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Quarterly Report

Report 50

May 2011

The Marketplace for PRNs and WENs



Market Status Report – February to April 2011

By Ian Andrews

Traditionally at the start of the year focus shifts to the back office procedures of calculating data and registration information. In the past, question marks over availability have resulted in some early volume trading. This year has seen a slow start to trading with most believing the decision to hold targets in many materials will lead to soft prices.

In having to wait until the end of March to crystallise the supply position from the previous year, there have been no indicators of problems ahead, which has compounded the situation and resulted in a lack of trading.

Trading for the quarter equated to 120,212 tonnes with 39,054 tonnes trading in the Spot market and 81,158 tonnes trading in the Forward markets.

Market Material Analysis

Paper – Reasonable tonnage traded throughout the quarter with prices remaining soft. With paper exports increasing to cover the downturn in domestic reprocessing many are comfortable with the view that prices will remain low this year. Although prices are low – 40% down on 2010 – they remained stable.

Plastic – With an increase in the recovery target of 3% due this year, which equates to an additional demand of 55,000 tonnes based on 2010 obligations, it was surprising to see little activity during this first quarter. One can only assume that many believe growth in exports will be able to satisfy the additional demand. The Q1 figures showed there needs to be a slight improvement in supply if we are going to achieve the target with ease.

Glass – Along with paper, this market saw the most activity during the period. Price spikes at the end of the 2010 compliance year kept focus on this market throughout the quarter; the release of the Q4 figures confirmed that supply fell towards the back end of the year. The shortages posted in Q4 came back into the figures in Q1 and alleviated any fear of supply problems. Prices, although lower than previous years, remained stable throughout the quarter.

Steel – Strong supply throughout 2010 saw price expectations for steel drop during the first quarter with little interest or concern being voiced regarding shortages. Buyers felt that the prices did not represent good value and held off trading believing better value could be achieved later in the year.

Wood – The loss of 14% of the accredited companies this year has done little to tighten supply to the point of concern. The Q1 figures revealed that production levels were down by

10% on the previous year, however with the majority of tonnage being allocated to the general pot the over generation in other materials has alleviated any concerns of availability.

Aluminium – With material prices continuing to edge up to levels of £1,000 per tonne the generation of prn/perns is at an all time high. The Q1 figure showed strong performance and coupled with the carry in figure we are already a third of the way to meeting demand this year. This has resulted in a price drop into single figures for the first time this year.

Recovery – Trading for the quarter could be best summed up as low volume/low value. The Q1 figures showed that we are well ahead in terms of supply and – barring a massive increase in demand – can expect prices in this market to remain low if production levels stay the same throughout the year.

