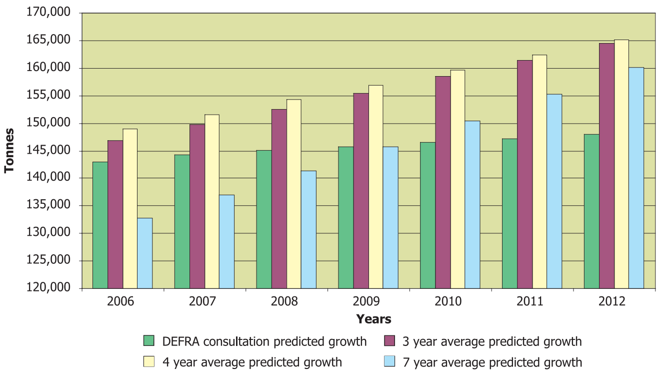



Comparison of DEFRA's predictions of future aluminium packaging growth 2006 to 2012 and average rates of growth reported by obligated industry

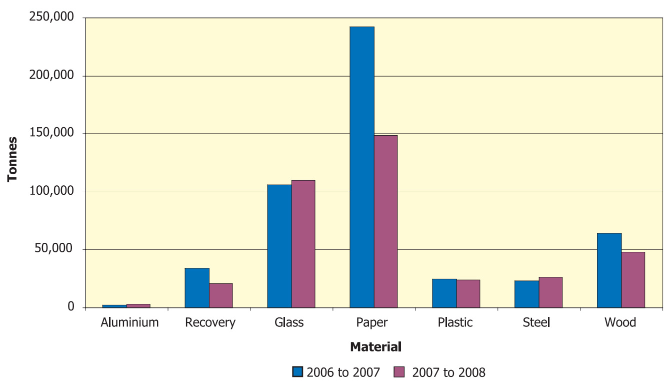


combined impacts of the growth of packaging put on the market and the (slightly arbitrary in that Europe have a metals target rather than a steel and aluminium target) increase in targets. Importantly the most significant area of growth has been in protocol tonnage, which has the same issues as identified for steel, rather than in the extraction of aluminium packaging from the waste stream. Hence the key issues once again are the targets and the protocols. Similar issues apply in other packaging sectors.

Against this background the 2007 final figures held few surprises. All recovery and recycling targets were met. While UK reprocessing of paper and plastic now seem to have found a bottom to their decline, steel, wood and glass continue to grow at a pace. In exports paper, plastic and aluminium increased, while glass and steel declined.

Q4 was the best ever quarter for steel exports in contrast to Q3, which was the worst ever quarter. This created an in year surplus of 62,451 tonnes and a similar carry forward into 2008 as was brought forward from 2006 of 26,560 tonnes. It has been speculated that this volatility and decline are attributable to problems caused by broadly equivalent standards.

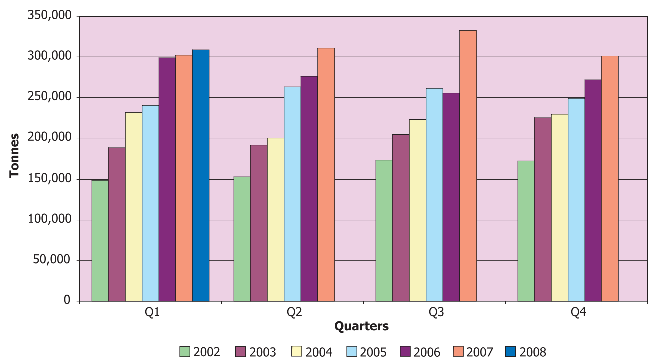
Comparison of Carry forward from 2006 to 2007 and 2007 to 2008



Despite concerns throughout the year on the availability of aluminium PRNs, a late surge in exports created an in year surplus of 1,637 tonnes with 2,719 tonnes carried forward into 2008. While in the end it did affect the ability of the UK to comply, the aluminium carry forward from 2006 was a more realistic 2,559 tonnes, only 50% of initial expectations.

