

Use the Power

Quarterly Report

Report 42

May 2009

The Market Place for PRNs and WENs



Market Status – February 2009 to April 2009

By Ian Andrews

Trading for the period equated to 198,405 tonnes, with 135,987 tonnes traded in the Spot market and 62,418 tonnes traded across the 2009 Forward Markets. This figure represents a record 1st quarter for t2e, up 32% on the 150,313 tonnes reported in quarter 1 of 2007.

Market material analysis:

Paper – At the start of the quarter record exports led to a price fall with excellent volumes trading through all markets. As the quarter progressed prices started to strengthen upon news of an increase in shipping rates and a reduction in container stocks.

Plastic – Concerns surrounding availability from the export market helped the price to remain stable at the start of the quarter with little forward trading taking place. As the quarter progressed competition for volume bids coupled with good 1st quarter figures resulted in the price falling back.

Glass – The spread between buyers and sellers positions in this market has led to lower volumes being traded this quarter. A lack of demand has resulted in the price slipping back during the period.

Steel – This market continues to be dogged by fears of shortages, with the 1st quarter figures seeming to confirm the predicament. Good demand continued to outstrip supply and led to price increases throughout the period.

Wood – Selling volumes were in good supply for the quarter; however with sellers wishing to achieve a premium over the paper price this market failed to compete for general obligations and traded volumes were down.

Aluminium – Good demand at the start of the quarter saw prices remaining stable as fears regarding availability grew. The release of good 1st quarter figures saw buyers realign their price expectations and the price dropped back.

Recovery – Due to the increased value seen in the paper & wood markets focus has shifted back to this market to fill specific obligations. Selling volumes have increased due to the widening differential between contract prices and available spot market prices.

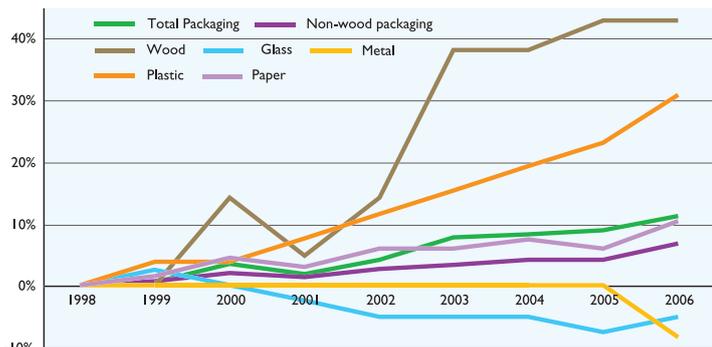
	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average	Year to date aggregated
PAPER MARKET						
Spot 2009	£6.25	£3.75	82,306	£4.50	£5.48	108,100
Apr Fwd 2009	£6.25	£3.75	29,500	£4.97	£6.50	64,500
Jul Fwd 2009	£6.50	£3.75	13,000	£4.33	£5.85	28,000
Oct Fwd 2009	£4.00	£4.00	2,500	£4.00	6.71	17,500
PLASTIC MARKET						
Spot 2009	£30.50	£20.00	15,711	£26.02	£25.85	19,118
Apr Fwd 2009	£28.50	£25.00	2,620	£25.41	£40.12	6,820
Jul Fwd 2009	£30.00	£20.00	4,048	£24.35	£24.85	4,248
Oct Fwd 2009	£25.00	£20.00	3,000	£23.33	£24.06	3,200
GLASS MARKET						
Spot 2009	£24.00	£21.75	15,170	£23.13	£23.21	16,670
Apr Fwd 2009	£23.00	£23.00	2,000	£23.00	£23.75	8,000
Oct Fwd 2009	£22.50	£22.50	250	£22.50	£24.30	1,250
STEEL MARKET						
Spot 2009	£75.00	£50.00	11,462	£52.19	£48.29	13,799
WOOD MARKET						
Spot 2009	£6.00	£5.75	3,829	£5.81	£5.85	3,994
Apr Fwd 2009	£7.00	£5.00	1,000	£6.00	£4.65	5,000
Jul Fwd 2009	£7.00	£5.00	2,000	£6.00	£4.87	6,500
Oct Fwd 2009	£7.00	£7.00	500	£7.00	£4.57	3,500
ALUMINIUM MARKET						
Spot 2009	£96.00	£68.00	1,375	£80.44	£79.41	1,724
RECOVERY MARKET						
Spot 2009	£4.75	£3.00	6,134	£4.49	£4.48	6,134
Jul Fwd 2009	£3.00	£3.00	500	£3.00	£3.80	2,500
Oct Fwd 2009	£3.25	£3.25	1,500	£3.25	£3.68	3,500



Managing Director's Report

appear to be good prices.

