

Use the Power

Quarterly Report

Report 44

November 2009

The Market Place for PRNs and WENs



Market Status – August to October 2009

By Ian Andrews



In the third quarter we have seen a softening of prices across all markets. The price falls gathered pace at the end of the period when the release of the third quarter figures showed larger than expected gains in plastic and glass. Steel reported its largest quarter of the year which helped to take some pressure out of what has been a troublesome market this year.

The softening of prices in the Spot market resulted in sellers turning their attentions to the Forward markets to lock in prices early for 2010 delivery. This resulted in t2e trading more tonnage in the Forward markets than the Spot markets for the first time in its history. A record trading quarter of 341,112 tonnes across all markets was registered with 152,021 tonnes traded through the Spot Market, 27,391 tonnes through the 2009 Forward Markets and 161,700 tonnes through the 2010 Forward Markets.

Market material analysis:

Paper – A mixed quarter for paper saw an initial price increase early in the quarter eroded by a lack of demand. Sellers, given the option sell or hold, eventually sold against lower value bids in the market and set the downward price trend. Confirmation of a very strong third quarter figure resulted in the price softening further towards the end of the period.

Plastic – Plastic prices remained stable for the first half of the period with a willingness on the buying side to buy into sellers positions off the back of rumours of falling export tonnages. As larger selling volumes came to the market, fears were alleviated and the initial downward pricing trend gathered pace towards the end of the period when 3rd quarter figures showed that plastic tonnage will be heading for the general pot this year.

Glass – After two short quarters already reported this year, the general consensus was that this market may struggle to hit its target and this helped to maintain a stable price throughout the period. Supply and demand remained in balance which helped maintain the price stability. The price began to soften at the end of the period when good Q3 figures were reported.

Steel – Another unpredictable quarter for steel saw the price rise to its highest point before falling back. Prices started to soften in advance of the 3rd quarter figure release as demand started to weaken. The release of the figures provides some respite for the market with excellent volume reported and earlier predicted shortfalls addressed. Another high volume quarter is still required for the market to comfortably meet all demand this year.

Wood – After attempting to hold its price above the paper market this year, the wood sellers finally relented and matched the paper traded levels to attract general obligations, which resulted in a softening of the price. The extra competition from the plastic market for general obligations may see some miss out on value this year due to their early year price positions.

Aluminium – The aluminium market managed to retain its value up until the end of the period with demand and supply remaining well balanced. The strong 3rd quarter figure indicated that we are heading for a heavy surplus and this resulted in a further softening in the price.

Recovery – Due to the large volumes available in the paper and wood markets this year the recovery sector returned to its usual strategy of having to keep prices just below the two markets to attract interest. Subsequently this market saw similar softening in price throughout the quarter.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	Year to date aggregated traded
PAPER MARKET						
Spot 2009	£4.25	£1.50	38,797	£3.35	£4.73	204,342
Oct Fwd 2009	£4.00	£3.50	8,000	£3.65	£4.87	51,825
Jan Fwd 2010	£3.75	£3.25	32,500	£2.92	£2.92	32,500
Apr Fwd 2010	£3.75	£3.25	38,000	£3.57	£3.57	38,000
Jul Fwd 2010	£3.75	£3.25	47,000	£3.58	£3.58	47,000
Oct Fwd 2010	£3.75	£3.25	5,000	£3.55	£3.55	5,000
PLASTIC MARKET						
Spot 2009	£17.50	£3.00	16,320	£11.99	£18.69	50,417
Oct Fwd 2009	£16.00	£12.00	1,612	£13.86	£20.65	4,812
Jan Fwd 2010	£16.00	£10.00	4,200	£13.57	£13.57	4,200
Apr Fwd 2010	£16.00	£12.00	3,000	£14.83	£14.83	3,000
Jul Fwd 2010	£19.00	£14.25	4,500	£16.11	£16.11	4,500
Oct Fwd 2010	£14.25	£14.25	2,000	£14.25	£14.25	2,000
GLASS MARKET						
Spot 2009	£24.50	£19.00	37,659	£22.40	£22.59	80,384
Dec Fwd 2009	£24.00	£20.00	4,779	£22.38	£22.38	4,779
Jan Fwd 2010	£24.00	£24.00	5,000	£24.00	£24.00	5,000
Apr Fwd 2010	£24.00	£23.50	8,250	£23.88	£23.88	8,250
Jul Fwd 2010	£24.00	£23.50	10,750	£23.90	£23.91	10,750
Oct Fwd 2009	£23.00	£22.50	20,700	£22.69	£22.78	21,950
STEEL MARKET						
Spot 2009	£125.00	£37.50	28,791	£88.90	£76.33	59,558
Oct Fwd 2009	£92.50	£92.50	500	£92.50	£52.92	3,000
Dec Fwd 2009	£100.00	£37.50	3,050	£58.40	£58.40	3,050
Jan Fwd 2010	£50.00	£50.00	500	£50.00	£50.00	500
Apr Fwd 2010	£50.00	£50.00	500	£50.00	£50.00	500
Jul Fwd 2010	£50.00	£50.00	500	£50.00	£50.00	500
WOOD MARKET						
Spot 2009	£5.25	£2.00	23,535	£2.67	£3.70	38,659
Dec Fwd 2009	£2.00	£2.00	4,200	£2.00	£2.00	4,200
ALUMINIUM MARKET						
Spot 2009	£67.00	£34.00	3,216	£58.61	£66.17	6,865
Dec Fwd 2009	£50.00	£50.00	250	£50.00	£50.00	250
RECOVERY MARKET						
Spot 2009	£3.25	£1.50	3,703	£2.52	£3.58	14,694
Dec Fwd 2009	£2.75	£2.75	5,000	£2.75	£2.75	5,000



