



Quarterly Report

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Market Status – August to October

by Cliff Laundon

Spot prices generally continued to drift gently lower, although Plastic and Steel firmed gently during October as doubts were expressed about availability for the end of the year. During October purchasing from independently obligated companies began to feature in the market. Their willingness to pay the lowest selling prices in the market resulted in traded prices varying considerably within each week.

On September 15th DEFRA released its report into the inappropriate issuing of evidence within the Plastic sector. Whilst the consequence of this was the suspension of some unnamed reprocessors and exporters pending the result of ongoing investigations by the police and Agencies, the market was left unable to assess how much capacity for the current compliance year would be affected.

Following the Peniston Plastics situation earlier in the year, buyers have become understandably nervous about acquiring transitional evidence from 2003 issued by reprocessors who may be currently unaccredited. Prompt confirmation by the Agencies to requests concerning specific reprocessors and exporters would be welcome in both assuaging concerns and minimising the opportunities for invalid evidence to be negotiated at all.

Paper traded actively, drifting from £7.75 to £5.25 by the end of the period. With consistency in supply, Paper continued to meet General Recycling obligations as sellers priced themselves at competitive levels.

Plastic traded in the £9 to £25 range, mainly as a result of small requirements being filled at best selling prices. Although selling volumes on the open market remained stubbornly limited, a number of reasonably sized transactions were concluded as holders fine-tuned their positions by exchanging plastic for other PRN classes. These were concluded in the middle of the price range. Despite rumours of evidence being deliberately held from the market until later in the year, we saw little evidence of this, even after the release of the DEFRA report into the Plastic sector.

The story was similar for **Steel** where, after some positional switching at around the £20 mark, smaller transactions featured in the £20-25 range. Selling volumes remained limited as reprocessors reported little availability for the open market and exporters, localised shortages of shipping capacity.

Wood traded modestly in the £6.50 to £8 range with smaller trades at £8.50 and £4.50. Indications from reprocessors suggested that a large proportion of the total available tonnage had been contracted to compliance schemes earlier in the year. If this is the case we are less likely to see a sell-off of large volumes late in the year than some may have expected.

The slide in **Glass** prices continued with large volumes trading down to £15 in October. Despite a small recovery to £19.50 in very light volume, good quantities were sold down to £14 by the end of the period. Concerns about supply of Glass PRNs earlier in the year seem to have all but evaporated.

Recovery prices continued to languish in the £1.25 to £2.50 range with numerous small transactions concluded but no larger volume buying interest being shown. As supply far exceeds demand there is probably no prospect of a change in the remainder of the year.

Aluminium remained very lightly traded at around the £30 level until some moderate selling in the middle of October took traded prices down to £27.50. A late trade at £37 for a minute quantity may have been unrepresentative but equally may be the first indicator of some tightness of supply in this very thinly traded market.

Two thousand tonnes of evidence was traded in the October 2004 forward market and 2,470 tonnes in the January 2005 during the period.

As we head into Q4 it is hoped that any further weakening of prices will be the result of general drift rather than another price collapse like that experienced during the same period last year. Q3 statistics from DEFRA, due some time in November, are expected to indicate a more balanced supply and demand situation than in 2003.



