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Quarterly Report

Report 54

May 2012

The Marketplace for PRNs and WENs



Market Status Report – February 2012 to April 2012

By Ian Andrews

During this previous quarter the agency has confirmed the 2011 Q4 supply figures, 2012 Q1 supply figures and the introduction of new targets for 2013 onwards. In addition to the increased targets being confirmed for plastic, aluminium and steel we will also see the introduction of a new split glass note.

The 2011 year finished with strong supply being reported across all materials with the exception of plastic which had to utilise some of the previous years carry in to satisfy in year demand. The Q1 supply figures, which were released at the end of the period, showed that the decrease in plastic supply continued into 2012 with the lowest quarters supply being reported since 2008 (2008 Q1 – 120,857t / 2012 Q1 – 125,419t). This low Q1 supply figure combined with the confirmation that the plastic recovery target was to increase by 5% annually from 2013 onwards created concern in the market and has resulted in prices increasing. In addition to the plastic the Q1 glass figure looked unimpressive, however concerns have been alleviated slightly by the strong carry in figure from Q4 2011 (57,372t).

Trading for the quarter equated to 184,799 tonnes with 80,867 tonnes trading in the Spot markets and 103,932 tonnes trading in the Forward markets.

Market Material Analysis

Paper – Prices remained stable throughout the quarter with supply remaining good in the face of increasing problems in the export markets. With new domestic capacity coming on line this year there would appear to be little concern about meeting this year's target.

Plastic – Supply problems identified by the low Q1 reprocessing figures resulted in upward price movement at the end of the period. It is hoped that this early indication coupled with the increased value in the market will provide enough incentive to see supply increase and pressure eased as we proceed this year.

Glass – Price remained relatively stable this quarter with reasonable volume trading across all markets. Some concerns were voiced at the end of the period when the Q1 supply figures showed tonnage had dropped and this resulted in the price firming up.

Steel – A lack of available supply at the start of the quarter saw prices initially firming up before dropping back as supply returned. The Q1 figures, although not overly impressive, show good supply for this stage of the year.

Wood – A relatively low volume quarter for wood saw the price hold up as material specific buyers closed out positions. The increased interest from the biomass sector has resulted in supply

volumes continuing to decline and while this will not present problems for material specific buyers if the trend were to continue the surplus volumes allocated to the general buying pot may become more scarce.

Aluminium – The large spread between buyers' and sellers' prices resulted in light trading taking place this quarter. Supply remains good but sellers are unwilling to entertain low prices at this stage of the year.

Recovery – The final supply figures from 2011 showed that the market had created some 40% oversupply (Demand – 483k / Supply 675k). This has resulted in market prices remaining at administrative levels and these look to continue this year.

| | High this quarter | Low this quarter | Traded this quarter | Quarter average traded price | YTD average traded price | YTD aggregated traded |
|-------------------------|-------------------|------------------|---------------------|------------------------------|--------------------------|-----------------------|
| PAPER MARKET | | | | | | |
| Spot 12 | £1.25 | £0.85 | 46,130 | £0.89 | £0.88 | 59,898 |
| Apr Fwd 2012 | £0.95 | £0.90 | 9,000 | £0.94 | £1.04 | 17,044 |
| Jul Fwd 2012 | £1.00 | £0.85 | 16,200 | £0.91 | £0.95 | 23,200 |
| Oct Fwd 2012 | £0.85 | £0.85 | 12,000 | £0.85 | £0.85 | 19,000 |
| Dec Fwd 2012 | £0.85 | £0.85 | 10,000 | £0.85 | £0.81 | 17,000 |
| PLASTIC MARKET | | | | | | |
| Spot 12 | £20.00 | £4.95 | 11,195 | £8.30 | £7.62 | 13,923 |
| Apr Fwd 2012 | £6.85 | £4.95 | 8,800 | £5.36 | £5.40 | 9,361 |
| Jul Fwd 2012 | £10.50 | £4.95 | 10,115 | £6.93 | £6.93 | 10,115 |
| Oct Fwd 2012 | £9.00 | £4.95 | 3,000 | £7.65 | £7.65 | 3,000 |
| Dec Fwd 2012 | £4.95 | £4.95 | 500 | £4.95 | £4.95 | 500 |
| GLASS MARKET | | | | | | |
| Spot 12 | £10.00 | £8.50 | 9,030 | £8.50 | £8.58 | 9,030 |
| Apr Fwd 2012 | £8.50 | £8.50 | 11,500 | £8.50 | £9.15 | 27,950 |
| Jul Fwd 2012 | £9.00 | £8.50 | 10,700 | £8.55 | £8.70 | 16,300 |
| Oct Fwd 2012 | £9.00 | £8.00 | 2,237 | £8.11 | £8.67 | 6,087 |
| Dec Fwd 2012 | £9.00 | £9.00 | 3,000 | £9.00 | £9.00 | 13,200 |
| STEEL MARKET | | | | | | |
| Spot 12 | £8.00 | £4.95 | 3,067 | £5.78 | £5.30 | 4,088 |
| Apr Fwd 2012 | £4.50 | £4.50 | 600 | £4.08 | £4.03 | 2,000 |
| Jul Fwd 2012 | £6.00 | £6.00 | 2,500 | £5.60 | £5.33 | 3,000 |
| Oct Fwd 2012 | £4.00 | £4.00 | 500 | £4.00 | £4.00 | 1,000 |
| Dec Fwd 2012 | £4.00 | £4.00 | 2,100 | £3.89 | £3.91 | 2,600 |
| WOOD MARKET | | | | | | |
| Spot 12 | £2.50 | £1.50 | 4,472 | £1.63 | £1.61 | 4,671 |
| Apr Fwd 2012 | £1.15 | £1.15 | 500 | £1.15 | £1.25 | 1,673 |
| Jul Fwd 2012 | £1.10 | £1.10 | 500 | £1.10 | £1.20 | 1,500 |
| ALUMINIUM MARKET | | | | | | |
| Spot 12 | £14.00 | £4.00 | 35 | £6.06 | £4.42 | 249 |
| Apr Fwd 2012 | £6.00 | £6.00 | 180 | £6.00 | £6.00 | 180 |
| RECOVERY MARKET | | | | | | |
| Spot 12 | £0.50 | £0.75 | 6,938 | £0.39 | £0.35 | 14,347 |

