

HERTFORDSHIRE WASTE PARTNERSHIP

MEMBERS GROUP 26th January 2009

Item 9: CURRENT ISSUES WITH RECYCLING MARKETS

Author: Duncan Jones (HWP – 01992 556150)

1 Purpose of Report

- 1.1 To highlight some of the main issues linked to problems currently being experienced with end markets for dry recyclables.

2 Background

- 2.1 The last 3 months have seen dramatic falls in prices for a range of dry recyclables caused by big reductions in demand from the Far East. The situation has been exacerbated by the worldwide financial crisis which has resulted in a reduction in the availability of short term loans which are often used to finance the movement of goods across the world.
- 2.2 As a consequence access to a number of international markets is becoming increasingly difficult. Whilst most commentators expect the current problems to last no more than 6 – 12 months the downturn has significant implications for recycling in the UK.

3 Main Issues

3.1 Public Relations

- 3.2 One example of the global situation was the recent cessation of a contractor led initiative to recycle certain grades of plastics at a number of the County's civic amenity sites. Deteriorating market conditions resulted in the market specification being tightened to the point where it was no longer possible to include items such as food trays, yoghurts pots and margarine tubs. Whilst as a percentage the change is negligible, it was picked up by local, regional and national press. Common themes in the coverage were a propensity to exaggerate the impact on Hertfordshire's recycling performance as well as make spurious links to other waste issues such as fly tipping. This example highlights the need to ensure the HWP as a whole presents a unified consistent message to the media.

3.3 Income Streams

- 3.4 One of the most direct impacts of the downturn is a general reduction in income from the sale of recyclables. At the height of the market in the summer steel cans had a value of over £200 / tonne. However, a few weeks ago Corus, Europe's second largest steel producer and the UK's largest steel recycler, announced a 30% reduction in production as a result of falls in demand for steel in sectors like construction and the automotive industry. Consequently towards the end of November Corus suspended all further deliveries from local authorities until further notice.
- 3.5 Although not as extreme similar situations have developed in markets for plastics, aluminium, paper and scrap metal.
- 3.6 Authorities with contracts that incorporate appropriate mechanisms to allow income and / or charges to be adjusted to take account of market fluctuations should be able to manage the current situation. However, those authorities which play the 'spot market' could find problems as the market place backs up. The key issue then becomes capacity resulting in reprocessors prioritising contracted supplies before accepting tonnages from non contracted sources.

3.7 The 'Two Tier' Structure

- 3.8 The loss of income for recycling on a national basis has exposed an inherent weakness in the financial relationship between waste collection and disposal in a two tier system. Current market conditions are leading some waste collection authorities (WCAs) to consider suspension of recycling collections due to a loss of income which in some cases is creating significant budget pressures.
- 3.9 Whilst perhaps understandable from a WCA standpoint this approach fails to consider the 'whole system cost' from a tax payer perspective. The key financial point of reference is the cost per tonne of landfilling / disposing of a tonne of waste compared to the cost of recycling. Therefore taking steel cans as a case in point it would make sense to pay for this material to be recycled up to the point where the cost per tonne of doing so is equivalent to the cost of disposal.
- 3.10 However, in reality for WCAs with kerbside recycling systems predicated on kerbside sorting their operational budgets normally assume an income. Consequently for some materials they have no budget provision to pay for materials to be recycled; hence the weakness. This is an area that will need to be given further thought during work to agree the final Inter Authority Agreement that will provide the framework for future HWP waste management operations.
- 3.11 Longer term one of the structural risks to come from the current market turmoil is a greater appreciation on the part of the reprocessors for the alternative disposal costs faced by local authorities. In similar vein to the market structure for organic waste processing some reprocessors will in all likelihood look to adapt their financial models to take account of this realisation. Therefore for some materials it is unlikely that income streams will return to the levels experienced earlier in the year.

3.12 The Partnership Approach

- 3.13 In contrast to the problems detailed above the HWP has bucked the national trend by recently agreeing a consortium contract for the marketing of newspapers and magazines collected via kerbside and bring bank operations. The consortia lead by officers at Welwyn Hatfield has resulted in a significant increase in the income per tonne and involves all HWP authorities. Whilst the timing of such negotiations is clearly important, the result underlines the added value in using a partnership approach when negotiating with the market place.
- 3.14 The partnership / consortia approach has also been used in tendering and evaluating a new contract for abandoned vehicles which should deliver relatively significant savings once up and running in January 2009.
- 3.15 General discussions at the Heads of Waste group indicate a strong desire to use the partnership / consortia approach for other materials where applicable.

4 Recommendations

A. That Members note the report.

B. That the Members endorse the partnership / consortia approach for the future marketing of dry recyclables where there is a likelihood of obtaining better prices from the market.