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Quarterly Report

Report 52

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The Marketplace for PRNs and WENs



Market Status Report – August to October 2011

By Ian Andrews

Traditionally the Q3 period has been when most buyers look forward to the following compliance year to lock in prices and reduce risk. With no increase in 2012 targets and Q3 supply figures showing excellent growth, we have seen limited interest in the 2012 forward markets and this has had an impact on traded volumes throughout the period.

The 2012 markets remain well stocked with selling volumes being offered at close to average 2011 levels. With underlying concerns regarding 2012 seller accreditation levels and the fact that prices currently being offered in the 2012 markets are already at historically low levels, it is surprising that the interest in these markets has remained limited. In any market when transaction prices are at their lowest levels it is reasonable to predict that any price movement will be upwards, if this is to occur many may well rue the missed opportunities currently on offer.

Trading for the quarter equated to 183,177 tonnes with 24,127 tonnes trading in the Spot market and 159,050 tonnes trading in the Forward markets.

Market Material Analysis

Paper – A strong performance this quarter was characterised by the prominence of trading in the forward markets rather than the Spot market. This has been mostly due to the trading fee rebate structure in place in the forward markets. During the quarter we saw the price initially increase before the first sub £1.00 trade was recorded in the December Forward market. The initial increase was due to an up turn in demand as buyers became concerned about supply, driven by the falling of the material value.

Plastic – The Plastic price remained relatively stable this quarter with a softening only occurring at the end of the period when values dipped below £5.00. With the addition of an extra 55,000 tonnes of demand this year this market has remained finely balanced which has assisted in keeping the price firm. Current prices represent an 86% increase in value on the corresponding period last year.

Glass – Glass prices initially fell at the start of the period before rebounding towards the end. This has been largely due to a tightening of available supply against strong demand. The supply figures have shown that the market is carrying an excess of 50,000 tonnes this year but with the transitional period approaching, buyers concerned about December tonnage being carried forward have taken the decision to close out 2011 positions early.

Steel – A strong supply position has resulted in the price continuing to drift down this quarter. Sellers with volume

tonnage to transact have taken the decision to sell at lower prices in order to avoid writing tonnage back at the end of the compliance year.

Wood – Although the supply of Wood PRN's continues to contract, there are excesses in other markets to meet the outstanding General demand. Prices in this market continue to achieve a premium over Paper albeit for smaller purchasing requirements.

Aluminium – With a strong supply and limited demand the price continued to drift down during the quarter. This market is now trading at an average value which represents 1/10th of the value from the corresponding period in 2010. The Q3 supply figures released at the end of the quarter showed that there is little hope of the price recovering before the turn of the year.

Recovery – Trading in this market continues to trade at historically low levels. Sellers achieved better value by trading through the Spot market although these trades were for small amounts. Q3 supply showed that the market had almost made its target by the end of the quarter. The only saving grace for sellers in this market is that the price cannot feasibly get any lower.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	YTD aggregated traded
PAPER MARKET						
Spot 11	£1.50	£1.00	4,901	£1.08	£1.18	19,093
Oct Fwd	£1.00	£1.25	41,401	£1.14	£1.08	81,139
Dec Fwd	£1.20	£0.75	46,637	£0.98	£0.98	48,637
PLASTIC MARKET						
Spot 11	£6.00	£4.75	6,874	£5.15	£5.00	31,967
Oct Fwd	£5.75	£4.85	14,787	£5.32	£5.28	16,543
GLASS MARKET						
Spot 11	£8.60	£7.60	9,969	£8.06	£10.41	60,848
Oct Fwd	£7.80	£7.30	32,005	£7.60	£11.30	74,760
STEEL MARKET						
Spot 11	£5.00	£2.50	1,607	£3.70	£5.26	11,641
Oct Fwd	£3.90	£2.50	6,853	£3.12	£3.12	6,853
Dec Fwd	£2.50	£2.00	1,400	£2.27	£2.27	1,400
WOOD MARKET						
Spot 11	£2.00	£1.50	234	£1.60	£1.61	9,461
Oct Fwd	£1.50	£1.50	2,556	£1.50	£1.32	5,088
Dec Fwd	£0.85	£1.25	2,047	£0.96	£0.96	2,047
ALUMINIUM MARKET						
Spot 11	£4.00	£2.00	286	£3.01	£10.31	2,869
Oct Fwd	£4.50	£3.00	660	£3.87	£4.76	1,010
Dec Fwd	£2.50	£2.00	1,000	£2.20	£2.76	1,250
RECOVERY MARKET						
Spot 11	£0.80	£0.80	256	£0.80	£0.71	2,765
Oct Fwd	£0.45	£0.35	4,704	£0.39	£0.42	11,789
Dec Fwd	£0.35	£0.35	5,000	£0.35	£0.35	5,000