Managing Director's Report

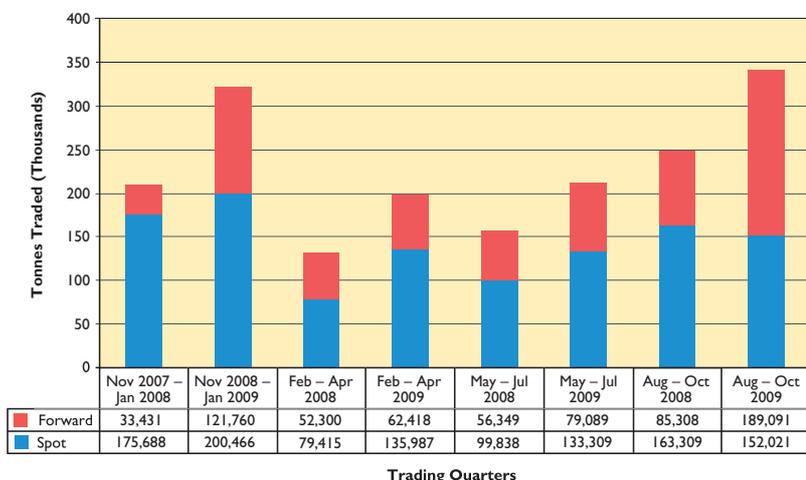
So much can change in a year, last year t2e was celebrating its 10th anniversary while surrounded by gloom as banking went into a downward spiral and commodity prices plummeted.

Despite some on-going well publicised bankruptcies, an increased unemployment rate and problems in Dubai, some are beginning to sense light at the end of the tunnel. Consumption, house and commodity prices are picking up and, on the strength of the third quarter figures, recycling rates are steaming ahead. Success is not being rewarded with sustained high prices for PRNs. To date the 250,000 tonne difference between anticipated and actual obligation in 2009 has been lost to the system, while, if current rates continue, PRN production will be some 100,000 tonnes greater than last year creating an overall surplus of almost 600,000 tonnes and the probability of a substantial carry forward into 2010.

between material specific targets may be justified on carbon grounds rather than on the basis of current recycling achievements. However caution will need to be exercised that the targets retain credibility with both those that are paying for PRNs and the general public for whom packaging remains a major environmental enemy. Confidence must be maintained that the estimates for packaging placed on the market and its growth are as accurate as possible and the recycling industry is not exaggerating its achievements. A review of both the estimates and the protocols is overdue.

As the regulations have developed so too has the role of compliance schemes. The importance of their role in collecting accurate data and auditing it cannot be understated and consideration should be given to incentivising those schemes that compile the most accurate data submissions rather than as currently where re-submissions are penalised, even if they are as a result of a compliance scheme member audit.