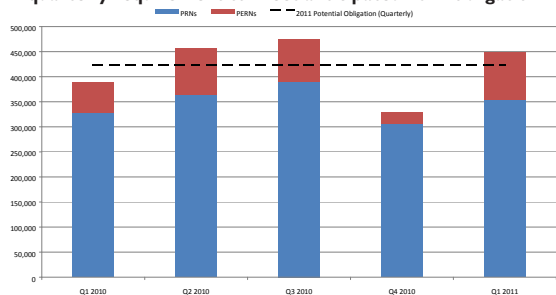
	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	YTD aggregated traded
PAPER MARKET						
Spot 11	£1.50	£1.20	4,767	£1.38	£1.20	12,805
Apr Fwd	£1.15	£1.05	23,986	£1.13	£1.13	28,986
Jul Fwd	£1.15	£1.00	13,116	£1.10	£1.10	13,116
Oct Fwd	£1.15	£1.00	15,353	£1.05	£1.05	15,353
PLASTIC MARKET						
Spot 11	£4.00	£3.00	6,160	£3.00	£2.96	10,479
Apr Fwd	£3.00	£2.70	3,921	£2.73	£3.01	5,921
Jul Fwd	£3.50	£3.50	500	£3.50	£3.50	500
GLASS MARKET						
Spot 11	£13.00	£10.00	23,067	£12.55	£12.19	28,555
Apr Fwd	£12.00	£12.00	6,128	£12.00	£11.98	59,418
Jul Fwd	£11.70	£10.00	7,755	£11.19	£12.73	31,255
Oct Fwd	£11.00	£10.00	2,755	£10.09	£14.85	36,755
Dec Fwd	£10.00	£10.00	2,000	£10.00	£10.00	2,000
STEEL MARKET						
Spot 11	£9.00	£6.00	2,408	£7.35	£6.57	7,762
Apr Fwd	£7.25	£7.00	909	£7.09	£6.33	5,209
WOOD MARKET						
Spot 11	£3.00	£1.50	994	£1.57	£1.61	7,762
Apr Fwd	£1.50	£1.20	2,568	£1.33	£1.33	2,568
Jul Fwd	£1.50	£1.50	253	£1.50	£1.50	253
ALUMINIUM MARKET						
Spot 11	£27.00	£10.00	741	£17.12	£15.51	1,289
Jul Fwd	£10.00	£10.00	100	£10.00	£10.00	100
Oct Fwd	£10.00	£10.00	100	£10.00	£10.00	100
RECOVERY MARKET						
Spot 11	£1.25	£0.75	917	£0.79	£0.72	2,090
Apr Fwd	£0.75	£0.60	1,390	£0.67	£0.62	4,690
Jul Fwd	£0.60	£0.60	324	£0.60	£0.60	324



Managing Director's Report

A quiet quarter with a hint of complacency as producers and their representatives concentrate on data confident that following static targets and the surplus of PRNs in 2010, there will be plenty to go around in 2011. At this stage despite rumblings on the glass and plastic fronts, there is little to suggest that the confidence is misplaced despite for the first time ever less packaging waste being reprocessed or exported in Q4 of 2010 than the average of the preceding three quarters. With PRN revenue in 2010 coming to less than half of what was received by reprocessors and exporters in 2009, while secondary raw material prices remain at record highs there is little urgency amongst sellers.

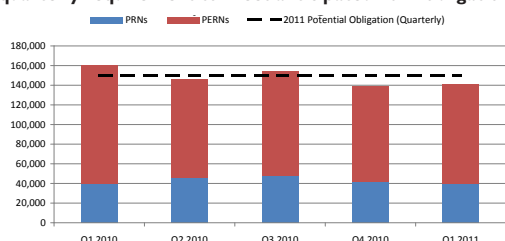
Glass reprocessed and exported by quarter 2010 - 2011 compared to quarterly requirement to meet anticipated 2011 obligation



When the Q4 figures for 2010 finally arrived the reason behind the sudden hike in glass prices became clear. Not only had there been a substantial drop in exports but also in year production of PRNs was insufficient to meet the obligation with the net result that the carry forward into 2011 was a fifth of the previous years. Although this was attributed to a drop in collection rates because of the snow and the suspension of a large reprocessor there is not much margin for error. Despite this there has been downward pressure on glass PRN prices as compliance schemes strive to match the low prices they have agreed with producers in fixed price deals.

The situation is broadly similar in plastic, along with steel the only two materials with a growth in material specific targets. Here again carry forward was down 33% on 2009 and exports disappointed as Chinese markets proved unreliable with year on year growth down by 12% and quarter on quarter growth only 1.5% following a 12% fall between Q4 and Q3 of 2010. Against a backdrop of a 10% growth in obligation it is perhaps unsurprising that PRN prices are beginning to creep upwards. Producers might well wish to seek security by use of the forward markets. In Europe the plastic industry now feels that it has lost its battle with the commission about single use plastic bags, and with a number of nations now proposing taxes on their use, they are trying to plan an orderly withdrawal of its use. More spectacularly in both France and Andalucia in Spain 100% collection of all plastics for recycling is being planned.

