

Market Status – August to October 2006

by Andrew Fendick



In the third quarter we have seen a bottoming out of price in Paper and Wood, the base of a year long decline. These two materials have also been meeting the majority of Recovery obligations as well as General Recycling and their own. Steel, Aluminium and Plastic only seem to be staving off the £1 a tonne level because of the lack of any buying. Glass is the sole material to maintain demand across all markets, as a result prices remain firmer.

t2e's tonnages for the quarter are 90,383 Spot and 85,800 in the Forward markets giving a total tonnage traded for the quarter of 176,183 tons, a significant improvement on Q.2's figure of 114,085 and similar to 2005's Q.3 performance of 173,860 tons traded across all markets.

Market material analysis:

Paper – traded strongly across all markets. Good demand in 2007 evidence led to large volume trades through to July next year. Spot bids initially placed at well below prevailing market prices began to get interest as the quarter went on, meeting General Recycling and Recovery buying at the same time.

Plastic – improved in overall volume traded this quarter. Growth has come from the forward markets where buyers and sellers price expectations seem to be coming more in line. Total volume for the quarter was 7,692 tonnes.

Steel – also saw a significant reduction in price caused by a lack of volume bids in the spot market, falling to £5.50 whilst in the January forward market trading started at £13.50 and fell to £11.50. Total volume for the quarter was 3,028 tonnes.

Glass Glass – started to weaken in price sharply, trading down from £17.75 to £6.50 in spectacular fashion. Both buyers and sellers looked to spread the risk by diverting tonnage from the spot into the October forward market giving total trading for the quarter of 58,557 tonnes.

Wood – only trading in the spot in this quarter, has also seen values drop away as the period progressed. A mixture of Wood specific and General Recycling obligations were met in the 11,223 tonnes traded.

Recovery – has shown little interest in meeting small obligations at these levels and failed to compete with the recycling materials to meet requirements for its obligation, as a result only 294 tonnes traded.

Aluminium Aluminium – has also suffered a reduction in value. Trading was very light in the period as buyers with smaller requirements came into the market.

	High this quarter	Low this quarter	Traded this quarter	YTD average traded price	Year to date aggregated traded
PAPER MARKET					
Spot	4.25	1.25	36,067	6.01	113,350
Oct Fwd	-	-	-	11.50	2,500
Jan fwd	4.50	4.00	44,000	4.11	47,000
Apr fwd	4.25	4.25	5,000	4.25	5,000
Jul fwd	4.25	4.25	10,000	4.25	10,000
PLASTIC MARKET					
Spot	11.50	3.00	5,692	21.91	32,751
Oct fwd	-	-	-	25.75	2,000
Jan fwd	6.50	6.50	1,500	6.50	1,500
Apr fwd	6.50	6.50	500	6.50	500
Jul fwd	-	-	-	-	-
STEEL MARKET					
Spot	18.00	5.50	2,229	49.36	9,579
Oct Fwd	-	-	-	37.81	1,041
Jan fwd	13.50	11.50	800	20.73	2,200
Apr fwd	-	-	-	-	-
Jul fwd	-	-	-	-	-
GLASS MARKET					
Spot	17.75	6.50	34,515	13.72	48,969
Oct Fwd	16.00	6.50	24,000	13.28	36,306
Jan fwd	-	-	-	-	-
Apr fwd	-	-	-	-	-
Jul fwd	-	-	-	-	-
WOOD MARKET					
Spot	4.75	2.00	11,223	6.65	44,219
Oct Fwd	-	-	-	6.50	3,000
Jan fwd	-	-	-	-	-
Apr fwd	-	-	-	-	-
Jul fwd	-	-	-	-	-
RECOVERY MARKET					
Spot	3.50	2.25	294	2.75	8,570
Oct Fwd	-	-	-	1.87	22,844
Jan fwd	-	-	-	-	-
Apr fwd	-	-	-	-	-
Jul fwd	-	-	-	-	-
ALUMINIUM MARKET					
Spot	30.00	16.75	363	83.83	2,918
Oct Fwd	-	-	-	47.00	1,000
Jan fwd	-	-	-	-	-
Apr fwd	-	-	-	-	-
Jul fwd	-	-	-	-	-



