



Market Status – August 2007 to October 2007

By Ian Andrews



After a relatively quiet Q2 trading period (89,348 tonnes), Q3 trading has set a record with 256,285 tonnes traded across all markets. This figure beats the previous record which was set in Q3 last year by some 77,102 tonnes, up from 179,183 tonnes.

Last month the release of the 3rd quarter figures outlined that most materials should meet their obligation targets for this year comfortably. DEFRA released their consultation document, which proposed increases in all material targets with the exception of wood and paper. These two issues, coupled with continuing problems in the export market of increased shipping rates and shipping regulations, have seen buyers and sellers switch their attentions to securing contracts for next year.

In the coming months we expect that, bar any last minute buying, focus will remain on securing tonnage for next year. Therefore we would appeal to all members to assist us in setting a price picture for next year by placing bids and offers in the forward markets.

Market material analysis:

Paper – excellent volume traded across all markets. Due to a lack of demand in the spot market, paper started selling into recovery tonnage in the 2007 forward markets. As the quarter progressed and the price continued to soften, focus shifted towards the 2008 forward markets.

Plastic – good volume traded in the 2007 markets. With potential supply problems anticipated from the export side, sellers remained firm on their price expectations.

Steel – good volume traded across all markets. Prices continued to fall in the spot market as buyers remained scarce. The potential increase in targets for next year, and the softening price in the spot market, facilitated good volume being traded in the 2008 forward markets.

Glass – excellent volume traded in the 2007 markets. Trading during the quarter started slowly as buyers remained firm in the belief that the price would soften. The release of the 3rd quarter figures, which showed good surplus available, saw the sellers reduce price expectations and sell into volume bids.

Wood – good volume traded at the end of the quarter as sellers dropped their price expectations to compete with paper for general and recovery obligations. Material specific buyers remained scarce.

Recovery – poor volume traded this quarter as the falling price in paper and wood fulfilled recovery obligations. Buying opportunities for the rest of the year remain scarce with buying focus switching to the 2008 forward markets with some good volume bids being left.

Aluminium – good volume traded this quarter against what has been a poorly supplied market this year. Good demand saw buyers pick up tonnage as it came to the market with the price increase to a year high of £120.00. At the end of the quarter and with the majority of buying interest satisfied, prices started to soften.

	High this quarter	Low this quarter	Traded this quarter	YTD average traded price	Year to date total traded
PAPER MARKET					
Spot 2007	£2.75	£0.75	55,381	£2.42	161,049
Oct Fwd	£1.50	£0.75	39,250	£1.91	59,750
Jan Fwd	£3.25	£3.25	17,000	£3.25	17,000
Apr Fwd	£3.25	£3.25	24,000	£3.25	24,000
Jul Fwd	£3.25	£3.25	24,000	£3.25	24,000
Oct Fwd	£3.25	£3.00	14,000	£3.16	14,000
PLASTIC MARKET					
Spot 2007	£13.00	£12.00	8,750	£11.02	24,480
Oct Fwd	£13.00	£13.00	750	£13.00	1,500
Jan Fwd	-	-	-	-	-
STEEL MARKET					
Spot 2007	£8.00	£4.75	3,272	£6.90	10,564
Oct Fwd	-	-	-	£7.00	100
Jan Fwd	£10.00	£10.00	250	£10.00	250
Apr Fwd	£13.50	£10.00	4,500	£12.08	4,500
Jul Fwd	£12.50	£10.00	3,750	£11.83	3,750
Oct Fwd	£12.50	£12.50	750	£12.50	750
GLASS MARKET					
Spot 2007	£23.00	£15.00	35,431	£21.08	66,490
Oct Fwd	£20.00	£18.00	2,366	£23.86	15,157
Jan Fwd	-	-	-	-	-
WOOD MARKET					
Spot 2007	£2.75	£0.75	19,705	£2.53	65,172
Oct Fwd	-	-	-	£3.25	3,000
Jan Fwd	-	-	-	-	-
RECOVERY MARKET					
Spot 2007	£1.75	£1.75	69	£1.97	12,296
Oct Fwd	-	-	-	£1.50	2,500
Jan Fwd	-	-	-	-	-
ALUMINIUM MARKET					
Spot 2007	£120.00	£40.00	2,615	£58.89	4,394
Oct Fwd	£75.00	£70.00	446	£72.76	446
Jan Fwd	-	-	-	-	-

If your company has a turnover in excess of £2 million and handles annually more than 50 tonnes of packaging then PRNs apply to you.

