



## Quarterly Report

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### Market Status – February to April

by Andrew Fendick

The Spot 2005 market kicked off in earnest early on this quarter with a great many buyers keen to get a large proportion of their buying completed at the start of the obligation year. This has been born out by some very encouraging figures for the period; 90,449 tonnes have been traded compared to 63,197 in 2004 which represents a 43% increase in traded volume.

traded this month has been in a very narrow band between £11.00 and £11.50. Average price was £11.31 and total volume traded in the quarter is 51,421 tonnes.

**Plastic** traded in moderate volume. A total of 4,563 tonnes has been traded which was less than the same period in 2004 of 5,515. Trading has been reasonably consistent but the transactions were limited to small volumes. The average price was £59.58 per tonne.

**Steel** traded in good volume despite fears over availability. A trend has been for tonnage to be traded as soon as it is offered into the market with a total tonnage of 8,417 tonnes being achieved in the quarter. The average price £61.64 per tonne with the low this period of £55 and a high £80 per tonne.

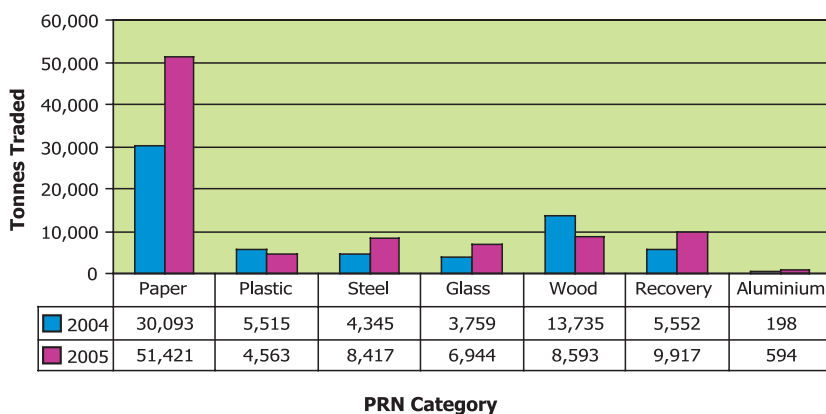
**Glass** traded 6,944 tonnes with an average price of £18.17; the high for the period was £21.50 and the low £17.25. A slight stand off had been noted earlier in the period but the £20.00 barrier has become more permeable with good volume being traded as a result.

**Wood** is another material to have traded in a very narrow price band with a high of £12.00 and a low of £10.50. Trading volumes have been modest with just over 8,593 tonnes being recorded and an average price of £11.17.

**Recovery** trading has been sporadic. A total of 8,621 tonnes was traded in March in a series of trades between larger buyers and sellers; the total for the period is 9,917 tonnes, average price £2.06

**Aluminium** has again seen very light trading. Material remains very scarce with sellers either reluctant or unable to offer any more than 100 tonnes per transaction. Total volume for the period was 594 tonnes and the average price was £65.90.

#### Difference in Q.1 Trading Between 2004 and 2005



Fears over long term availability have seen prices in the 'problem three' materials of Steel, Aluminium and Plastic creep steadily higher, almost reaching the levels achieved in the previous quarter. DEFRA released final quarter and carry over figures for 2004 in April. These illustrated that the UK failed to reach its overall recycling target but did reach its recovery target; they also anticipated potential shortfalls in the 'problem three', underlining fears over availability. Carry forward tonnages were surprisingly high with 225,841 tonnes being brought into the 2005 obligation year. Figures of particular interest were noted in Aluminium and Glass where 1,232 tonnes and 63,641 tonnes were brought forward respectively.