Managing Director's Quarterly Report

Trading continues apace, once again year on year (10%) as well as quarter on quarter growth (56%). The trend towards the forward markets carries on with almost 50% of the tonnage traded there. Participants are actively securing now known tonnages at known prices for delivery in October 2007.

With prices hitting the doldrums, the market has a depressing similarity to 2003. That year the targets were static rather than reduced as this year. The mood among sellers is subdued as many realise that PRN income will not reach expectation. Some have closed and others cancelled their accreditation. If this trend continues achieving 2008 targets may not be a forgone conclusion. We hope that the problems of fraud do not reoccur as well.

Q3 Figures

For the second quarter in a row the figures show year on year growth but quarter on quarter decline. Exporting in 2006 has remained static while UK reprocessing has declined. Exporting in aluminium, glass, plastic and steel have all declined since the first quarter. Paper exports show slow growth but questions continue about the divergence between PERN figures and HM Revenue and Customs statistics. Reprocessing in aluminium, steel, wood and paper, just, have shown both year on year and quarter on quarter growth. Plastic and glass are showing year on year and quarter on quarter decline. There seems no reason for the UK to struggle to meet its obligation this year.

To be prudent general recycling and some suggest glass material specific targets should be raised otherwise the 2008 European targets may be missed. However without revised obligation figures it is difficult to quantify these changes.

Agencies

Many are noticing the cost of their Agency registration fees which with the low value of PRNs are higher than their costs of compliance and asking what the Agencies are doing to justify their fees. Is progress being made on deterring either 'free riders' or fraud, two major issues? With the prospect, of independent audits looming again where is the Auditing Guidance agreed with the Institute of Chartered Accountants?

ePRN

Q3 stats showed 53, 40 large, accreditations suspended for failing to use the electronic database to report data. 10 days later this had reduced to 24 and 15. Surprisingly the product of 5 large plastic reprocessors submitting data was a reduction of 13,185 tonnes of reprocessing in consequence 27 additional data submissions produced only an additional 270 tonnes! This reinforces concerns that the database may be accelerating the decline in price by over reporting tonnage. Although poor data in results in poor data out, comments suggest that sometimes it is the system at fault.

I thoroughly support the introduction of an ePRN. It is long overdue. But is it not over ambitious to rush in a new system for 2007 without any detailed consultation? Neither producers nor the majority of compliance schemes have any idea of how this system might work or how to use it, let alone crucial issues such as how documents might be split or re-sold in the event of inadvertent over purchase or over-contracting. Also how will anyone be able to issue 2007 PRNs until it is in action?

Rules

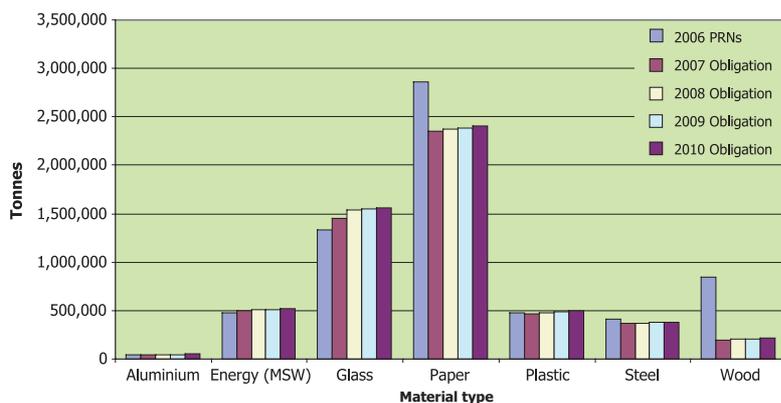
The introduction of our new rules has been delayed until 31 December 2006. A draft copy is now up on our website which will be amended as ePRN details become clearer. To trade in 2007 you will need to sign new participation agreements, we will also use this opportunity to confirm your details. Please can I ask again that you respond swiftly to these requests?

