

Market Status – February 2007 to April 2007

by Andrew Fendick



In what has been a sporadically traded first quarter, tonnages are surprisingly up! The challenge in the beginning of 2007 seems to be down to the migration onto the ePRN system. Many buyers and sellers initially struggled to grapple with the change in processes which accompanied the new web based database. After some bedding in time it seems as though many now prefer the new system and agree that it streamlines the administration process.

Total trading for the period is 150,313 tonnes across all markets, up on previous year's performance. The challenge for all concerned is maintaining momentum in a market still showing signs of underlying weakness, increasing liquidity is the key to achieving this.

Market material analysis:

Paper – has traded in excellent volume, particularly in the Spot market, maintaining its position as the best value recycling PRN in the market thereby picking up all general recycling (and recovery) demand. Forward market activity has not been as strong as expected perhaps reflecting uncertainty as to which direction the market is heading.

Plastic – fair volume traded throughout the quarter and due to demand generally being stronger than supply the price has crept up as the quarter continued.

Steel – demand has been slow to get going with much of the larger obligated tonnages commanding prices in the lower range (towards £9.00 per tonne) and smaller tonnage requirements trading towards the higher end (£11.50 per tonne). The lack of forward activity points towards many larger buyers having already entered into contracts.

Glass – the bullish nature of this market is no doubt due to an increase in demand this year and relatively static supply. Previously this market has seen imbalance, this year it's widely expected to be a lot tighter. Prices in both Spot and Forward markets have been steadily creeping upwards to reflect this market situation.

Wood – has performed well towards the end of the trading period, perhaps masking earlier difficulties in trading figures. Strong demand coming into the market has been enough to stop a bearish trend and force the price back past the £3.00 per tonne level.

Recovery – has struggled to compete with low priced recycling PRNs with many sellers showing a high degree of ambivalence towards trading. As recycling prices have picked up, so has buying interest for Recovery, forcing the price back towards the mid £2.00 per tonne level.

Aluminium – another market to make a slow start to significant trading. Good demand has been showing in the market all year but supply has taken a while to come to market. Good tonnage traded the Spot price up to £30.00 per tonne towards the end of the period, possibly attributable to the delay in accrediting some export destinations.

	High this quarter	Low this quarter	Traded this quarter	YTD average traded price	Year to date aggregated traded
PAPER MARKET					
Spot 07	3.75	2.50	60,531	3.03	79,564
Apr Fwd	-	-	-	4.07	16,965
July Fwd	2.50	2.50	4,000	3.87	27,000
Oct Fwd	2.50	3.75	10,000	3.55	16,500
PLASTIC MARKET					
Spot 07	13.50	7.00	4,925	7.26	7,679
Apr Fwd	-	-	-	6.94	4,000
July Fwd	10.50	10.50	1,500	10.50	1,500
STEEL MARKET					
Spot 07	11.50	9.00	2,156	8.28	4,996
Apr Fwd	-	-	-	12.50	500
July Fwd	-	-	-	12.50	500
GLASS MARKET					
Spot 07	27.00	22.50	16,202	23.94	22,389
Apr Fwd	25.00	24.75	7,000	25.06	9,000
July Fwd	27.00	27.00	2,000	27.00	2,000
WOOD MARKET					
Spot 07	3.50	2.50	30,399	3.15	35,144
Apr Fwd	-	-	-	-	-
July Fwd	3.25	3.25	2,500	3.25	2,500
Oct Fwd	3.25	3.25	3,000	3.25	3,000
RECOVERY MARKET					
Spot 07	3.00	2.00	3,032	2.19	3,563
Apr Fwd	-	-	-	-	-
July Fwd	-	-	-	-	-
ALUMINIUM MARKET					
Spot 07	30.00	20.00	868	26.68	1,030
Apr Fwd	20.00	20.00	100	20.00	100
July Fwd	20.00	20.00	100	20.00	100



Managing Director's Quarterly Report

The first quarter for 2007 has been one of highs and lows, fortunately it started on a low with less trading in February than any month since February 2003 and finished on a high with over 100,000 tonnes being traded in a month for the first time ever. Another high is that we were appointed in March to run WRAP's materials pricing report. This has been a very illuminating exercise. It has swiftly become clear that there is wide cross-section of perceptions of contracts, quality and market price in the materials (paper, glass and plastic) that are covered.

Market indications

Prices too are beginning to move upwards after the sizeable surplus in 2006 had worked through the system, so paper, wood and recovery prices have all crept upwards from lows of £2 to over £3. Recovery in small volumes is hard to come by. As a result paper and wood have been not only filling general recycling demand but also recovery. Glass and aluminium are also drifting up towards the £30 mark as concerns are raised on availability. Doubts about exports finding destinations that meet equivalent European standards exist in the plastic market where prices also have been firming.