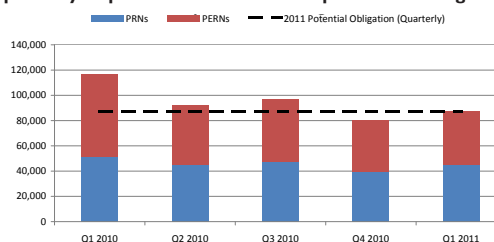
Plastic reprocessed and exported by quarter 2010 - 2011 compared to quarterly requirement to meet anticipated 2011 obligation



The criteria for defining end of waste for metals have been clarified by the European Commission, who have made a commitment to follow this up as one of their highest priorities for other globally traded secondary raw materials. As a consequence DEFRA have announced they are going to review the issuing point of PRNs. There is logic in this decision as it potentially irons out an anomaly in the market. However the crucial issue will still remain whether the processed material is acceptable to the mill to which it is being delivered so quality remains key.

Steel, which is very dependent on exports, has traditionally been one of the most volatile materials in both price and volume. While Q1 in 2011 is higher than Q4 in 2010 it is significantly down on Q1 of 2010 and on the required tonnage to meet this year's anticipated obligation. However just as steel recycling volumes have been unpredictable so too have obligation figures. Obligations have been significantly below expectation since 2008 after a major boost in 2007. Whether this is as a consequence of lightweighting or switches between packaging materials and whether the trend will continue is unclear. As unclear are the impacts of the change of end of waste criteria and the apparent slowdown in the rate of growth of the Chinese economy on the export of steel for reprocessing.

Steel reprocessed and exported by quarter 2010 - 2011 compared to quarterly requirement to meet anticipated 2011 obligation



The message from DG Environment is a firm commitment to Producer Responsibility as a solution to waste issues. Furthermore no conflict is identified between this commitment and the further implementation of the Waste Framework Directive. Increasingly accurate statistics on recycling and reuse are desired as is improvement in waste prevention. As a result I thought it would be interesting to review how other nations are meeting the Directive. Thank you to Esther for her insight into what Ecoembes are doing in Spain. A recovery rate in excess of 70% for paper and plastic packaging and metal tins is a fine achievement.

Thank you for your support during this difficult quarter. There is plenty more trading to be done in 2011 and no doubt surprises too. We look forward to continue being of service to you.

Angus Macpherson
Managing Director



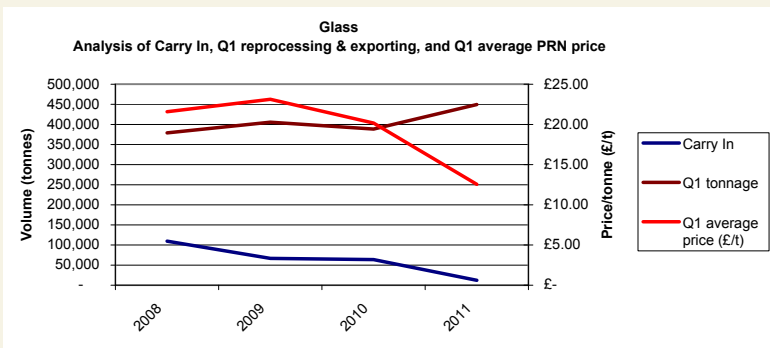
Summary of Q1 Reprocessing & Exporting Figures 2011

By Patricia Hall

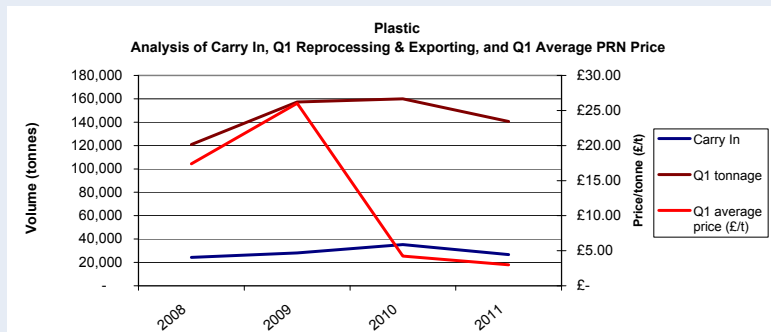
The eagerly awaited Q1 reprocessing and exporting figures for 2011 were released by the Environment Agency on Friday 22nd April. The figures revealed a drop on 2010 Q4 in Paper (2.4%) and Recovery (11.9%), while Glass increased by 36.8%, Aluminium by 9.6%, Steel by 9.1%, Plastic by 1.1%, and Wood by 2.2%.

