



Market Status August to October Bottoming out on price?

by Cliff Laundon

During the quarter, prices reached the floor for some sellers with trading frequently punctuated by volume selling into bids.

Paper was consistently offered in volume at low prices, meeting general recycling and recovery bids. We noted a consistent availability of larger volumes at just above prevailing prices. From a low of £1.50 the price firmed slightly to the low £2 level.

Plastic was also sold in volume against general recycling and recovery bids. Later prices showed a slight improvement as volume selling featured less and reprocessors lost interest in selling at the £1 - £1.50 level. By the end of October, trading in the £2 - £3 range in modest volume calmed some nerves.

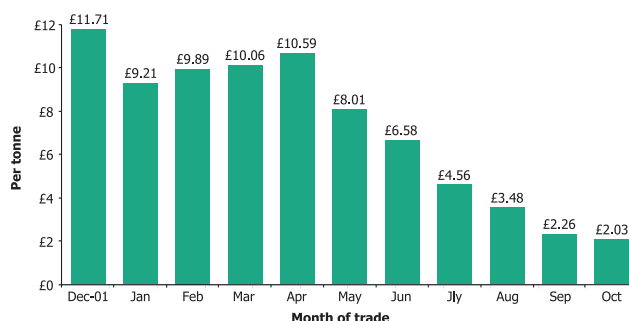
The **Glass** market realised that anticipated demand was not going to materialise and reprocessors were obliged to face the inevitable; a £5 - £6 level by the end of the quarter became the norm.

Steel prices softened significantly as good quantities were offered at comparable prices to paper, competing for general recycling and recovery interest. A plentiful supply was available and traded at £1.50 by October.

We noted a lack of spot selling by **Recovery** and **Wood/Other** reprocessors, as again, a number of sellers lost interest as, in their view, unattractive bids were filled by paper, plastic and steel sellers.

Eventually the trading pattern began to change. In October, smaller, independently obligated companies entered the market. Large volume buying became less evident.

2003 Obligation Year - Monthly average traded price - All PRN Classes



	Paper	Plastic	Wood/ Other	Recovery	Glass	Steel	Aluminium
Aug	£3.04	£3.33	£3.44	£3.54	£10.92	£6.40	£12.07
Sep	£2.52	£1.81		£3.00	£9.07	£4.32	£11.24
Oct	£1.60	£2.23		£1.50	£4.35	£1.61	£8.39

DEFRA released data during the quarter confirming the market's view of 2003 – that it is likely to end with a significant surplus and very weak prices. The 2002 carry over, at nearly 400,000 tonnes, had been greater than many expected. Q1 and Q2 volumes received for reprocessing were up 10-12% from the equivalent levels last year.

Might we expect a late rally in prices as last minute obligations are filled?

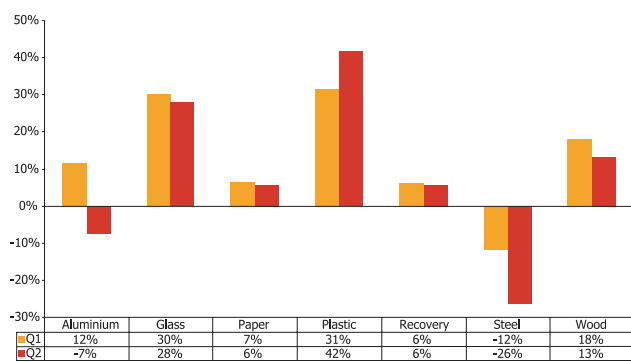
During October the refrain from the selling side of the market was that, on price, enough was enough. DEFRA's figures suggest that we may be so oversupplied this year that any last minute demand may well do nothing to firm up prices even temporarily - not many sellers are making plans to spend any extra cash.

Managing Director's Quarterly Report



The last quarter has been one of steady trading and declining prices. The market has been digesting the potential consequences of revisions discussed in the consultations and the implications of the reprocessing statistics issued by DEFRA for the first two quarters of 2003. It also awaits the targets for 2004 and beyond.

**Domestic Packaging Waste Reprocessed
- Changes between 2002 and 2003**



Source: EA statistics released by DEFRA

Exported Packaging Waste - Changes between 2002 and 2003



Source: EA statistics released by DEFRA

I have taken the decision to sell a further 40% of the exchange; firstly to reinforce the reality of our independence and secondly to allow other participants the opportunity of ownership. I am delaying the appointment of an independent Chairman until this process is complete.

Last month saw the successful completion of our October forward contracts. There has been increased interest in and take up of our 2004 forward contracts. Against a background of so much uncertainty, these contracts, offering a known tonnage delivered at a known price on a known future date, are a desirable method of compliance or securing cash flow. For participants that have to justify to their Boards, or their clients that they bought at the prevailing price, our forward contracts show that the price was the best available in the market at the time of transaction.

The retention of transitional tonnage is an essential mechanism to cushion the transition between different compliance years. It smoothes the price and covers the possibility that in one year, reprocessing and exporting might be beneath business targets. While there is a risk that in the final year of the PRN infrastructure growth might collapse, in all probability there will be sufficient momentum for levels to be sustained. The apparent growth of reprocessing and exporting this year against a background of low PRN prices reinforces this view.

We will be introducing the 2004 spot contract on 1 December 2003 for those wishing to trade transitional tonnage. At the request of the Environment Agency we will close our 2003 market on 31 January 2004. No further trading of 2003 PRNs will be possible after that date. Despite this, we continue to advocate that the late purchase of PRNs, combined with a fine (which incrementally increases on a daily rate) should be part of a pragmatic approach for penalising non-compliance.