Looking forward into 2008, aluminium has not got away to a good start and looks as though it will struggle to meet the 2008 material specific targets. So too currently does steel. This situation may change following the outcome of the consultation on broadly equivalent standards. But steel prices are reported to be rising because of the scarcity of material. This reinforces the argument for revisiting the protocols to encourage greater efforts to extract metal packaging from the waste stream with consequently less reliance on volatile metal global markets, where commercial decisions are based on the material price rather than protocol PRN revenue.

Growth in UK Glass reprocessing by Quarter 2002 to 2008



It looks as though there could be a shortfall in glass too. In year growth has solved this in previous years. But a significant factor when considering prices for 2009 is that although the carry forward into 2008 was almost the same as into 2007, there was no matching boost in collection in Q1. Hence there could be a decline in carry forward into 2009. There was a substantial reduction in paper and wood carry forward, but at this stage it looks insufficient to absorb the surplus to the general recycling obligation. However reports of a decline in exports and a shift from OCC to Mixed Papers, on which only an eighth of the PRNs are issued, may make a more serious erosion.

Thank you to Andy Doran for his comments on broadly equivalent standards.

Thank you again for your support.

Angus Macpherson
Managing Director

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Industry view on Broadly Equivalent Standards for Export

Andy Doran - National Manager, Novelis Recycling

Defra's recent consultation on Broad Equivalence Evidence Requirements for Export Reprocessing has thrown up a number of interesting issues for the metals recycling industry and others to consider.

First of all I guess it is worth restating why Novelis and other companies in the metal packaging sector consider it an important issue to resolve. Whilst exact figures are hard to come by it is likely that during 2007 the failure of all of the exports of aluminium packaging to gain accreditation contributed to an under reporting (issuing of PERNs) of 5,000t. For some markets this may not be a significant number, for aluminium it is and could lead to an artificial 'tightness' in supply. Of course we should also remember that its not as if this metal is not being exported and recycled – it is. In some sectors PRN and PERN prices may be viewed as a significant financial instrument. This is not necessarily the case with metal recycling and the current state of global metal prices. So the previous Broadly Equivalent requirements were leading to an under-reporting of the industry's activities. As a global integrated aluminium company that is interested in the full life cycle of aluminium products, Novelis is acutely concerned that achievements in recycling are fully recorded.

The recently closed consultation has proposed a package of measures that are both pragmatic and proportionate to the issue at hand and consequently to my knowledge have received near universal support from the metal packaging recycling industry.

In a nutshell the proposals will allow the UK Environment Agencies the discretion to accredit a metal packaging export outside the EU by considering alternative evidence that the material would be re-processed under conditions broadly equivalent to those in the EU. They are based on criteria of quality, technical specification and value that are themselves an early interpretation of the EU's ongoing work on end-of-waste criteria for scrap metals. Furthermore, it is proposed that a Central Register of already accredited reprocessors is held by the Agencies to reduce the duplication and inconsistency that has plagued the sector in 2007. Whilst this is a significant change to the current approach with appropriate backing from the Agencies and the full support of the metal industry, there is no reason to believe that this won't succeed. We should also remember that Waste Shipment Regulations continue to apply in all circumstances.

Having come this far, what's needed now is a speedy implementation of the regulatory amendments, agreement to back date these conditions within the current year and a willingness from the Agencies to accredit sites for three years. Get this under our belt and we can all look and act with more foresight in our industry.

You will be sad to learn that Lizzie Slater died at her home in London on Saturday 5 April 2008. It is a great personal loss to us all.

Many of you will have spoken to Lizzie but may not know that she has worked for t2e since day one. Her husband was Michael Wall, a distinguished playwright, who died from cancer at a young age. Lizzie worked tirelessly to ensure his work was not forgotten. She was always generous with her time and worked on Thursdays with local primary school children in the Kitchen Garden at Chiswick House.

She is survived by her daughter Nicola, aged 19.

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