

Recycling Heads to the Dump as China Gets Picky About Waste (1)

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(Bloomberg) -- Amid the pear orchards and wineries of southern Oregon, more than 90 percent of residents dutifully dump discarded junk mail, unwanted phone books and old magazines into specially marked gray and red recycling bins. And every other week, the canisters get wheeled to the curb for pickup, as most of the contents begin their long trip to China.

But the economics of this four-decade-old ritual are being upended, as is much of the recycling industry in the U.S. -- the world's largest producer of waste. China, which buys more junk than anyone, is cutting way back. The country is trying to curb rampant pollution with new restrictions on waste imports and shutting old industrial plants, including mills that process foreign scrap into reusable raw materials.

As a result, Rogue Disposal & Recycling's facility in Medford, Oregon, is so full that it has 600 tons of recyclables, including mixed paper, cardboard and plastics, in the employee parking lot. Since October, the community was forced to bury 800 tons in the local landfill, or roughly the amount of paper from 13,000 trees. That's been a shock for a state that is a leader in American environmental politics -- it was one of the first to impose a 5-cent-per-bottle deposit to encourage glass recycling in 1971.

"We hit a worst-case scenario," said Laura Leebrick, community and governmental affairs manager for Rogue Disposal, southern Oregon's largest hauler with 50 drivers and a fleet of 36 trucks, including eight that collect about 665 tons of recycling from residential customers every month. "There's no demand."

Across the U.S., communities that relied on recycling to divert waste away from bloated landfills are now being forced to rethink how they deal with trash. Americans shipped more than \$5.6 billion of scrap commodities like plastic and metal to China last year, according to the Institute for Scrap Recycling Industries. About half of what gets collected by U.S. recyclers is paper, which accounted for 13.2 million tons of scrap exports.

That flow is being disrupted because China has signaled it will no longer be the bottomless repository for the world's junk. At the end of this month, the Asian country plans to ban imports of all unsorted paper and plastics. While that also means fewer deliveries of scrap from Europe, Japan and other parts of Asia, the biggest impact may be in the U.S.

"If it doesn't go to China for two to three months, you'll have 1 million tons of paper stacked somewhere in the American economy," said Ranjit Baxi, president of the Brussels-based Bureau of International Recycling.

Part of the problem is that too much of what China was processing -- from discarded paper to old appliances and cars -- contained materials that weren't recyclable. So the country is proposing tighter standards that would limit the so-called contaminants to no more than 0.5 percent. That's a level of purity that would be "impossible to achieve," according to the Institute of Scrap Recycling Industries, an industry group based in Washington, D.C.

The value of recycled materials has plunged, and waste companies are trying to figure out what to do. Mixed paper has been hardest hit, with prices falling 35 percent to 40 percent in October. Paper makes up the largest portion of municipal solid waste in the U.S. Of the 60 million tons of recovered pulp that China produced in 2016, almost a quarter was made with imported paper.

"They don't want our garbage anymore," Chip Dillon, an analyst at Vertical Research Partners in New York, said in a telephone interview.

Global Impact

Governments in the U.S., Europe, Canada and Australia have expressed concern to the World Trade Organization, noting that their waste handlers will need more time to adjust or find new markets. China's environment ministry did not respond to a faxed request seeking comment.

Countries including India, Thailand, Vietnam, Taiwan and South Korea could import more mixed paper, but they probably couldn't make up for what's being lost from China.

With less recycled material available, the global supplies of pulp will tighten, according to Marcelo Castelli, chief executive officer of Brazil's Fibria Celulose SA, the world's largest producer of hardwood pulp. The market for fiber will be "very strong" for the next three years, Castelli said in a Bloomberg interview Tuesday in New York.

The biggest losers may be U.S. municipalities. The revenue they get from mixed paper collected through recycling programs will probably drop, and some will have to pay to discard it in landfills or incinerators. Taxpayers would be on the hook for the higher costs.

"The worst case scenario is we won't be able to accept material," said Vinod Singh, outreach manager of Far West Recycling in Portland, Oregon's biggest city.

With exports slowing, North American recyclers are being forced to fine-tune their systems, which probably will mean more rigorous methods of filtering what gets tossed into the bin and more aggressive incentives for the public, said Adina Renee Adler, senior director of government relations and international affairs at the Institute of Scrap Recycling Industries.

A more rigorous vetting system is "very sorely needed," said Ron Mittelstaedt, CEO of Canadian hauler Waste Connections Inc. "There's been a lot of abuse," with people mixing too much waste with recycled materials, he said.

Dim Outlook

North American waste haulers are rushing to hire workers and upgrade equipment to meet the new Chinese standards.

"We're going to have to do more work from a quality standpoint," said John Casella, chief executive officer of Casella Waste Systems Inc., a Rutland, Vermont-based company that operates collection in six Northeast states, including 18 recycling facilities.

After adding workers, the company's labor costs rose by \$700,000 in the third quarter, and it is pursuing more automation at processing facilities. Higher fees to customers are helping, but that's covering only about 80 percent of the lost revenue and increased expenses, Casella said.

Houston-based Waste Management Inc., the biggest U.S. hauler, is buying optical sorters to reduce the amount of unwanted materials on its conveyor belts. The company invited Chinese customers to visit the plants, where they can randomly check bales of processed paper to make sure they meet the standards, said Brent Bell, vice-president of recycling operations.

Still, the company predicts lower prices will result in an earnings reduction of 3 cents a share in the fourth quarter and by 4 cents for all of 2018. Waste Connections, which provides services in 38 U.S. states and five Canadian provinces, could lose “several million dollars a year” in revenue as a result of the changes in China, Mittelstaedt said.

“It’s causing us to go back to the drawing board,” said Leebrick at Rogue Disposal & Recycling. “We assumed that all that stuff was going to a good end, and what we’re finding out is a lot of that material was contamination and ended up in landfills in China.”

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