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Quarterly Report

Report 56

November 2012

The Marketplace for PRNs and WENs



August 2012 to October 2012

By Ian Andrews



Traditionally the Q3 period is one of the busiest of the year with many returning from summer breaks with renewed focus on the market. This year has been no different although instead of dialogue taking place regarding all categories of PRNs, focus has been mainly on this year's problem materials, namely Glass, Steel and Plastic.

During the period we have seen positive news for Plastic with supply growing quarter on quarter and the introduction of PET flake accreditation providing the market with some much needed supply. Both Glass and

Steel have ground to make up with the former looking almost unachievable this year. Prices have increased during the period for both these materials but with some concerns surrounding companies potentially opting for non compliance prices have stabilised.

Trading in the 2013 markets started in earnest this month with strong volumes being traded in Recovery and Paper with delivery through to the October 2013 market.

Trading for the quarter equated to 192,053 tonnes with 66,224 tonnes trading in the Spot market and 125,829 tonnes trading in the Forward markets.

Market Material Analysis

Paper – Paper traded in low volumes at the start of the period with many buyers focusing their attention on the 2012 problem materials. Concerns about the availability of surplus tonnage for the general buying pot resulted in the price rallying slightly in September before dropping back to August levels. At the end of the period focus shifted toward 2013 with the first trades booked for delivery through to October 2013.

Plastic – Plastic traded in excellent volumes with almost all activity taking place in the Spot market. Sellers who had seen the price steadily rise this year would not commit to trading through the forward markets in fear of contracting tonnage at lower value than the Spot market. The ability to accredit tonnage from PET flake operations resulted in additional tonnage being added to the first two quarters supply. This helped to alleviate any supply issues this year.

Glass – With problems regarding supply still continuing this year the price for glass doubled during the period. Prices initially opened at £36.00 before trading up to £70.00. The higher value has remained in the market with both buyers and some sellers taking comfort from the fact that the price has at least stabilised. Even in the face of non compliance the regulators are insisting that all obligated parties attempt to secure the relevant tonnage. The market continues to provide good selling volumes albeit at the higher end.

Steel – A lack of activity at the start of the period provided some downward pressure on prices and resulted in the price falling back to £16.00. It was anticipated that, after two unimpressive quarters, the market would see a strong performance in Q3 and any shortage issues would be addressed. Once released, the figures showed that supply was in line with Q2 and further growth was needed in Q4 to meet this year's demand. This resulted in prices shifting up again to trade in the mid thirties at the end of the period.

Wood – A slow quarter for wood saw it continue to trade at a premium above the paper price and subsequently forgo general buying interest. News at the start of the quarter about a large UK supplier leaving the market assisted in keeping the price firm during the period. The Q3 figures showed that supply levels had returned to those of 2011 however this did little to promote concern given the current oversupply situation in this market.

Aluminium – Prices softened incrementally during the period as strong supply was met with weak demand.

Recovery – An excellent quarter for recovery was characterised by volume trading in 2013 and little activity in 2012. The supply figures this year have shown that by the end of Q2 we had almost met this year's demand so it has been unsurprising that many have shifted focus forward given next years prices are so competitive.

