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Quarterly Report

Report 53

February 2012

The Marketplace for PRNs and WENs



Market Status Report – November 2011 to January 2012

By Ian Andrews

As another year drew to a close the familiar sight of low prices was prevalent across most markets. The release of the Q3 figures at the end of October led many to believe that supply would remain tight in both the plastic and glass markets however this was not evident in the price spreads/transaction values. Given prices remained stable during the period one can only assume that volumes collected in the months of October to December remained buoyant.

Trading for the quarter equated to 295,966 tonnes with 77,855 tonnes trading in the Spot markets and 218,111 tonnes trading in the Forward markets.

Market Material Analysis

Paper – As expected prices for 2011 failed to recover with most trades taking place in the December forward market due to its incentivised trading fee structure. Trading in the 2012 forward markets saw buyers and sellers transacting linked price deals with higher prices being paid for earlier delivery and values falling towards the back end of the year.

Plastic – Good 2011 demand throughout the quarter helped to keep the price firm with excellent volumes trading in the Spot market. Plastic remained in good supply right up until the end of the period confounding some predictions of a tighter final quarter.

Glass – Along with plastic this market was identified as one which may struggle to meet the target with in year supply. The Q3 supply figures released by the agency were amended half way through the period and this added more weight to the belief that glass may struggle. In the end glass supply remained strong with sellers holding off allocating their December tonnage to transitional contracts to the last minute in the hope that prices would rise.

Steel – The oversupply in steel resulting in historically low PRN values lead to it providing strong competition for 2011 general buying. In fact with remaining paper sellers preparing to write tonnage back this market satisfied the last general demand in the market. Prices for forward trading in 2012 opened at historically low levels.

Wood – This market provided competition with steel for the remaining general buying. Excellent volumes traded during the middle of the quarter with sellers realigning their price expectations to clear their remaining balances. Material specific buyers were happy to pay a higher price for smaller documents.

Aluminium – The release of the Q3 supply figures, which showed that the market had all but provided the required volume to meet the 2011 target, led to prices softening through to the end of the year. Due to the low values some sellers stopped recording tonnage on the NPWD and this led to a reduction in the available transitional tonnage.

Recovery – Excellent volumes traded forward throughout the quarter as sellers, realistically priced their tonnage to trade.