Comparison of the rate of growth of packaging per capital in the EU-15 countries from 1998 - 2006



Since our last quarterly, DEFRA confirmed that we had comfortably exceeded the European targets. Although the UK achieved all its own targets, the level of apparent under reporting of glass placed onto the market made the overall 60% target very tight. Britain is often accused of being the dirty man of Europe. In a report recently published by Europen, the European organisation for packaging and the environment, in packaging terms we may be losing that status. In 2006 the UK nestled in 7th position out of 27, ahead of 'green' nations like Sweden with one of the fastest rates of growth of packaging recycling. While we can be grateful to the demand from China for aiding us in this achievement the PRN has also been a major contributor. Perhaps surprisingly amongst the EU-15 wood appears to be the fastest growing packaging material per capita, although this may be linked to definitions rather than actual growth, followed by plastic and paper and board, while glass and metal use has fallen back. When looking at future packaging growth and targets, the Government may wish to consider the implications of these figures.

Q1 2009 figures have been published, along with the final ones for 2008 and after some problems the 2009 obligation, although data from 150 individually registered companies has still to be entered we are assured it will not have a significant impact on the overall obligation. It appears to confirm that 2009 will be a tricky year, particularly for the 313 (4.2%) companies that have not re-registered.

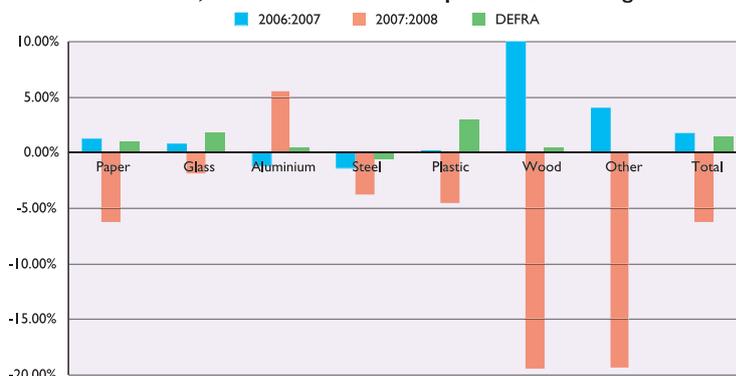
It looks as though the downturn has had a significant impact on packaging use. The 2009 obligation is currently almost 450,000 tonnes or 6.25% below expected levels. The only material that has seen growth is aluminium, which increased by 5.6%. Now reported tonnage is greater than DEFRA's prediction of the total aluminium packaging placed on the market in 2008. While this may have caused concern in both 2007 and 2008, it now looks as though this target will be met with ease as a 33% year on year growth in domestic reprocessing combines with a much larger carry forward than anticipated.

The well publicised troubles at Corus have resulted in a significant drop in demand for steel scrap and in particular cans. As a result, steel carry forward was only 30% of the previous year and although PRNs are starting to come forward they are in short supply. As a consequence at this stage it looks unlikely that the steel target will be met. However this deficit of 125,000 tonnes may alter significantly if as signalled Corus restart purchasing steel in Q3.

Is this a self inflicted wound for Britain? Not only has it opted to split the metals target but also chose not to revisit the quantity of steel placed on the market, despite packaging reported falling much faster (-3.8% last year, -3.95% over the previous 3 years) than DEFRA's predicted rate (-0.5%) which has resulted in the business targets for steel recycling being set unnecessarily high. Additionally the real packaging recycling rates have been hidden by not revisiting the protocols when there was an opportunity to do so.

Wood and other packaging materials seem to have been hit particularly hard by the recession with packaging reported dropping by almost 20% in both sectors, while paper, plastic and glass see drops of 6, 4.5 and 2% respectively. Fortunately the recovery side of the industry has not been hit so badly with 2008 seeing continued growth in all materials, with an overall growth of 3.2% covering underlying growth of 11% and 10% in aluminium and glass PRN production and 8% in the plastic and steel sectors. Intriguingly the recovery rate for wood is now over 100% of reported packaging placed onto the market.

Comparison of the rate of growth in reported packaging between 2006:2007, 2007:2008 and DEFRA's predicted rates of growth



Q1 2009 is not quite as cheering nevertheless although, in addition to the drop in steel production, year on year and quarter on quarter growth has seen drops by 12 and 16% respectively of paper and wood PRN production; this has been significantly offset by growth in aluminium, plastic, glass and recovery PRN production and the reduction in obligation. As a result so long as activity continues in line with Q1 figures UK targets, with the exception of steel, currently look achievable.

Thank you for your support during these difficult months and thank you to Alastair Kerr and Jane Bickerstaffe for their contributions. We look forward to continuing to being of service to you in the difficult months ahead.

Angus Macpherson
Angus Macpherson
Managing Director

Outcome to Consultation on Forward Markets

By Angus Macpherson

CHANGES TO FORWARD MARKETS

Thank you for your responses to my letter dated 16 March 2009. Taking these into consideration we have come to the following conclusions:

JANUARY FORWARD MARKET

With immediate effect the January forward market will become a 'transitional' market. Sellers will only be able to sell December tonnage from the preceding compliance year in this market. It might be anticipated that buyers will be prepared to pay a premium in this market to secure the flexibility that 'transitional' tonnage provides them.

