

APSE MEETING - PERTH RECYCLING MARKET UPDATE

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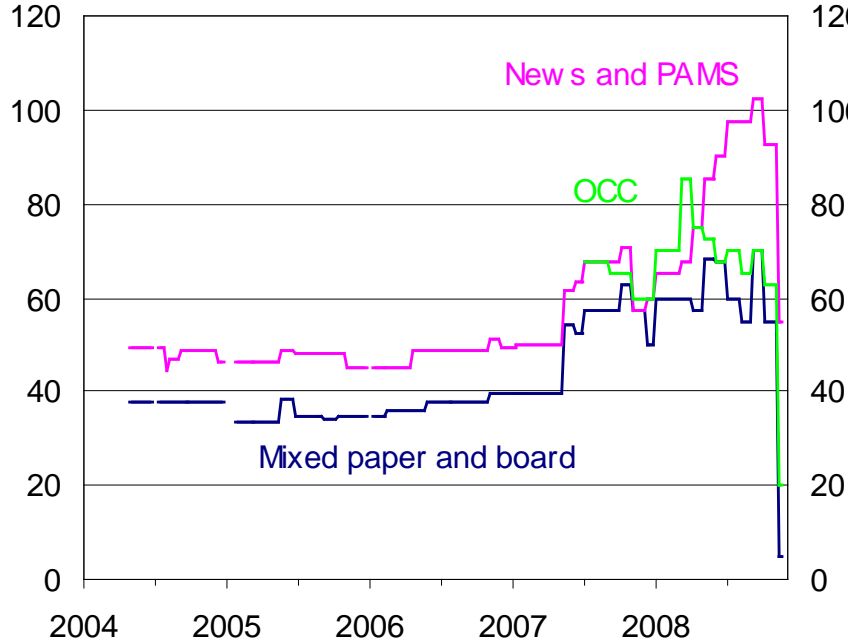
INTRODUCTION

- Current Market Conditions
- Material Issues
- What's Moving
- Local Authority Pressures
- Feedback from MRF's
- Summary
- Some lessons for the future



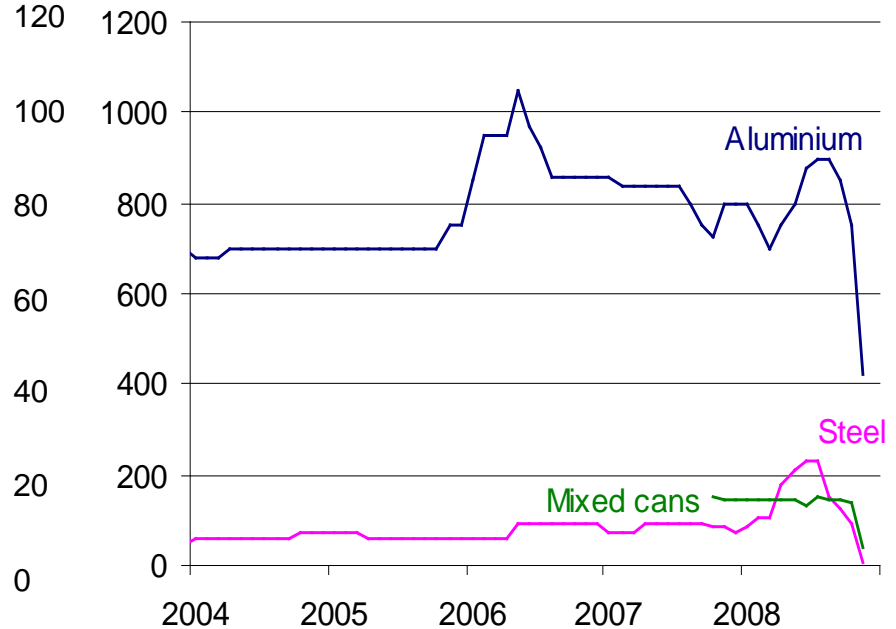
Sharp falls in recovered materials prices ...

Recovered Paper Prices
£ per tonne



Source: Materials Pricing Report, midpoints of range.

