

Use the Power

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Quarterly Report

Report 48

November 2010

The Market Place for PRNs and WENs



August 2010 to October 2010

By Ian Andrews



The quarter started with prices softening off the back of very strong Q2 supply figures and the falling values continued when Q3 figures confirmed that all markets were carrying large surpluses. DEFRA confirmed the recovery targets for 2011-12, with no change except for a small increase in plastic and steel. Prices opened for next years markets at historically low levels.

Trading for the quarter equated to 264,154 tonnes with 86,135 tonnes trading in the Spot market and 178,019 tonnes trading in the Forward markets.

Market Material Analysis

Paper – Paper traded in excellent volume with the majority of tonnage trading through the Forward markets where participants took advantage of the reduced trading fee structure in place. The quarterly average price and the year-to-date average price were the lowest in 5 years, reflecting the current state of oversupply.

Plastic – With prices continuing to fall this quarter, the market reacted positively to the news that the plastic recovery target was to increase by 3%, to 32 % for 2011 – 12. This did not, however, provide any upturn in values with the 2011 markets continuing to trade at low levels.

Glass – A lack of demand during the period resulted in prices drifting down. The outlook for sellers remained bleak and with the Q3 figures confirming a year of large oversupply the market prices dropped further to their lowest point. Defra confirmed that although there was strong support for splitting the glass PRN, this amendment was to be delayed. This coupled with no change on targets for the next two years resulted in next year's transitional market opening at £10.50.

Steel – Prices have continued to fall as Q3 figures showed huge surplus this year. Many predict that this market will add to the competition for general buying toward the end of the year. This has been the only other market to receive a target increase in the consultation, however, with the increase only resulting in an additional 10,000 tonnes of demand it is thought that this market may remain oversupplied for years to come.

Wood – Trading through the wood markets picked up this quarter as sellers looked to clear their positions early and dropped their price to pick up general buying in the market.

Aluminium – A quiet quarter in terms of trading saw the price remain stable. The Q3 figures showed that the market was in line to meet its target this year as the shortfall from earlier in the year had been made up. Demand remains strong.

Recovery – Low values and low volumes were traded through this market during the quarter. The low values trading in the paper and wood markets have resulted in some buyers opting to use these PRNs against their recovery obligation rather than purchasing recovery PRNs.

	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 10	£1.50	£0.65	19,440	£0.88	£1.70	97,310
Oct Fwd	£1.15	£0.75	16,783	£1.01	£2.35	62,783
Dec Fwd	£1.00	£0.50	39,500	£0.64	£1.28	85,877
Jan Fwd (Trans)	£1.50	£1.00	28,500	£1.30	£1.30	28,500
PLASTIC MARKET						
Spot 10	£2.50	£0.75	12,027	£1.58	£3.36	44,394
Oct Fwd	£2.25	£1.00	8,127	£1.10	£3.81	15,989
Dec Fwd	£2.95	£2.95	2,000	£2.95	£2.85	2,000
Jan Fwd (Trans)	£3.00	£1.35	8,400	£1.96	£1.96	8,400
Apr Fwd	£3.55	£3.00	2,000	£3.55	£3.55	2,000
GLASS MARKET						
Spot 10	£15.50	£4.75	43,906	£10.34	£14.84	88,468
Oct Fwd	£14.00	£9.70	6,750	£10.24	£18.88	56,700
Dec Fwd	£9.70	£7.00	8,327	£7.64	£15.87	34,327
Jan Fwd (Trans)	£10.50	£10.50	5,000	£10.50	£11.83	6,000
Apr Fwd	£18.00	£15.00	2,500	£16.00	£16.71	3,500
Jul Fwd	£18.00	£15.00	2,500	£16.00	£16.00	2,500
Oct Fwd	£15.50	£15.50	32,000	£15.50	£15.50	32,000
STEEL MARKET						
Spot 10	£6.00	£1.00	4,988	£4.43	£14.87	24,367
Oct Fwd	£4.00	£3.00	333	£3.45	£19.53	9,033
Apr Fwd	£9.00	£9.00	800	£9.00	£9.00	13
Jul Fwd	£10.00	£9.00	860	£9.42	£9.42	860
WOOD MARKET						
Spot 10	£1.65	£0.55	3,625	£0.94	£1.87	20,689
Oct Fwd	£1.00	£0.75	5,144	£0.84	£0.84	5,144
Dec Fwd	£1.25	£1.25	3,000	£1.25	£1.25	3,000
Jan Fwd (Trans)	£1.00	£1.00	1,000	£1.00	£1.00	1,000
ALUMINIUM MARKET						
Spot 10	£40.00	£25.50	985	£35.69	£25.00	3,518
Oct Fwd	£40.00	£35.00	200	£37.50	£20.50	800
RECOVERY MARKET						
Spot 10	£0.75	£0.40	1,164	£0.59	£1.23	15,732
Oct Fwd	£0.50	£0.50	1,195	£0.50	£0.75	30,729
Dec Fwd	£0.50	£0.50	2,500	£0.50	£0.50	2,500
Jan Fwd (Trans)	£0.50	£0.50	600	£0.50	£0.50	600