The shift to trading forward contracts



Trading Quarters

This will have been achieved on the back of growth in glass, paper and wood reprocessing along with all exports where China is once again active in both the paper and plastic markets. For the first time in a number of years aluminium is on line to achieve a substantial surplus while steel exports have almost made up the deficit from the first two quarters and may now achieve a surplus in year. Although whether the level of exports can be sustained as the PRN price sinks remains to be seen. Inevitably many are now starting to look to 2010, when it is far from certain that the lost PRN demand will return to the market. Faced with the prospect of weak prices in 2010 sellers have been taking advantage of the price certainty offered in the forward markets and for the first quarter ever more forward than spot contracts have been traded through t2e.

It is anticipated that 2010 will start with a consultation on targets and a new advisory committee on packaging. It is clear that if the United Kingdom wishes to retain its position amongst its peers in the EU and sustain growth in the packaging recycling industry, which would also be beneficial to achieving carbon and landfill diversion targets, that overall recovery and recycling targets should increase. Variations

To exactly identify the use of PRN funds is extremely difficult. PRNs represent evidence of recovery or recycling activity not evidence of investment in recovery or recycling activities. The value in PRNs encourages reprocessors or exporters to increase their recovery or recycling activity. It does not represent the funds invested by them in recovery or recycling activities. Those funds are authorised by the shareholders/owners and may be depreciated over a number of years.

It is the Agencies not compliance schemes that carry out the accreditation process as part of which they annually receive business plans from every reprocessor and exporter. So the Agencies or a third party organisation working on their behalf are by far the best positioned to audit this information.

An obligation on compliance schemes to monitor use of funds is an onerous and potentially anti-competitive duplication. PRN prices are subject to negotiation between compliance schemes and reprocessors or exporters and the provision of PRN expenditure information potentially provides a lop-sided situation in these negotiations.

Many may have missed the consultation on civil sanctions that closed on 14 October 2009. It proposed that the Environment Agency should be able to issue fines to companies for administrative failures in environmental regulation. If effectively used it could create suitable, sensible and swift deterrents for those that currently tie up the Agencies with their tardy returns and release the Agencies to chase 'free riders'.

Thank you to Stephen Harrod for his insight into what is driving global paper and board consumption and to you all for your support during the last, record, quarter. We look forward to being of further assistance to you. I wish you a very happy festive season.

Angus Macpherson
Managing Director



A Collection of Independent Topics

VAT Issues

VAT returns to 17.5% on 1 January 2010. As a result:

- all spot contracts which are transacted on or before 31 December 2009 will have VAT charged at 15% while those transacted on or after 1 January 2010 will be charged at 17.5%;
- all forward markets that expire after 1 January 2010 including the Transitional January Forward market 2010 will have VAT charged at 17.5% regardless of the date of transaction.

Participation Fees are considered supplies in progress. So:

- Participation Fees for 2009, which were initially invoiced on 1 December 2008, although they become due on 31 January 2010, will have VAT charged at 15% as will any relevant rebates;
- Participation Fees for 2010, which are not due to be paid until 31 January 2011, although initially invoiced on 1 December 2009, will have VAT charged at 17.5% as will any relevant rebates.

As the independent audit service will not be delivered until after 1 January 2010, pre-payments will have VAT charged at 17.5% even though invoiced on 1 December 2009.

If you have any questions please do not hesitate from contacting Cath Thomas on 0131 473 2327 or consult the HMRC guidance on reversion to the standard rate at <http://www.hmrc.gov.uk/vat/forms-rates/rates/rate-rise-guidance.pdf>

December 2009 Forward and Transitional January Forward 2010 Markets

The Transitional January Forward 2010 Market expires on Friday 8 January 2010. Only PRNs or PERNs issued on tonnage accepted for reprocessing or exported for reprocessing in December 2009 may be delivered in settlement of these contracts.

Any PRN or PERN that is valid for 2009 may be delivered for settlement of the December 2009 Forward contract, which expires on 8 December 2009.