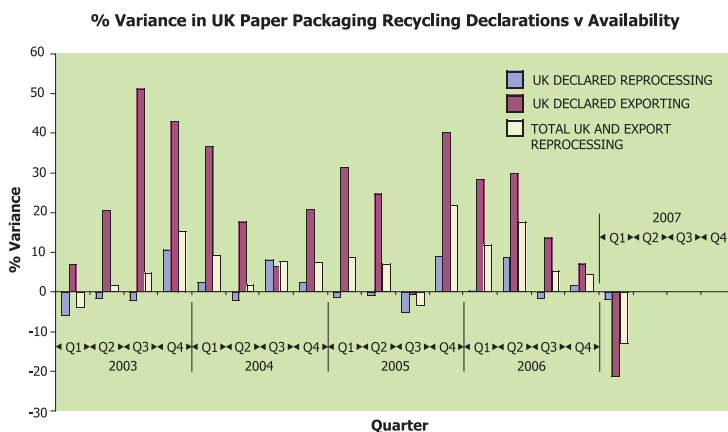
first quarter. While plastic have converted these into PERNs, in contrast CPI reports that paper PERNs seem to have under reported by some 105,000 tonnes in comparison to HM Revenue and Customs figures; a reversal of concerns expressed in previous quarters. Additionally the total number of (e)PRNs issued has reduced significantly year on year, which reflect the difficulties that have been encountered with the transition.

Independent data gatherer

Although the NPWD allows figures to be consolidated more swiftly there is debate about how much the figures input are checked or analysed. Additionally concerns are being raised about the difference between DEFRA and NPWD figures. As these figures are so essential not only for the market to set prices but also the UK to show its compliance, there has been growing support for the ACP's view that an independent body should take on responsibility for them.

It is disappointing that we still have no clear idea of what last year's obligation might have been or what this one's might be.

Following the introduction of the WEEE regime, which has occupied many companies and compliance schemes this year, there have been suggestions that individual compliance should no longer be permitted. While this approach may have merits from the perspective of compliance schemes, it is difficult to see what benefits it would bring overall. In particular there is no clear indication that it will resolve the major issues of 'free riders' or the miscalculation of obligations. While the Agencies might claim that individual companies take up a disproportionate amount of their time, these companies also provide a disproportionate amount of their income.



Source: CPI

First Quarter figures

Against this backdrop of tightening supply the figures are a mystery. Firstly potentially more tonnage could have been carried forward than ever before. Secondly although carry forward tonnage for glass is down, this carry-forward added to last year's production suggests that this year's material specific target will be reached with something to spare, although glass recyclers state that good quality glass is getting harder to come by. Thirdly carry forward tonnage for aluminium causes astonishment; apparently reprocessors reprocessed almost twice as much in December as they did in any of the eleven months prior to that. Paper and plastic exports too seem to have had a bumper

Metals protocols

There have been suggestions that the protocols for metals should be re-visited. As more packaging is being extracted from the waste stream less is included in the protocol grades. Additionally there may be room for the inclusion of a stainless steel protocol to reflect the reprocessing of stainless steel packaging.

Once again thank you for your support this quarter and to those that completed all the participation documentation. We look forward to being of service to you in the future.


Angus Macpherson
Managing Director



Paper Packaging Recovery – How far can it go?

by Peter Seggie - Recovered Paper Sector Manager

Declared Recovery

Looking at the declared paper packaging recovery levels released by the regulators, latterly through the new NPWD, an incredible growth in paper packaging recovery in the UK continues to be achieved. The EU Directive target for paper packaging recycling, 60% by 2008, looks like a distant milestone of the past and consequently the value of the PRN and PERN now reflects the regulatory costs of compliance rather than the investment tool it was designed to be.

Declared UK paper packaging recycling levels now stand at 75% of that thought to be generated for the UK waste stream, an incredible performance in a short space of time. The business recycling target, based on obligated Companies, stands at 85%, again an incredible achievement when the target for compliance in 2008 is only 67.5%.