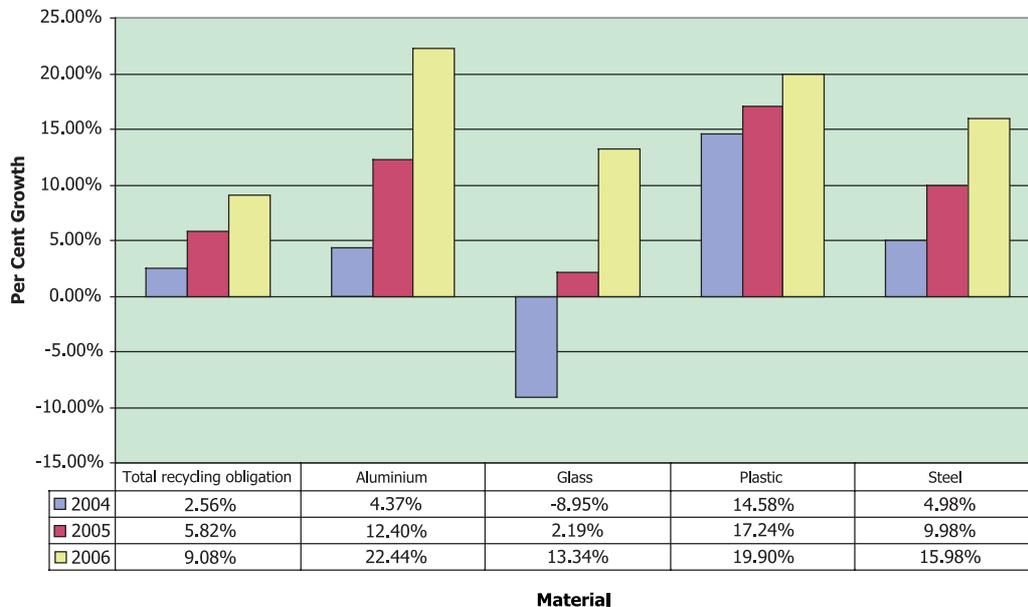
Managing Director's Quarterly Report

The third quarter has been busy with 83,793 tonnes traded in 214 transactions. This is a record with an increase of over 5% year on year. Transactions are down on last year, which could suggest that the small buyers volumes are being aggregated elsewhere or they have yet to come to the market possibly hoping that prices will fall.

The market has moved steeply upwards in anticipation of and subsequent to the third quarter figures. It is quite probable that the UK will reach its general recycling and recovery targets for 2004 but fail to achieve its material specific ones. As I warned in the last quarterly it is quite possible that both steel and plastic will miss their material specific targets this year. This is not crucial from a European perspective but it poses a problem if insufficient plastic PRNs are available in 2004. This shortfall may be filled by transitional tonnage from 2003, which highlights its importance as a pressure valve between compliance years.

While the general recycling and recovery targets for 2005 look achievable, 2006 targets are demanding. It is now clear that the plastic targets were calculated on fraudulent data and require urgent review otherwise a shortfall could occur in 2005 and 2006. Prices showing in the forward markets suggest compliance will be at higher prices than the last 2 years. However the recovery market will remain over-supplied. As a result t2e will be reducing its trading fees for these PRNs from 2005 on.

Percentage growth from projected 2004 recycling levels to meet 2004, 2005 and 2006 total and material specific obligation levels in those materials in which there could be a material specific shortfall without any carry forward between years



With increasing interest on how companies spend their PRN income our survey shows that most participants are increasing collection and capacity over the next 3 years. While forward prices look attractive, reprocessors and exporters must take actions to offset their delivery risks. It is naïve to assume that supplies of raw material and end markets will remain available in an expanding market.

This is the final market report that Cliff Laundon will produce for t2e. I thank him for his time with t2e. He has been a tremendous asset and I wish him every success in his new role with Wastepack. We are fortunate to have secured Andrew Fendick as his replacement.

Once again thank you for your continued support and I wish you a happy festive period.

Angus Macpherson
Angus Macpherson
Managing Director



Spending PRN/PERN Revenue

The figures in this table are calculated from the responses to our survey of participant accredited reprocessors and exporters earlier this year. The figures used are unaudited. To date we have received a 70% response. The survey was carried out in response to both participant and Agency desire to have a greater knowledge of how PRN income is spent.

	2004				2005				2006			
	Increasing capacity	Developing markets	Strategy	Other	Increasing capacity	Developing markets	Strategy	Other	Increasing capacity	Developing markets	Strategy	Other
Paper	69%	13%	1%	16%	68%	15%	2%	16%	66%	16%	2%	16%
Plastic	82%	7%	6%	5%	66%	21%	8%	5%	67%	18%	10%	5%
Glass	36%	54%	4%	6%	37%	55%	4%	4%	38%	54%	4%	4%
Wood	63%	13%	3%	21%	52%	25%	3%	20%	51%	27%	2%	20%
Aluminium	72%	12%	15%	0%	72%	11%	17%	1%	72%	10%	17%	1%
Steel	47%	18%	24%	11%	49%	17%	28%	6%	53%	15%	31%	0%
Recovery	62%	34%	0%	4%	61%	33%	0%	5%	65%	35%	0%	0%

Last updated 18th November 2004.

