage split between spot and forward contracts traded through t2e



This quarter has seen the appointment of a new Advisory Committee on Packaging (ACP) as well as a new Chairman but has not yet seen the much anticipated and already publicly debated consultation, giving rise to concerns that it will not be completed prior to the election and the prospect of targets for 2011 onwards not being available until 2011.

It is disappointing that the ACP reshuffle was not used as an opportunity to include representatives from both independently registered and small businesses instead the new appointments suggest a greater local authority influence. Care must be taken not to allow their agenda to dominate the Committee or the regulations which were set up to encourage the reduction and increase the recycling of packaging and not resolve local authority funding issues or ensuring compliance with Landfill Allowance Targets, which we are reassured will be comfortably met.

The consultation has been much debated in public with talk about increased wood recycling targets, greater alignment to the carbon agenda and more involvement from local authorities but to date nothing has appeared. While it would certainly be good to see packaging optimised it must not be achieved at the threat of reducing its capability of protecting the product. Similarly the ambition of cradle to cradle recycling must not be followed out of touch with pragmatic reality.

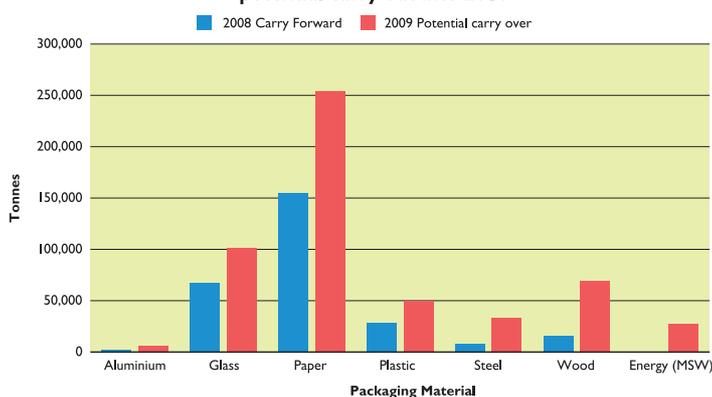
2009 has been a difficult year for many and 2010, after a swift bout of optimism over Christmas, is looking fairly challenging. The rise in VAT rates unexpectedly created a rise in inflation and the flickering growth seen in the last quarter is not anticipated to continue into the next. Many households are beginning to suffer the impact of the credit squeeze as projects initiated in 2008 come to an end and new ones are not immediately available. The banking dichotomy is that they claim to be actively seeking customers to lend to but are also seeking greater security on their loans with the result that borrowers are

finding it increasing difficult to access funds - although bankers seem to be quite capable of accessing them to pay bonuses! Also when these loans are offered they are at a substantial premium to base rate. Despite the appearance of business as usual in the finance sector fundamental changes are planned which will have major impacts on its retail sector. As of yet it is not clear what implications this might have on businesses.

Against this background it remains difficult to predict whether the consumer has continued to spend, although seeking 'value' items, or whether consumption has and will slow down and what consequences that will have on the packaging handled. Difficulties of making predictions have been further exacerbated by some significant movements in to and out of compliance schemes. Early indications suggest that the packaging handled may have increased but may not be back to 2007 levels with a consequent knock on effect on the obligation.

On the PRN and PERN production side it is a completely different story. While domestic reprocessing continues to struggle, exports are booming. The year of the Tiger has opened with China showing its teeth to the United States over arm sales to Taiwan and voraciously consuming paper and plastic, although doubts continue on the validity HMRC figures with suggestions that materials may be misidentified on export documentation. Steel exporting is also up considerably on this time last year while domestic aluminium production soars. Meanwhile glass comfortably met its material specific target. As a result a considerable surplus was available to be carried into 2010, PRN prices slipped, interest in accreditation is down and there is a degree of complacency amongst buyers as they turn their thoughts to sorting out data, the consultation, and challenges in 2011 and beyond as a result prices are low currently in all markets and materials.

Comparison between carry forward into 2009 and potential carry out into 2010



Thank you to John Turner for his article. The development of the National Packaging Waste Database was both an immense success and improvement. Well worth all the effort that it took both John and the ACP to deliver. It was a great pity that the lessons learnt from its development were not implemented for other Producer Responsibility regulations.

Thank you again to all participants for your support during this record year.

Angus Macpherson
Managing Director

Thank you ...

... in 2008 we celebrated 10 years of providing the market-place for PRNs.

... in the 2009 Compliance Year over 1,000,000 tonnes of PRNs were traded through The Environment Exchange. This success is ultimately down to the continued support of our participants and as our way of saying thank you we will be introducing a number of positive changes to the service for 2010:

40% Reduction to trading fees in the 2010 Forward Markets ...

