

Use the Power

Quarterly Report

Report 46

May 2010

The Market Place for PRNs and WENs



Market Status – February to April 2010

By Ian Andrews

During the last quarter the market was dominated by predictions of falling obligations and stories of strong supply. With no official confirmation to alleviate the fear of oversupply, prices softened throughout.

Once again we have seen a record tonnage recorded for the 1st quarter with the total tonnage traded reaching 237,452 tonnes. Early trading patterns saw a shift from the Spot market to the Forward markets with 55,187 tonnes traded in the Spot market and 182,265 tonnes traded in the Forward markets. The reduced trading fee structure in place in the forward markets has helped to facilitate this swing.

Market material analysis:

**Paper** – After a slow start to the quarter, trading picked up towards the end, with the majority of trades taking place in the Forward markets. Prices fell with many holding firm in their belief that it would be a buyers market this year.

**Plastic** – With supply remaining good the plastic market values ebbed away during the quarter, rising slightly towards the end as sellers tried to arrest the slide.

**Glass** – The glass price opened low and held firm this quarter with excellent volume being traded across all markets as buyers looked to take advantage of some keenly priced tonnage. The December Forward market provided best value as sellers, aware of the strong Q3 figure in 2009, looked to lock in price for end of year surplus.

**Steel** – A strong carry forward figure coupled with a large increase in available Q1 tonnage led to the price softening throughout the quarter as sellers reduced their price expectations in line with buyer's positions.

**Wood** – It was a very poor quarter for wood with the lowest recorded tonnage traded. The market continues to offer a premium for small material specific documents and is overlooked by general buyers.

**Aluminium** – A lack of demand resulted in a softening of the price as buyers stayed out of the market in the belief that a strong carry forward figure and reduced demand would lower the price.

**Recovery** – As the lower value material markets dropped in value, Recovery followed suit. Excellent supply figures resulted in further downward pressure on prices.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	Year to date aggregated traded
<b>PAPER MARKET</b>						
Spot 10	£2.75	£1.75	15,306	£2.02	£2.05	46,125
Apr Fwd	£2.00	£1.75	11,658	£2.00	£3.20	50,657
Jul Fwd	£2.15	£1.75	7,000	£2.04	£3.38	55,000
Dec Fwd	£1.75	£1.75	56,377	£1.75	£1.75	56,377
<b>PLASTIC MARKET</b>						
Spot 10	£8.00	£3.70	11,441	£4.24	£4.64	14,417
Apr Fwd	£6.50	£4.75	3,553	£5.16	£9.15	8,035
Jul Fwd	£6.50	£4.95	3,500	£5.60	£11.51	8,000
Oct Fwd	£6.50	£3.50	4,500	£4.15	£7.26	6,500
<b>GLASS MARKET</b>						
Spot 10	£21.00	£19.50	15,726	£20.17	£20.53	19,296
Apr Fwd	£20.00	£19.75	10,200	£19.94	£21.83	20,450
Jul Fwd	£20.00	£20.00	6,700	£20.00	£22.49	20,200
Oct Fwd	£21.00	£20.00	35,200	£20.25	£20.46	37,950
Dec Fwd	£18.50	£18.50	26,000	£18.50	£18.50	26,000
<b>STEEL MARKET</b>						
Spot 10	£28.00	£14.00	5,827	£19.95	£23.12	11,682
Apr Fwd	£25.00	£18.00	2,497	£19.68	£25.23	3,147
Jul Fwd	£25.00	£14.00	5,200	£16.35	£23.00	9,710
Oct Fwd	£25.00	£14.00	4,200	£16.19	£21.59	7,700
<b>WOOD MARKET</b>						
Spot 10	£5.00	£3.25	2,030	£3.06	£2.63	4,927
<b>ALUMINIUM MARKET</b>						
Spot 10	£25.00	£19.00	800	£20.25	£22.45	1,724
Apr Fwd	£25.00	£19.00	230	£21.61	£21.61	230
Jul Fwd	£25.00	£25.00	100	£25.00	£25.00	100
Oct Fwd	£25.00	£25.00	100	£25.00	£25.00	100
<b>RECOVERY MARKET</b>						
Spot 10	£2.00	£1.25	4,057	£1.51	£1.52	8,659
Apr Fwd	£1.50	£1.50	500	£1.50	£1.50	500
Jul Fwd	£1.50	£1.40	4,250	£1.43	£1.43	4,250
Oct Fwd	£1.50	£1.50	500	£1.50	£1.50	500