Recovered Cans Prices
£ per tonne

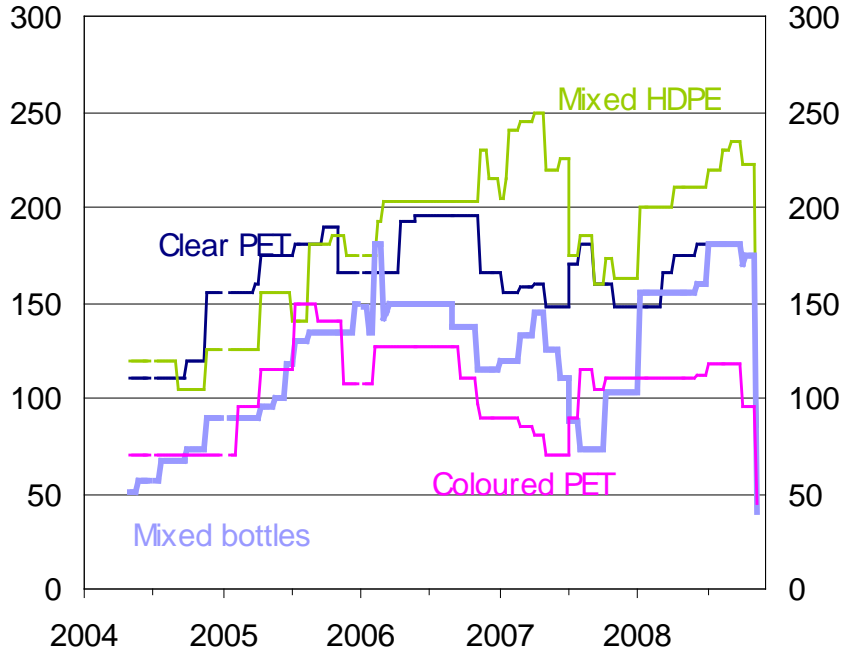


Source: Materials Pricing Report, midpoints of range.



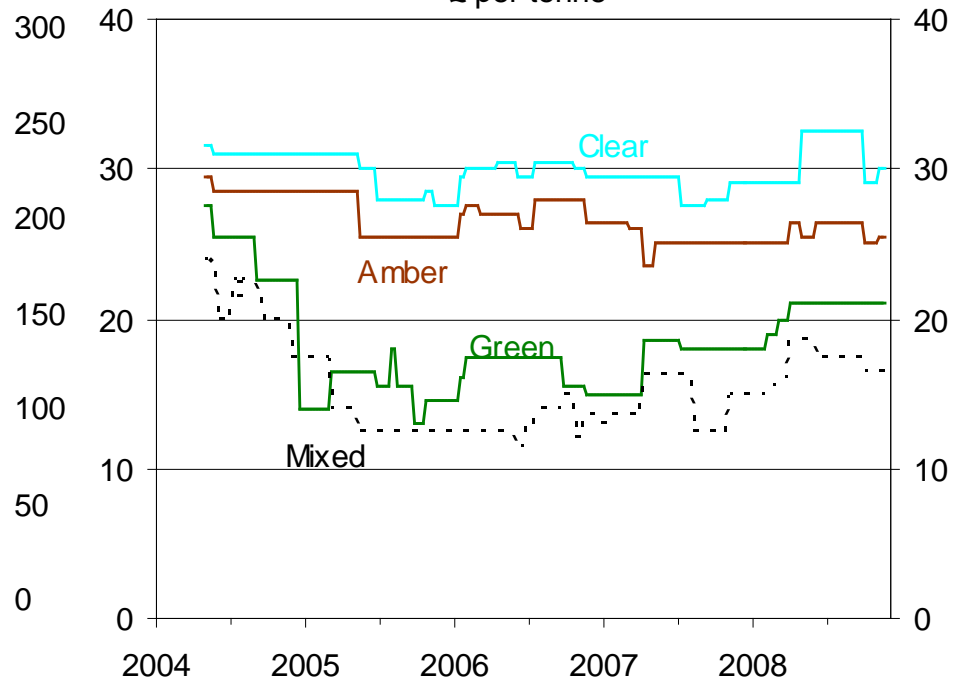
Sharp falls in recovered materials prices ...

Recovered plastic bottle prices
£ per tonne



Source: Materials Pricing Report, midpoints of range.