Summary of Quarter 3 Reprocessing & Exporting Figures

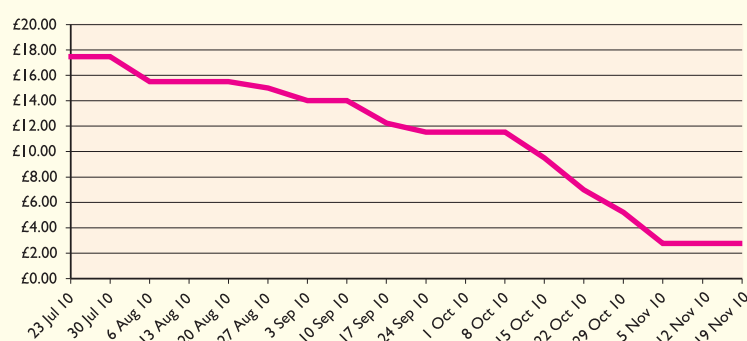
By Patricia Hall

The Q3 reprocessing and exporting figures released in October confirmed what the t2e PRN markets have been showing for the past few months – a sizeable oversupply. Glass and Wood were down slightly on Q2 figures, but both markets are still oversupplied and subsequently t2e has seen further PRN prices falls, as shown in the graphs below.

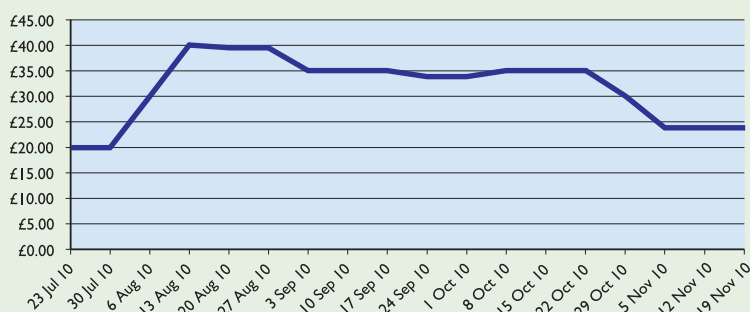
Glass

After a surprisingly high Q2 figure reported for Glass - which was attributed to the World Cup - the industry eagerly awaited the Q3 figures in the hope that PRN prices might recover. But there was little change and Q3 was only slightly down on Q2 (less than 1%). In terms of meeting targets, the Glass industry is sitting very comfortably, and we expect further price falls in the market; indeed since the release of the figures, the Glass price has fallen to £2.50 on t2e.

Glass PRNs
Weekly Average Spot Price July - October 2010



Aluminium PRNs
Weekly Average Spot Price July - October 2010



Aluminium

Despite initial concerns of a struggle to fulfil the Aluminium obligation, Q3 figures showed an increase of 17% on Q2. Strong demand for the material meant that both domestic and export streams performed very well in Q3, supported by an improvement in the PRN price. This brought the UK back into line with the high recycling rates achieved in Q2 and Q3 of 2009. Since the release of the figures, the Aluminium price has fallen to £24.00 on t2e.

The UK's strong recycling performance in Q3 and the Government's unambitious targets have left prices flat with a substantial carry forward expected into 2011. This dispels any previous hopes of improved PRN prices for the next two years unless demand significantly picks up either through more companies registering or improved auditing of obligations.