## Managing Director's Report

A quarter of change, a new Government, new Ministers and a packaging consultation all offer the opportunity of new ideas. And yet some things stay the same: Q4 2009 and Q1 2010 figures were reported - almost at

the same time, an anomaly that must be resolved, - and continue to show growth in the packaging recovery industry while the reported packaging handled shows a drop in excess of 3% for the second successive year. If reported packaging use reflects GDP, 2009 has been difficult for many.

There are 380 fewer companies registered in 2010 than last year. In previous years many of these have been caught up later in the year. Registrations cancelled in 2009 soared by over 40% to 126, with suggestions that many are below the de minimis levels. It is not clear below which of the de minimis they have dropped, the £2 million turnover or 50 tonnes handled. The continued availability of packaging to recycle makes the former look more probable than the latter as profits come under pressure. Despite this fall reported packaging use has grown on average by 1.13% per annum over the last 7 years and the number of companies registered is almost the same as it was 4 years ago. However for 2010 the economic backdrop looks uncertain and, despite reassurances that the housing and construction markets are picking up, competing with a plummeting euro may prove challenging.

For packaging reprocessors and exporters 2009 has not been such a gloomy year. Total PRN revenue increased to almost £85 million, 31.3% growth on 2008, with the greatest beneficiaries being the glass and steel industries. Revenue for all materials increased with the exception of plastic which saw a drop of 19.81%, however this may have been a little

### Comparison in 2009 by material of the net contribution to meeting the obligation to net receipt of PRN revenue



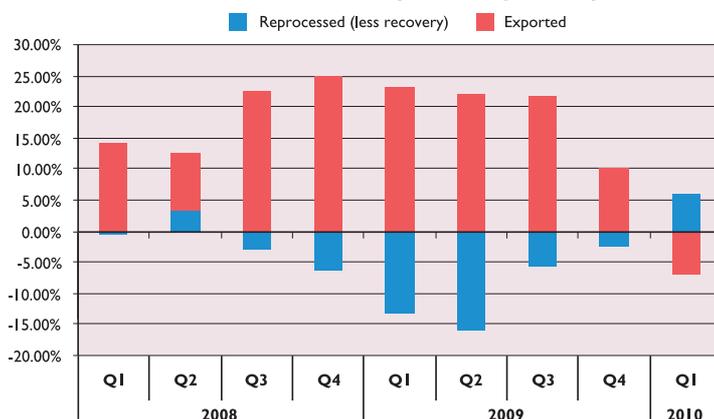
rebalancing as in 2008 their revenue had increased by a factor of 2.5! The sector still receives an identifiably greater percentage of PRN revenue than it contributes in packaging used for compliance.

On average per tonne received exporters were paid more than reprocessors and for the first time the total PERN income exceeded the PRN income. Noticeable exceptions were the paper and plastic industries. The marginal cost for every additional tonne reprocessed in the UK since the regulations were introduced in 1998 has been on average

£48.08 in comparison to £23.75 per each additional tonne exported and only the marginal cost of glass exporting has been consistently more expensive than domestic reprocessing. All figures are significantly lower than anticipated when the regulations were introduced.

Q4 figures once again showed a growth of almost 12% over the average preceding 3 quarters. Even so reprocessing was down with the exceptions of aluminium and plastic that have now returned to 2006 levels and the continued growth in glass. Despite this growth, in year production of glass PRNs was only just sufficient to cover the obligation and carry

### % Growth in packaging recovery year on year 2008 - 10 split between domestic reprocessing and exports



forward into 2010 dropped in comparison to 2009. In contrast, exporting in all materials is up led by a phenomenal 49% growth in steel followed swiftly by 42% growth in paper. However by Q4 2009 exports may have hit a peak and, unlike in previous years, have dropped in Q1 2010, a traditional stock up time prior to Chinese New Year.