With immediate effect a 40% reduction to the trading fee has been introduced on all 2010 forward market trades (including the 2011 January Forward Transitional Market). Trades will initially be charged at standard rates and the discount will be rebated on settlement of the contract. **This will only be available to buyers and sellers if they adhere to normal trading rules as below:**

Buyers	Sellers
Signed Direct Debit	Completed 2010 Reprocessors & Exporters Survey
10% Deposit paid on time	10% Deposit paid on time
Settlement paid on time	PRN/PERN delivered correctly and on time

These conditions are aimed at reducing administration for all parties, ensuring the security of the contract and improving the efficiency of the settlement of forward contracts. Where participants fail to meet these conditions, standard trading fees will apply.

Reduction of tick size ...

We have reduced the tick size for all contracts from £0.25 to £0.05. This means that from now on you can enter or modify orders of PRNs in all materials and markets by five pence increments. This will particularly assist pricing and negotiations in low value markets.

Additional information on 'My Trade History' on the website ...

Participants can currently use the 'My Trade History' function of the website to view the live settlement status of contracts including End Receiver name details and download Transaction Confirmation Notices. Additional information that will become available during 2010 includes:

- Details of information requested by the buyer to be entered into Box 4/Issuer Notes of the PRN.
- Expiration notices (VAT invoices) for the expiry of forward contracts detailing the balance of payments due.

If you have any questions regarding these changes please contact us on 0844 800 9943. Once again thank you for your support in 2009 and we look forward to being of service to you again in 2010.



The ACP – The Past, The Future

John C Turner - Retiring Chairman of The Advisory Committee on Packaging

When the Packaging Regulations came into force the UK recycled less than 3m tones of packaging waste. This had been achieved by industry initiatives.

The new regulations were the first example of Producer Responsibility to emerge in the UK and required obligated parties to fund increases in recycling. A competitive market emerged to a point where more than twenty compliance schemes were operating as well as those choosing to comply individually. Around the same time there was the emergence of the only trading floor for PRNs and PERNs now known as t2e and to its credit still operates today.

Numerous task forces were formed by the Advisory Committee on Packaging (ACP) to advise Government on necessary improvements to the regulations. This involved industry, Government departments, Regulators and the Devolved Administrations.

Subjects tackled were Forward Investment, Plastics protocol, Packaging Minimization, Communications, Data, Reuse, Local Authorities, Household waste, Enforcement, Free Riders, Essential Requirements legislation, Consumer Information obligation, Exports, Metals Protocols and Targets and transparency to name but a few.

A key outstanding ACP achievement of the last five years has been the introduction of electronic data handling and the move to paperless PRNs and PERNs. This radically changed the efficiency of the system.

Underpinning the operation of the current system is target setting. Throughout the ten years of operation there have been numerous consultations on changes to the regulations. The results were not always spot on but it is a difficult to set targets that result in a fair challenge to industry and yet make steady progress towards meeting EU targets.

The EU targets were successfully met in 2008 and the challenge now is to maintain this progress.

Improvements in packaging recycling levels have not been solely due to the operation of the regulations. There has been a cultural shift in the UK with recycling becoming much more recognized as an important way forward. Activities of all stake holders has increased focus on packaging over the years and coverage in the media has increased awareness of packaging recycling by the public. Packaging, which often attracts an unfair share of criticism related to its role in the overall waste stream, is essential to modern society. Without it damage, deterioration and wastage of all types of product would be immeasurable. The ACP has already issued a publication called "Packaging in Perspective" on this subject in 2008.

Key challenges going forward fall into three categories:-

Firstly – the UK system unique in Europe has proved to be up to the challenge and should largely be left to work. However there will be ongoing adjustments necessary and targets will need to be revisited as time progresses. It is important that target setting becomes more integrated with targets set on Local Authorities. Commercial waste also needs ongoing attention.

Secondly – the question of how the packaging industry can work more closely with the Local Authority sector needs to be determined. Current policy is to give the Local Authorities the tools to do the job but this will not be enough. There needs to be a National approach with set standards with all local authorities collecting each class of packaging material.

Thirdly – there are and will be emerging technologies that will have a major impact on collection and reprocessing methods. These need to be assessed, encouraged and integrated, along with a push to install more energy from waste capacity to make use of this potential.

The UK has come a long way and is now competing favorably with those European States that have been meeting higher levels of performance. The carbon agenda will give a different means of measurement and a different emphasis. With continued focus and involvement of all stakeholders steady progress will be maintained.