UK Recycling Performance throughout 2010

Material	Q1	Q2	Q3	Q3 change on Q2	Year-to-date Total 2009	Year-to-date Total 2010	Obligation
Paper	759,901	730,983	803,803	9.96%	2,292,181	2,294,687	2,472,090
Plastic	160,966	146,493	154,228	5.28%	450,037	461,687	542,643
Glass	396,720	472,917	472,795	-0.03%	1,274,498	1,342,432	1,671,918
Steel	115,883	91,854	96,504	5.06%	266,886	304,241	341,947
Wood	197,479	202,047	199,253	-1.38%	626,283	598,779	201,264
Aluminium	13,927	13,797	16,142	17.00%	47,679	43,866	57,185
EfVW	157,451	186,360	182,979	-1.81%	372,506	526,790	463,667
General							969,191
Total	1,802,327	1,844,451	1,925,704	4.40%	5,330,070	5,572,482	6,719,905

Note: Green represents an increase and red represents a decrease.

Forward Market Closures

December 2010 Forward Market: closes on 7th December and any remaining bids or offers not traded by the 7th will expire on the 8th. The settlement date for contracts is 13th December.

January Transitional Forward Market: closes 7th January and remaining bids or offers not traded by the 7th will expire on the 8th. The settlement date is the 13th January.

Note: Only PRNs/PERNs issued on tonnage accepted for reprocessing or exported for reprocessing in December 2010 may be used to settle contracts in the January Transitional Forward Market.

Markets Opening

The 2011 Spot Market: opens on 1st December 2010.



Future Targets & Independent Audits

Subject to parliamentary approval - which is anticipated in December 2010 - overall and material specific packaging recycling targets have been announced for 2011 and 2012, as shown on the right. These are largely unchanged from 2010. One deregulatory change that has been introduced is the removal of the requirement for large accredited reprocessors and exporters to have an independent audit to be reaccredited for 2011. In light of this announcement, t2e have suspended their independent audit service. If anyone should wish an independent audit please contact Dianne Ferry at df@t2e.co.uk.

Packaging Recycling Targets for 2011 and 2012

Material	2010 (%)	2011 (%)	2012 (%)
Paper	69.5	69.5	69.5
Plastic	29	32	32
Glass	81	81	81
Steel	69	71	71
Wood	22	22	22
Aluminium	40	40	40
Total recovery	74	74	74

VAT Issues

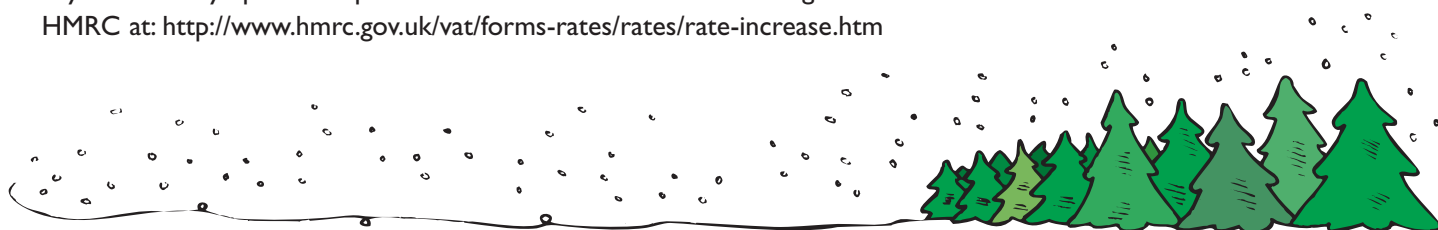
The standard rate of VAT is currently 17.5% but will be increased to 20% on 4th January 2011. As a result:

- all spot contracts which are transacted on or before 31st December 2010 will have VAT charged at 17.5% while those transacted on or after 4th January 2011 will be charged at 20%.
- all forward markets that expire after 4th January 2011 including the Transitional January Forward Market 2011 will have VAT charged at 20% regardless of the date of transaction.

Participation Fees are considered supplies in progress. So:

- Participation Fees for 2010 (initially invoiced on 1st December 2009 but due on 31st January 2011) and any relevant rebates, will have VAT charged at 17.5%.
- Participation Fees for 2011 (initially invoiced on 1st December 2010 but due on 31st January 2012) and any relevant rebates will have VAT charged at 20%.