We will be repeating this survey in February 2005 and would encourage you all to develop a public statement of no more than 150 words; thank you to our contributors for these examples:

Wood reprocessor

We spend our PRN income on funding our investment in wood shredding plant (and its maintenance) and on subsidising the transport of wood waste to our plant.

The dramatic fall in PRN prices, combined with the reduction in woodchip prices, rendered this operation marginally profitable. In retrospect, we should not have invested in an environmentally excellent project! We are now operating at 50% of capacity and are not actively encouraging the supply of waste wood for processing. We feel let down by regulatory incompetence!

Aluminium reprocessor and exporter

PRN revenue is spent on administrative costs; additional maintenance; higher maintenance and replacement costs (variable) as a result of processing a greater proportion of packaging materials. A new filtration plant was purchased in 2003 for £150,000 with revenue from 2003/04 and 2005 (part), allowing the company to purchase materials that can be considered for reprocessing. The company is currently considering the future use of PRN revenue, which may be an issue in 2005 or 2006 when the filtration plant cost has been fully recovered. The company employs a sales representative who actively seeks new customers for the company's product, whilst maintaining the current customer base.

Glass reprocessor and exporter

In the past 2 years we have raised approx £5M from the sale of PERN/PRNs. In the same period we have spent over £10M on new plant and equipment, new collection vehicles, bottle banks, promotional material and research into new, viable, alternative uses for glass cullet.

That pattern will continue for the next 2-3 years as we plan to update one of our plants and build a new one.

Paper reprocessor and exporter

We will install a fifth drier section, which will help to reduce breaks, dry the board quicker, thus increasing our capacity. We will also install a new water system closure, enabling us to recover more fibre from the water in our system. Finally, we will install stock screening improvements to clean further any dirty packaging waste and eliminate poly-coated from the system; this as with other improvements will lead to less breaks on the machine.



Whilst this quarterly report was being prepared, t2e market operator Cliff Laundon was offered an excellent opportunity with the Wastelink Group and so is leaving the Environment Exchange.

What have we achieved?

by Cliff Laundon

When Angus first approached OM London Exchange with the idea for t2e in October 1998, very few people gave him a prayer of succeeding. Six frantic weeks of work by all of us involved and two months of trading at the tail end of 1998 produced some 20,000 tonnes of volume - not bad for what was meant to be a no-hope pipe-dream. Having realised that t2e had a value OM decided to invest in an 85% stakeholding.

The rest is history.

The development of t2e has mirrored the development of the PRN market. Initially it was a point of last resort for inexperienced companies; obligated companies looking to comply with what were unfamiliar regulations and reprocessors desperately looking to offload excess tonnage.

The PRN market has matured and t2e's role has changed. It is now the most credible benchmark available to market. Volumes may remain low in comparison with the size of the overall PRN market, some 6% in 2003, but the number of hits to the t2e.co.uk website each day tells us that our price discovery mechanism is highly valued by the market.

Recently we have seen the emergence of trading methods emulating the mature

commodity markets, indicating the development of a greater level of sophistication in the PRN market.

The first forward contract we launched for April 2000 delivery was, by any standard, a failure: the market did not perceive a need for such a product. As I leave t2e, forward contracts are attracting serious interest from the larger players and this has resulted in limited but welcome trading as the notion of forward price risk gains credence.

The development of switch trading, exchanging what you have for what you want, is another welcome development. Although clearly limited to larger position holders such as compliance schemes and major traders, this is a positive sign that PRN market participants are willing to embrace new concepts and develop new flexibility in order to achieve their objectives.

On a personal note, I leave with a sense of pride in having been able to contribute to what Angus and his team has achieved. I would like to thank all those participating for their support over the past six years, as well as all those of you who have made working in the PRN market such an informative and pleasurable experience.



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