This coupled with the incentivised lower trading fee resulted in a strong trading performance. However, volume traded was down on the same period last year.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	YTD aggregated traded
PAPER MARKET						
Spot 11	£1.50	£0.75	4,712	£0.95	£1.13	23,805
Spot 12	£1.00	£0.80	13,768	£0.83	£0.83	13,768
Dec 11	£0.75	£0.50	37,823	£0.66	£0.84	86,460
Jan Fwd (2011)	£1.00	£0.50	5,439	£0.57	£0.57	5,439
Jan Fwd (Trans)	£1.00	£0.80	7,270	£0.86	£0.86	7,270
Apr Fwd 2012	£1.25	£0.85	8,044	£1.16	£1.16	8,044
Jul Fwd 2012	£1.05	£1.05	7,000	£1.05	£1.05	7,000
Oct Fwd 2012	£0.90	£0.90	7,000	£0.90	£0.90	7,000
Dec Fwd 2012	£0.75	£0.75	7,000	£0.75	£0.75	7,000
PLASTIC MARKET						
Spot 11	£10.00	£3.25	19,080	£4.12	£4.68	51,197
Spot 12	£4.95	£4.50	2,728	£4.85	£4.84	2,720
Dec 11	£4.35	£3.85	12,041	£4.10	£4.10	12,041
Jan Fwd (2011)	£4.45	£2.50	1,257	£3.41	£3.41	1,257
Jan Fwd (Trans)	£4.90	£4.35	5,669	£4.67	£4.67	5,669
Apr Fwd 2012	£6.00	£6.00	561	£6.00	£6.00	561
GLASS MARKET						
Spot 11	£15.50	£7.00	20,227	£8.85	£10.02	81,075
Dec 11	£8.50	£8.50	8,853	£8.50	£9.02	15,752
Jan Fwd (2011)	£9.00	£9.00	1,303	£9.00	£9.00	1,303
Jan Fwd (Trans)	£9.00	£7.50	4,673	£8.04	£8.04	1,673
Apr Fwd 2012	£10.00	£9.00	16,450	£9.61	£9.61	16,450
Jul Fwd 2012	£9.00	£9.00	5,600	£9.00	£9.00	5,600
Oct Fwd 2012	£9.00	£9.00	3,850	£9.00	£9.00	3,850
Dec Fwd 2012	£9.00	£9.00	10,200	£9.00	£9.00	10,200
STEEL MARKET						
Spot 11	£10.00	£0.50	5,101	£0.79	£3.90	16,742
Spot 12	£10.00	£3.25	1,021	£3.86	£3.76	1,003
Dec 11	£1.50	£1.35	4,536	£1.38	£1.59	5,936
Jan Fwd (2011)	£0.70	£0.50	2,508	£0.55	£0.55	2,508
Jan Fwd (Trans)	£3.50	£3.50	490	£3.50	£3.50	490
Apr Fwd 2012	£4.00	£4.00	1,400	£4.00	£4.00	1,400
Jul Fwd 2012	£4.00	£4.00	500	£4.00	£4.00	500
Oct Fwd 2012	£4.00	£4.00	500	£4.00	£4.00	500
Dec Fwd 2012	£4.00	£4.00	500	£4.00	£4.00	500
WOOD MARKET						
Spot 11	£10.00	£0.75	2,205	£0.94	£1.48	11,666
Spot 12	£1.10	£1.10	199	£1.10	£1.10	199
Dec 11	£0.85	£0.50	19,370	£0.64	£0.67	21,417
Jan Fwd (2011)	£0.60	£0.60	781	£0.60	£0.60	781
Apr Fwd 2012	£1.50	£1.25	1,173	£1.29	£1.29	1,173
Jul Fwd 2012	£1.25	£1.25	1,000	£1.25	£1.25	1,000
Oct Fwd 2012	£1.25	£1.25	1,000	£1.25	£1.25	1,000
ALUMINIUM MARKET						
Spot 11	£2.00	£0.70	718	£1.07	£8.46	3,587
Spot 12	£4.25	£4.00	214	£4.15	£4.15	214
Dec 11	£2.00	£2.00	400	£2.00	£2.58	1,650
RECOVERY MARKET						
Spot 11	£0.40	£0.40	473	£0.40	£0.66	3,238
Spot 12	£0.50	£0.30	7,409	£0.31	£0.31	7,409
Dec 11	£0.35	£0.35	8,161	£0.35	£0.35	13,161
Jan Fwd (2011)	£0.35	£0.35	1,339	£0.35	£0.35	1,339
Apr Fwd 2012	£0.50	£0.35	14,220	£0.34	£0.34	14,220
Jul Fwd 2012	£0.50	£0.35	5,200	£0.36	£0.36	5,200
Oct Fwd 2012	£0.35	£0.35	5,000	£0.35	£0.35	5,000

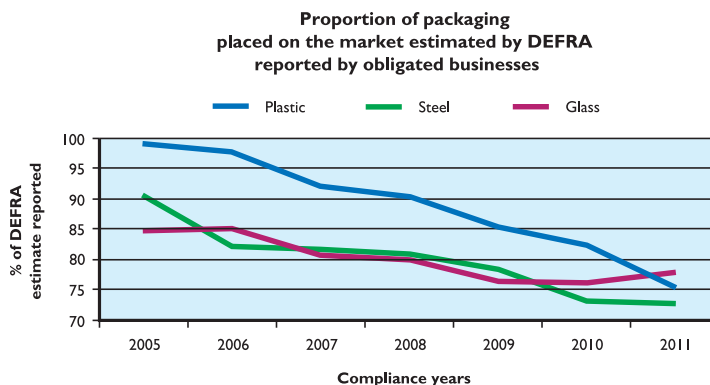


Managing Director's Report

The compliance year finished with a whimper rather than a bang as PRN supply confidently exceeded demand in all materials. Although as interest dropped supply tightened in the final days with sellers uninspired by prices hovering around the £1.00 mark closing their books and writing back tonnage to the Agencies. As a result a couple of sellers benefited from premium prices from anxious late buyers. Speculation now moves to the quantity carried forward into 2012, the number of accreditations and the outcome of the consultation.