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





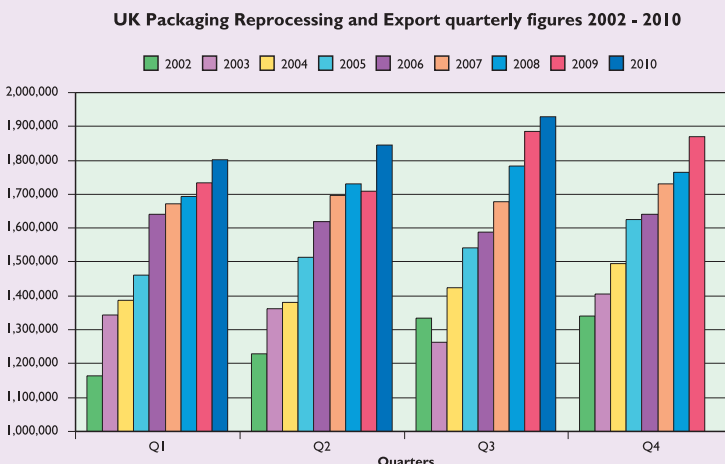
Managing Director's Report

A quarter of anticipation, data and disappointment, Q3 figures have been released as have packaging recycling targets for 2011 and 2012, subject to approval by Parliament.

The former suggest that this years targets will be achieved comfortably even in Aluminium, which had earlier seemed a challenge. The decision to fix the latter at 2010 levels has surprised those that had anticipated the targets proposed in the consultation. As a result PRN prices have plummeted to new lows both for 2010 and 2011. Despite that t2e has seen like for like growth of trading in the current compliance year although interest in trading next years PRNs was abated while targets were awaited and with current low prices, it has been difficult to rekindle enthusiasm.

The Government has made clear that resolution of the economic crisis is their priority and minimising the regulatory burden is an ambition. Low targets may cause low prices but they will certainly stall progress to 'best of class' which was the ambition a year ago. The need for independent audits has been removed while more small businesses are allowed to use a ready reckoner to calculate their obligation. While making it easier for these businesses to comply, most probably it will further reduce the obligation and make them even more remote from packaging use.

Concurrently Q3 figures suggest that growth of packaging recycling is unstoppable with UK reprocessing and total recovery achieving the highest levels since quarterly records began. However, this is deceptive as it is on the back of substantial growth in the registered recovery (energy from waste) sector. Paper, plastic and steel, most spectacularly, continue to show both year on year and quarter on quarter growth. In contrast for the third quarter in a row there is a year on year decline in overall exports other than paper with both year on year and quarter on quarter growth. Will the recent strengthening in the US dollar and any anti-inflationary measures that China introduces have any impact going forward? Q4 figures average 5% greater than the mean of the previous 3 quarters. If this is repeated, 2010 is heading for the first ever 2 million tonne quarter, a 1.3



million tonne surplus, a carry forward availability of almost 700,000 tonnes and a packaging recycling rate close to 80%!

Many might wonder whether legislation is necessary. Murmurs from the waste review suggest that a return to voluntary producer responsibility and deposit schemes might be on the cards. While a waste review provides an opportunity to test new ideas, careful consideration is needed. Firstly legislated producer responsibility was only introduced because voluntary systems were not working, secondly how would the UK show it is meeting the EC Directive without the PRN system, thirdly what simple alternative exists to encourage recycling when market forces alone are insufficient to meet the targets? A deposit scheme is anti litter legislation. It has traditionally been found to be expensive to the consumer to implement and presumably from a competition perspective would need to be introduced for all packaging types. Also in a voluntary system could the Agencies justify the £10 million plus producer responsibility fees that they receive annually? Questions, questions, answers are requested by March. One of them should be that the PRN system must be retained.

The PRN system is not perfect, a little fine tuning could go a long way, but it has done a good job to date at identifying and encouraging growth in packaging recycling in the UK at significantly lower cost to industry than elsewhere in Europe. It is a template that may be worth replicating into other areas of producer responsibility. It is far from clear that voluntary producer responsibility and deposit schemes would produce either a more effective or less costly system. Ultimately "If it ain't broke why fix it?"

Many thanks to all for your support this quarter, we look forward to being of further assistance to you in the coming months and we wish you a very happy festive season.


Angus Macpherson
Managing Director