Christmas Holidays



t2e will be:

- closed from 1pm on Thursday 24th, Friday 25th and Monday 28th December 2009;
- open as normal Tuesday 29th and Wednesday 30th December 2009;
- closed from 1pm on Thursday 31st December 2009 and Friday 1st January 2010;
- open as normal Monday 4th January 2010 onwards.

Independent audit

All large reprocessors and exporters are reminded that they require an independent audit to reconcile the PRNs or PERNs issued in 2009 to the quantity of packaging waste received in 2009 which must be completed by 28 February 2010.

t2e operates an independent audit service, discounted to participants, that is open to all reprocessors and exporters. If you wish to learn more about this service call Dianne Ferry on 0131 473 2330.

PRN expenditure survey results

The survey results for the intended expenditure of PRN funds by t2e participant reprocessors and exporters in 2009, 2010 and 2011 can be seen at http://markets.t2e.co.uk/notes/Survey_Figures%202009.pdf. These results, vital for the completion of operational plans, reveal that t2e participant:

- plastic, steel and recovery reprocessors and exporters intend to increase expenditure on collection and reprocessing capacity over the next 3 years;
- wood reprocessors are spending 15% on developing new markets for processed packaging material;
- aluminium sellers are spending 55% on developing and implementing a marketing strategy to increase the collection of packaging waste.



What drives global paper and board consumption?

Stephen Harrod - industrial author and paper industry analyst, Wildhorn Industrial

Global paper and board consumption is driven by a multitude of factors, ranging from macro-economic and demographic shifts, to purchasing policies at supermarket chains. Three key influences of the market at present are Costs, Migration of manufacturing, and the Environment. These are discussed here in more detail.

Costs

Rising costs are driving paper producers and converters to seek ever more innovative means to counter their effects. Energy and labour, transport and raw materials, are all facing increased scrutiny in the efforts to maintain profit margins.

This is true not only of the paper industry, but most of its customer industries as well, further increasing the pressure on paper's methods and margins.

The increasing flow of labour throughout EU countries carries with it both benefits and hardships to employers with higher staff turnover and training costs, and threats to energy supplies by major producers such as Russia further complicate the issues.

Growing demand for producers to display their environmental credentials carries a subsequent increase in costs in many instances, despite the longer term benefits of ecological protection.

Migration

Increasing numbers of manufacturers across a wide range of industries are seeking low-cost production facilities and are finding the high-growth, developing nations an attractive proposition.

Much manufacturing capacity has already migrated from the high-cost, unionised and strictly regulated western economy to the more flexible, cheaper and increasingly accessible regions such as Central and Eastern Europe, the Asia-Pacific region and Central and South America. The availability of relatively low-cost labour, coupled during the western credit crunch with available capital and the ready transfer of technology makes this an attractive proposition for hard-pressed producers in Western Europe and North America – Twinings, the tea company, being the latest to leave Britain for more attractive prospects in Poland at the cost of 400 jobs in the UK.

The down-side to this migration is sometimes a lack of skilled operators and limited experience of the production process required to create the necessary quality, but this is soon overcome with investment in training.

However, an on-going problem is that many manufacturers perceive that 'the grass is always greener' over the border so it can be a never-ending process as they keep on moving to new regions.

Packaging converters and indeed raw material suppliers have followed suit, moving with their customers to these new locations and changing the dynamics of the market as they do so.

Environment

A side effect of the recession is that it increases the pressure on manufacturers to become more efficient, which in turn can be a harbinger of improvements in production methods that also have a positive environmental impact.

This is further driven by an increasing demand from many consumers for manufacturers to show their environmental credentials through, among others, more environmentally friendly packaging, whether this is by way of a reduction in the actual amount of packaging or the use of more sustainable sources for packaging materials.

An example of the former has been the decision by Nestle to drastically reduce the amount of packaging for its seasonal lines, such as Easter Eggs and Christmas Gift Packs, mainly by reducing the amount of thermoformed plastic components in these packs, thankfully for the paper and board industry.

Wal-Mart has shown the way in tackling the latter subject by developing a global sustainability index in conjunction with its suppliers that will result in a single source of data for evaluating the environmental impact of the products it sells, an element of which will be the packaging of the products.

The influence of the major wholesalers and retailers on packaging consumption is growing and should not be under-estimated by the industry, as this is often a reflection of consumer attitudes.