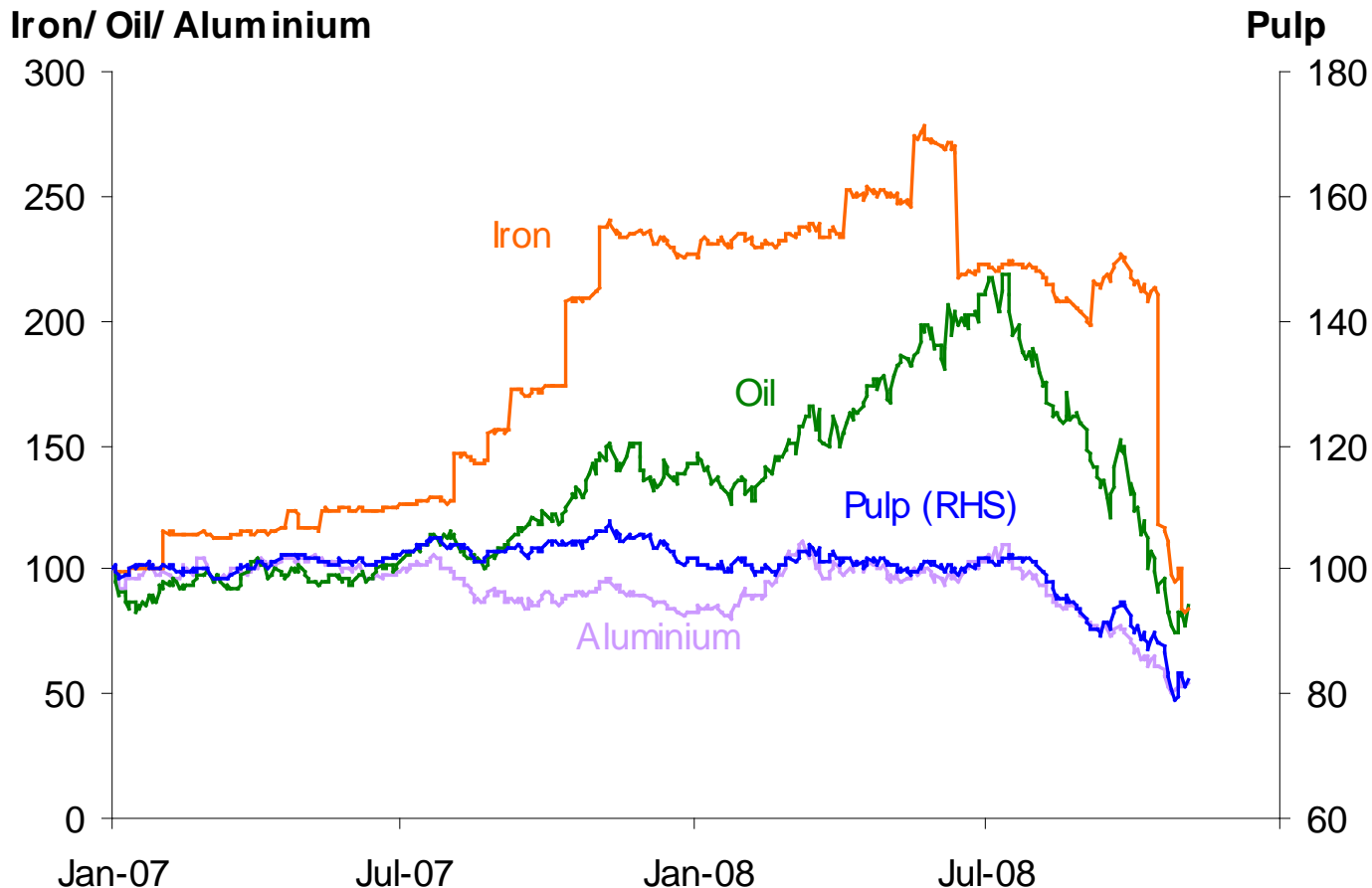
Glass cullet prices
£ per tonne



Source: Materials Pricing Report, midpoints of range.



