



THE RECOVERED PAPER MARKET

QUARTERLY REPORT

June 2011

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At The Paper Trail's Frogmore Paper Mill, on Tuesday 15th March 2011, The Environment Exchange (t2e) launched a marketplace for collected (ex-works) contracts for recovered paper (old corrugated cardboard (OCC) and old news and palms (ONP)) in the UK. This exciting development for the recovered paper sector is part of a two year project in partnership with Edinburgh Napier University, funded through the Government's Knowledge Transfer Partnership and Innovative Programmes

The marketplace's founding members are Aylesford Newsprint, Cyclelink UK, International Recovered Paper Ltd, Mark Lyndon BV, Palm Recycling Ltd, and Reliance Fibres. Since then, they have been joined by Newport Paper CH and International Forest Products.

GENERAL MARKET ANALYSIS *by Andy Hanke*

PERIOD: MARCH – MAY 2011



In March, the market saw highs of £135 being paid by some as a result of larger than normal orders from Chinese buyers. There were reports of record high Q1 prices for OCC and ONP in early April. In preparation for what seemed like an endless run of bank holidays, UK and European buyers were stocking up on materials to ensure mills could function as normal during the holiday period. Some buyers were prepared to pay particularly high prices to secure tonnage, which led to highs of £140/tonne. This peak in demand from the UK's domestic and export sector began to reduce once met, with prices subsequently falling back to around £127 – £130/tonne. Additional demand from Europe during April could in part be explained by Germany's recent economic boost. It was reported that the nation became the world's second largest exporter in 2010, which is likely to have impacted on its use of packaging and therefore demand for recovered paper.

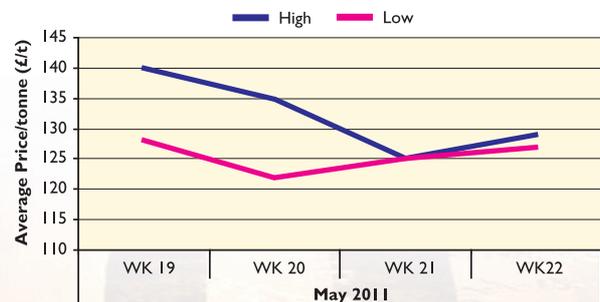
In the recent 2010 report by the Confederation of Paper Industries (CPI), the message to the industry was that without increased recovery rates in the UK's main exporter countries (Far East and Western Europe), UK OCC and ONP prices are expected to remain high.

t2e MARKET ANALYSIS

Since the launch of the market in March, the focus has been on developing client relationships and building a price picture with bids and offers. There were no offers from sellers, who were apprehensive to show their position. With market conditions more favourable for sellers than buyers, the former were confident about securing high prices in off-market deals and were less inclined to offer tonnage in the market for any length of time. In contrast, the latter have been enthusiastic to bid, particularly during May, and the resulting price trend has reflected market conditions.

Most traffic in OCC was experienced during May, with a total of 34 bids and 44,940 tonnes. The price spread during that period was £122 – 140/tonne. Bids can be viewed at www.t2e.co.uk/recoveredpaper. If you are not already a member, please contact the trading team (RP@t2e.co.uk) on 0131 473 2337.

t2e bid history for OCC (May 2011)



HOW DO WE OPTIMISE RESOURCE USE?

... Use the power of the marketplace



Angus Macpherson

Managing Director of The Environment Exchange

POLICY DEVELOPMENTS

According to the Scottish Government the waste industry is no longer a waste industry it is a resource industry. This statement may startle some and the Zero Waste slogan seems a little ambitious. However the theme that is being picked up in Scotland (and Wales) is based on a European strategy focused on (secondary) raw materials and, although possibly differently expressed, it must be anticipated that this theme will be broadly replicated in England when the waste review is published. The ambition is clear, it remains to move everything up the waste hierarchy, landfill is still the option of final resort, and to achieve this, source segregation and separate collection are the tunes to which everyone is anticipated to be dancing.



Landfill bans are a possibility although concerns remain whether they can be effectively policed. Uncertainty also exists as to how source segregation and separate collection might be defined and therefore policed. The desire is still that to retain flexibility these definitions should be provided in guidance rather than legislation. A potential clash also exists between targets – which are viewed by politicians as aspirational and therefore potentially unachievable – and the legislative imperative that businesses have to achieve them, regardless of how unachievable they may be. As these aspirational targets fluctuate, many in mid-tender are finding themselves trying to strike a moving target.

As a result of this shift in perception and the increased costs in landfill, it is hoped that a greater volume of resource – secondary raw material – will be created and that this resource will have a greater value enabling collection systems to be self-financing. Is this an ambition too far or a realistic opportunity? In any economic model increased supply is frequently associated with reduced prices.

QUALITY

Many in the reprocessing industry are suggesting that more is less in that as the collection volumes increase the quality of the material is deteriorating. It therefore requires more segregating post-delivery and/or is harder wear on processing machinery. So the material is not only less valuable but also less utilisable. This view is reinforced not only by high profile prosecutions by regulatory bodies but also despite the rather onerous bureaucracy of the Trans-Frontier Shipment of Waste regulations, China and Indonesia – and quite possibly a precedent which will be followed by other major importers of secondary raw materials – now operate quality control agencies at the points of departure as well as at the point of arrival.

Collectors/suppliers feel that standards have remained the same but that now there are increased volumes there is a greater choice there is a greater opportunity for buyers to be more discerning. Buyers argue that collection volumes as well as quality are going down. While there are always two sides to an argument it is rare that there is smoke without fire! However until there is a benchmark quality standard,

for example the emerging EN643 for recovered paper; there is no method to identify, measure or verify/validate these quality disputes nor is there an arbitration mechanism.

