

Commodity price slump makes recycling uneconomical



Recycling giants including Visy, Sims Metals, Transpacific and Veolia are facing the downside of abundant and ever-cheaper worldwide supplies of raw materials. **Craig Abraham**



by **Jacob Greber**

Collapsed global commodity prices for metals, paper and crude oil mean the materials households and businesses dutifully place on curb sides are increasingly not worth the cost of collecting.

Everything from used plastic milk bottles to pizza cardboard and even the family car cannot be converted into raw materials at a price low enough to compete with the worldwide flood of cheap iron ore, oil and other commodities, says the Australian Council of Recycling, the \$14 billion industry's peak body.

Recycling giants including Visy, Sims Metals, Transpacific and Veolia are facing the downside of abundant and ever-cheaper worldwide supplies of raw materials that have hit world markets after the China-driven resources boom spurred massive increases in supply.

ACOR chief executive Grant Musgrove partly blames [this month's collapse of Whyalla steelmaker Arrium](#), which was until now one of the nation's top three scrap-metal recyclers.

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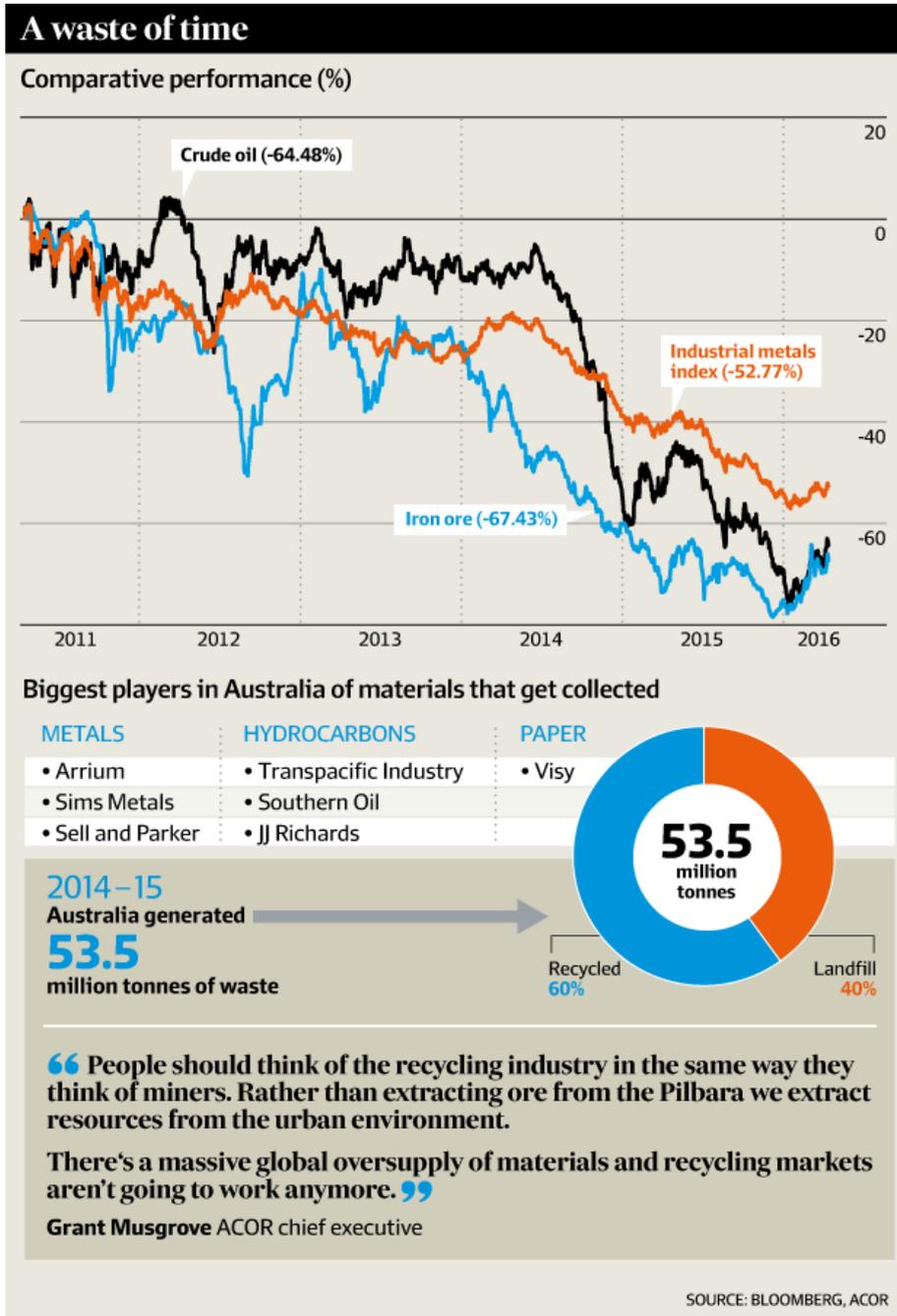
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Biggest players in Australia of materials that get collected

