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China's National Sword Initiative

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How the Chinese Recycling Materials Bans and New More Stringent Standards Will Affect State & Local Recycling Programs

To: Recycling stakeholders
From: Darrell Smith, President & CEO, NWRA
Date: October 12, 2017

A number of actions taken by China over the past six months have begun impacting recycling markets and will potentially affect recycling state and local programs. In the last couple of weeks, fiber prices have plunged significantly. In addition, some recyclers have had difficulty finding end markets for rigid plastics. This letter summarizes China's actions and provides some guidance on what to do.

Summary of China's actions and their effects

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."

The campaign follows China's Green Fence initiative in 2013 which focused on improving the quality of recyclables. The more recent National Sword crackdown focused on illegal imports has resulted in numerous inspections, exposures of smuggling operations, arrests and confiscations of imports. In addition, inspections at ports resulted in delays, added storage and demurrage costs.

2. In July, China notified the World Trade Association (WTO) of its intent to ban 24 materials from being imported. These include plastics and mixed paper effective January 1, 2018.

Although the bans will not be effective until the end of the year, they have raised numerous concerns. The lack of clarity of which materials would be impacted initially caused confusion for the industry. In addition, the intent of the ban appears to be driven by environmental concerns. Because this is an outright ban, it is expected that, if enacted and enforced as written, there could be significantly reduced markets for the identified materials, mixed paper, and plastics.

NWRA submitted comments requesting that China reconsider the ban and instead, impose and enforce internationally accepted quality standards. In addition, NWRA, along with other industry associations, met with both the US Department of Commerce and the Office of the United States Trade Representative (USTR) to discuss the bans and their potential effect on local recycling programs across the United States.

3. In August, the Chinese announced a new quality standard for recyclable materials limiting prohibitives to 0.3 percent. This requirement applies to all materials, even those that are not banned (such as ONP or OCC). This new standard, if adopted, would become effective in 2018.

This new quality standard will be challenging to meet, if at all possible. The criteria is far more stringent than any standard currently used. The difficulties of complying with the proposed quality standard were discussed at the US Department of Commerce and the USTR meetings.

4. The Chinese Government has not issued the necessary import licenses to satisfy the demands of its mills for recycled material.

By not issuing new import licenses, China has effectively slowed down the import of recyclables before any of the official bans or improved standards are set to go into effect. Until these licenses are issued, this slowdown is expected to continue.

The U.S. delegation to the World Trade Organization consisting of members from USTR, the Department of Commerce, and the Department of Agriculture, along with delegations from four other nations, addressed the issue at the WTO's import licensing committee meeting in early October.

Given this sequence of events, China appears serious about its focus to improve its environment through limitations on recyclable materials entering the country. Consequently, recycling prices and outlets for paper and plastic will be significantly impacted. Unfortunately, it is too early to know how long these market impacts will continue.

Guidance

- **Communicate with the state and local recyclers.** Ensure that local and state recycling stakeholders are kept up-to-date about the uncertainties the industry is facing. They should be aware that unless there is an easing to some of the restrictions, market prices will likely be depressed, if markets are available at all.
- **Focus on material quality.** High quality material is more likely to find a market. The new proposed standard quality limit is far more stringent than any existing international standard. However, high quality material will be welcomed by both domestic and international markets.

- **Consider alternative strategies.** The industry's dependence on China to accept recyclables highlights the need to inject additional flexibility into materials management. Work locally or regionally to explore options for greater flexibility to managing materials such as focusing on sustainable materials management.
- **Communicate with the public, 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. However, these developments might take time and communications are critical to maintain public trust.

ISSUE BRIEF

China's Changing Policies on Imported Recyclables

September 2017

Overview

China has taken a number of steps this year to restrict recyclable materials imported into China. These measures will have significant impacts to recycling within the U.S., and the rest of the world.

China is the single largest consumer of recyclable materials exported from the United States. In 2016, approximately 41% of paper recovered in the North Americas 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. The US and the EU are the largest exporters of paper grades to China.

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 Organization (WTO) of its intent to ban 24 materials from being imported.** These include mixed plastic and mixed paper effective January 1, 2018.
3. **On August 10, 2017, the Chinese announced a new quality standard for material limiting prohibitives to 0.3 percent.** This requirement applies to all materials, even those that are not banned (such as ONP or OCC).
4. **The Chinese Government has not issued the necessary import licenses to satisfy the demands of its mills for recycled material.** As a result, there has been a reduction of all recyclable tons entering China.

Impact to U.S. Recycling

Depressed commodity prices. Uncertainty in both the short and long-term Chinese export markets is already disrupting the markets for recyclables in some parts of U.S.

Due to this uncertainty, we do not know how long or how severe the disruption will be, but we will be monitoring markets closely.

- **The short-term disruption** is caused primarily by a lack of the quotas required by the Chinese Government for Chinese mills to be able import products
- **Longer term disruptions** may be caused by China's new material ban, and their new 0.3% prohibitives standard.

Availability of outlets. If the ban goes into effect, the ability of other markets to absorb all the recyclables will be strained. Some materials may not be able to find an end market.

Regional variations. The impact is expected to vary by region and local markets across the country.

Eventual relaxation of ban. Given the China's reliance on recyclable raw materials, industry experts predict that the ban may not be enforced against high quality materials.

What We Are Doing

NWRA has been working with ISRI and SWANA to amplify the voice of the American recycling industry. This includes meeting with the US Department of Commerce and USTR (US Trade Representative) on this issue. The US Department of Commerce is working with the White House to include this issue in President Trump's trade visit to China in November.

NWRA also submitted comments to the Chinese Government. Our letter requested that China:

- Reconsider the ban and instead, enforce the already strict international standards in place for recyclable materials.
- Provide clarity regarding the definitions of what is covered in the ban.
- If the ban were to move forward, an extension to the timing for implementing the ban to allow for sustainable alternatives to develop.

NWRA will continue to monitor the situation and share information with members.

Actions to Take

Ensure High Quality Recyclables - High quality material is more likely to find a market. The new 0.3 percent prohibitive limit is far below any existing international standard. However, high quality material will be welcomed by both domestic and international markets.

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 to volatile recycling market in the near term, and to work together for longer term solutions as necessary.

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.

Communications Strategy

Develop a communication plan appropriate for your market area. Make sure to be transparent in messaging and avoid alarms that may be premature.

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 potential serious ramifications of this issue, 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.

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For More Information:

Anne Germain

NWRA Vice President of Technical and Regulatory Affairs

202-364-3724

agermain@wasterecycling.org

CONTACT US



@wasterecycling

wasterecycling.org • 202-244-4700 • info@wasterecycling.org
1550 Crystal Drive, Suite 804 Arlington, VA 22202