Managing Director's Report

While the world is in a financial turmoil, the PRN market has been placid. While doubts could still legitimately exist about whether the general and plastic targets will be achieved, concerns have been muted. While trading has

been unremarkable in the 2011 compliance year, it has been completely comatose in the 2012 compliance year with buyers confident that the excesses of 2011 will be reflected in 2012 and supply plentiful. While this may be correct, with prices at historically low levels the prudent buyer would be well advised to secure tonnage forward while the opportunity lasts.

Many are waiting for the consultation, which must be done shortly if targets are going to be agreed post 2012 in time for the Spring budget, as indicated in the Waste Review, to provide guidance on future targets and in consequence prices, but the greater risks must be that reprocessors and exporters do not register in 2012, supply becomes restricted and prices rise. A small rise from £1.00 to £2.00 a tonne for general recycling could result in the cost of compliance for companies doubling. It is an excellent opportunity for buyers to use the forward markets to secure some tonnage, while for sellers there is little to lose. Although some are arguing that there is equally nothing for sellers to gain from selling early as prices can go no lower and they might rise!

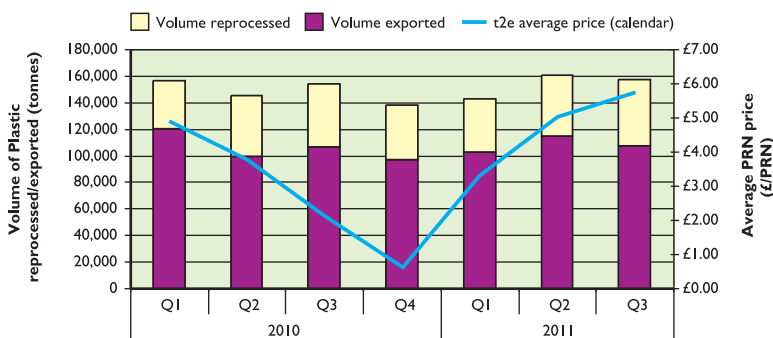
As the economy falters one of the few sectors that appears to be booming is the secondary raw material market and even here many are beginning to question the figures. There appears to be a contradiction between a macro-economic picture of China faltering under inflationary pressures and a global downturn restricting end markets and an apparently increasing demand for recovered paper and plastic. And in glass if only 600,000 is utilised by the remelt industry, and the demand for aggregates is stagnant, where is the remaining 1,000,000 tonnes going? If the figures are incorrect, why? While the Agencies have recently revitalised their enforcement activities, it is far from clear that packaging recycling is either an area they are focusing on or a process with which they can get to grips. So the concerns remain about commitment, capability and competence and, without enforcement, legislation, particularly one that is so reliant on data, is going to be fragile.

Quality is also a subject of discussion. Could PRN figures be over reported because non-packaging is reported as packaging? Suggestions are that lower quality material is exported than utilised by domestic reprocessors. While this is understandable from a financial perspective with picking

costs significantly less in the Far East to Britain, questions remain if prices do not reflect differences in quality and why regulators are allowing material that is deemed hazardous to human health and the environment to be exported.