Many thanks for your assistance, and to Jeremy Trevethick and Peter Gaffney for their comments.

I wish you all an excellent festive period.

Angus Macpherson
Managing Director

Projected 2006 PRN & PERN Production vs Projected obligations 2007 - 2010



2007

Looking to 2007 and beyond, on current figures only glass reprocessing will need to grow for 2008, the withdrawal of Cemex will create challenges. However increased collection volumes are anticipated as local authority recycling schemes start in earnest. Following their takeover there is speculation about Corus's continued UK production. Exports may be impacted by the 20% drop in primary plastic prices and suggestions that China is considering letting the yuan trade freely on foreign exchange markets.



Thoughts stimulated by the DEFRA Consultation

St Regis Paper Company Ltd by Jeremy Trevethick

As a large reprocessor of paper packaging waste, the main thing that St Regis would like to come out of DEFRA's consultative paper is a more robust and professional management system to monitor exports to non-EU countries.

The PRN system as it currently stands give rise to issues with double-counting of paper waste volumes between accredited exporters and other unexplained data discrepancies. This has had the effect of creating surplus paper PRNs, thereby devaluing the price to virtually nothing and helping to drive domestic paper reproducers out of business.

It is therefore imperative that the systems should be applied even-handedly so as not to disadvantage domestic reproducers. Export destination

reproducers should be rigorously identified and accredited in the same way as in the UK. It is hoped that the Agencies can put their monitoring programme in place in conjunction with HM Revenue and Customs so as to report annually on compliance and to take appropriate sanctions against those who do not comply with the Regulations.

St Regis supports the development of the on-line data systems to manage the complex set of data generated by the UK Packaging Regulations. However, it feels that the economies generated by the greater efficiency of the system should enable the improvements to be self-funding. In the event that additional fees are considered necessary they should be ring-fenced and accounted for in the Agencies' annual reporting procedures.

Wastepack UK Ltd by Peter Gaffney

This year's consultation on the packaging waste regulations is a house-keeping exercise, following last year's extensive revision and consolidation of previous legislation. It also brings the prospect of expanding the national waste database project into areas that until now have mired those of us involved in compliance.

We broadly welcome most of the proposals, which were almost inevitable in ironing out last year's changes. However, there are some contentious issues:

The extra obligated tonnage that was promised from franchise operators, pubs & clubs and overseas companies operating in the UK has not materialised in 2006. We believe that it is essential that this tonnage is captured by robust revisions to the regulations to close the loopholes that have been exploited so effectively this year. It is only fair to those producers who play by the spirit of the rules.

Demonstrating "broad equivalence" of overseas reproducers to EU standards has already proved

problematic with accredited exporters and their legitimate trade outside of the EU, especially the powerhouse Asian markets. Exports of packaging waste will continue whether or not PERNs are issued against them, so it is essential that this trade is kept within the system. The UK's approach to this issue must be consistent with those taken by other EU members in order not to disadvantage UK producers over the cost of meeting the Directive's targets.

The prospect of dematerialised PRNs in an electronic registry is to be welcomed. Disproportionate amounts of time, effort and postage are wasted on a paper-based system where errors and omissions have to be corrected by the issuing of substitute documents. The good efforts of the National Packaging Waste Database project this year have made significant improvements in the timeliness and quality of data regarding the supply side of the market. Online data and compliance submissions will also facilitate the timely reporting and dissemination of the demand side.

Comments on the 2005 t2e independent audit service

GREATER MANCHESTER WASTE LTD - recovery

"The audit was done thoroughly and efficiently in one day. It was an easy process and they understood the issues."

