



Quarterly Report

Issue No 22

May 2004

Market Status February to April

by Cliff Laundon

Post-transitional spot market prices continued to show signs of gradual recovery. Target revisions for 2004 restored price differentials between PRN classes and we saw the emergence of seven meaningful sub-markets again.

Traded volumes on t2e were encouraging with 63,197 tonnes traded in the spot market, up 11,793 tonnes (23%) on the same period last year (51,404 tonnes). The adoption of strategies to secure prices at the market average over the year, rather than those to beat the market, was reflected in the forward markets with trading in the April, July and October contracts (1,500; 3,000 and 6,500 tonnes respectively).

Paper traded actively with prices rising consistently from £6 to £10 although some resistance to £10 was encountered at the end of April, with traded prices reverting to the £8.50 to £9.50 range.

Plastic traded in fair volume from £7 up to £15.50 before reverting to the £12 to £13.50 range. Sellers of other than occasional quantities were few. The effect of low prices in 2003 was reflected in Agency lists issued during the quarter, which showed a significant reduction in the number of firms accredited for plastic from last year.

Wood prices shadowed those of Paper throughout the quarter, trading at discounts of 50p to £1.50. Traded volumes were good at 22% of the spot market, second only to Paper.

Steel traded thinly during the first two months as prices rose from £10 to £14, probably a result of definite price expectations above £15 by reprocessors. By April, selling interest returned to the market with trading in the £15 to £18 range.

Glass traded in fair volume from the £16 level, rising to £28.75. Sellers offered limited quantities at various levels in this range. Contracts of around 500 tonnes were concluded between £16 and £25. Consistent buying interest seemed to confirm the view that £30 will be achievable in the near term.

Recovery sellers refused to sell at the bid prices seen early in the quarter although some trading at £1.50 occurred for high volumes. In April prices settled down to the £2 to £2.75 range with modest volumes offered and traded at £2.25 by the end of the month.

Aluminium was traded at £15, rising to £30 in very light trading.

Following 2003, optimism grew that prices would return to what many regard as sustainable levels. However trade weighted prices for Paper, Plastic, Wood, and Recovery for April remained at or below those for the same month last year.

2004 Compliance Year - Trade Weighted Prices on t2e





Managing Director's Quarterly Report

The last quarter has been one of increased trading and increasing prices. At the beginning of the best first quarter ever it looked as though compliance could be achieved at prices below £10. This is looking less likely, as the impact of the Government's investigations into the plastic sector, the Agencies' more aggressive attitude on data, a significant rise in obligations and the problems of analysing the most recent statistics issued by the Government have all led to suggest a potential scarcity of PRNs.

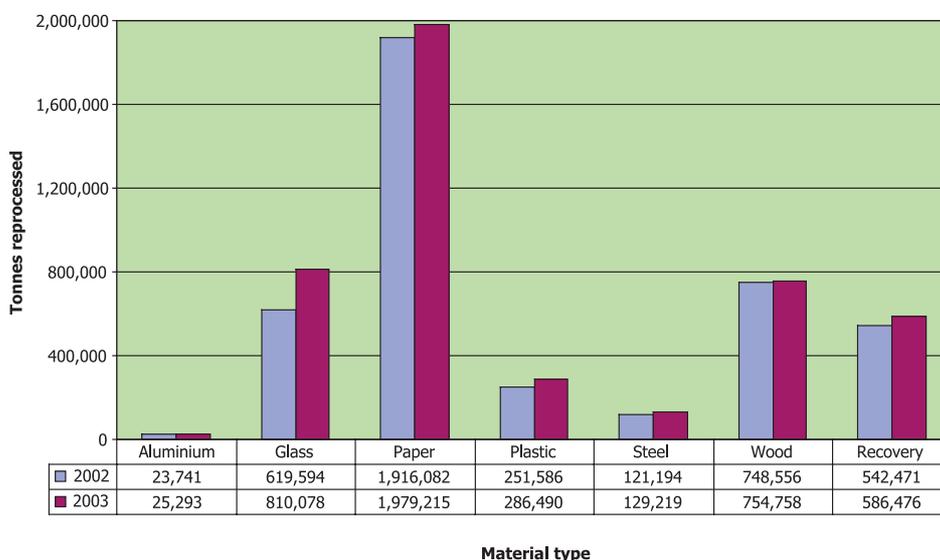
Surprisingly, given the surfeit of PRNs in 2003, the reported carry-forward is down on the previous year. This figure could have been confused by undeclared and possibly fraudulent transitional PRN tonnage which has undermined prices.