Total Plastic reprocessed & exported per quarter vs. t2e quarterly average PRN price



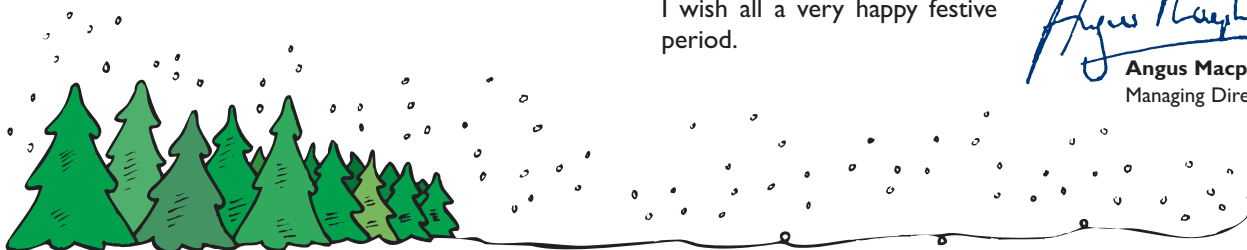
However there are many interpretations of quality. Poor quality could reflect material which is out of specification rather than poorly sorted and hazardous to health. Although regulators do report that an increased number of loads are being both returned from overseas and prevented from export, to date the problem areas have not been packaging. What is undoubtedly true is that from a PRN perspective if PRNs are issued on material that is not packaging, it both creates a surfeit in the market with a significant depressing impact on prices and is fraudulent. Again these are issues of enforcement.

But quality is a matter of hearsay unless there are criteria against which that quality can be identified, reliable systems for measuring these criteria, such as the Environmental Services Association's (ESA) Recycling Registration Service (RRS) for Materials Recycling Facilities (MRFs), and a robust auditing system for buyers to check that these criteria have been met. Additionally, and as important, there needs to be a commitment and desire from within the industry to strive to meet rather than abuse these standards.

While 2011 has been a period of transition for the PRN system, there is no doubt that it is here to stay in 2012. There is much that can be achieved through the system to improve quality even if targets are not increased, which seems unlikely, and all should ensure their views are heard.

Once again many thanks for your support. We look forward to serving you in the rest of this year and 2012. I wish all a very happy festive period.


Angus Macpherson
Managing Director





Summary of Q3 Reprocessing & Exporting Figures, 2011

By Patricia Hall

The Environment Agency released the Q3 reprocessing and exporting figures on Monday 24th October, which showed that

1,829,948 tonnes were processed, an overall increase on Q2 of 13,674 tonnes. A drop on Q2 production was reported in Glass (down 0.1%), Steel (down 12.5%), Plastic (down 0.9%), Wood (down 18.4%), and EfW (down 4.8%). While Paper and Aluminium increased by 8.5% and 11%, respectively.

Table 1: Change (%) in Q2 PRN generation between 2008 and 2011; Change (%) between Q3 and Q2 2011; Change (%) in total waste received to date (2011 vs 2010)

	Change in Q3 PRN generation (%)			Change (%) 2011 Q3 vs Q2	Change (%) in total waste received to date (2011 vs 2010)
	2009 vs 2008	2010 vs 2009	2011 vs 2010		
Paper	-0.9%	5.7%	1.8%	8.5%	2.7%
Glass	15.7%	1.2%	-6.9%	-0.1%	1.0%
Aluminium	39.9%	-8.2%	25.1%	11.0%	28.4%
Steel	-10.4%	-16.9%	-2.3%	-12.5%	-4.9%
Plastic	15.7%	-1.8%	1.8%	-0.9%	-0.6%
Wood	0.6%	-9.9%	-33.8%	-18.4%	-21.4%
EfW	15.2%	31.5%	-14.2%	-4.8%	-6.8%
Total	4.9%	2.7%	-5.5%	0.8%	-1.7% (94,056 tonnes)



The British Plastics Federation Seminar

By Tom Rickerby

The British Plastics Federation Seminar gave an interesting insight into the current state of the UK's plastic recycling industry plus the on-going challenges that face the industry, its outlook for the future and a case study on how packaging producers are beginning to influence that outlook.