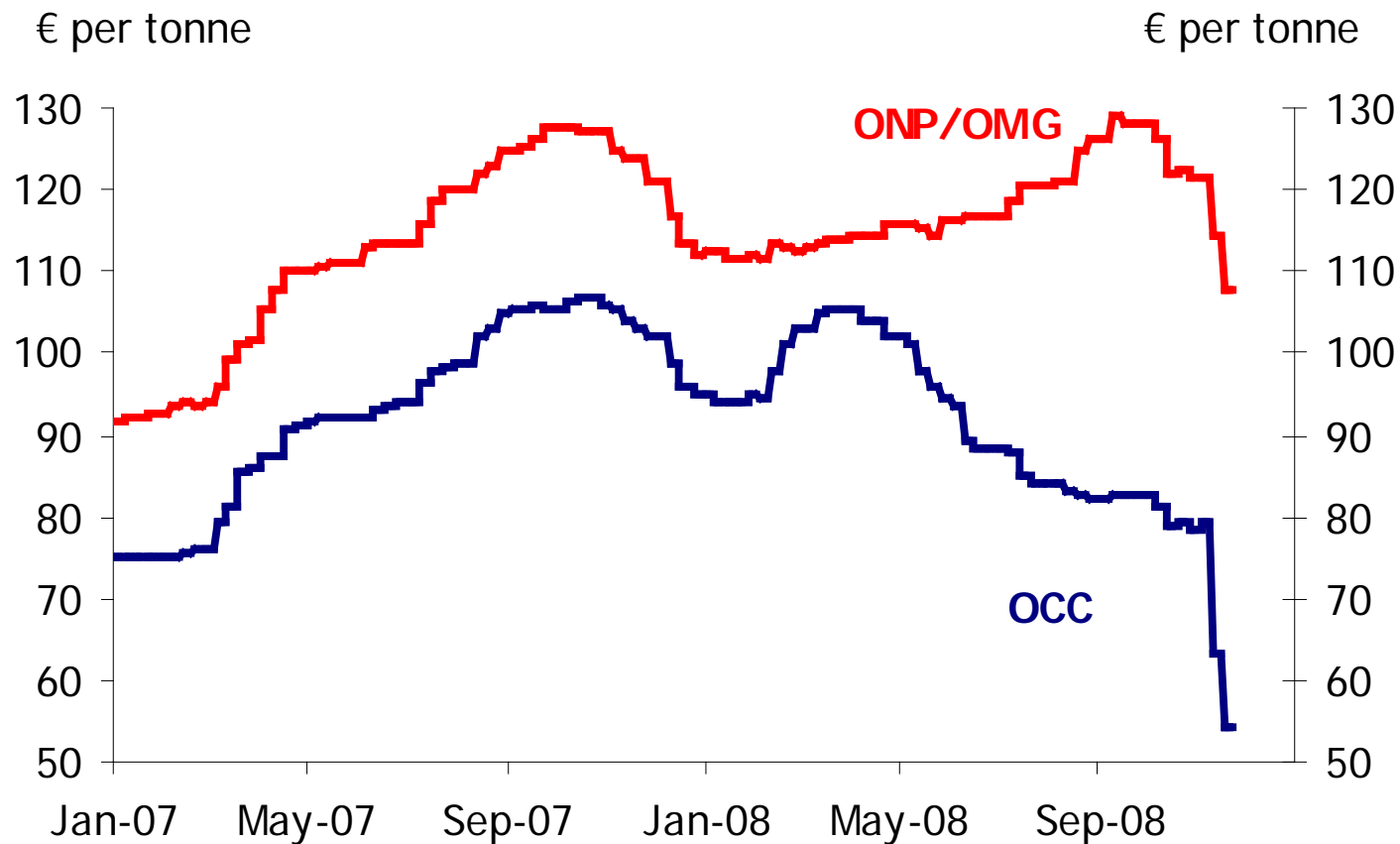
How primary commodity prices have slumped



Source: Thomson Datastream



Recovered Paper - Europe



Source: FOEX/PIX



Why have prices fallen?

Stalled economic growth which has reduced demand for some materials eg steel for use in construction/automotive and cardboard packaging around consumer goods

An unwinding of prices that had become over-inflated earlier in the year

Uncertainty / panic – this is likely to be a short-term phenomenon.