To trade dial 0844 800 9943 (calls charged at 5p a minute from a BT line), to join ring 0131 473 2330



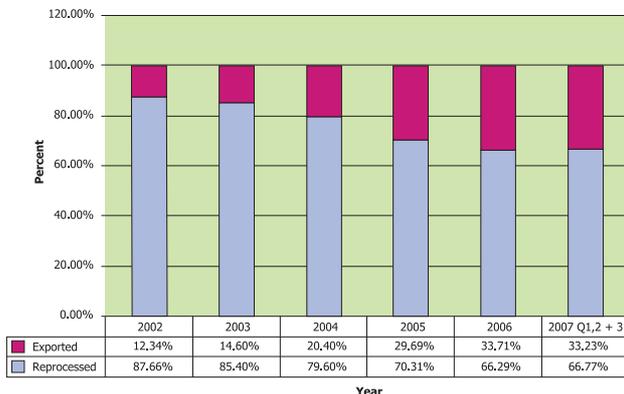
Managing Director's Quarterly Report

What a busy quarter it has been! A revised obligation, 3rd quarter figures and DEFRA's consultation on new targets for 2008 onwards have been published. On top of which we have had a record quarter for trading on t2e. This is a particularly welcome following a quiet 2nd quarter. Equally welcome is the volume of 2008 tonnage that has already been traded forward as participants secure prices early.

The revised obligation was an increase on expectations but less than earlier indications had suggested that it might be. A downward pressure has developed on the recovery element of the market and steel has seen a 5% reduction in obligation. The number of obligated companies appears to have dropped. This is surprising given that the minimum turnover has not increased in line with inflation; if anything it would be expected that the number would increase rather than stopping at about the 6,000 level. Also the percentage levels of reporting of packaging placed on the market have declined in glass, steel and other packaging materials. This is a worrying trend.

The 3rd quarter figures held no surprises and reinforced the message of the first two quarters. With the exception of Aluminium, in year surpluses will be developed in all materials leaving the prospect of increased levels of carry forward. The Agencies will need to be alert to potential abuse which would soften the 2008 market. After some concerns it now looks as though Aluminium will make this year's target as domestic reprocessing increases, but problems continue with Transfrontier Shipment of Waste Regulations for the export sector. It would appear that the steel sector is also suffering from a similar problem. As a result, for the first time a slight slow down has occurred in the proportion of PERNs issued by the export sector.

Ratio of PRNs and PERNs to Total 2002 - 2007 Q3

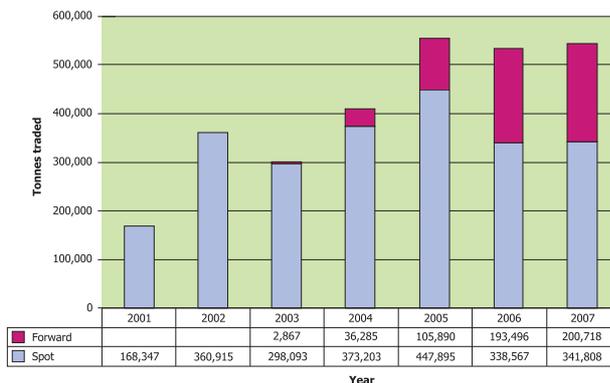


Against this background the new targets recommended in DEFRA's consultation offer little significant change to the market with the noticeable exception of metals, particularly aluminium, where it appears over ambitious and unnecessarily high

targets have been selected. A significant fact that appears to have been overlooked is that the rise in reported packaging has increased significantly faster than the growth rates predicted by DEFRA. Also the justification for selecting new targets should be questioned when so many of the underlying facts appear to be either unavailable or flawed. I have covered t2e's response to the consultation in greater depth on page 4.