Plastic recycling has seen a boom in the past 5 years thanks to a growth in the number of household collections and the development of end markets for these collections. In ten years of progress the UK has gone from recovering 3% of plastic bottles to over 48%. In 2000 only 3.7 million households had access to kerbside plastics collection; today that number has swelled to over 21.9 million with 363 local authorities offering a weekly or fortnightly collection*. The net result of this is that over 280,000 tonnes/year of plastic bottles are now diverted from landfill. But where are the bottles ending up? According to the Recoup survey around 47% are exported to countries in the Far East and 53% are reprocessed in the UK. Major strides have been taken to improve the UK's capacity to deal with its own plastic waste. Forward thinking companies such as Ecoplastics, Closed Loop Recycling and Jayplas have all invested heavily in UK reprocessing in an effort to close the loop on plastic recycling and produce high value material that can be put back into food grade packaging. But the full potential of these plants is being strangled by a collection and sorting system still heavily geared towards the lower quality, high volume export markets. With local authorities blinkered by tight budgets, rising landfill tax and increasing recycling targets, co-mingled collections are seen as a cheap, target friendly solution. This is not necessarily a bad thing. However the material recycling facilities (MRFs) that are designed to sort this material are still being set up and run to produce export grade plastic which contains too much contamination for the new UK bottle to bottle plants to operate efficiently. It seems whilst UK reprocessing is looking to a cleaner, more innovative future, its life blood is still operating to service the old export model that has been so instrumental in getting recycling rates to where they are today.

Some MRFs would argue that there is no need to improve quality whilst demand from Asia is still so high. However data suggests that as China develops its own recycling infrastructure, its reliance on imported material will decrease (according to BPF data, the UK currently supplies around 4% of China's recovered plastics requirement). China's rapidly improving labour and environmental standards and their desire to shake off their reputation as the dumping ground for Europe's problem waste will also greatly reduce their appetite for low quality material in the future.

The tide would appear to be turning but with little direction offered from central government and in an economic climate where commercial decisions are dominated by cost minimisation rather than ethical and environmental foresight, who is likely to push forward this transition in plastics recycling standards?... Step forward the white knight (or in this case red) in the form of Coca Cola Enterprises (CCE). If plastic recycling stands at a crossroads, Coca Cola has taken it upon themselves to help 'direct the traffic'. As part of CCE's commitment to reduce the carbon footprint of their products by a third by 2020, they are looking to increase the amount of recycled content in their packaging. In order to achieve this they have gone into strategic partnership with Ecoplastics to create the Continuum project which will more than double the capacity for food grade recycling in the UK. As well as investing directly in recycling infrastructure CCE are running a variety of programs to educate and inspire consumers to recycle more. It is a bold move by Coca Cola but one that can offer a blueprint as to how packaging producers can play a major role in shaping future recycling trends.

Tough challenges lie ahead if we are to achieve DEFRA's target of recycling 75% of plastic bottles by 2020 but in a world where big brands often hold more sway over commercial and consumer behaviour than markets and government, CCE's emergence in UK recycling should be seen as a significant moment in the continued evolution, growth and development of plastics recycling in the UK.

*Figures courtesy of Recoup UK Household Plastics Packaging Report 2011





The Challenges Currently Facing the Plastic Market



A view from a reprocessor: *Bernard Chase, Regain Polymers Ltd*

The UK uses over 5 million tonnes of plastic each year of which an estimated 24% is currently recovered or recycled. Of this, nearly 80% is destined for 'recycling' in overseas markets, principally the Far East.

Introduced in 1997, at which time there existed a thriving, commercially driven plastics recycling industry focused on 'clean' manufacturing scrap and commercial transit packaging waste, the PRN system was to provide a financial incentive for plastic reprocessors to tackle more challenging materials derived from the domestic waste stream.

