

**REPLY BY THE PRESIDENT OF  
THE STATES' TRADING SUPERVISORY BOARD  
TO A QUESTION ASKED PURSUANT TO RULE 14 OF THE  
RULES OF PROCEDURE BY DEPUTY B PAINT**

**Question**

*Does the recent dramatic fall in the Pound Sterling against other European currencies and the Swedish Kroner in particular, tip the economic balance in favour of sending our municipal waste to Jersey for disposal?*

**Answer**

A comprehensive tender process has been carried out and identified Geminor UK as the preferred bidder for the contract to export and process Refuse Derived Fuel (RDF) from the island. Cost was a key consideration in assessing the bids received, but was not the only factor. Contingency provisions in the event of a breakdown in the receiving plant and security of markets for outputs from the heat treatment process (i.e. the onward disposal and/or recycling of incinerator bottom ash and flue gas residues) were also significant factors. Although not part of the formal tender evaluation, a full life cycle analysis of the environmental performance of the different transport/treatment proposals also favoured Geminor's bid. Therefore a marginal increase in cost due to currency rate fluctuation would not, in itself, necessarily "tip the balance".

The tender process and evaluation was robust and carried out in accordance with States' procurement policy. There is currently no intention to revisit the selection of preferred bidder on the basis of a recent fluctuation in exchange rates, but States Trading Assets will continue to monitor the position and will take appropriate steps to mitigate and manage any potential currency risk. The business case that will shortly be presented to the Policy & Resources Committee will therefore recommend the contract is awarded to Geminor for an initial three year period.

Some further context should be helpful.

As part of its tender submission, Geminor has provided a per tonne price for managing the island's RDF. That is payable in Sterling, and covers all the various aspects of the operation, from collection and transport from Longue Hougue to processing at the receiving plant. It therefore includes transport, both on-island and off-island; shipping; transfrontier waste shipment compliance and permitting; financial bond payments; and the gate fee at the currently proposed energy recovery facility (ERF) in Jonkoping, Sweden.

All these elements have costs, but the majority are Sterling-based and are therefore not directly affected by exchange rate movements. Geminor has advised the only element payable (by Geminor) in another currency is the gate fee, which is in Swedish Krona. That element in the company's tender price was based on the prevailing exchange rate at the time of submission. The final contract price will be based on the exchange rate that is agreed before commencement of exports in late 2018/early 2019. The gate fee may therefore increase following a fall in Sterling, but there may also be financial gain if, as many commentators expect, there is a recovery in the currency before then. The overall impact is likely to be marginal, since the gate fee represents only a minority of the overall export contract. In other words a 10% fall or rise in sterling does not equate to a 10% increase or decrease in our export costs.

It is important to note however that the contract is not to export to Sweden, rather to the UK and Geminor will manage it from there. There are a number of options available to the States to mitigate and manage

the currency risk from now. Any such decision needs to be taken on the basis of the medium term outlook for exchange rates, rather than a short-term movement.

Options include:-

- The contract can be signed as proposed in 2017, and the exchange rate for the contract either agreed then or deferred until a later time, if that is felt advantageous. Once the exchange rate is agreed, States' Trading Assets should be able to fix the gate fee element for the duration of the contract, and the risk of any further currency movements will be Geminor's risk. The company has supply contracts with more than 70 ERFs across eight countries. Hedging of its foreign currency exposures, so it can offer customers certainty around contract prices, is a key part of its business.
- There is no stipulation in the contract that the RDF has to be sent to the currently proposed receiving plant in Jonkoping. Geminor also has contracts with European ERF operators - including some in Sweden - for which the gate fee is Sterling-based. The States can choose to use one of those facilities, if that is advantageous.
- Similarly, Geminor has Sterling-based contracts for UK capacity with UK-based processors, which is scheduled for commissioning in 2018 and therefore will be available before our exports commence.

#### Question

*On the basis of the current international value of the Pound Sterling, have the anticipated cost benefits of sending our municipal waste to Sweden for disposal been totally eroded and what is the anticipated estimated cost of disposal of our municipal waste overseas over the period of the contract that the States have entered, or are proposing to enter into, for waste disposal?*

#### Answer

As detailed above, the pertinent "value of the Pound Sterling" for the export contract is not the current one, but the exchange rate agreed either when the contract is signed or at a subsequent point prior to export commencing. As outlined in the reply to Question 1, there is a prospect that despite the recent fall, Sterling will recover prior to commencement of exports. States' Trading Assets also has other options should the exchange rate not be to our advantage at that point.

In terms of the estimated cost of disposal, that will be included in the full business case that will be presented to the Policy & Resources Committee. That will detail all the costs associated with the delivery of the agreed waste strategy. However the value of individual contracts is commercially sensitive.

As a point of clarification to the question, RDF is being exported for energy recovery rather than just disposal. That recovery stage is a key element of the waste strategy.

**Date of Receipt of the Question:** 8<sup>th</sup> November 2016

**Date of Reply:** 23<sup>rd</sup> November 2016

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