	High this quarter	Low this quarter	Traded this quarter	Quarter average traded price	YTD average traded price	YTD aggregated traded
PAPER MARKET						
Spot 12	£1.30	£0.75	7,037	£0.91	£0.89	76,825
Oct Fwd 2012	£1.30	£0.85	31,725	£1.22	£0.98	86,408
Dec Fwd 2012	£1.30	£1.00	6,326	£1.05	£0.83	50,826
Apr Fwd 2013	£1.20	£1.20	1,000	£1.20	£1.20	1,000
Jul Fwd 2013	£1.20	£1.20	1,000	£1.20	£1.20	1,000
Oct Fwd 2013	£1.20	£1.20	2,000	£1.20	£1.20	2,000
PLASTIC MARKET						
Spot 12	£30.50	£12.00	27,747	£24.27	£18.97	58,130
Dec Fwd 2012	£28.00	£28.00	1,000	£28.00	£20.32	1,500
GLASS MARKET						
Spot 12	£80.00	£36.00	17,263	£56.55	£27.17	73,230
Oct Fwd 2012	£70.00	£50.00	1,858	£59.24	£24.09	25,231
Dec Fwd 2012	£75.00	£35.00	31,500	£70.71	£50.44	48,700
Jan Fwd (Trans)	£50.00	£50.00	2,000	£50.00	£50.00	2,000
STEEL MARKET						
Spot 12	£55.00	£16.00	9,159	£33.44	£17.83	23,572
Apr Fwd 2013	£25.00	£25.00	500	£25.00	£25.00	500
Jul Fwd 2013	£25.00	£25.00	500	£25.00	£25.00	500
WOOD MARKET						
Spot 12	£1.50	£1.30	2,032	£1.31	£1.53	8,808
Oct Fwd 2012	£1.30	£1.30	5,063	£1.30	£1.29	17,202
Dec Fwd 2012	£1.20	£1.20	2,000	£1.20	£1.21	2,500
ALUMINIUM MARKET						
Spot 12	£13.45	£7.50	2,221	£9.54	£8.76	3,830
Oct Fwd 2012	£12.00	£10.25	1,591	£11.30	£10.08	2,826
RECOVERY MARKET						
Spot 12	£0.40	£0.30	765	£0.33	£0.34	19,682
Oct Fwd 2012	£0.30	£0.30	352	£0.30	£0.34	6,354
Dec Fwd 2012	£0.30	£0.30	414	£0.30	£0.30	414
Jan Fwd (Trans)	£0.30	£0.30	3,000	£0.30	£0.30	3,000
Apr Fwd 2013	£0.30	£0.30	14,000	£0.30	£0.30	14,000
Jul Fwd 2013	£0.30	£0.30	10,000	£0.30	£0.30	10,000



Managing Director's Report

This quarter has seen publication of the Q3 figures and informal consultation prior to the formal consultation which is due out in January 2013. Q3 trading has increased by almost 5% year on year, however proportionately trading in the forward markets has reduced by over 20%.

A year ago I wrote "with prices at historically low levels, the prudent buyer would be well advised to secure tonnage forward while the opportunity lasts". Many then anticipated that with flat targets these prices would remain throughout 2012. How things have changed! Nevertheless the principle remains. Prudent buyers and sellers are well advised to secure prices forward to secure future certainty. t2e's forward markets not only allows buyers and sellers to do this but also allows them through a single avenue to spread counterparty risk. Bearing this in mind it is astonishing that once again participants are solely focusing on the short-term issues to achieve compliance in 2012 without looking further ahead.

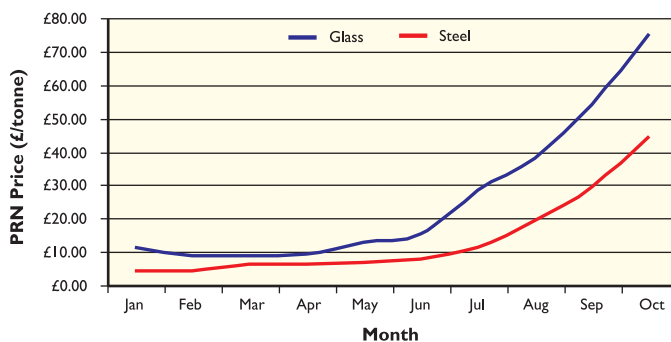
A crystal ball is not needed to judge prices in the forward markets. Forward prices are based on current prices adjusted according to the market's perceptions of market variables. Once the contract is traded, the subsequent price movement is irrelevant although inevitably there will be winners and losers. Again the prudent trader does not commit all their tonnage at the same time preferring instead to average over the year. There are different strategies that can be followed but a traditional one is to transact forward a quarter of your capacity/obligation each quarter over the next four markets. Depending on an individual's perceptions on the variables a decision might be taken to vary the transacted quantity by up to 20% for use in the spot markets but under all circumstances prudence would guide against trading everything or nothing.

Q3 figures have starkly confirmed that Glass PRNs are in very short supply a situation that has been forewarned in earlier quarterlies. Even so it took until mid-quarter before

buyers or their representatives were prepared to bite the bullet and pay higher prices with the consequence that it has in all probability cost them far more than was necessary to achieve the target. There are a number of reasons why this situation has arisen but one is undoubtedly the risks that compliance schemes and representatives took in pre-selling PRNs to producers without first securing their delivery price. Again judicious use of t2e's forward markets would have solved this issue.