Our forward markets continue to offer the certainty of a known tonnage at a known price at a known date in the future where prices look attractive to both seller and buyer. Sellers should be cautious not to over commit themselves in these contracts, and ensure that they have sufficient reserve so they can adjust their strategy during the year. Consideration should be given to releasing tonnage on all markets regularly throughout the year, rather than committing your total tonnage at the beginning of the year. Buyers are reminded that it may be that there is insufficient supply available in the spot market, which requires delivery in 3 days to meet

their full obligation for the year. Therefore, if buyers wish a swift transaction, you should place orders in the forward markets as well.

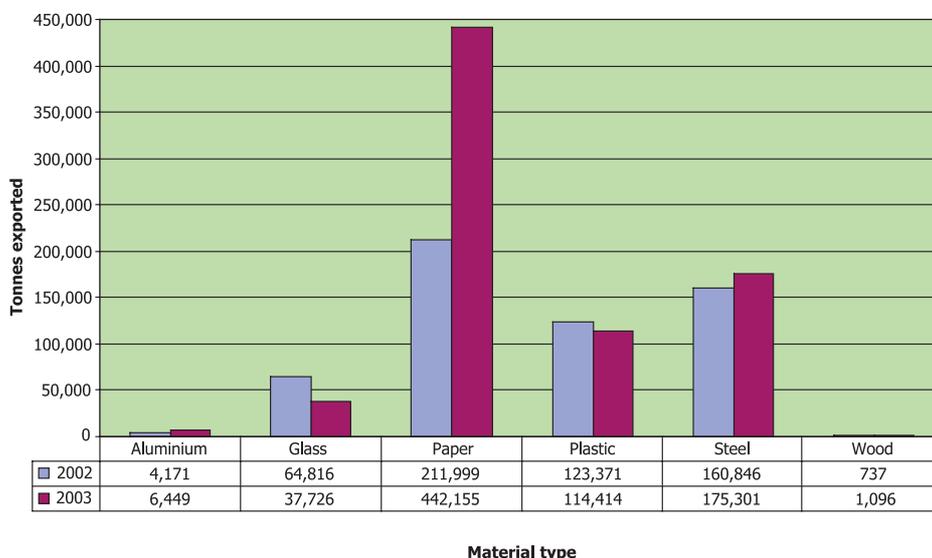
The January forward market is for transitional tonnage market, where buyers will pay a premium in order to secure the right to draw down the tonnage in either this (2004) or the next (2005) obligation year. Our switch market (where a PRN is taken in partial payment

Accredited Tonnage Reprocessed 2002 & 2003



Source: DEFRA Statistics April 2004

Accredited Tonnage Exported 2002 & 2003



Source: DEFRA Statistics April 2004



of a contract) is increasing in popularity as compliance schemes appreciate the realities of meeting their various material specific targets. The switch market is also a useful tool for reprocessors that need PRN classes to fill their obligations other than those that they create themselves.

The Agencies have asked us to ensure from 1 June 2004 that the name of the obligated company or compliance scheme that a PRN or PERN is issued to is put on the PRN or PERN. This requirement aims to facilitate the audit trail of PRNs once they have been issued and reduce fraud. While this measure will go some way to achieving both these aims, a central register for PRNs would achieve it with far greater success and less of an administrative burden. This additional requirement will not impose any change to our current operations. We already have in place representative agreements to ensure that we are aware on whose behalf any PRN is purchased. We will notify issuers to whom the PRN or PERN has been issued on completion of the contract. If any PRN is subsequently transferred to a third party, we will also arrange for the issuing reprocessor or exporter to be notified.

The Agencies have also imposed an increased duty of care onto ourselves; as a result I will be visiting all participant reprocessors and exporters.

In her article The Commissioner makes clear that focus in the future will be more on waste streams rather than particular products; an important issue is the quality of the secondary raw material for reprocessing. Semple Fraser's reminds us that European law takes precedence over UK law; their interpretation of the Mayer Parry case could have implications for the accreditation of reprocessors.

Once again many thanks for your continued support.


Angus Macpherson
Managing Director



Waste Law

by Barry Love
of Semple Fraser W.S,
The Business Law
Partnership, Glasgow

Food ... like the decisions of the European Court of Justice (ECJ) ... must be carefully chewed and properly digested. For, not only is the ECJ the ultimate arbiter on all issues of European Waste Law (*reigning supreme over all UK Courts and even Parliament*), but the notion of the **supremacy of EU law** means that if UK law is out of step, you ignore it, and rely directly on Community law instead.