With a mild and snow free lead up to Christmas and surpluses seen throughout the year, it appears unlikely that the carry forward will be as low as it was into 2011. Despite rumours that disgruntled sellers wrote back large tonnages to the Agencies it is anticipated that numbers, at over 400,000 tonnes will look similar to 2009 levels. In particular most expect more glass will be carried forward.

Concerns have been raised that the low level of accreditations will result in a shortfall of PRNs. History shows that this is unlikely and while this may cause an initial tightness in the market, issuers have proved in the past to be extremely adroit on reaccrediting or moving from a small to



The Government's recommendation in their long anticipated consultation to increase material specific targets in Aluminium, Plastic and Steel by 3%, 5% and 1% per year from 2013 has been broadly welcomed. Not least because it brings Aluminium and Plastic in line with the other packaging materials and more closely reflects their carbon impact. There has been a confused response from the plastics sector, where some have welcomed the challenge while others fear that the targets will be beyond mechanical recycling and are concerned that the tightening market will create opportunities for exporters to the detriment of domestic reprocessors. The latter reraises the issue of protocols as some suspect that somewhere between 10 and 30% of a container of plastic is not reprocessed.

Analysis of 2011 data for packaging placed on the market in 2010



The removal of aluminium used in composites to bring the UK in line with Europe has been more contentious. While on the face of it, this would appear logical. If aluminium is permitted to withdraw from composite packaging then what other materials might aspire to do the same and what would be the consequences. As at the moment information on composites does not exist, to gather information on composite packaging and its constituent parts would seem a sensible start point.

a large issuer should prices escalate.

Of equal concern is the continuing absence of tonnage that was lost from the system in 2009 and 2010 which currently shows no sign of reappearing. Its whereabouts is a mystery with the Agencies unable to trace it. Glass and Steel have traditionally been under-reported and recently Plastic reporting rates have dropped significantly. While this could be due to over ambitious growth rates identified by DEFRA, it could also be that some packaging producers are miscalculating their obligations. An area that might bear investigation is imports. To look at any supermarket shelf the significant majority of glass bottles appear to come from overseas and yet in the breakdown of packaging handled barely 50% appear to be imported in their packaging while apparently only 28% of all plastic packaging sold in the UK is imported which is markedly lower than all materials other than Aluminium.

While many sympathise with the ambition behind splitting the Glass PRN between remelt and aggregate PRNs, the devil is in the detail with concerns that it not only makes calculating obligations and compliance more complex but also may create undesirable bottlenecks in the PRN market. The success or otherwise of its implementation will, no doubt, influence the Governments appetite for splitting the Plastic PRN.

Thank you to Nick Brown for his article. Thank you to all our participants who have supported us in this difficult year. We look forward to being of service to you in 2012.

Angus Macpherson
Managing Director

Back to Basics: Data

t2e has been part of the Producer Responsibility Obligations (Packaging Waste) Regulations since their inception in 1997 and is a great admirer of what they have achieved. Not only focusing the attention of businesses on their packaging but also almost doubling the rate of packaging recycling, with the added benefit of achieving all this at a relatively low cost compared to our European neighbours. Additionally, the data gathered provides a valuable insight into the state of the economy, provides key information on the accreditation process, encourages environmental improvements and provides ring-fenced funds for the delivery of these benefits.

Data is a key component of the regulations, but there is still room for improvement in certain areas as outlined below:

- the consistency of calculations;
- the detection of 'free riders', which is viewed as being a potential contributor to the divergence between the packaging placed on the market calculated by DEFRA and the quantity reported by obligated businesses;
- the possibility that 'protocols' result in the over-reporting of packaging waste reprocessed or exported.

It would therefore be beneficial to all if such discrepancies in data could be addressed. Even if this resulted in increased PRN prices, it is likely that most companies would prefer to pay slightly more for their PRNs for the certainty that their competitors were contributing equally.

