

ISSUE BRIEF

China's Changing Policies on Imported Recyclables

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Overview

The Recycling industry has been very successful at providing environmental benefits including diverting material from landfills, conserving natural resources, and reducing greenhouse gas emissions by displacing the use of raw materials. This success was accomplished through the combined efforts of both the public and private industry to collect, sort, bale and market the recyclables to their end-markets.

For years, China has been the single largest consumer of recyclable materials generated in the United States. In 2016, approximately 41% of paper recovered in North America was exported with about a quarter of recyclable paper exported to Chinese mills. Similarly, over 20% of post-consumer bottles and 33% of non-bottle rigid plastics from the U.S. were exported in 2015. The European Union exports over 95% of its plastic to China, and the US and the EU are the largest exporters of recovered paper into China. China consumed over 50% of the world's recycled paper and plastic in 2016.

Over the past year, China has taken a number of steps, including establishing bans and imposing strict quality standards, to restrict recyclable materials imported into China. These measures are already having significant impacts on recycling within the U.S., and the rest of the world. Because so much material had previously been absorbed by China, this decision leaves much of the material without sufficient end markets.

It may be some time before alternative markets can be developed to fully replace China. In the meantime, recyclers are struggling to manage recyclables in a manner that maintains current programs at economically viable levels.

Background

1. In February, as part of China's broader "National Sword" campaign, customs enforcement began a one-year crack down on illegal smuggling of "foreign waste."
2. On July 18, 2017, China notified the World Trade Association (WTO) of its intent to ban 24 materials from being imported. These include post-consumer plastic and mixed paper effective January 1, 2018.

3. On November 15, 2017, the Chinese announced a new quality standard for material limiting prohibitive to 0.5 percent. This requirement applies to all paper and paperboard materials, even those that are not banned (such as ONP or OCC) effective March 1, 2018.

4. On March 6, 2018, the Chinese Government announced a special action campaign entitled "Blue Sky 2018" focused on the banned materials. This campaign is targeted at cracking down on smuggling of the banned materials.

5. The China Council for International Cooperation on Environment and Development (CCICED) released a paper stating that a further stop to material imports will be in place by 2019. This international advisory body that includes some top Chinese officials signals that recycling restrictions from China may become tighter, not looser in the future.

Impact to U.S. Recycling

Higher costs and lower revenues:

- **Lower revenues due to depressed commodity prices.** The loss of the Chinese export markets has disrupted recyclable markets leading to lower revenues as some materials must be sold at significantly lower prices, sometimes even negative. As a result, the overall revenues from the combined recycling stream is depressed.
- **Higher processing costs.** In order to meet the new quality standards, MRFs are slowing down the lines and adding sorters. Processing at some facilities has been changed from negative sorts to positive sorts resulting in more effort to produce less salable material. These measures are reducing throughput and driving processing costs higher.
- **Higher transportation costs.** Regulatory requirements, a booming economy and a tight labor market already contributed to increased domestic freight costs. However, as material is diverted to international ports outside of China, shipping costs are also increasing as the backhaul advantage dissipates.

- **Higher capital costs.** To meet the higher quality standards, some MRFs are also accelerating and increasing capital expenditures.
- **Availability of outlets.** The ability of other markets, both domestic and the remaining Asian export market, to absorb all the recyclables have been severely strained. Some materials have not been able to find an economically viable end market. With few markets available, incidents of stockpiling (or landfilling) material have been reported.
- **Stockpiling issues.** Due to storage capacity issues, stockpiling is not a viable option. Warehousing is also an issue due to availability of space and costs of facilities. In either case, processed bales can deteriorate over time which creates unacceptable safety hazards and unmarketable recycled product.
- **Regional variations.** The impact varies by region and local markets across the country.
- **Development of new outlets.** With time, new outlets for markets are expected to develop. The timeline of new market development, however, is uncertain due to its dependence on establishing new facilities and infrastructure.
- **Review contracts.** Recycling requirements may need to be amended through force majeure provisions as this is a global situation. In addition, both recyclers and municipalities should review contracting provisions to ensure fair and equitable contracts. NWRA and SWANA worked together to develop a Joint Advisory on Designing Contracts for Processing of Municipal Recyclables along with two attachments. These documents should be utilized to inform future contracts.
- **Talk with regulators.** States may need to approve temporarily suspensions of recycling requirements where there is no market.

Communications Strategy

- **Develop a communication plan appropriate for your market area.** Make sure to be transparent in messaging providing clear information about the severity of the issue but avoid overstating it. Convey the commitment to working with customers and regulators. Provide recommendations on what should be recycled and how to minimize contamination.
- **Contact your state regulatory agency to ensure that they are aware of the issue.** Ensure key stakeholders know that we have been working at the federal level. Be careful in communicating the serious ramifications of this issue, while recognizing that there is significant uncertainty.
- **Consider engaging local industry groups to help with the messaging.** Work with your state's industry associations to convey a single message to cities "from the industry."
- **Communicate with transparency to your customers, and work to shore up the long-term benefits of recycling to reduce public backlash.** Although the U.S. exports a significant amount of recyclables, domestic markets do exist and may expand, perhaps as a direct result of China's actions.
- **This is a good time to develop and execute public education programs focused on quality.** Recycling the right materials correctly will help minimize the negative impacts of the current market constrictions. Work with local governments to focus messaging around recycled paper, cardboard, bottles and cans, and how to reduce contamination at the curb.

Actions to take

- **Ensure High Quality Recyclables** - High quality material is more likely to find a market. The new 0.5 percent prohibitives limit is far below any existing international standard. However, high quality material will be welcomed by both domestic and international markets. Focus on core recyclables to reduce contamination and avoid adding new products to the recyclable stream while trying to improve quality.
- **Work with the entire industry.** This is a global and an industry-wide issue, not a local or individual company issue. Our industry will benefit if we work together with city and state officials to develop solutions in the near term, and to work together for longer term solutions.
- **Communicate.** It is important to communicate with recycling partners to focus on quality and to develop solutions for your communities. See the communications strategy below for more suggestions.

For More Information:

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