Experts fear that with global markets suffering from an unceasingly deflationary cycle, the prospect of a meaningful and sustained rebound in the benchmark commodity prices underpinning recycled materials is slim.

After trading north of \$US100 a barrel for much of the past decade, the benchmark price for crude oil has collapsed over the past year to as low as \$US29.3, and traded at \$US43.10 over the weekend.

Iron ore – the main ingredient for steel making – has had an equally torrid collapse from its 2011 peak of more than \$US180 a tonne to below \$US40, before recovering towards \$US60 more recently.

COLLECTION FEES MAY RISE

If the underlying economics of the industry continue to deteriorate, Musgrove says recyclers will increasingly be forced to charge more for collections, and may be pushed into shipping un-salvageable metals and electronic goods offshore.

"People should think of the recycling industry in the same way they think of miners," Musgrove told *The Australian Financial Review*. "Rather than extracting ore from the Pilbara, we extract resources from the urban environment."

Musgrove warns that falling commodity prices and dumping mean those materials are increasingly worthless. "There's a massive global oversupply of materials and recycling markets aren't going to work any more."

"What's happening with used vehicles and will increasingly happen with your fridge or air conditioner is that recycling companies will increasingly charge you a fee, whereas before they paid you."

"That, or those materials will simply be bailed up and sent to China for low-quality environmental recycling and stockpiling."

One of the problems facing the industry, according to Musgrove, is that many state governments are undermining the industry's ability to offer a public service because of increased landfill levies.

Those levies are unavoidable as a significant proportion of collected materials cannot be used.

LEVY DISCOUNT TEMPORARY

Lobbying by ACOR and industry heavyweights such as Visy has succeeded in convincing the NSW government to grant the industry a 50 per cent landfill levy discount, in recognition of technological limits to how much can be extracted from goods such as vehicles (around 25 per cent of a regular family car cannot be economically extracted and reused).

The discount is temporary, however, as the state government is reliant on the revenue, understood to be as much as \$800 million a year.

Musgrove describes the levy as a tax on its feedstock, and likens its impact to a resources rent tax.

"By taxing unavoidable residues in any recycling stream, be it papers or metals, you're taxing an entire industry to the point where the government loses revenue and the waste stream goes out of jurisdiction, say Queensland or on to ships," he says.

"That ship might be headed somewhere in Africa, where the commodities are extracted by children using the most elemental of technologies that cause very low life expectancies given the toxins involved."

Another point often under-appreciated by households that expect materials to be collected from their front yards is the way changes in sectors such as the petroleum industry are undermining the economics of recycling.

"People need to think of things like plastics or car tyres as being part of the global market for hydrocarbons," Musgrove says.

"Forecasts indicate that about 20 per cent of crude oil supplies will be directed into the manufacture of plastics, rather than the conventional thing people associate them with, which is fuel for vehicles."

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