

Market Status – August to October

by Andrew Fendick



Quarter three has seen very active trading for the first time across the Spot and all four Forward markets. We have seen the quarter on quarter increases we have become accustomed to in 2005.

Looking first at the Spot market, a total of 95,055 tonnes traded, which represents a 12.7% increase on the same period in 2004. Some markets have seen significant increases whilst others have decreased, an indication of some of the problems affecting the wider PRN market.

The success of Forward markets is shown by the total traded volume which has almost matched the Spot Market volume in Quarter three, with 78,805 tonnes traded across all material types. There are a number of reasons for this activity: fundamentally there has been volume offered and bid for at perceived good value to enable traders to commit tonnage in confidence. Underlying pressure from DEFRA and the Environment Agencies on Compliance Schemes to enter into long term contracts for up to three years is also a factor in increased interest in this type of transaction. It should be noted that as well as viewing this development as an opportunity, some sectors of the market view it as a threat due to the belief that tonnage availability in the Spot market will be severely restricted.

The combined total traded volume for the quarter is 173,860 tonnes.

Spot Market material analysis:

Paper traded in good volume for the quarter in a narrow price band with a low of £13.00 and a high of £13.75. Total volume traded in the quarter was 38,241 tonnes, which represents an 8% increase on the same period in 2004.

Plastic traded in decent volume with a low of £37.50 and a high of £57.00. Total volume traded was 8,572 tonnes, a 39% decrease on the same period in 2004.

Steel traded in very good volume despite continued fears over availability with a low of £125.00. The value increased to a high of £200.00. Total volume traded was 6,599 tonnes, a 45% decrease on the same period in 2004.

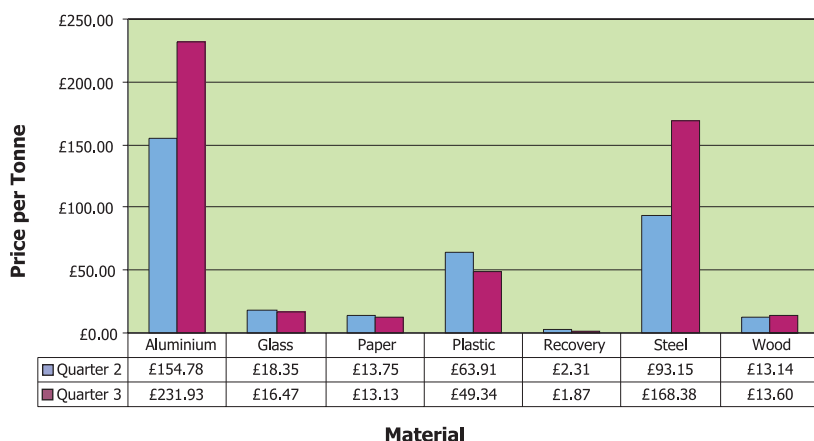
Glass traded in good volume in a relatively wide price band with a low of £13.50 and a high of £19.00. Total volume traded was 20,701 tonnes, an 55% increase on the same period in 2004.

Wood traded in fair volume with a low of £13.50 and a high of £15.00. Total volume traded was 5,163 tonnes, a 33% decrease on the same period in 2004.

Recovery traded in very good volume with a low of £1.75 and a high of £3.00. Total volume traded was 15,095 tonnes, a 1006% increase on the same period in 2004.

Aluminium traded in very light volume with the a low was of £210.00 and a high of £250.00. Total volume traded was 684 tonnes, an 8% decrease on the same period in 2004.

Average Trade Weighted Prices in Quarters 2 & 3 2005





Managing Director's Quarterly Report

Once again t2e has had a busy quarter with traded volumes up on last year. It is difficult to be certain if this is a significant shift in buying patterns or an expansion of traded tonnage. One factor is clear buyers and sellers are beginning to appreciate the merits of forward trading to reduce their price and volume exposure. This should have a noticeable impact on the volatility of prices. With some 15% of PRNs/PERNs from the first 3 quarters still to be transferred all indications are that we are looking at a busy final quarter with significant buying and selling still to come to the market.