Why have prices fallen dramatically?

Financial markets, energy and primary commodity markets eg oil, iron ore and aluminium have also fallen sharply and have created excessive volatility.



Common themes

- **Higher-value internationally traded commodities: metals, paper and plastics where highest falls have been recorded**
- **Lower value materials (aggregates, organics, glass and wood) and textiles seem to be relatively unaffected.**
- **Domestic demand for recovered materials is largely unchanged (steel is an exception).**
- **Export demand – primarily from China – has fallen.**
- **Low quality materials are particularly affected, but demand still exists for high quality materials.**

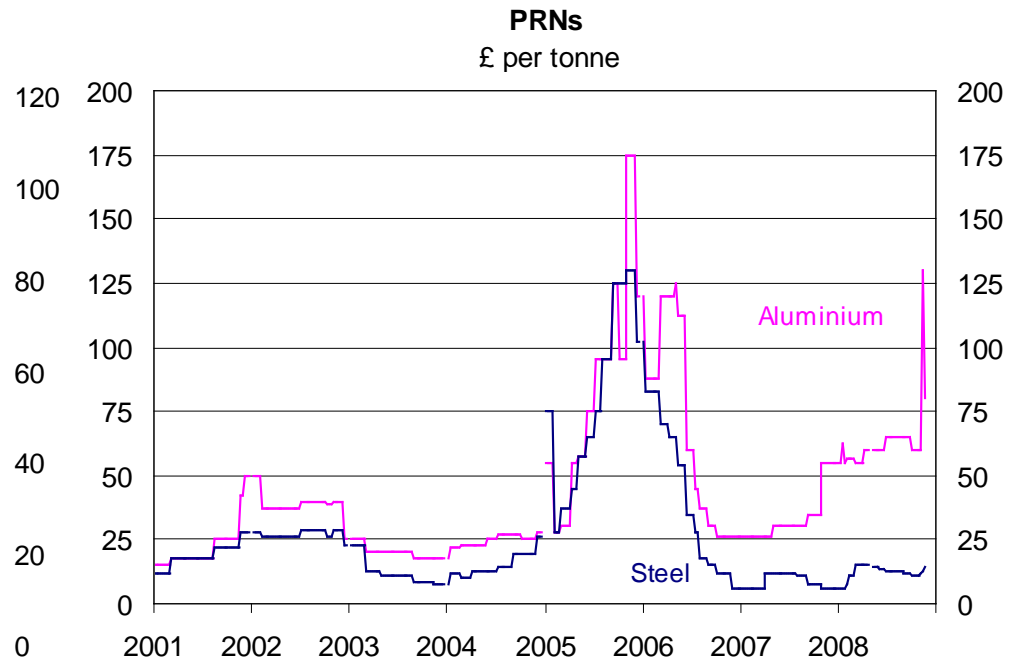
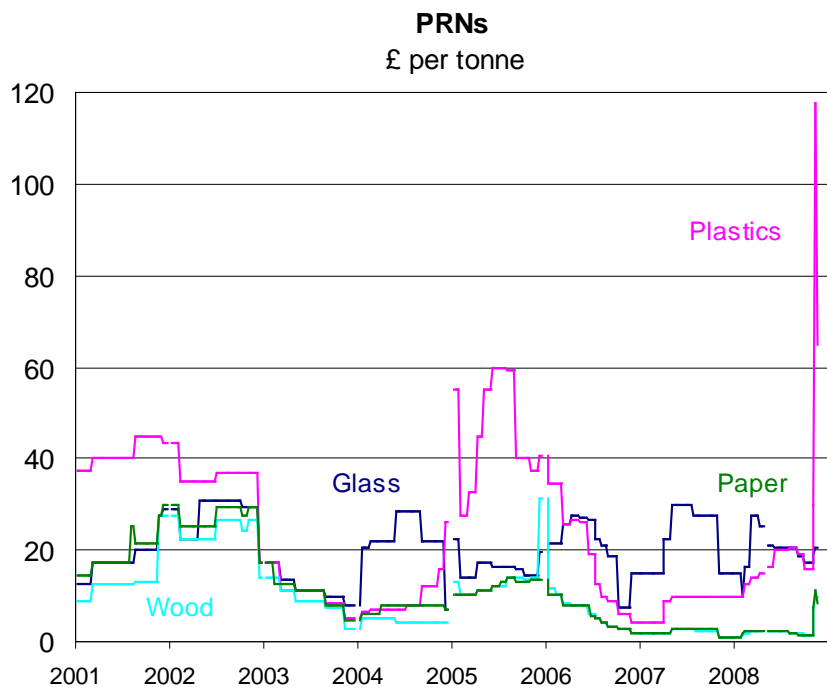