Despite this uncertainty, or maybe because of it, there has been a noticeable increase in the use of the forward markets, with a price picture beginning to crystallise throughout 2008 for general recycling, wood and paper at around £3.00 and plastic and steel between £13.00 and £11.00. In glass the spread between buyers and sellers expectations is too great to have seen trading to date while perhaps unsurprisingly we have seen no price picture develop in the aluminium market.

Tonnage traded per calendar year split between spot and forward transactions



As we rapidly approach the end of the compliance period, there is an impression that many may still not have fully mastered the National Packaging Waste Database. Please remember that you must accept ePRNs into your account in order that you can submit your certificate of compliance electronically. Equally, many are stating that when they are receiving ePRNs from more than one source it is difficult to identify the source unless the Representative box is completed. Acquirers please give guidance about what is wished in that box and issuers please make the time to complete them.

Many are using the subsidised t2e independent audit service. If you have not as yet taken advantage of this offer please do not hesitate to get in touch.

Once again thank you for your support through this quarter. We look forward to continuing to be of service. I wish all an excellent and enjoyable festive season.


Angus Macpherson
Managing Director



New Trading Line Number

Please note our new Trading Line telephone number is 0844 800 9943. Our old number will function until 31st January 2008 but we are unable to forward calls to the correct number after that date, so please update your records. All other telephone numbers remain the same. The new number will be charged at no more than 5p per minute (including VAT) from a BT line - less than the national rate of 8p per minute

Settlements Reminders

Buyers are reminded that we automatically ask Sellers to enter our contract number into the Representative box (box 4) on all ePRN/ePERNs. This is to help our customers identify which ePRN/ePERN matches which contract. If buyers wish something else to appear, or for box 4 to be blank, they must notify Settlements on 0131 473 2327 BEFORE their payment for the contract clears.

Buyers are also requested to send funds for contracts by electronic BACS or CHAPS payments instead of sending cheques, as the latter significantly delays settlement due to lengthy clearing times for cheques. **To make sure your payment is received on time, reduce administration and receive a 50% discount on our annual participation fee, why not sign a Direct Debit Mandate?**

End of Year Certificates of Compliance

The Producer Responsibility Unit will be sending out emails during December to notify producers that their Certificate of Compliance return forms are available to complete online. All outstanding PRNs must be accepted prior to completion of Certificates of Compliance which you are reminded, must be done by 31 January 2008.

Carry Over Tonnage (December - January)

As the end of the compliance year closes in we would like to take this opportunity to remind members of the procedures for dealing with carry over tonnage.

- **Pre December Tonnage** – All PRNs raised against material reprocessed or exported before the end of November can only be issued against 2007 obligations and must be sold by the end of January 2008.
- **December Tonnage** – Material that is reprocessed or exported during the month of December may be issued against either 2007 or 2008 obligations, but must again be issued by the end of January 2008.
- **January 2008 Tonnage** – All material reprocessed and exported in the month of January can only be issued against 2008 obligations. These PRNs can be issued throughout the 2008 compliance year.





New Targets – t2e’s Response to DEFRA’s Consultation

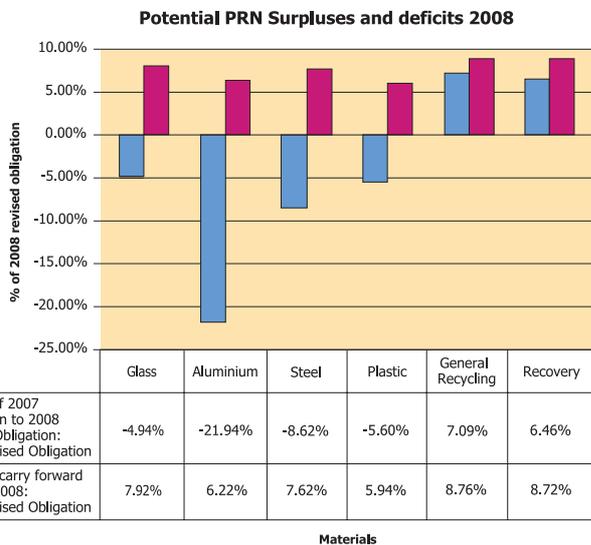
By Angus Macpherson

In their consultation DEFRA have recommended that the targets from 2008 – 2010 should be adjusted and new targets introduced for 2011 and 2012, as shown in the adjacent table, (new targets are in red).