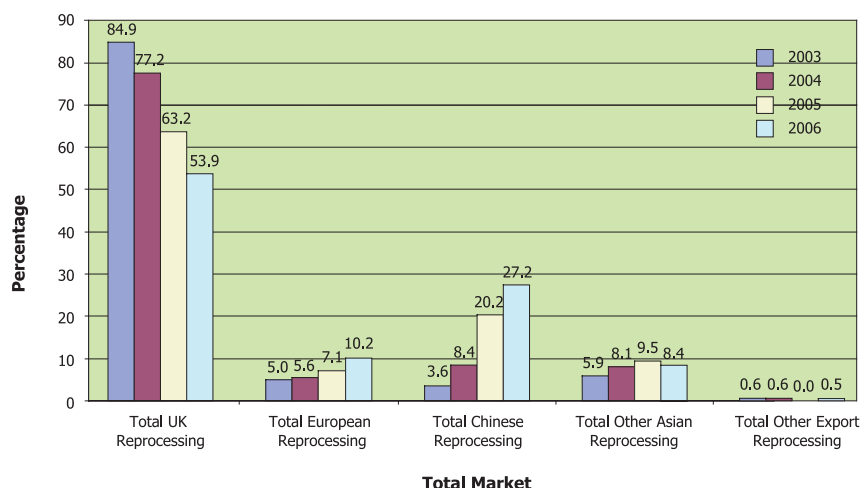
Available Recovery

The high flying declarations of UK paper packaging recovery are slightly tempered by what CPI still perceives to be problems within the system, especially those highlighted by the 2006 Defra led Paper Packaging Fact Finding Mission. Measurement of what is available to be declared as recycled paper packaging, based on UK raw material Mill returns and HM Revenue and Customs export data, continues to show an annual over declaration of around 8%. The Fact Finding Mission raised some key areas of concern in line with CPI's thoughts and recommended actions to overcome the issues; however there appears to be little progress. The 2006 export market saw an 18% over declaration relating to over 220,000 tonnes of PERNs while, for the first time, the initial declaration in quarter 1 of 2007 (with 1 large exporter outstanding) appears to show a huge under declaration of 21% (105,000 tonnes). Is this a sign that exporters are now abandoning the system or one that again questions the validity of the data emanating from the Regulators?

Market Drivers

With an excess of over 600,000 tonnes of paper packaging PRN/PERN's available in 2006 and a depressed PRN/PERN price, the market system imposed by the UK Government should have led to a slow down in paper packaging recovery; however a strong global demand for this material has continued to be the driver for recycling growth. 2006 saw over 48% of recovered paper packaging exported, with quarter 1 2007 showing this rising to over 52%. The UK is now completely reliant on the export market to meet its EU Directive requirements and in particular China which accounted for over 27% of UK paper packaging recycling. Only time will tell us what the consequences of this market reliance will be?

Percentage make up of the Available Paper Packaging Reprocessing Market



How far can it go?

With 2007 quarter 1 suggesting a further growth in declared paper packaging recycling of over 5% (compared to 2006 Q1) there appears to be no stopping this incredible performance. On current trends paper packaging will be declaring 90% recycling of our business obligations by 2008 and, with an overall rate of over 80%, I have no doubt that Europe will be looking at the UK for advice on how we did it at such low cost and in a such a short space of time. Let's hope, for the UK's sake, our numbers are right and the system is not proven to have been open to widespread abuse.

Corporate or producer responsibility?

Grosvenor Waste Management – www.grosvenorwaste.co.uk

The original intention of the PRN and PERN scheme was to provide an evidence and pricing mechanism for packaging recycling and recovery in the UK. It was intended to drive recycling and recovery and enable investment in new infrastructure. There is no question that the EU regulation has led to an increase in packaging recycling and recovery in the UK, but at what price?

Recent press commentary has provided examples of how it is less and less attractive to reprocessors and exporters to generate and issue PRNs and PERNs if the costs are not outweighed by the benefits. As others have noted, there is no obligation for PRN/PERN producers to either seek accreditation or sell the evidence notes they generate. If the system is now only there to 'contribute towards administration costs' then the system is at risk of collapsing.

Clearly a review of packaging producer responsibility is required.

The current system focuses on the responsibility to extract materials from the supply chain for recycling or recovery, but there is no direct obligation on producers to ensure their products contain recycled content or are recyclable. There is not even any real requirement to arrange for the collection of materials for recycling – you can buy PRNs or PERNS instead.

A review should consider this, and perhaps true producer responsibility would see the regulations extend the responsibility to ensure there is a market for materials. This would lead to much more careful thinking about from what a packaging product is made. It would drive investment in recycling and reprocessing facilities.

With leading corporations and brands stepping forward to invest in packaging reprocessing due to "corporate responsibility" and ensuring their own products have a recycled content, "producer responsibility" regulations in this key consumer sector need to catch up.

Further guidance on ePRNs - the devil is in the detail!

by Anna Lamin

The electronic PRN (ePRN) system has now been running for a few months. This new system has been a steep learning curve for all involved! We need to draw your attention to a few important features of the new settlements procedures.

Buyers:

- Buyers should check the ePRNs they have received into their account on the National Packaging Waste Database as soon as possible after they have been notified by t2e that the ePRNs have been released to them. This is to ensure that if an ePRN has been sent to the wrong account for a buyer, it can be rejected and reissued into the correct account as soon as possible;
- Compliance Schemes and large Obligated Companies that operate throughout the UK are likely to be registered with more than one Agency. Therefore they will have more than one account for their company on the National Packaging Waste Database. These buyers must nominate the correct account and notify t2e of the end receiver name required as soon as possible after the trade has been confirmed. Sometimes the accounts are differentiated by the Agency initials appearing in brackets after the company name (e.g. (EA) or (EHS)) but sometimes they are only differentiated by having different addresses.
- We have been assured by the developers that buyers will have a method of allocating ePRNs to their general recycling and recovery accounts and between their buying accounts before the end of the compliance year.

Sellers:

- Sellers should contact t2e if they are raising an ePRN and the end receiver has a number of accounts on the National Packaging Waste Database and the Sellers Advice Fax (notifying the end receiver) does not specify which Agency to choose. Some buyers are not yet aware that they have more than one account on the National Packaging Waste Database and therefore may not have told us which account they are purchasing the ePRN for.
- Sellers should be aware that they can no longer round up waste figures to the nearest tonne when entering waste into the National Packaging Waste Database. If an amount is not in whole tonnes, the seller will only be able to raise an ePRN for the rounded down amount.

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