Consultation Recommendations

- t2e endorses the principle that all packaging materials should have the same material specific recycling targets and supports the raising of the plastic and aluminium targets proposed in the Government's preferred option 3a. However, t2e cautions that if the divergence between the packaging reported by businesses using plastic packaging and estimated by DEFRA to be placed on the market, then the tonnage anticipated to be extracted from the waste stream will not be achieved.
- t2e understands the Government's objectives in splitting the glass target, but the devil is in the detail, which is awaited with interest. t2e has proposed a potential solution but the accuracy of data once again is important.
- t2e is concerned about the proposal to withdraw some composite materials from the system and advocates as a start point a better understanding of the quantity of composite materials both entering into the waste stream and being recycled is obtained before any further action is implemented. A sensible start point would be to gather the quantity and composition of composite materials from obligated businesses from their submissions to the NPWD.

t2e News on Trading Fees

As of 1st February 2012, a flat trading fee of 10p/tonne is introduced for all PRNs trading at below £1/tonne. This applies to both Spot and Forward Markets.

If you have any questions or would like to discuss, please get in touch with the Trading Team on 0844 800 9943 or trading@t2e.co.uk



A View on Plastic and the Proposed Packaging Targets

By *Nick Brown* - Associate Director for Recycling at Coca-Cola Enterprises Ltd

In the November edition of this newsletter Tom Rickerby explained a little of our plans to help transform recycling in GB and specifically our strategy to develop Europe's largest and most sophisticated plastic bottle reprocessing plant with ECO Plastics in Lincolnshire. The project is making great progress with the first materials due from the production lines in March.

Our approach to recycling is one built on partnerships – in order to make meaningful contributions to resource efficiency, the favoured current term of several government departments, it is essential to understand how individual steps in the recycling process work and their impact on others along the chain. This is why Coca-Cola Enterprises Ltd (CCE) has already reduced the amount of packaging used in GB by 60,000 tonnes since 2007. We recognise bottles and cans need to be easily recyclable which is why we've never used compostable packaging and other formats which introduce major challenges to the economics of sorting and reprocessing. We are championing design for recyclability in our industry, as we believe only easily recyclable bottles and cans should be on the market.

Major consumer brands can play a role in increasing national recycling rates and we need to use the power of our relationships to inspire consumers to make the right decision with packaging when they finish with it– our research shows that “casual greens” want to do the right thing, and will do so if they understand what it is! There is still confusion from consumers about what can and cannot be recycled, what local authorities collect and what the benefits of recycling really are. This is why CCE has put together messaging for our packs, promotions in stores, events programs and messages for our 130 on-the-go recycle zones to inspire and educate consumers that it really is worth recycling.

Each time there is a story in the media about collected glass being crushed and used in golf bunkers, or low grade plastics being exported to Asia, there is a group of householders who are probably a little more sceptical about what the right thing is and may not recycle everything they could. This is an area where we believe the current recycling targets and PRN scheme can be used to help.

We are supporting the Government's preferred proposal in the DEFRA consultation – we believe the PRN scheme over the last decade has allowed producers and retailers to support investments in sorting and reprocessing infrastructure and the scheme can do much more in the future.

Thanks to investments by ECO Plastics, CCE and others plastic bottle collection and recycling infrastructure is now well-established in this country. The next step is to focus support from the PRN system into the widely used materials where the infrastructure is not yet in place. One way of doing this could be to have split targets for plastics which more accurately reflect their reprocessing requirements – either into application, such as bottles, rigids and films, or into polymer specific categories.

Another way to strengthen the current proposals would be to tackle a possible unintended consequence that the increasing plastics target lead to the collection of lower value materials through systems which are not yet capable of handling them. This could lead to a greater amount of plastics being exported in the short term. As the PRN and PERN price will probably increase there will be an additional financial benefit to exporters who can claim the value of a PERN on the total weight of plastics they export whereas domestic reprocessors can only claim for the weight they remelt, in some cases as little as half of the materials they receive. One possible way to counter this is to only allow exporters to claim a PERN for a percentage of the materials they export based on its end use, or the proportion of target material in the mix. Although this wouldn't completely level the playing field for domestic reprocessors it would ensure that the proposed changes to the PRN targets would not exacerbate the issue!

We see great potential in increasing recycling targets and the current PRN scheme, which is why we are fully supporting the DEFRA proposal, and I am confident that with some reasonably simple modifications to the system, we can use it to move even further towards the more resource efficient economy so popular in Government departments.