If these recommendations are accepted what implications might they have for the PRN market?

The most significant increases in material specific targets for 2008 are in aluminium and steel, there are smaller rises in plastic and glass.

Year	2008		2009		2010		2011		2012	
	Old	New	Old	New	Old	New	Old	New	Old	New
Paper	67.50%	67.50%	68.00%	68.50%	68.50%	69.50%		70.50%		71.50%
Glass	73.50%	79.00%	74.00%	80.00%	74.50%	81.00%		82.00%		84.00%
Aluminium	32.50%	38.00%	33.00%	39.00%	33.50%	40.00%		41.00%		42.00%
Steel	58.50%	68.00%	59.00%	68.50%	59.50%	69.00%		70.00%		71.00%
Plastic	24.50%	26.00%	25.00%	27.00%	25.50%	29.00%		31.00%		33.00%
Wood	20.50%	20.50%	21.00%	21.00%	21.50%	22.00%		23.00%		24.00%
Recovery	68.00%	69.00%	69.00%	70.00%	70.00%	71.00%		73.00%		75.00%
General	92.00%	92.00%	92.00%	92.00%	92.00%	92.00%		92.00%		92.00%



Projections based on the first three quarters of 2007 suggest that the targets in plastic (just) and glass will be met, although in the process a significant amount of the carry forward tonnage will be absorbed. Steel looks more challenging. Unless significant new Aluminium production or exports comes on line the 2008 target, a jump of 28.1% is needed on 2007’s production, looks unachievable and therefore priceless PRNs. There is nothing to suggest that there will be any difficulty in meeting the paper, wood, general recycling and recovery targets.

As a consequence a significant price differential could develop between the material specific prices for aluminium, glass, plastic and steel and the remainder. This can already be identified in our forward markets. Unfortunately this contributes to considerable price volatility in these materials as the year end approaches and it becomes clearer that they will either achieve their material specific targets or not. To reduce this price precipice, consideration should be given on tightening the general recycling market.

Will the new targets address the underlying issues?

DEFRA is concerned that the current business targets will not meet the Directive targets. This could be correct if DEFRA is prepared to accept a steadily reducing, and in the case of steel a significantly reducing, reporting rate of packaging handled in comparison to packaging placed on the market. Increasing targets is an easy solution and an effective short-term opiate to reprocessors, exporters and compliance schemes, but it is unclear why that element of industry that is compliant should be responsible for picking up an apparently increasing percentage of mis- or non-reported data. Additionally, it is far from clear that the information on which DEFRA is making its calculations is accurate.

Growth	Paper	Glass	Aluminium	Steel	Plastic	Wood	Other	Total
DEFRA	1.00%	1.90%	0.50%	-0.50%	3.00%	0.50%	0.00%	1.46%
Reported	3.02%	2.33%	2.27%	-3.45%	4.23%	4.07%	0.73%	2.75%

As can be seen above there is a wide divergence between the rate of growth of packaging that is being reported by industry and the rate of growth DEFRA predict. Within these figures the drop in the use of steel packaging is much greater than expected whereas the increase in the other materials is greater. In which case the tonnage needed to be recycled to make the Directive targets is currently calculated on an incorrect figure. In particular there is no need to make such large increases in the metals targets.

There is a concern that with the expansion of the export industry, the introduction of kerbside collection and the expansion of Materials Recycling Facilities (MRFs), the quality and packaging content of secondary raw materials is changing. Yet the protocols that the industry works with have not been revised for a decade and may now be overstating the packaging content in mixed material streams. Also no plastic protocol has been introduced.

Taking these factors into account t2e suggest that DEFRA reduce their proposed aluminium and steel targets for 2008 to 35% and 65% respectively and the tonnage of packaging placed on the market and the protocols are reviewed in 2008 before agreeing targets for 2009 and beyond.



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