MetalBulletin

BIR BARCELONA: Economic damage could cause China to rethink scrap ban implementation

China is likely to take an economic hit from its crackdown on scrap imports, prompting it to adopt a more pragmatic approach in the future, panelists of the Bureau of International Recycling's (BIR) International Trade Council said at the association's Barcelona conference.

China has announced several drastic measures to curtail the import of scrap into the country in recent months.

The country's government announced in April that it will ban imports of all Category 7 scrap items by the end of 2018 and the importation of several other scrap items - including stainless steel scrap - by 2019 on environmental grounds.

China officially adopted new scrap metal import regulations on March 1 which determine the new thresholds for impurities allowed in non-ferrous scrap imports at a maximum of 1%.

Separately, the country also applied a 25% import tariff on US-origin aluminium scrap and suspended operations at its China National Certification and Inspection Group (CCIC) North America division for 30 days, which halted US non-ferrous scrap export trading to China earlier in May.

But such a hardline regulatory approach could backfire on the country given that it is not yet self-sufficient in scrap, panelists said.

"The impact of this is going to be substantial, particularly in regards to imports, because China isn't self-sufficient yet. So that's going to have an impact, and they may have to look at that," Tom Bird, chief executive officer of the Chinese recycler Chiho Environmental Group, said on Tuesday May 29.

"I also think that in terms of how they enforce the regulations, there has to be some form of pragmatism. It's all or nothing and, at the moment, it is all. There has to be some recognition that there is a transitionary period," Bird said.

"Certainly, pragmatism is something that we associate with how China develops policies over a period of time so perhaps it is a situation when they are tough first but pragmatism probably in the form of economics will come into play in due course," Michael Lion, president of Everwell Resources, said.

William Schmiedel, president of Sims Metal Management's global trading division, also felt that China could adopt a more practical approach over time.

"Their drive for cleaning the environment is there and it is there to stay, but that doesn't mean that there won't be some type of retrenchment," Schmiedel said.

Any negative economic consequences from restricting non-ferrous scrap imports would give a window of opportunity to interest groups for materials like copper to try and lobby the government to soften their stance on scrap imports in 1.5-2 years' time, Lion predicted. "Money will come into it at some stage," he said.

But in the short term, it is unlikely that any senior figures in China will criticize the policy of Chinese president Xi Jinping and try to get a changing of stance, Lion said.

Large import volumes
Despite China's hardening approach to non-ferrous scrap imports, it has still imported a large volume of the material in recent times.

China imported a total of 2.17 million tonnes of aluminium scrap in 2017, up 13.26% compared with 2016. Among them, 618,287 tonnes were shipped from the US, according to China Customs data.

But in the first quarter of 2018, 486,512 tonnes of aluminium scrap arrived in China, which was down 7.58% year-on-year. Shipments from the US dropped 4.35% over the same period to 137,161 tonnes.

Copper scrap imports showed a more significant drop in the first quarter of 2018, with the total copper scrap volumes imported from US during this period dropping by 39.05% year-on-year to 552,696 tonnes.

As a result of the category 7 ban, US-based companies are investing in machinery to carry out processing of low-grade scrap in their own country instead of shipping material out to China to be processed, attendees said on the sidelines.

At the same time, China-based companies are also preparing to open processing facilities in alternative import locations such as Thailand and Vietnam, delegates said.

While US non-ferrous scrap shipments to China have been declining, US exporters have already reported an uptick in shipments of lower-grade scrap to some countries in Southeast Asia, including Malaysia, Thailand and Vietnam.

But any possibility of China taking a softer approach to scrap imports in a few years' time poses a tricky dilemma for companies making these investments.

Such a situation could create "white elephants", with companies having invested in what could become potentially unprofitable units, Lion said.

Another potential knock-on effect is the possibility of other countries adopting similar legislation to China in their approach to regulating non-ferrous scrap imports.

"What is happening in China will be enforced stricter and will probably spread over. [Scrap is] going to new markets but very likely those markets are going to copy at one point in time what China has done," Arnaud Brunet, director general of the BIR, said.

Shipment issues

The application of 25% tariffs on shipments on US-origin aluminum scrap and the closure of the US CCIC office until June 4 has created havoc in the markets, delegates said.

CCIC Canada was given the authority to inspect non-ferrous scrap shipments earmarked for China until June 4 in a move that market participants hoped would ease the bottleneck of material awaiting pre-shipment inspection certificates.

But Canada's CCIC has around just 10 officers, so won't be able to deal with the enormous volumes of containers needing certificates, David Chiao, co-founder of the US-based Uni-All Group, said.

Regardless, with thousands of non-ferrous scrap containers now stuck in limbo following China's sudden suspension of its North American customs inspection division, market participants are holding their breath for the previously announced June 4 restart of the CCIC North America operations.

Meanwhile, many containers of non-ferrous scrap have been diverted to Hong Kong but many of its ports are now overloaded and are refusing to take any more material, delegates said on the sidelines.

Counting the cost

The economic cost of the difficult trading relationship between China and the US could be vast, Tom Bird said.

"It is estimated that one month's suspension of shipments will cost US exporters alone $400 million and another $100 million associated with market value and shipment diversions to other destinations such as India and Korea," he said.

"Although the impact is being felt mainly by the US, Europe is not immune with far more stringent inspection protocols leading to confusion and shipment delays," he added.

If a "full-blown global trade war" was to take place, around $2.30 trillion would be wiped off global trade by 2021, Bird said. China and the US would be the largest losers, accounting for a $1.40 trillion loss and Europe would see a loss of $360 billion by 2021.

Susan Zou in Shanghai and Brad MacAulay in Pittsburgh contributed to this report.