As anticipated compliance was achieved with a degree of ease and a sizeable carry forward came into 2010. This combined with further overall year on year tonnage growth in Q1 2010, particularly in steel reprocessing, which is recovering from a disastrous 2009, and a drop in obligation have had a significant downwards pressure on PRN prices with only glass and metals managing to retain anything greater than administrative value. Some smaller reprocessors and exporters are stating that the administrative costs of remaining in the system are excessive in comparison to potential revenue and are threatening to withdraw. While this may remove some of the surplus it is unclear whether this might have a more significant impact on some sectors such as plastic than others.

Thank you once again for your support. The final figures show that 14.42% of all PRNs issued were traded through t2e last year. I hope that all participants will take advantage of the discounts offered in the forward markets, my way of saying thank you, or, as appropriate, the opportunity to pay on account.

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

## Another way to pay – PAYMENT ON ACCOUNT

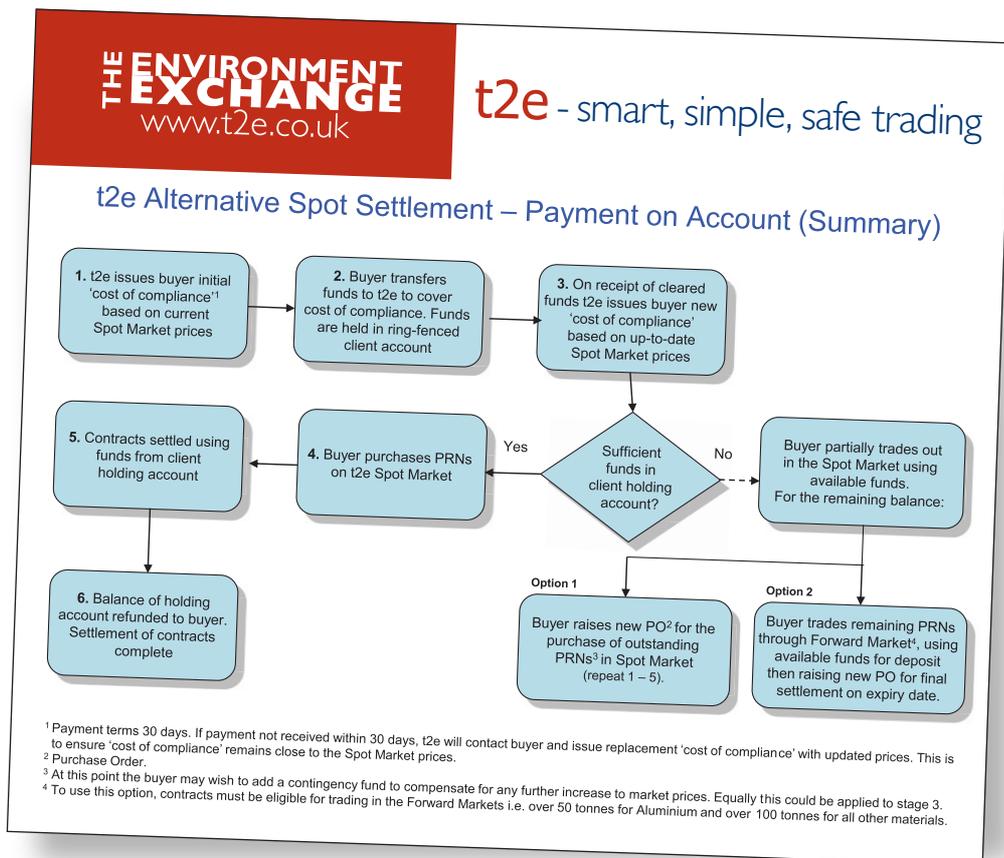
To simplify the settlement process and ensure that buyers meet the terms of the contracts traded, t2e participants are encouraged to sign Direct Debit mandates. For those participants that find this difficult, there is an alternative – **payment on account**. This allows traders to place funds with t2e prior to trading.

