

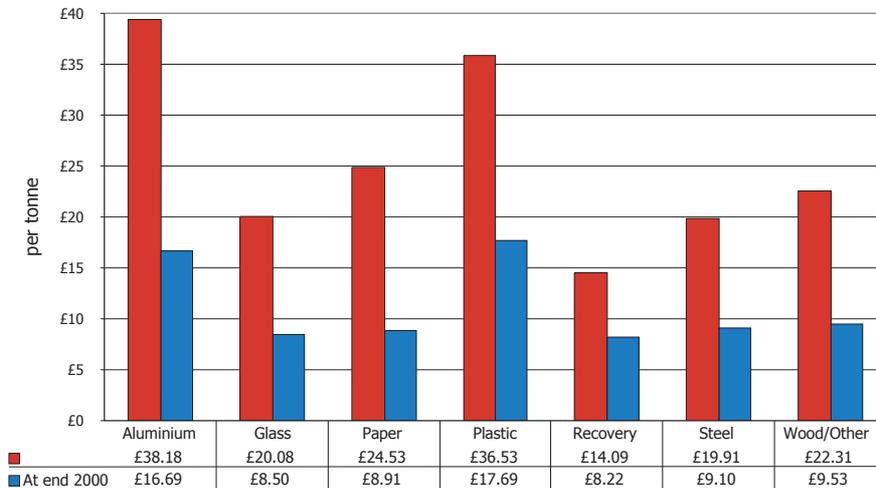
Quarterly Report

This issue covers the following:

- Average PRN prices to date
- t2e MD comments on recycling targets
- Government urged to establish PRN register
- Paper prices soar
- t2e moves to Edinburgh

2001 PRN Prices

Trade weighted average PRN prices to 31st October 2001



DEFRA Recovery & Recycling Targets

DEFRA has just completed a consultation on the recovery and material-specific recycling target for 2001. Their proposed targets were 61% for recovery and 20% for material-specific recycling. DEFRA indicated that it is reluctant to maintain the current target as it is thought that this both promotes the wrong message and might weaken the PRN market.

The chart illustrates the impact that these targets should have on the tonnage of recovery and recycling achieved in 2001 and 2002 in comparison to achievements in 1999 and 2000.

DEFRA is currently re-assessing the data for 2001 where early indications are that the total packaging used in the UK has actually declined. They also indicate that once the Commission makes a final decision on targets for 2006, where the debate continues on the inclusion of a recovery target and the benefits of varied material-specific targets, this will make an impact on their selected targets.

The Environment Exchange has recommended:

- 59% recovery target
- 54% general recycling target
- 19% material-specific target
- Depending on the final decision from the Commission, annual increments of 3.5% for recovery and general recycling targets, and 1% for material-specific targets.

Year	UK Business Targets (%)	Total recovery achieved (%)	Total recovery achieved (t)	Total recycl. achieved (%)	Annual increase (%)	Total recycling achieved (t)
1999	43 recov.	38.1	3,506,611	32.7		3,010,342
2000	45 recov.	41.9	3,851,831	36.4	+3.7	3,351,050
2001 (est)	56 recov.	51.0	4,752,024	45.6	+9.2	4,251,243
2002 (est)	61 recov.	55.6	5,244,277	50.3	+4.6	4,743,496
2003						
2004						
2005						
2006						
Directive Targets	60 recyc		5,978,581			5,978,581



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Managing Director's Quarterly Report

The Environment Exchange celebrated its third birthday on 25 November 2001. With almost 25,000 tonnes traded this month, it is the busiest month to date. At this stage like-for-like trading between 2000 and 2001 obligation years is up on tonnage by 34 per cent, transaction numbers by 49 per cent and value by a startling 298 per cent.

Next year the targets are going to be even more demanding. As a result the search costs for the best value PRNs are going to increase, hence the role of the marketplace is going to be enhanced.

In response to the Government consultation on the targets for 2002, The Environment Exchange suggests that the Government should be focusing on a different target. The clear indication from Europe is that regardless of the future of the recovery target, the overall recycling target is going to increase to a national target of at least 60 per cent by 2006. Hence as a first stage the United Kingdom should increase its national overall (general) recycling target.

The Environment Exchange recommends an increase from 28 per cent to 54 per cent within a total recovery target of 59 per cent. As a guide, subject to confirmation of the ultimate recycling targets by Europe, both these targets should be increased by a further 3.5 per cent annually between 2002 and 2006. This will maintain overall market tightness in both recycling and recovery PRNs, more truly reflect current European thinking and be both achievable and realistic.

The percentage of packaging recycled varies depending on which material type it is, the quantity of packaging available on the market and the price of the PRN. The Environment Exchange does not support the view that this variation, which is the result of market forces and can change, should be legislated unless specific targets have been confirmed by the Commission.

If the figures in the consultation document are reflected for the whole of 2001 both the aluminium and plastic sectors will struggle this year. An important issue is the identification of what actions will be taken by whom against sectors that fail to achieve their minimum material specific recycling targets. As the majority of sectors achieve the material specific target with ease, it negates the purpose of increasing the minimum targets if sectors that failed to meet the previous minimum are in no way penalised. Hence The Environment Exchange finds it difficult to support an increase

in the minimum material specific targets based on the data available. If this issue is resolved, it would recommend a rise to 19 per cent and 1 per cent annually from 2002 to 2006.

Overall The Environment Exchange endorses the Advisory Committee on Packaging's view that the present PRN system appears to be working well. This does not mean that the system cannot be improved but any improvements would be adjustments rather than fundamental changes to the concept. In particular the development of a central register is vital in order that participants in the market are better informed about the details of the market.