In reality, once 'packaging' waste exports qualified for a PERN, the system delivered a massive boost to the global trade in waste plastics, favouring waste traders over actual processors, allowing UK reprocessing capacity to stagnate and leaving the country utterly reliant upon overseas markets to meet escalating European recycling targets.

Recent years, however, have seen a marked growth in UK plastics reprocessing capacity, focussed mainly upon bottles collected from the domestic waste stream, in response to a growing appetite on the part of primary packaging manufacturers and their retail customers for 'recycled content' in food grade and other high end packaging applications.

The principle challenge now facing a resurgent plastic reprocessing sector is the appalling quality of plastics offered up by those responsible for collecting it. Quality remains benchmarked by what is acceptable to overseas markets and the methodology of collection driven entirely by volume-based measurement systems designed to satisfy successive Governments' obsession with target achievement.

With capture rates and extraction from landfill driving collection, the definitions between what should and should not be collected, what can and cannot be recycled and what is and is not packaging waste have become blurred. With little or no policing of what is exported, let alone what is collected, much non target material now enters the recycling stream and, as no one wishes to pick up expensive land fill costs, much of this material is passed up the chain until a reprocessor has to sort it out and 'pick up the tab'. Single stream commingling is fast becoming the default collection methodology of the Waste Management sector, beloved for its low cost and sold with a promise "to sort it out later" upon which there is no delivery save to the export markets that incur negligible regulatory or landfill costs when it comes to disposing of the 'hidden' non target material.

The challenge for the plastics market today therefore is to drive through the necessary change from a volume driven low value market reliant upon demand for our plastic waste overseas, to a high value resource driven market feeding a resurgent UK reprocessing sector delivering long-term sustainable jobs and value within the UK economy.

How such a change might affect the PRN system remains speculation, but there is little doubt that in its current form little financial benefit derives to UK reprocessors. Many now hold the system in low regard, whilst for Government it delivers seriously flawed data.

The impetus for plastics recycling has effectively become market driven. Increasing demand from manufacturers for recycled content, meeting the requirements of CSR, carbon foot printing and marketing, is delivering the higher values that can underpin the economics of quality driven collection. Without a corresponding increase in statutory targets for plastics recycling, PRN values risk losing further ground while reprocessors vote with their feet as the system descends into irrelevance other than for the provision of increasingly meaningless data.



A view from an exporter: *Joe Bisland, Eurokey Recycling Ltd*

The days of producing low quality materials and knowing that you will always be able to find a buyer are behind us.

A number of factors are influencing the market:

China has a choice of suppliers. The so called emerging countries of Europe have become greater retail consumers and are producing more recyclable materials. Couple this with a lower wage rate and a new vigour for growth means that they are producing a good quality product at a more attractive price to China. Much of the product consumption of European emerging countries is of products which are made in China. Transportation throughout the world has never been easier or cheaper.

The UK currently supplies China/ HK with about 9% of their plastic recyclable consumption partly influenced by our historical links with Hong Kong. We do not know how long China will allow HK to be used as a staging post. We might expect China's desire to maximise profit to increase the level of direct imports

We need to examine ourselves in the UK; are we offering a quality product to our customers or are we being driven by the metric of measuring the throughput of processed tonnage? Producing higher volumes of low quality material is not going to provide long term security. This might have been acceptable when the product we were producing could be readily sold. What are we going to do when the product we are producing is not going to achieve the price we expect or might not even be sold at all?

Surely we do not want the UK Waste Industry to be perceived as a producer of low quality material which will only be used as a last resort when demand is very strong and be the least preferred source when demand is low.

At Eurokey we conduct a full analysis of incoming material and make the results known to our customers so that they do not get any surprises when the material docks in China. This significantly strengthens our relationships with our customers. However what surprises me is the reaction we receive from some of the UK MRFs. Some of them are of the opinion that if we are too difficult to deal with then someone else will be happy to buy their material. Others understand that we are all in this together and understand that providing a quality product to an agreed specification will ensure the long term viability of their business.

Everyone in this industry needs to work at all levels to ensure that we become the source of choice and not just a marginal supplier.