**Paper** traded in very good volume for the quarter with a low of £10.75 and a high of £12. The majority of volume

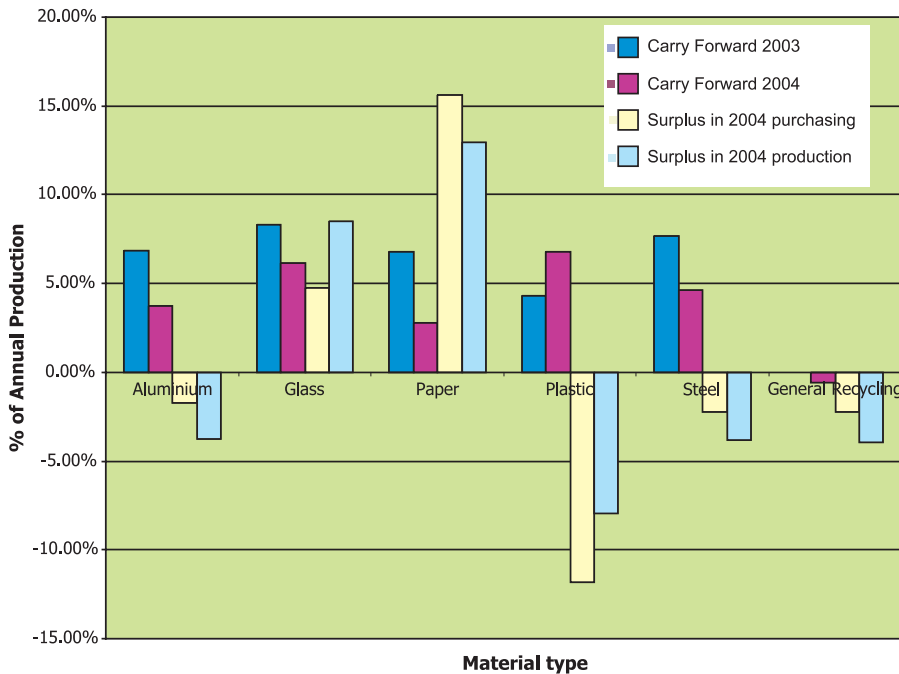


**Managing Director's Quarterly Report**

It has been a busy first quarter for t2e and trading volumes have increased significantly over the same period in the previous year, as buyers seek to secure tonnage early to avoid the risk of non-compliance. With 6 compliance schemes and 34 companies still awaiting confirmation that they achieved compliance in 2004, this is hardly surprising. More surprising is the limited use of t2e forward contracts to achieve security.

We continue to hear of reprocessors and exporters that have entered into loose contracts where the buyer holds all the aces having an unlimited call on tonnage based on market prices. These contracts have two impacts: firstly, they excessively restrict the tonnage available to the open market with a consequent unrealistic price movement, secondly, the seller is carrying all the down side risk without price, volume and delivery date confirmed. While short term price inflation may appear advantageous to sellers, it is unsustainable in the long term for the market, as excessive supply based on excessive price is generated with a consequent price crash. It will be very interesting to see the first quarter returns. If they reflect the growth of the previous quarter, the UK will be more than capable of meeting all its targets in 2005.

**Comparison by % of Carry Forward to Annual Purchasing and Production by Material**



2004 final quarter figures surprised many. No aluminium PRNs were available for purchase on 31 January 2005 and yet 1,232 tonnes were carried forward to 2005 and 80 tonnes were returned to the Agencies. With prices at the year end rising to as high as £150 a tonne, it is amazing that the 569 still needed, by or on behalf of obligated companies at the compliance year end, did not come to the open market. Added to rumours of the first option on PRNs being denied to suppliers of material to Aluminium reprocessors, there are suggestions of market abuse and that the Office of Fair Trading should investigate trading activities in this sector. The steel sector shows similar symptoms:

14,712 were carried forward and 88 returned to the Agencies and yet 7,109 were not purchased. While there was limited availability at the yearend, it is doubtful that this volume could have been found even though prices reached in excess of £100. Similar tightness in availability has been identified in 2005. If the first quarter shows that the volumes and potential availability are there, questions will need to be asked.

In plastics the export market rocketed to a year on year growth of 84% in the final quarter and 28% of its final quarter production was carried forward. This in a sector where there was a shortfall of production to the material specific requirement of almost 27,500 tonnes and purchasing by over 40,000 tonnes! While the Agencies's position on Peniston Plastic has contributed to confusion, questions are being asked if there were deliberate attempts to ensure that companies could not take corrective action or comply, whether those actions were either beneficial to the market or legal and whether fraud is raising its head again.

Once again thank you to everyone for their support to date we look forward to being of service to those that have not traded to date and seeing those participants that are going to the IEMA conference on 7 and 8 June 2005.

*Angus Macpherson*  
**Angus Macpherson**  
Managing Director



## What Price a PRN?

Some may treat our prices as a shop window, not realising that there is more in it than meets the eye. The points outlined below are the key features of t2e's trading platform; t2e's prices page allows our market participants to access a wealth of information on up to date and historical prices. This page is a unique feature, which provides market transparency.

These tools help our members to decide where to place their bids and offers in the market and allow our members to build up a more complete picture of pricing trends emerging in the market.

The screenshot shows the 'Spot 2005 PRN Prices' page on the t2e website. The page is divided into several sections:

- 1**: A summary box at the top right listing recent trades for various materials like Wood, Paper, Plastic, and Recovery.
- 2**: A left-hand navigation menu with links such as 'Home page', 'Trading Line: 0179 607 1354', 'Contact', 'Spot 2005', and 'All Materials'.
- 3**: A dropdown menu for selecting the market type, currently set to 'Spot 2005'.
- 4**: A table for 'Paper' PRNs with columns for SIZE, BUY PRICE, and SELL PRICE.
- 5**: A table for 'Gen. Recycling' PRNs with columns for SIZE, BUY PRICE, and SELL PRICE.
- 6**: A table for 'Plastic' PRNs with columns for SIZE, BUY PRICE, and SELL PRICE.
- 7**: A table for 'Steel' PRNs with columns for SIZE, BUY PRICE, and SELL PRICE.
- 8**: A table for 'Recovery' PRNs with columns for SIZE, BUY PRICE, and SELL PRICE.