The process is very straightforward. A trader sends funds to t2e into the ring-fenced t2e clients account, this could be based on a cost of compliance. Once these funds have cleared, t2e contacts the trader and provides an up to date cost of compliance in the Spot market. PRNs are purchased at current prices as instructed by the trader up to the value of funds paid on account. All unused funds are returned to the participant's nominated account. If there are insufficient funds to buy all the required PRNs then the trader can follow one of these options:

1. Arrange for an additional payment to be made on account to cover the shortfall. Once cleared funds arrive at t2e the remaining PRNs are bought.

2. If eligible to trade in the Forward markets use the funds available to pay the deposit on forward contracts and then arrange payment for the remainder of the settlement sum in advance of the settlement date.

Participants using this payment on account **will receive the same discount to participation fees** as those that use Direct Debit mandates (currently 50%).



## MAG International 500km Cycle Challenge

By Tom Rickerby



In February I escaped the freezing Scottish winter to take part in a 500km cycle challenge from Ho Chi Minh City in Vietnam to Angkor Wat in Cambodia in aid of the charity MAG International. Cambodia is just one of many countries where MAG carries out vital landmine clearance operations and helps to rebuild communities affected by conflict.

Having spent the previous 2 months training in snow nothing could prepare me for the heat – 40 degrees and 80% humidity!

However, travelling by bike is an amazing way to engage with new places and cycling past paddy fields, through villages lined with waving children and rest stops in serene Buddhist monasteries made any discomfort in the saddle all the more bearable.

A huge thank you to Angus, the team and all the clients that sponsored me on this trip. Your generosity helped to raise over £20,000 for MAG's humanitarian work.



## t2e Draft Response to Packaging Consultation

t2e has published on [www.t2e.co.uk](http://www.t2e.co.uk) its response to the consultation issued by DEFRA in March 2010 on the Packaging Regulations. Key points are:

t2e supports DEFRA's:

- wish to set targets to 2020 with a review in 2015, flexibility should be incorporated to allow an earlier review as necessary;
- ambition to match the 'best in class' recycling levels of 70% of packaging waste achieved elsewhere within the EU.

t2e:

- applauds DEFRA's desire to more efficiently use the information in the NPWD to reduce the bureaucratic burden on both regulators and regulated as well as improving the quality of information available to local authorities and the public;
- supports DEFRA's proposals to use the NPWD to secure information on use of PRN revenue and spend but individual confidentiality must be retained;
- recommends that the independent audit, which has achieved much in improving the quality of data and deterring fraud, should be retained and expanded to include PRN revenue and spend rather than removed and greater efforts are made to strengthen its consistency.

t2e does not support DEFRA's proposed material specific targets recommending that all the current named packaging materials should achieve a minimum target of 60% by 2020 on the following grounds:

- targets should be lowest common achievement levels rather than maximum achievable levels by material thus avoiding legislated environmental subsidy between packaging materials;
- data on packaging placed on the market, its annual rate of growth and why reporting rates vary so significantly between materials is insufficiently robust;
- excessive cost is potentially imposed by the proposed loss of the general recycling pool which will reduce the ability of the legislation to adapt to changing global circumstances.

### Recommended targets

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Glass	81%	68%	68%	68%	68%	68%	68%	68%	68%	68%	68%
Steel	69%	69%	69%	69%	69%	69%	69%	69%	69%	69%	69%
Aluminium	40%	42%	44%	47%	50%	53%	56%	59%	62%	65%	68%
Plastic	29%	33%	37%	41%	45%	49%	53%	57%	61%	65%	69%
Wood	22%	58%	59%	60%	61%	62%	63%	64%	65%	66%	67%
Paper	69.5%	69.5%	69.5%	69.5%	69.5%	69.5%	69.5%	69.5%	69.5%	69.5%	69.5%
Total Recycling	92% of recovery target										
Total Recovery	74%	75%	76%	77%	78%	79%	80%	81%	82.5%	84%	85.5%

t2e does not support the proposal to split plastics and glass obligations on the grounds that it will create excessive complexity in the system however recommends that further consideration is given to varying individual materials PRN issuing capability by accredited reproprocessors and exporters based on carbon benefits per tonne of recycling.

t2e continues to advocate that:

- protocols in all materials should be reviewed in the light of changes to the secondary raw material streams since they were established;
- Q4 figures should be published on 21 January like all other quarters rather than delayed to 31 March in light of their importance to planning for the subsequent year.