TRANSPARENCY

Price is the ultimate arbiter of quality but without price and market transparency it is very difficult to determine what is or is not a 'good' price for either the buyer or the seller. Price is determined by so many factors of which quality is just one. Availability, packing type, payment terms and logistics are some of the other factors. Unless these factors are enclosed within a standard contract, price transparency does not exist. An index is unlikely to be compiled taking all these factors into account. So how else may price and market transparency – information so vital in justifying the investments of new and old participations alike – come about? A marketplace.

SO HOW MIGHT A MARKETPLACE HELP RESOLVE THESE ISSUES?

To join a marketplace, participants need to meet the participation criteria. These will include both quality and financial checks. To meet these criteria is prestigious. Participants will also need to agree to abide by the code of conduct that provides the regulatory framework for trading, settlement and dispute resolution. To be suspended as a result of failing to abide by the code of conduct undermines a business's credibility. A marketplace trades standardised contracts factoring in quality, payment terms and logistics as a consequence providing easy to interpret transaction price information. Additionally it aggregates buyers and sellers providing both parties with volume information and confidence on the availability of both buyers for prospective sellers or sellers for prospective buyers, while the rules of participation provide dispute resolution and quality control mechanisms. An integrated settlement service not only takes the hassle out of trading but

also increases its security and allows the process to be both monitored and audited. Such facilities have been adding value to many primary, agricultural and non-ferrous metals for centuries, facilitating their expansion and becoming more sophisticated as they develop, however at a most basic level, delivering a service to those involved in the industry remains the core to the success of these marketplaces.

THE ENVIRONMENT EXCHANGE

The Environment Exchange (t2e) is a marketplace provider. It is an integrated internet-based regulated marketplace operator providing both settlement and dispute resolution services. It currently provides the United Kingdom's marketplace for Packaging Recovery Notes (PRNs) and Waste Electrical and Electronic Equipment Evidence Notes (WENs), which are respectively the evidence of compliance needed by businesses with a legal obligation under the Producer Responsibility Obligations (Packaging Waste) and (Waste Electronic and Electrical Equipment) Regulations. PRNs expressed in tonnes represent packaging that has been reprocessed either within the United Kingdom or overseas. In 2010 for the second year in a row over 1 million tonnes of PRNs were traded through t2e, of these almost 50% were Paper PRNs.



In a two year project funded through the Government's Knowledge Transfer and Innovate programmes, t2e has just launched a marketplace for collected contracts (ex-works) for recovered paper (Old Corrugated Cardboard (OCC) and Old News and Pamphlets (ONP)) within the United Kingdom. If you wish to learn more about how to take advantage of the opportunities that this will present, please contact Andy Hanke (ah@t2e.co.uk) or Yaya Cao (yc@t2e.co.uk) at t2e on 0131 473 2337.

Use the power of the marketplace. It is smart, simple, safe trading.

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NEWS

THE UK MARKET AT A GLANCE

There are various ways to view the marketplace, depending on your trading criteria. The default view is **material and prices by region**. This view shows, at a glance, the availability of material in 9 UK regions, displaying prices (expressed in price/tonne) and volumes (expressed in loads).

Using this view, participants can:

- View live tradable prices;
- See aggregated supply and demand on one screen;
- Refine the market by location, market type (i.e. Spot or Forward), load/packing type, payment terms;
- Compare prices in refined market.

For more information on the features of our Recovered Paper market call us on 0131 473 2337 or visit our demo market <http://www.t2e.co.uk/recovered-paper/demonstration-site>

Do you want to see prices by regions or cities / locations?

See prices for the Spot Market or Forward Markets.

Last Trade in the market. Click expand symbol underneath to see the last 10 trades.

www.t2e.co.uk

Environment Exchange
Trade Summary
OCC Prices
-Region
-City / Location
Trade
Log Off

Home page Trading Line: 0131 473 2337 Contact

Demo Recovered Paper Market Logged on as User01 , WMCom01

View Prices by Region
Markets: Spot Market Regions: all

This page gives you a general overview of pricing and availability sorted by region with best prices displayed first. To narrow your view please use the 'make my market' button. Your criteria are displayed in the status bar at the bottom of the screen.

Scotland				North East			
Buy Size	Buy Price	Sell Price	Sell Size	Buy Size	Buy Price	Sell Price	Sell Size
30	133.00	136.00	30	100	135.00	140.00	1333
12	129.00	140.00	23	30	133.00	200.00	100
10	122.00			22	133.00		
22	120.00			20	131.00		
				18	131.00		
				18	131.00		

Expand...

North West				E. Midlands			
Buy Size	Buy Price	Sell Price	Sell Size	Buy Size	Buy Price	Sell Price	Sell Size
30	133.00	136.00	25	30	133.00	136.00	12

Make My Market

Overview Mode: Showing of bids and offers

Who is logged in?

Choose all or one of our 9 regions. Click "Trade Summary" in the menu and "History" to see our region map with postcodes.

Highest Bid against lowest Offer.

Click to adjust the market to your preferences.

The Overview Mode bar shows you what your market preferences are as a result of "Make My Market". Default setting is "Show all bids and offers."

Quantity expressed in loads. Prices in £/tonnes.

LOAD SIZES

After consultation with t2e participants and wider industry, we have adjusted trailer load sizes from 25 to 23 tonnes as of the 1st of July 2011.

WHERE TO SEE US NEXT



t2e will be exhibiting on
Stand 1430 in Hall 19
on 13 – 15th September 2011

Please come by the stand during the exhibition, or contact us in advance to arrange a meeting. We will be using the show to demonstrate the trading site for the new Recovered Paper Market, as well as to continue to promote our existing services. So please get in touch with the Recovered Paper trading team (RP@t2e.co.uk) on 0131 473 2337, or press@t2e.co.uk for more information.