DECEMBER FORWARD MARKET

From 1 June 2009 we will introduce a December forward market through which sellers will be able to sell all current compliance year tonnage. This will have an expiration date of 8 December 2009 and settlement date three working days thereafter, 11 December 2009.

2010 PRNs

For those wishing to buy or sell subsequent year PRNs, we will open the 2010 spot market on 1 December 2009 and the April forward market is already available. We look forward to you making full use of the flexibility that these changes will provide for both buyers and sellers.

ROLLING FORWARD MARKETS

We will not be introducing rolling forward markets at this stage.

TICK SIZES

There will be no change to the tick size at this stage.

SETTLEMENTS

In these difficult times some may wish to vary settlement terms. Please can I remind you that in the event that a buyer or seller wishes to vary these terms:

1. it must be notified to t2e and agreed with your counter-party at the time of the transaction.
2. the buyer or seller must perform their obligations by the revised settlement date.
3. if a buyer fails to meet the revised settlement date the seller may either request interest from the original settlement date at a daily rate of 8% over the current base rate or cancel the contract. Equally if the seller fails to deliver PRNs by the revised date the buyer may cancel the contract.
4. in the event a forward contract is cancelled under these circumstances, the defaulter would lose their deposit.

Thank you for making the time to consider these issues. Please do not hesitate from contacting me, Ian or Tom if you wish to discuss anything.



Wood Recycling

Alastair Kerr - Director-General, Wood Panel Industries Federation

Having bumped along for the past few years at between £1 and £2, wood PRN prices are on a relative high, unfortunately the reasons for this are more of a cause for concern than any celebration.

The wood panel manufacturer's process into product, around 70% of the estimated 1.9million tonnes of waste wood, and of this around 57% is wood packaging. The relative availability of wood PRNs has been such that prices over the past few years have been kept low, a feature replicated last year when carry over from 2007 fed into 2008.

The panel industry has seen a steady reduction in availability of clean wood packaging due partly to the skimming off by other wood processors into applications such as animal bedding. The diversion of reclaimed wood into value added products has been strengthened by the current economic downturn which has reduced the availability of virgin shavings coming from the sawmilling industry.

Not surprisingly, the major influence behind the rise in Wood PRN's has been the reduction in trade across the economy which has had a negative impact on the volume of packaging arising, and with fewer transport movements there has been a corresponding reduction in broken pallets, which in turn has reduced the overall availability.

The less predictable influence on availability now and into the future is that of the subsidised energy sector. There is evidence of wood packaging material going direct to energy. The cost advantage provided to the energy sector through the Renewables Obligation mechanism works against segregation thereby a proportion of wood packaging is being lost.

Although we expect the price to fall back a bit during 2009, in the medium term we anticipate prices holding above the level of the past few years and depending upon the increase in wood energy plants the value may increase further. This is a good example of how one policy aimed at keeping compliance costs low is undermined by another government policy.



Packaging is green – potatoes shouldn't be!

Jane Bickerstaffe - Chief Executive, INCPEN

We all need to eat to survive. In order to grow food crops, and rear livestock, and where necessary to process the crops, dairy products and meat into staple foods such as bread, butter and cheese, we need energy and water, both of which are under increasing pressure. Clearly, anything which helps to ensure that food reaching consumers is fit to eat offers environmental benefits. Wasting not just the food, but also the energy and water that went into producing and transporting it, makes no sense.

Recycling the packaging after it has done its primary job can offer added benefit, and the UK has successfully met the challenging 2008 packaging recovery targets in the European Packaging Directive. But packaging's good environmental credentials do not depend on whether or not it is recycled, because it has still (in all but a tiny minority of cases) saved far more resources than it uses.

That includes some kinds of packaging the public thinks completely unnecessary – like the plastic sleeve on cucumbers, which extends the shelf life of the cucumber by up to 14 days and avoids it being discarded as a slimy mess. Or the plastic bag round bananas, which prevents them ripening too soon, or accelerating the ripening (and rotting) of fruits alongside them. Or bagged potatoes – 3% go to waste in store when sold loose because of deterioration from exposure to light, turning them green. New potatoes are particularly prone to this as they have thin skins. Green potatoes contain glycoalkaloids which can cause food poisoning and which are not destroyed by cooking. The bag extends the shelf life in store and therefore reduces waste.

Recycling is important but needs to be seen in perspective. Even if we could recycle all used packaging, using zero energy, it would contribute just 2% carbon reduction¹.

¹Source: report from the European Commission to the European Parliament on the implementation of Directive 94/62/EC on packaging and packaging waste and its impact on the environment.

Futuresource Exhibition 9 - 11 June 2009

We will be exhibiting at the Futuresource Exhibition at Excel, London from the 9th to the 11th of June.
Come and see us on Stand F40 in the South Event Hall.