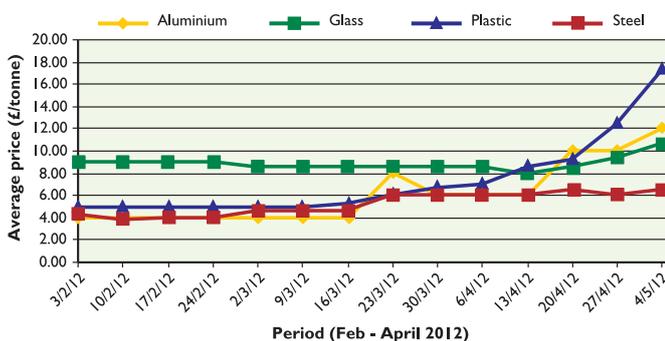


Managing Director's Report

Quarter 2 is the data quarter with overall PRN and Quarter 4 data for 2011 followed swiftly by Quarter 1 data and the business obligations for 2012 allowing an appraisal of both the previous year and an insight of the challenges that will have to be faced in the next one. While it is understandable that the Agencies might wish more time to review the overall annual returns it remains frustrating that it takes so much longer for quarter 4 figures to be published than previous quarters. Earlier publication would allow businesses and compliance schemes to prepare their operational plans on the basis of knowledge rather than speculation.

As it happens the figures confirmed speculation with ultimately all materials other than plastic complying with ease in 2011. Quarter 1 figures reinforced the challenges that plastic faces to not only meet the demanding targets of future years but also unexpectedly this year as well (Tables 1 & 2, Page 3). This can partially be attributed to the low number of reprocessor and exporter registrations, although with prices moving up above £5 a tonne that may change, and partially to the difficulties that exporters had in securing containers in January and February to ship to the Far East. While the latter problem now appears to have eased, shipping costs have and look as though they may continue to escalate, and the news coming out of China is rocky. This applies to the overall economy which is taking some time to pick up in 2012 after an early spring holiday and paper mills in particular who are reporting challenging and unprofitable times. As a result with UK mills reporting full inventories downward pressure is being applied on price and cashflows.

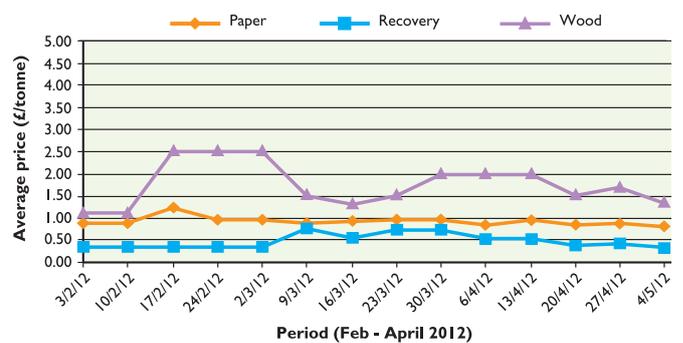
Graph showing price change for Q1 in all t2e markets (Aluminium, Glass, Plastic & Steel)



Although the obligation looks as though it will end up at a similar level to 2011, should the situation continue not only will plastics struggle to meet their material specific target in 2012 so also might the general recycling level look challenging (Table 1, Page 3). However in previous years small reprocessors and exporters have been adept at registering once the PRN price looks as though it is increasing, as it is currently in all materials other than the general recycling PRNs, paper and wood, and recovery, to satisfy any shortfall in supply.