With the prospect of a material specific target for wood, an independent wood contract has been introduced for all 2004 markets. In the expectation that an overall recycling target will be needed, the general recycling contract will remain. Bids put in this market can be met by any material specific PRNs, offers will be from those that recycle packaging materials other than aluminium, glass, paper, plastic, steel and wood such as cork or textiles.

Some are concerned that with the introduction of wood as a material specific obligation and the difference between material specific recycling obligations it will become increasingly complex to obtain their exact obligations. We will introduce a switch contract in 2004 to help participants match purchased tonnages to requirements.

After two years in our current address we are on the move to the other end of Princes Street. As I write, I am surrounded by packing cases! From 1 December 2003 we will be at our new address with new trading and fax numbers. However, be assured, the trading line 0870 607 1234 and quality of service will remain the same.

Once again thank you for your continuing support.

Angus Macpherson
Managing Director



FORWARDS – BOOK EARLY TO AVOID DISAPPOINTMENT LATER

What is a forward contract?

It is the same as a spot contract with both price and tonnage fixed at the transaction date but the settlement date is delayed to a known date in the future. As security you and your counter-party put down a deposit of 10% of the contract value.

What are the forward settlement dates?

Currently participants can trade forward contracts up to a year in advance with settlement dates on the 11th or the subsequent London Bank Day of April, July, October and January. The January forward is for the preceeding compliance year – for example contacts settled in January 2004 are for 2003 PRNs.

Why should I use a traded forward contract?

Forward contracts supply both certainty and flexibility. Certainty because they will be delivered at a known price for a known tonnage on a known date in the future and flexibility because you can trade out of the contract. Additionally the transparency of the t2e forward contracts allows you to show to your clients or your Board that you have bought or as appropriate sold PRNs or PERNs at the best available market price.

Does my deposit earn interest?

Yes. Your deposit will earn interest at 1% below base. This interest will be returned so long as it is more than £1 and you do not default on the contract.

Contract	First Trading Date	Last Trading Date	Expiration Date	Settlement Date
April Forward	April 9th of previous year	April 7th	April 8th	April 11th
July Forward	July 9th of previous year	July 7th	July 8th	July 11th
October Forward	October 9th of previous year	October 7th	October 8th	October 11th
January Forward	January 9th of previous year	January 7th	January 8th	January 11th

- If the Last Trading Date or Expiration Date is not a London Bank Day, the previous London Bank Day will be used.
- If the First Trading Date or Settlement Date is not a London Bank Day, the subsequent London Bank Day will be used.

How can I sell my transitional tonnage forward?

So long as contracts are transacted before 31 December, pre-December tonnage can be sold into the January forward. Equally so long as the contracts are transacted before 31 January, transitional tonnage can be sold into the April forward contract.

Will my deposit be returned to me?

Yes. For a buyer it will automatically be used as part of your final settlement payment. If you are a seller if the deposit is made in cash it will be re-paid on the delivery of the appropriate PRNs or PERNs for the contract. If PRNs or PERNs are used, they will be automatically used as part of the PRNs or PERNs due for delivery. In the unlikely event that your counter-party defaults your deposit will be returned to you.

STOP PRESS

Packaging recovery and recycling business targets were announced by DEFRA on November 20th 2003

%	2004	2005	2006	2007	2008
Paper	65	66	68	69	70
Glass	49	55	61	66	71
Aluminium	26	28	30.5	33	35.5
Steel	52.5	55	58	60	61.5
Plastic	21.5	22	22.5	23	23.5
Wood	18	19	20	20.5	21
Overall Recovery	63	65	67	69	70
Minimum amount of recovery to be achieved through recycling	94	94	94	95	95

How do I price a forward contract?

On most occasions you would expect to pay a slightly higher price for a forward contract to the spot price. This reflects the shared risk involved in the contracts and the interest cost of foregone income. This additional cost is known as the 'cost of carry' of the contract.



The Packaging Directive – what have we achieved and what are we heading for?*

by Otto Linher

Administrator

The political debate on packaging and packaging waste was never going to be an easy one. The views of industry, NGOs, the EU Member States and those within the European Parliament are simply too different. However, nine years after the adoption of the Packaging Directive, packaging recycling and recovery has become an everyday activity in all EU Member States, and increasingly in the Acceding States. The European Parliament and the Council have now adopted new recycling and recovery targets for the Directive that are close to the medium and long-term optimum rates identified by cost-benefit studies. These will further reduce impact on the environment and strengthen the Internal Market for packaging and packaging waste.

Clearly the key question for the future debate is how to prevent the environmental impact of packaging throughout its life cycle. Many stakeholders believe that the revised Directive has not taken us far enough on packaging prevention, while others are unhappy that the Directive still allows Member States to implement their own measures to fill the gaps they perceive. Finding solutions for these problems will not be easy. These issues go to the core of economic decisions on packaging and their relationship to production and consumption patterns. To be successful, any further Community initiatives on prevention will need to be well prepared, to recognise the essential function of packaging in a modern economy and, at the same time, improve environmental performance, wherever possible.

The Commission is currently organising a number of public debates on resource and waste policy, in particular in the framework of the development of the Thematic Strategies on the Sustainable Use of Natural Resources, and on the Prevention and Recycling of Waste. The final strategies will have an impact on packaging, as will the recent Communication on Integrated Product Policy. This will feed into work which the Commission will undertake on the further development of the Packaging Directive requested by the European Parliament and the Council. The success or failure of all these initiatives will depend to a large extent on all stakeholders contributing constructively to the debates.

*The opinions expressed in this article are those of the author and do not necessarily reflect the views of the European Commission.



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