Take the *Mayer Parry* case. The ECJ said that "recycling" of waste has to involve a production process resulting in a new material/product which has similar characteristics to the original. If it lacks similar characteristics, it remains waste. Mayer Parry actually lost because their product had impurities (*meaning its characteristics weren't sufficiently similar*). Without impurities, they would have won. It appears that the UK position (*that only steel manufacturers can be accredited as reprocessors*) is highly suspect, and possibly challengeable. So, if you meet the ECJ's criteria, consider *insisting* on accreditation.

Consider also the *Commission v. Germany* case. The ECJ confirmed that incineration can count as waste recovery (*not disposal*) if your main purpose is energy-generation, if the process produces more energy than it consumes, and if the majority of that energy is harnessed (*with the majority of the waste being consumed in the process*). This has absolutely nothing to do with minimum calorific values. The UK's current position under the Substitute Fuels Protocol appears to be entirely illegal, so it's just as well they're in the process of changing it. The fact remains that the ECJ gave judgement in February 2003, so what they said has been the law ever since. If you meet those criteria, you may well be recovering and not disposing.

So the moral is ... to know your European Law – the rights it gives you – and to assert them – **forcefully**.



Producer Responsibility in the Field of Waste Policies and the Thematic Strategy on the Prevention and Recycling of Waste

by Margot Wallström, European Environment Commissioner

Without a doubt, producer responsibility has been one of the major waste policy initiatives of the last decade. It transformed the handling of certain key waste streams and created structures that have put recycling firmly on the map.

The Directives on packaging and packaging waste, end of life vehicles and electrical and electronic waste have raised the profile of waste as an issue and led to the creation of recycling solutions that would not otherwise have existed. In addition, producer responsibility has had a positive impact upon the way that products are designed. By placing the costs of recycling principally with producers, it encourages them to design their products differently to make recycling easier and therefore less expensive. Hence we now have cars that are designed to be dismantled, and packaging that is thinner and made of one type of plastic rather than two or more.

As the circumstances under which these policies were set up are beginning to change, We increasingly need to deal with waste streams that are more complex and have more producers involved. We also want broader effects – rather than just design for recycling, we would, for example, like to see more design for the environment.

Within the context of life-cycle thinking and the Integrated Product Policy approach, which seeks to minimise negative environmental impacts of products from "cradle to grave", we want recycling to move from being the exception to becoming the preferred option for waste management.

Can further waste-stream or product-based producer responsibility Directives achieve this transformation? A number of factors would seem to indicate that there would be limits to such an approach. Most importantly, all of the existing Directives based on waste-stream related producer responsibility cover only 7% of total waste volumes. This is for good reasons - these Directives were designed to solve specific problems. Nevertheless, this indicates that if we want to have a wider effect, we will have to think about whether this is possible through "more of the same".

The Commission's Thematic Strategy on the prevention and recycling of waste, which will be adopted in 2005, will look at the full range of measures available to promote recycling whilst working with the market: direct support, demand side actions, taxes and so on. However, producer responsibility and recycling targets remain a tried and tested way of facilitating the necessary changes. One option that might allow continued progress and at the same time reduce some of the rigidities of the approach used so far is a move to material-based policies. To take an example such as paper: it doesn't seem entirely logical that packaging paper (60% of the waste stream) is covered by a recycling target and producer responsibility system, but other types of paper are not.

Obviously, the move from a product or waste stream focus to a material focus would need to be an evolution, rather than a revolution, over a number of years so that there can be a smooth transition. We want to reduce and not increase complexity, so we need to make existing legislation work first.

To a certain extent the two approaches already co-exist at the EU level as the packaging targets are organised along material lines. In addition, some countries both inside and outside the EU have pursued material-based approaches for specific waste streams.

The Thematic Strategy will provide an excellent opportunity to take producer responsibility and make it fit the needs of the next decade - both for waste policy and for the messages that are emerging from the work on the sustainable use of natural resources. We must make sure that we seize this opportunity.



www.t2e.co.uk

info@t2e.co.uk

Direct Trading Line
0870 607 1354

The Environment Exchange
41 Charlotte Square, Edinburgh, EH2 4HQ
Tel: +44 131 220 4870 Fax: +44 131 220 4847