Steel is also struggling to meet its target and if glass struggles to meet its target the general recycling target is very reliant on paper having another near record quarter. Under all circumstances as the year end approaches it looks extremely tight and relatively little will be available in most materials for carry forward into 2013.

Monthly Average PRN Price



It is inevitable that with rising prices and a number of ideas floating around as a consequence of informal consultation some are predicting the end of the PRN system. However while there is always room for improvement, some of those areas have been touched on in DEFRA's

review, the PRN system is once again proving its flexibility and its fitness for purpose and remains a low-cost and effective compliance mechanism. Suggestions of the removal of individual compliance and the creation of a single compliance scheme are not only anti-competitive but also offer no real benefit to producers and reprocessors alike. I remain convinced that there is much that the WEEE system could learn from it.

Once again thank you for your support. Many thanks to Steve Gough for his contribution. I wish you a very enjoyable festive season and look forward to being of service to you throughout. What remains of the year looks challenging and 2013 will bring a whole new set of challenges.

Angus Macpherson
Managing Director

Christmas Holidays



t2e will be:

- Closed from 5pm on Friday 21st December 2012 until 9am on Thursday 27th December 2012.
- Closed from 5pm on Friday 28th December 2012 until 9am on Wednesday 2nd January 2013.





Q3 PRN Report – Reprocessing & Exporting Figures

The anticipated release of the Q3 supply figures at the end of October failed to address the concerns regarding shortages in both the Glass and Steel sectors but did provide positive news for plastic buyers.

Plastic has seen a large swing in supply with reported figures now showing Q3 activity created a surplus of 23,000 tonnes above the required quarterly demand. This information coupled with the new ruling that PRNs can now be issued for PET flake operations has released any pressure from this year's markets and the price has slipped back into single figures for the first time since April. Steel has again under performed which has resulted in some firming up of the price.

Glass continues to provide the majority of concern this year with growth in supply continuing to be generated at a snails pace. With many believing that we had turned the corner and the reporting of a strong quarterly supply was imminent, shock reverberated around the market when only 351,000 tonnes was reported. To put this in some perspective, this is the same level that was reported in Q2 and as a result the market needs to create 565,000 tonnes in the final quarter to ensure compliance this year.

Supply of all other materials remains strong with Wood showing the only contraction on Q2. This has been down to the loss of a large domestic reprocessor (Sonae) and although not concerning for the immediate future, its continued ability to provide surplus tonnage to the general buying pot may become a problem in the future if the trend continues.

Material	2012 Obligation	Carry Forward from 2011 (t)	Q1 2012 (t)	Q2 2012 (t)	Q3 2012 (t)	Remaining (t)
Paper	2,556,146	145,238	825,512	796,096	818,011	5,135
Glass	1,703,747	57,372	379,463	350,998	351,034	565,483
Aluminium	60,356	3,661	16,401	14,030	18,170	8,112
Steel	354,697	21,493	92,565	77,465	76,158	87,016
Plastic	604,885	21,914	146,517	145,970	174,637	121,651
Wood	234,769	19,167	128,288	148,911	134,934	+ 196,282
Total Recycling	6,490,820	-	1,588,746	1,533,470	1,572,944	1,526,815
EFW	478,342	53,877	206,488	187,371	206,972	+ 176,166
Total Recycling and Recovery	6,969,734	322,722	1,792,291	1,715,110	1,743,287	-

Table 1:
**Change in PRN
business obligations
for Q1, Q2 and Q3
in 2012**

Looking Forward to 2013 ...

During the quarter we have seen trading in the 2013 markets with prices spreads developing and trading taking place for delivery right through to October 2013. Paper, Steel and Recovery have all traded forward with offer prices now available for all materials.

We have a number of markets available with fixed settlement dates in December, January (Transitional), April, July and October. The forward markets provide the option for counterparties to agree contracts up to 12 months in advance. When trading in the forward markets a security deposit of 10% is paid with the remaining balance to be supplied on the settlement date. As an extra incentive and to promote swift settlement of the forward contracts we provide a trading fee rebate of 40% for buyers who supply a Direct Debit Mandate. In order for sellers to qualify we ask for a completed seller's survey to be returned and prompt delivery of both deposit payments and documents.