Glass

The suspension of a large Glass reprocessor and adverse weather conditions at the end of 2010 hampered collection activities in the Glass sector, and the industry saw a drop in reprocessing and exporting activity of 30% between Q3 and Q4. Lack of availability meant that the industry drew on its carry in tonnage to meet obligations. Consequently, this year's carry in figure of 12,215 tonnes is 85% below the average for the last three years. However, the strong first quarter of 2011 (the highest on record), which was up 16% on Q1 of 2010 has somewhat alleviated concerns for the moment. The market reacted with a price fall from £11 to £10/tonne following the release of the figures.



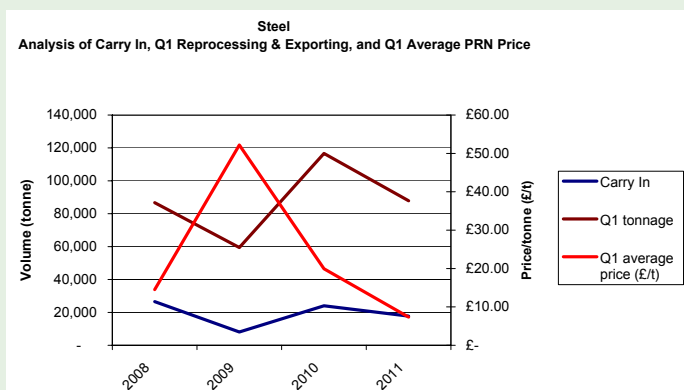
Plastic



2010 closed the year at rock bottom prices, reflecting the oversupply in the market. Although Q4 of 2010 was down slightly on Q3, the market was still more than 80,000 tonnes oversupplied (including 2010 carry in). Q1 of 2011 was up very slightly on 2010 Q4, but was the lowest Q1 figure since 2008. Based on current obligations, the increase in the target for Plastics of 3% should bring additional demand to the market. On this basis, the reported Q1 figure of 142,000 tonnes is potentially slightly lower than required, explaining the strengthening of price from £3.25 to £3.50 at the end of the quarter.

Steel

The Q4 figures revealed very little year-on-year change in total reprocessing and exporting. The release of the 2011 Q1 figures did not cause much concern. The market had anticipated a strong quarter and the price fell accordingly (£7.50 to £6.00). The Q1 spot average in 2011 for Steel was £7.35/tonne, more than 60% lower than Q1 of 2010. In the last two years, the Steel obligation has decreased despite an increased target as producers move to lighter weight steel packaging or stop using steel packaging altogether. There is debate as to whether this trend will continue into 2011 or whether the target increase will bring a significant strengthening in demand to the market.



Analysis of reprocessing and exporting figures for all materials 2008 – 2011, change between Q1 (2011) and Q4 (2010), and change in total waste received between 2010 and 2009.

Material	% Change in Q1 Figures			% Change Q1 (2011) vs. Q4 (2010)	% Change in total waste received 2010 vs. 2009
	2009 vs. 2008	2010 vs. 2009	2011 vs. 2010		
Aluminium	30.4%	2.9%	28.7%	9.6	1.1
Glass	7.0%	-4.2%	15.7%	36.8	0.6
Paper	-1.8%	-1.1%	0.1%	-2.4	1.5
Plastic	30.1%	1.7%	-12.1%	1.1	-1.7
Recovery	24.7%	31.8%	7.4%	-11.9	-34.4
Steel	-31.4%	96.2%	-24.7%	9.1	1.1
Wood	-16.5%	-4.6%	-10.5%	2.2	4.9