Quality remains an issue in the export markets with overseas paper purchasers actively raising issues of moisture and contaminants, in particular glass. These quality issues regardless whether they are real or perceived are being exploited by sellers from other EU countries as they try to erode the UK's dominant position in sales to Far Eastern markets. In plastics concerns have been raised by domestic reprocessors that the level of contaminants in exports is so great that a protocol should be introduced to reflect it. If this claim is verified then there would seem to be every reason to introduce one. However the challenge remains of how to pragmatically verify quality issues. It is good to hear of the progress that ESA is making towards developing their MRF registration scheme, the RRS. If it does not produce the final solution it is undoubtedly a significant step in the right direction. Reprocessors may wish to consider developing similar systems for themselves to validate their input.

Graph showing price change for Q1 in all t2e markets (Paper, Recovery & Wood)



At the end of March DEFRA carried out an informal review of the producer responsibility regimes, in particular the packaging one. Some enthusiasm was expressed towards harmonising registration and using the NPWD for all regimes. There would seem to be some merit in this suggestion. The same applies to revisiting the de minimis level the range of the allocation method and the requirement for an operational plan. The latter links into the issue of individual registration with some compliance schemes expressing that it is an easy option. However it remains a sensible option to comply and if introduced into the other regimes would introduce a greater challenge on compliance schemes to raise their game. Why publically listed companies do not all show their compliance under producer responsibility regimes in their annual reports remains a mystery and raises the question of the knowledge of their auditors of environmental regulations and the potential implications of failing to comply.

Thank you to David Sher for his thoughts on page 4. Many thanks for your support. Now summer appears to have finally arrived, may 2012 prove more positive for all than 2011.

Angus Macpherson
Managing Director



Analysis of PRN Business Obligations and PRN Quarterly Supply

By Patricia Hall

The 2012 business obligations released on May 15th revealed an overall drop in obligations of 1.41%, which contrasts with 2011 when the obligation increased some 2.5% on the previous year, although this was mainly attributed to the increased targets for certain materials. The figures are of course initial and are subject to change, particularly as there are a number of companies still to register so we can reasonably expect this to increase in the coming months.

The Q1 figures revealed a tighter than expected quarter for Plastic and resulted in a sharp price increase on t2e's marketplace (up to £20/tonne during April). Consequently there were some concerns that the release of the obligation figures may exacerbate the situation. The situation is similar in Glass, for which Q1 PRN production also fell considerably on Q4 of 2011 (Table: 2, down 15%). The release of the obligation figures justified these concerns, and with less than 25% of the obligation for these two materials met in the first quarter of the year, questions about availability remain.

| | PRN Business Obligations | | | 2012 Quarterly obligation | Amount of 2012 obligation filled in Q1 (tonnes) | Amount of 2012 obligation filled in Q1 (%) |
|-------------------|--------------------------|-----------|------------|---------------------------|---|--|
| | 2011 | 2012 | Change (%) | | | |
| Aluminium | 60,553 | 60,348 | -0.34% | 15,087 | 16,309 | 27% |
| Glass | 1,699,358 | 1,697,525 | -0.11% | 424,381 | 379,463 | 22% |
| Paper | 2,594,654 | 2,503,162 | -3.53% | 625,791 | 798,731 | 32% |
| Plastic | 604,967 | 601,073 | -0.64% | 150,268 | 125,419 | 21% |
| Recovery | 483,505 | 473,965 | -1.97% | 118,491 | 199,369 | 42% |
| Steel | 350,621 | 352,167 | 0.44% | 88,042 | 91,130 | 26% |
| Wood | 230,841 | 234,612 | 1.63% | 58,653 | 128,288 | 55% |
| General Recycling | 969,899 | 972,805 | 0.30% | 243,201 | 257,996* | 27%* |
| Total | 6,994,398 | 6,895,657 | -1.41% | 1,723,914 | 1,738,709 | 25% |

Table 1:
Change in PRN business obligations (2012 vs. 2011), 2012 quarterly obligation, and % obligation filled in Q1

* Total Q1 PRN production minus material specific obligation gives the PRN surplus used to meet General Recycling target

Table 2:
Analysis of Q1 reprocessing and exporting figures for all materials between 2008 – 2012, and change between Q4 (2011) and Q1 (2012)

Table 2 shows how Q1 PRN production in 2012 compares with the same period in previous years. As shown, this is the first year since 2009 that Q1 PRN production has fallen year-on-year.