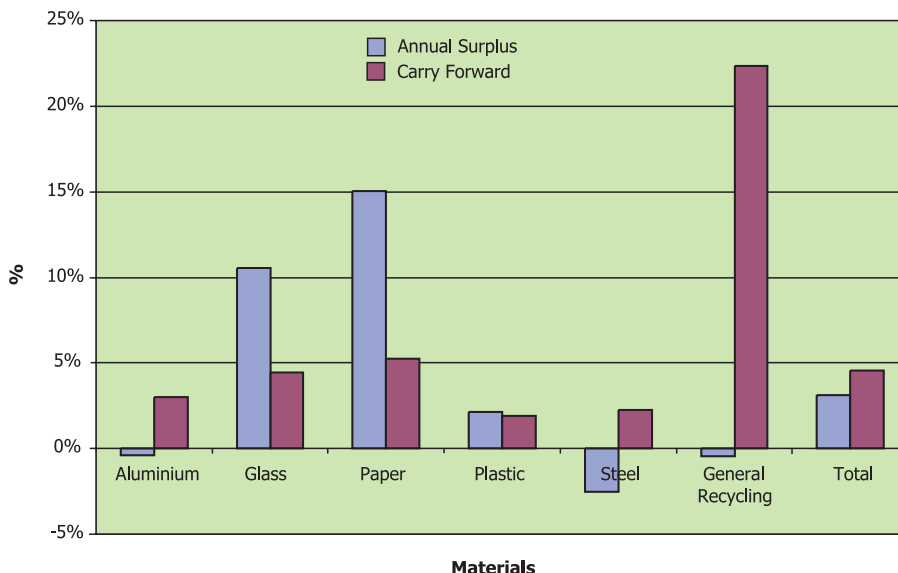
if the steel sector is making a deliberate attempt to starve the open market it has been not only successful in creating a significant hike in price but also a market distortion. Now the sector are aware of the potential value of a PRN, which this year has traded at significantly higher prices to that of the secondary raw material, greater efforts in correctly identifying separately collected packaging may be made. The independent audit will also provide additional accuracy.

Q3 statistics suggest that 2005 may resemble 2002 with supply exceeding demand which may impact on prices. Even though all the data has to be collected significant surpluses are appearing in glass, paper, wood and plastic. The latter is mildly unexpected giving rise to the suggestion that fraud is taking place in the export sector. Despite the steel export sector having its best quarter since Q1 in 2003 it still looks as though there will be a shortage of supply generated in 2005 with the difference being made up with carry forward. The same situation applies in aluminium where healthy exports are proving a saviour and meeting the general recycling requirement.

On this basis there will be less available to carry forward into 2006, however traditionally the fourth quarter is the most productive quarter so significant surpluses may still occur. Even with the increase of obligated packaging following the introduction of leased packaging and franchises, targets in 2006 do not look demanding.

Against this background pricing for 2006 can be approached with confidence particularly given the rapid expansion of glass collection. Despite their recyclability and their desirability as commodities it looks as though the metals are the most likely to struggle to reach their material specific targets. With only 81% of PRNs and PERNs issued to date,

% Difference Between Projected PRN/PERN Annual Production and Projected Obligation



By the time you receive this we will have introduced trading on t2e through the internet. If you wish to use this facility please let us know so that you can be instructed and authorised. We will also initiate a new fee structure for 2006 onwards which will benefit volume traders, those that use the forward markets and allow us to draw funds by direct debit.

Once again many thanks for your support this year. We wish you an enjoyable festive season and look forward to working with you through a challenging 2006.

Angus Macpherson
Managing Director



Mandatory Independent Audit – the t2e solution

An independent audit by an auditor who would be eligible for appointment as a company auditor of the reprocessor or exporter under Part II of the Companies Act 1989 is now a mandatory requirement for all large reprocessors or exporters (those that issue more than 400 tonnes of PRNs).

The auditors will produce a report that demonstrates that the PRNs or PERNs issued by the reprocessor or exporter in the previous compliance year are consistent with the tonnage of packaging waste received or exported for the previous calendar year. t2e is offering an independent auditing service to all 'large' reprocessors and exporters regardless of whether they are participants of the exchange or not. Since July, we have been offering an independent audit as an additional t2e service. From 2006 onwards the audit

fee will be integrated within the trading fee.