The 2012 market has suffered from volatile prices this year with question marks continuing over the ability of some materials to meet their targets. By trading forward both buyers and sellers can move into 2013 with the confidence and security that tonnage and prices will be set in advance.

If you would like to discuss options for trading forward in 2013, please contact the trading team on 0844 800 9943.

STOP PRESS: Targets confirmed for 2013 to 2017

Material	2013	2014	2015	2016	2017
Glass of which:	81%	81%	81%	81%	81%
a minimum should be from Remelt	63%	63%	63%	64%	64%
a maximum should be from Aggregate	37%	37%	37%	36%	36%
Aluminium	43%	46%	49%	52%	55%
Steel	72%	73%	74%	75%	76%
Paper/Board	69.5%	69.5%	69.5%	69.5%	69.5%
Plastic	37%	42%	47%	52%	57%
Wood	22%	22%	22%	22%	22%



2012 PRN Market – the sum of all the parts

Steve Gough - Chief Executive, Valpak Ltd



The PRN system was put in place by industry for industry to deliver the requirements of the EU packaging directive at lowest cost. Designed around a free market system, it shares the costs across the packaging chain and focuses investment via the reprocessor, specifically at bottlenecks as and when they occur. This investment can happen over medium term or indeed respond to relatively short term issues.

In 2008, the Government's key reporting year to the EU, the system responded to the global commodity price crash by providing just enough funding to ensure the Government's and thus the EU's targets were met.

The system is being tested again. This glass challenge is prompting the comment "we live in interesting times" - originating from a Chinese curse thought to be adopted by the British: "May you live in interesting times!" There are the two lesser curses which come with it: "May you come to the attention of the authorities!" and: "May you seek and find what you're looking for!"

"May you live in interesting times"

Let's look at the today's issues in glass and consider the PRN, the system, and those who play a role in it. DEFRA reports 2.767mT of glass onto the market. To ensure the UK meets the EU target of 60% glass recycling target, UK obligated businesses must acquire 1.7mT (425kT per quarter) of glass recycling evidence. The first three quarters of the year have not reached the required quarterly requirements, leaving an extremely challenging 565kT to achieve full compliance in the final quarter. To stimulate this growth, many producers have had unexpected price rises in their compliance costs but recognise this is the system they requested. Their patience and understanding has been welcomed by those schemes working hard to ensure that the shortfalls are filled and the UK achieves compliance.

What has brought the market to this point:

1. Flat Targets for 3 years – schemes have always called for a sound understanding of the supply and demand numbers for setting appropriate targets which creates a slight stretch each year and allows for growth to be achieved with stable prices. For many years, the average price of a glass PRN has been £15 - £25 per tonne. The flat targets caused this to fall to nearer £5 - £10 per tonne. Therefore there has been less investment, less financial support to clean contaminated material and less funds to support export to re-melt.
2. Aggregate markets were introduced to create choice for glass but a very low PRN price makes it uneconomic to move and handle this material. It is important to ensure that the re-melt sector is supported as it achieves the greater carbon gains, but we must not leave ourselves with little or no choice of end market.
3. Export has also been restricted as the low PRN level makes this less attractive and more risky.

"May you come to the attention of the authorities?"

Other potential reasons for the sharp rise in the cost of PRNs have been:

1. The effect of fraudulent PRNs in prior years. This has now been stemmed due to good work by the Environmental Agencies, but the leeching of revenue to genuine reproducers is only now being felt.
2. The Environmental Agencies have made it clear to all producers that they continue to expect them to meet their obligations. These Agencies, whilst sympathetic to increased costs on producers, regulate compliance with the regulations and cannot intervene in the operations of the market. Compliance schemes and individual compliers must follow their operational plans and should have taken pro-active action to correct any shortfall.

This leads neatly to the third curse.

"May you seek and find what you're looking for!"

The PRNs are available but at a price - the price the market dictates. PRNs are becoming available from accredited reproducers listed on the public registers and through The Environment Exchange. Valpak has been encouraging the reproducers it deals with to produce as much as possible to help the UK meet its overall obligations, not just honouring Valpak's contracts. At present there does not seem to be a need to backdate evidence and/or allow the accreditation of processes previously disallowed. Once again the system will respond to the challenge as it always has done.