Surely it must be the aspiration of Government, effectively the managers in a managed market such as the PRN market, to create a 'perfect market'. A 'perfect market' can only be created on the basis of perfect information. At the moment the absence of timely information increases the opaqueness of the market and as a consequence price speculation and counter productive secondary trading takes place. The presence of a central register would improve the quality of information available to all: Government; regulators; reprocessors; exporters; obligated companies and compliance schemes. In an aggregated form it will in no way compromise the confidentiality of individual participants in the market.

As the market develops many are still developing their ideas on how best to utilise a marketplace. Some prefer to sit on the fringes with the ambition of achieving the big trade rather than using the marketplace in smaller quantities and often. It is worth bearing in mind that 1,000 tonnes traded for 50 weeks equates to 50,000 tonnes just as effectively as one trade of 50,000 tonnes. Equally it should be borne in mind that a bid or offer of 1,000 tonnes on the exchange may cover a far larger requirement. Furthermore in a tight market, steady trading is far less likely to send to the market any signal of distress than a single sizeable trade.

Once again many thanks for your support to date and as the festive period approaches, I wish everyone an enjoyable time.



Angus Macpherson
Managing Director



BRIDGING THE GAP BETWEEN BUYERS AND SELLERS

From the Environment Exchange Press Office

Waste Packaging Government again urged to introduce PRN Register

Another twelve months have passed since Environment Exchange MD Angus Macpherson called for the introduction of a centralised register of ownership for Packaging Recovery Notes (PRNs). Extraordinarily, no initiative has yet been muted and speculators and unauthorised intermediaries are still able to operate in the PRN marketplace unsupervised despite the fact that some of this activity may be counter productive.

At present the Government's supervisory authority the Environment Agency (SEPA in Scotland), is able to monitor the issue of PRNs by accredited reprocessors on a quarterly basis but thereafter the agencies are only able to identify ownership when it is officially returned as part of a certificate of compliance from an obligated company.

"Registration would allow the agencies to track PRN trading and ownership. It would aid compliance and reduce fraud, market abuse and time spent in administration. It would also improve the quality of information and provide market clarity, which in turn would assist in reducing price volatility in an otherwise unpredictable market," says Angus Macpherson.

Frequently asked questions:

- Is part settlement permitted?

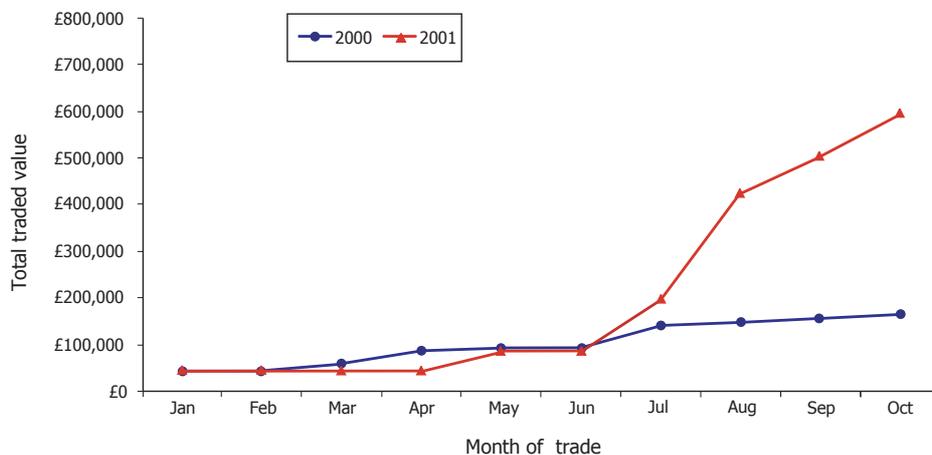
Yes, if company A is offering 1,000t, company B may buy 600t and company A may leave the balance on the market, or vice versa.

- Why might t2e wish to restrict any activities of its participants?

T2e might wish to restrict trading generally where abnormal circumstances occur or where an individual participant is acting in a manner which amounts to abuse of the market. So far neither of these circumstances has occurred.

Total value of PRN Transactions through t2e

Total Value of Paper Transactions to 31st October 2001



"At this stage like for like trading between 2000 and 2001 obligation years is up on tonnage by 34 per cent, on transaction numbers by 49 per cent and in value by a startling 298 per cent!" ... Angus Macpherson

Guidance from The Environment Agencies

1. For 2001 PRNs / PERNs issued in respect of packaging waste delivered for reprocessing between 1st January and 30th November 2001.

- There will be no splitting of these PRNs / PERNs after 31st December 2001.
- Any 2001 PRN / PERN issuing capacity, which remains at 31st December, must be declared and the remaining amount issued as a PRN to the appropriate Agency (from where they will not be supplied on). **You must make it clear on the PRN/ PERN that "this is surplus material delivered in period 1 January 2001 to 30 November 2001."**

2. For PRNs / PERNs issued in respect of packaging waste delivered for reprocessing during December 2001.

- An accredited reprocessor / exporter may (not later than 31st January 2002) issue either a 2001 or a 2002 PRN/PERN in respect of packaging waste delivered / exported for reprocessing during December 2001. Such PRNs/PERNs should clearly state the obligation year for which they are intended.
- There will be no splitting of these PRNs / PERNs after 31st January 2002.
- Any PRN issuing capacity, which remains after 31st January, must be declared and the remaining amount issued as a PRN/ PERN to the appropriate Agency (from where they will not be supplied on). **You must make it clear on the PRN/ PERN that "this is surplus material delivered in period 1 December to 31 December 2001."**

t2e heads for Edinburgh

The Environment Exchange has now relocated to Edinburgh (address below), but as an e-business, the location will make no difference to the service that we can provide to our 450 plus participants. The Exchange is located in the OM Group's centrally-located offices a stone's throw from the main Waverley Station.

Reminder

We have moved to:

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