Alan Bancroft

BRITISH POLYTHENE LTD - plastic

"The audit was thorough compared to the EA so that was very good, because they used a good sized sample. I was so impressed, I emailed the accountants afterwards. As BPI was involved in protocol, we wanted this audit. A familiarisation with the audit process helps a great deal."

Sian Miles

WEEE – WHERE ARE WE NOW?

Since the last quarterly responses to the DTI consultation have been submitted and we await the regulations. The potential problems of a monopoly retailer takeback scheme and financing of designated collection facilities (DCFs) have been debated publicly in the press. I will look at other areas in t2e's response.

4kg target

4kg per inhabitant per year of "separately collected" household WEEE is a key minimum target for measuring the effectiveness of distributor takeback schemes and judging the necessary number of DCFs which are the entrance points for "separately collected", a phrase that is not currently defined in the draft legislation, household WEEE. There is a substantial risk that there will be an unnecessary financial burden for both distributors and producers if this minimum target is exceeded as a result of an excessive expansion of the DCF network.

Evidence

Although the 4kg target has never been considered difficult, it has been anticipated that the specific recovery and recycling targets may prove a challenge for some or all of the categories. While the potential introduction of a two tier evidence system will allow compliance schemes to balance their obligations between ATFs that operate at 60% recycling efficiency with those that are acting at 90% efficiency, it provides no incentive for ATFs to increase their own recycling efficiency.

ATFs should be accredited, but only when that ATF already achieves, can prove and will maintain recycling and recovery rates in excess of the relevant targets for the categories collected. Only ATFs should be eligible to issue evidence of WEEE recycling. This should be based on evidence received by them from bona fide reproducers either directly or through exporters, who should have to produce the same level of proof as is currently provided by exporters of packaging waste.

If WEEE is exported prior to arrival at an ATF then the exporter should be eligible to issue evidence but only if that exporter can show that the recipient ATF is not only working to the same standards as in the UK but is also ensuring that the correct recycling and recovery levels are

achieved. DTI should ensure that ATFs in other EU countries are matching the standards required in the UK.

Quandary

Without consideration of the 4kg target and a single issuing point for evidence not only could an unnecessarily high level of WEEE be separately collected but also the WEEE collected could fail to meet the necessary recovery and recycling targets. The more WEEE that is collected the worse the problem becomes.

What should I do?

While everyone waits for the regulations there is much that importers, producers, retailers, distributors and prospective compliance schemes could be doing:

1. The key issue at this stage is data. Your obligation will be calculated based on your data. This is what will have to be submitted to the Agencies via your compliance scheme on registration. Collection needs to start on 1 January 2007.
 - identify what EEE you manufacture or sell and what product category it is in. Schedule 2 of the draft regulations which can be seen at <http://www.dti.gov.uk/files/file32452.pdf> gives a list of products that fall under each category.
 - find out how much each of the products weigh and multiply it by the number of products that you produce or import or retail or distribute. Market share will be calculated by total product weight not total product numbers.
 - find out what proportion of your products are supplied to private households.
 - find out what proportion of the household WEEE (and non-household) is exported from the UK.
 - Store that data for 6 years.
2. For those that not already done so the WEEE recycling symbol at Schedule 3 must be added to all products that were manufactured after 13 August 2005.

..... and prospective ATFs?

Demonstrate that you can reach the relevant recycling and recovery targets.

Forthcoming Dates

t2e participation fee

can be rebated by 50% by accredited reproducers and exporters on the return of the reprocessor/exporter survey before 31 January. The fee will not be levied until all 2006 markets are closed on January 31 2007.

t2e new rules

With the prospect of the introduction of electronic PRNs, The Environment Exchange will now introduce the new rules on 31st December, **NOT** 1st December as proposed.

The new rules are available on our website under Rules and Procedures.

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