Common themes

- **PRN prices have increased**
- **the industry view is that the 2008 packaging targets are likely to have been met.**
- **PERN prices support competitive advantage in export markets**
- **The increase in PRN prices have helped lubricate the system and pull material through.**



PRN Prices



Source: MRW, midpoints of range.

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Materials - Paper

- **Chinese demand (2.5 million tonnes pa) fell sharply in October, although some big buyers remained active throughout this period.**
- **Other buyers are reported to have returned to the market in November & December, albeit at reduced volumes.**



Materials - Plastic

- **Trade via Hong Kong (which accounts for $\frac{3}{4}$ of the material shipped to China) is reported to be more affected than direct-to-China trade.**
- **Rumours that imports of plastic bottles into China or imports via Hong Kong have been banned appear to be just rumours. However, anecdotal evidence suggests that the Chinese customs authorities are enforcing existing regulations more stringently.**
- **The fragmented and low tech nature of the Chinese plastics industry means that the short-term outlook is more uncertain for plastics than for paper (some small operations may temporarily close until the economic outlook stabilises).**



Materials - Steel

- **Domestic steel production has been cut by around 30%, so demand for post-use scrap has fallen although prices have risen as late as this week**
- **Corus are still accepting some material, but have refused to accept cans & this will be the case for the first quarter of this year**
- **However, this is a mature market and there are viable storage options**



Materials - Aluminium

- **Despite the substantial fall in prices, demand remains and markets appear to be moving.**



What are the current impacts?

- **Loss of revenue from materials**
- **Gate Fees**
- **Stockpiled material – not viable over a sustained period**
- **Cash flow difficulties for MRFs, recyclers and exporters – loss of capacity**
- **Possible difficulties with existing contracts**
- **Recovered materials going to landfill - damage to public confidence**



Impact on local authorities

- **Most LAs affected by price changes, but not all.**
- **Those affected have seen falls in prices for metal (aluminium, steel and foil), plastic bottles, cardboard and paper. Some reports of zero or negative prices (reports of up to £32/tonne for mixed paper and £20/tonne for card). Prices for glass and textiles appear to be steady.**
- **Isolated reports that reprocessors had refused to take materials or are using quality as an issue at the gate**
- **Some storing materials, others considering this option for materials where there was difficulty finding an end-market or where the material now has a zero or negative value.**
- **Concerns with LAs about to let contracts**



Impact on WMC & MRFs

- **A number of MRFs report that they are storing materials, either because of difficulties finding end markets or because they do not want to realise financial losses on the materials.**
- **Where disclosed, available storage capacity was quoted as between 1 week and 1 month – it is not clear whether the EA's/SEPA recent guidance on storage changes this.**
- **Some MRFs have reported that they have had material rejected on quality grounds.**
- **MRFs and WMCs with established relationships and long-term contracts appear to be less affected.**
- **The ESA have not heard any reports that their members are planning to landfill materials.**



Summary

- **Most recovered materials have seen substantial price declines (except glass, textiles, aggregates).**
- **For paper and plastics, export markets are moving, albeit at reduced volumes, but there are some signs that the bottom may be close as Chinese buyers (for paper) have returned to the market.**
- **There are reports that some market participants are stock piling metals and plastics in anticipation of improving prices; others are selling at any price to limit losses.**
- **Long term fundamentals are good but recovery is expected to be gradual.**



What are the lessons?

- **Sophisticated/flexible contracts**
- **Importance of diversified markets**
- **Lack of domestic processing capacity**
- **Quality of materials**
 - The cost of quality
 - long term relationships
 - Let the markets decide



Thank you

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