We have had a positive response. A dozen companies sent their auditors to a recent training day run by us in London on 7 November. Regulations and guidance notes were supplied and auditor and material specific issues discussed.

So far over 40 'large' reprocessors and exporters have expressed interest in the t2e service. If you wish to join them contact Lizzie Slater (lizzie.slater@t2e.co.uk). Please do not leave it too late the Agencies have indicated to us that those reprocessors or exporters that are re-applying for accreditation in 2006 will have their accreditation suspended after 28 February 2006 if the auditors report is not submitted.

Charging structure for a 'large' reprocessor or exporter

2005 only:

£625.00 per site/material plus:

first 2,500 tonnes	£0.10p per tonne
2,500 – 5,000	£0.05p per tonne
5,000 – 10,000	£0.02p per tonne
10,000+	£0.01p per tonne

2006 onwards:

first site/material	£500.00
2nd site/material	£300.00
3rd and subsequent sites/materials	£100.00

If this tonnage is traded through t2e, the audit fee will be included in the trading fee. If it is not, there will be an additional charge for PRNs/PERNs not traded through t2e during the compliance year of:

first 1,000 tonnes per site/material	£0.25p per tonne
1,001-2,500	£0.10p per tonne
2,501-5,000	£0.05p per tonne
5,001-10,000	£0.025p per tonne
10,001+	£0.01p per tonne

STOP PRESS

New Targets for 2006 to 2010 announced (Targets: up in blue, down in red)

Year	2006	2007	2008	2009	2010
Paper	66.5	67	67.5	68	68.5
Glass	65	69.5	73.5	74	74.5
Aluminium	29	31	32.5	33	35.5
Steel	56	57.5	58.5	59	59.5
Plastic	23	24	24.5	25	25.5
Wood	19.5	20	20.5	21	21.5
Recovery	66	67	68	69	70
General Recycling	92%	92%	92%	92%	92%

Review of the Steel PRN Market



John May

Manager, Corus Steel Packaging Recycling, Corus (UK) Limited

Corus expects to see steel packaging recycling, and the supply of steel PRNs, continue to increase. Short term, there are some special factors at work this year which, taken together, make the supply apparently tight.

Firstly, the targets by Government for steel for 2005 are more demanding than in the past because the annual increase in recycled tonnage has to be much greater than in previous years. Corus has pointed this out and believes that the annual increases should return to more realistic levels in the future.

Secondly, the number of both steel PRNs and steel PERNs is lower than the actual levels of recycling being achieved, simply because, for technical reasons, not all of the current steel packaging recycling is being recorded in PRNs or PERNs. This is being addressed.

Finally, the level of steel exports (*and hence steel PERNs*) was lower in the first half of this year than in previous years. Owing to factors related to the broader ferrous scrap market as a whole, material that could generate PERNs has been sitting at the dockside until the economic conditions for the export of steel scrap in general (*as opposed to packaging scrap in particular*) improved. Exports recovered strongly in Q3 and the total steel packaging recycled (*UK plus exports*) was the highest recorded quarterly amount.

In any event, steel is easy to collect and easy to recycle, and the current high PRN prices (*which Corus strongly opposes*) should moderate.



Daniel O'Connor

Managing Director, Mayer Environmental Limited

The price rise in both steel and aluminium PRNs has been very difficult for many companies in 2005.

Steel and aluminium exports have been down in the first half of the year compared to last year. Quarter 3, however, is expected to be much improved. Many compliance schemes have been concerned that they may not comply on metals. To cover their positions they may have tried to leverage additional tonnage from existing contracts as well as chasing the limited tonnes available in the spot market. This may also have contributed to the price hike, exaggerated the current shortage and left many producers struggling to buy their obligation.

Frustratingly, PRNs are traded in a market environment without current up to date tonnage data; we wait at least six weeks from the end of each quarter to have the data released by government. Often it is wrong and is corrected later.

For example, this years carry over tonnages were revised as late as August. In the case of steel, the revision was critical as it reduced the carry over tonnage by half (*>7000 tonnes*). Where the fault lies is unclear. What is clear is that we need an electronic system of reporting as soon as possible.

At year end, we may find that the lack of accurate and up to date tonnage information may have directly contributed to the price rises we have seen this year.

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