Additional features visible include a 'Last 10 trades' link, a 'Market Literature' section, and a 'Log Off' button.

Detailed below are the main functions available to members:-

- 1 Last 10 trades – gives an overview of the daily/weekly activity, enabling members to track and spot pricing trends;
- 2 This menu allows members to select between spot and forward market information;
- 3 Prices can be reviewed for individual classes of PRNs across all markets;
- 4 The prices page allows members to access historical information for the previous trading years;
- 5 One panel for each PRN class, containing all bids and offers available in the market;
- 6 Bids and Offers – the pricing of bids in each class are listed with the highest first, the prices of offers in the market listed with the lowest first;
- 7 Members can review the last 5 trades in any class in order to identify the pricing trend;
- 8 Members can access a number of current and historical information in graph form.

Our market operator facilitates trading on t2e; his role is unique in the PRN market in that he is disinterested and ensures that the trading is conducted impartially. All new orders are processed under the market trading rules, thereby ensuring that no preferential treatment is given.



## Tougher Times Ahead?

by Jeff Cooper

Producer Responsibility Policy Manager, Environment Agency

The end of 2004 produced the result which many had predicted would have occurred earlier for the UK's unique market-based compliance system for packaging waste – a tight market for the end of year PRNs (packaging waste recovery notes) and their export equivalent, PERNs. Why did it take so long and what are the implications for the future for the PRN system?

The fact that 2004 generated a result which had not been seen in earlier years, with the exception of certain aberrant movements in specific packaging wastes, was mainly due to the Government's decision to adjust to the 2008 targets at the earliest opportunity. A cushion of energy recovery provision, phasing from 25% in 2004 to 5% in 2008 could have been made. The Government chose to go for the 2008 recycling targets from 2004, mainly to ensure that the higher packaging collection and recycling capacities or alternative overseas treatment opportunities were developed as soon as possible.

In the period to 2003 half of business/compliance could be met by energy recovery but with limited energy recovery capacity the UK was unable to take full advantage of this provision. With the reduction to only a 5% allowance for energy recovery even the UK now has twice the energy recovery capacity it could use. Therefore, no one should have been surprised that with so many changes to the packaging waste regime some one was going to fail to hit some of the myriad of targets.

From 1998 each year several of the hundreds of businesses registered with the Environment Agencies individually fail to provide suitable evidence of compliance. Since the start of 2005 this is now exclusively PRNs and PERNs. At the end of 2004 individual registrants – afflicted by key employee desertions, illnesses and incapacity, among a range of excuses for failure to comply – were joined for the first time by several compliance schemes.

Missing the targets in 2004 by a slim margin has at least ensured that everyone has now to be more robust in their preparations for tackling future years. Unfortunately, while the UK's PRN system and fiercely competing compliance schemes have provided low cost compliance for UK packaging businesses it has not provided a framework for longer term planning to reach the 2008 targets.

One mechanism, proposed by the CIWM, is for companies to join compliance schemes for at least three years. This would then provide for the membership stability and financial resources for compliance schemes to work more closely with reprocessors to reach the 2008 targets. For those unwilling to sign up for three years the go it alone option is still available.

*The views expressed in this article do not necessarily reflect the views of the Environment Agency.*

## FORTHCOMING EVENTS

### **IEMA (Institute of Environmental Management & Assessment) Annual Conference**

**7-8 June 2005, Chateau Impney Hotel, Droitwich Spa, Worcs.** t2e has a stand for both days, Angus will attend both days.

### **Reducing Packaging Waste Conference (organised by RWM)**

**9th June 2005, Institute of Physics, Portland Place, London, W1B 1NT.**

Angus is chairing the conference, speakers include Sheila McKinley (DEFRA), Chris Grove (EA), Phil Conran (Biffpack), Mark Barthel (WRAP), David North (Tesco) and Daniel O'Connor (Mayer Environmental).

### **CIWM (Chartered Institution of Wastes Management) Annual Conference & Exhibition 2005**

**14-17 June 2005, Paignton, Torbay, Devon.** Angus will visit the exhibition, and meetings can be arranged.



[www.t2e.co.uk](http://www.t2e.co.uk)

[info@t2e.co.uk](mailto: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**