| | % Change in Q1 Figures | | | | % Change Q1 (2012) vs. Q4 (2011) |
|-----------|------------------------|---------------|---------------|---------------|----------------------------------|
| | 2009 vs. 2008 | 2010 vs. 2009 | 2011 vs. 2010 | 2012 vs. 2011 | |
| Aluminium | 30.4% | 2.9% | 28.9% | -9.2% | -4.4% |
| Glass | 7.0% | -4.2% | 15.8% | -15.6% | -15.0% |
| Paper | -1.8% | -1.1% | 5.1% | -0.4% | -3.4% |
| Plastic | 30.1% | 1.7% | -10.7% | -12.3% | -12.2% |
| Recovery | 24.7% | 31.8% | 7.8% | 17.0% | 11.8% |
| Steel | -31.4% | 96.2% | -24.1% | 2.9% | 13.5% |
| Wood | -16.5% | -4.6% | -10.5% | -27.4% | -1.3% |
| Total | 0.46% | 3.66% | 2.80% | -5.94% | -4.50% |

Where to see us next

The Environment Exchange is supporting Inovenergy's 'One Tonne of Waste' promotion, looking at the optimum handling of a notional one tonne in your town or city.

Join us on **The Resource Forum's** stand at the

CIWM (Chartered Institution of Waste Management) **Conference** on June 12-13th

The Royal College of Surgeons, London. For tickets, book now at www.ciwmconferences.com

BASE London Conference: The definitive event for a sustainable London on June 21st

Tower Bridge, London, book now at <http://www.basecities.com/london/the-event/fringe-events>





Reflection on the Packaging Consultation

By *David Sher* - Policy Advisor, Environmental Services Association

On 21st March, DEFRA published final responses to the consultation on the PRN system and set recycling and recovery targets for the next five years, so it's a good moment to reflect on the positives, the negatives and the missed opportunities.

The PRN system has had its critics over the years, but to some extent it's a victim of its own success. Talk of abandoning the system altogether arose because the UK (now) exceeds EU recycling obligations for many packaging streams, leading some to suggest the system is unnecessary. A few claim the system is flawed because it doesn't deliver much money to actually develop recycling infrastructure; others interpret this same symptom as evidence that it's one of Europe's most efficient lowest-cost mechanisms for ensuring packaging targets are met.

We generally see quite a lot to like in the recent policy initiatives around packaging. Raising targets for across a 5 year period delivers the necessary support for developing collection and infrastructure to promote recycling of packaging waste – the targets for some streams are certainly ambitious, but we think achievable. Our Members also like the 'level playing field' and medium-term visibility offered by statutory targets, and prefer them to more uncertain sector specific voluntary arrangements, proposed as the alternative means of achieving higher recovery rates in the consultation.

In the latest adjustment, the Government decided to experiment: using the PRN system to achieve other waste policy aims, like promoting high-quality recycling of glass. Recycling glass back into re-melt applications creates a higher carbon saving than recycling the material as aggregate. As a result, we embraced the principle of the approach taken in the consultation, and feel this will deliver greater commercial drivers to put more glass into re-melt. It's a smart idea and increasing the proportion of re-melt could have been challenging without adjusting the economics.

But the recent consultation response has also thrown up significant challenges. Plastics recycling targets have increased dramatically, and that will have consequences. Anybody involved in 'plastics recycling', for example, will know that term is a bit of a misnomer. 'Plastics' encompasses a range of materials (like PET, HDPE, PP and PVC), and come in all sorts of physical forms (bottles, pots, tubs, trays, films and wraps). Some are easier to recycle than others; some contain more valuable materials than others. One consequence of the increase in targets is certain: we are now going to have to collect for recycling more fractions of plastics, and more forms of plastics, to achieve higher overall recycling levels. That will lead to increasing complexity in plastics supply chains. It's a challenge our industry is eager to rise to (and one that brings with it a huge economic and environmental value proposition), but it's also a challenge that shouldn't be undertaken lightly.

And the missed opportunities? One of the greatest successes of the PRN system, rarely mentioned, is the quality of data it gives us. For many streams, we now know what is placed on the market and how much is recycled. When you compare this to the paucity (and validity) of data on general commercial and industrial waste, you realise just how valuable this quality of data is.

As the focus intensifies on prevention and recycling, eco-design of products with recycling in mind becomes ever more important. The ESA is often approached by big retailers and manufacturers, looking to inform how they design products. They need to know, for example, the relative recycling rates of PET versus PP, to make a considered 'life-cycle' decision on how to design the most environmentally friendly product. The PRN system could help in this regard. By requiring plastics recyclers to issue PRNs labelled by fraction type – even without sub-targets or differentiated values – we could secure much improved national data on plastics recycling; data that could be immensely valuable to future of product design and to the benefit of the recycling industry.

The Environmental Services Association (ESA) works on behalf of its Members to support and promote the waste and resource management industry.