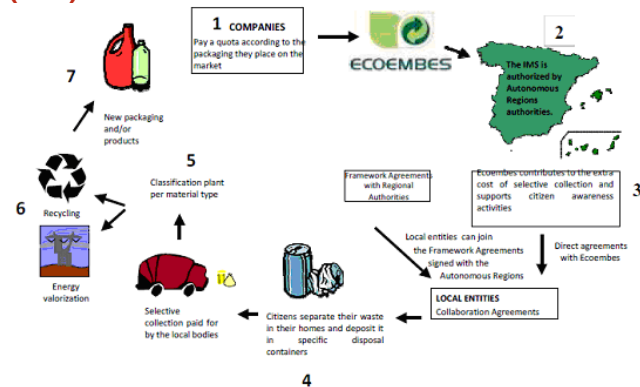


Implementing the EU Packaging Waste Regulations in Spain

Esther Colino Caro, Head of Packaging & Sustainability, Ecoembes, Madrid, Spain

On 22nd November 1996, following the introduction of the Spanish Packaging and Packaging Waste Act 11/97, developed in accordance with the European Directive 94/62/CE, Ecoembes (Ecoembalajes España, S.A.) was set up to provide a waste management service for municipal solid Waste. Ecoembes deals specifically with cardboard/paper and lightweight packaging (plastics, tins, and tetra-briks). The recovery of other materials is dealt with by separate organisations. Ecoembes is a non-profit organisation, financed by packers and fillers, symbolised by the Green Dot.

How does the Integrated Management System (IMS) work?



How do companies join Ecoembes?

Companies that sign up with Ecoembes are entitled to use the Green Dot to demonstrate that they are part of an IMS and that their household packaging can be collected. They are not required to create their own deposit, refund and return system, or directly inform the public authorities about the packaging they place on the market. Ecoembes takes responsibility for this.

Currently, 12,155 packaging companies have signed up with Ecoembes. The shareholders consist of 57 companies and company associations from all those sectors involved in the packaging chain: manufacturers and packaging companies, distributors, raw material manufacturers and recycling companies.

Collaboration with local and regional entities

Before operating in a particular region, Ecoembes must obtain authorisation from the regional authority. Once this is achieved, collaboration with local entities can be formalised either through direct agreements with Ecoembes and the Local Authority or through an affiliation with a framework agreement in the respective Autonomous Region.

From a legal perspective, local councils are responsible for implementing the scheme. However, by signing the collaboration agreements, local councils receive contributions from Ecoembes for the extra cost incurred in providing this packaging waste collection system compared with traditional waste collection methods. Furthermore, Ecoembes provides technical support for the definition, development and supervision of the selective collection system and packaging waste classification process.

Ecoembes has been operating with great success since its introduction in 1998, and at the end of 2010, 101 agreements had been signed with Autonomous Regions or with Local Entities. This means that practically all of the Autonomous and Local Authorities now participate in the IMS. Thanks to the signing of these agreements, 46.1 million Spaniards can participate in the selective collection of cardboard and paper packaging and 45.8 million in the selective collection of lightweight packaging (plastics, tins and tetra-briks). At the end of the year, a total of 96 sorting plants were in place across Spain. In 2010, 1,307,000 tonnes (over 70%) of the cardboard/paper and lightweight packaging placed on the market by the 12,155 companies affiliated with Ecoembes was recovered. Over 65% of this was recycled and the rest was sent for energy recovery.

Another important service offered to affiliated businesses by Ecoembes is their prevention plans, which assist companies in complying with the law on reducing packaging weight. The scheme has been running since 1999 and the number of participating companies has more than doubled since its introduction. Currently 2,400 companies participate in Ecoembes Prevention Plans, 80% of them are SME.

For more information on Ecoembes visit www.ecoembes.com



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It will encourage informed debate and help to cement the strategic alliances that will allow our industry to ensure that sustainable waste and resource management is an integral part of The Big Society.

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