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NOTE

from :	General Secretariat
to :	Delegations
Subject :	The fall in demand for recycled materials - Information from the Presidency

Delegations will find annexed a paper from the Presidency on the above subject, which will be dealt with under "other business" at the meeting of the Council (Environment) on 2 March 2009.

The fall in demand for recycled materials
- Presidency Paper -

1. INTRODUCTION

The economic downturn of 2008 has caused a slump in the worldwide demand for materials, particularly recycled materials, which has significantly affected the market. Member States and industry report repercussions on recycling markets in the EU. The most affected commodities are plastics and mixed paper.

Due to the drop in demand, there is a global surplus of waste collected for recycling. This has mainly affected countries with poorly developed separate collection schemes, which are producing badly sorted materials for recycling, and those countries that rely on recycling outside of the EU. The oversupply of materials to be recycled leads to a need for temporary - or medium-term - storage of waste, or for incineration. There is also growing concern that it may result in increased landfilling. Furthermore, industry is reporting cash shortages with banks reluctant to finance operating costs. There are indications that the companies facing difficulties are primarily those that relied on the peak price levels prior to the downturn.

The issue was opened at the EU Environment Council meeting on 4 December 2008 by Ireland with regard to the Action Plan on Sustainable Consumption and Production and with reference to the waste hierarchy principle of the Waste Framework Directive.

The Presidency recognizes the importance of this issue and is therefore putting forward this paper as a basis for further debate by Ministers at the EU Environment Council meeting on 2 March 2009.

The paper is based on the background information provided by the European Commission and the outcomes from discussions with Member States (the informal meeting of EU waste directors on 16 February 2009 in Prague) and stakeholders on the current situation and possible measures that can be taken in order to tackle the decline in demand for recycled materials.

BASIC DATA

Recycling makes a significant contribution to the EU economy and to job opportunities. Waste management and recycling industries in the EU have a turnover of €95 billion and provide between 1,200,000 and 1,500,000 jobs. This includes waste collection, sorting, and the reuse and recycling of materials. In the recycling sector there are over 60,000 companies, of which over 95% are small and medium-sized enterprises. Waste shipments in the EU tripled between 1995 and 2005. About 50% of exports of waste paper from the EU countries are sent to non-EU countries, in particular to Asia. About two thirds of all waste plastics from the EU countries are exported to non-EU countries, nearly all to Asia. The majority of metals exports are sent to other EU Member States.

At the same time, recycling is of strategic importance for the environment and for European competitiveness. It enhances material efficiency and offers significant energy savings. It is estimated that the recycling of metals, glass, paper and plastics already saves over 200 million tonnes of CO2 equivalent, and further increases in recycling could save at least another 50 million tonnes. Finally, recycling helps to make valuable and strategic materials available to EU industry without the need for extra-territorial mining.

Illegal shipments of waste contribute to unfair competition. While illegal shipments for recycling may become less attractive due to lower prices globally, there is a risk that illegal shipments for low-cost disposal may be encouraged.

3. MAIN FINDINGS

The following main findings have been drawn up on the basis of the latest discussions :

Maintaining public trust in recycling and maintaining the existing targets are among the main priorities for Member States. Lowering or deferring targets would lead to the deterioration of the already established recycling market and could a have negative impact on public perception. Nevertheless, future legislation should properly consider possible targets on recycled content, e.g. implementing measures of the Eco-design Directive.

Member States express common concerns about the decline in the demand for recycled materials although the **situation differs among Member States**. Member States with a lower quality of selectively collected waste were affected by the crisis first, since badly sorted materials for the purpose of recycling are more difficult to sell. Also, Member States that rely excessively on the export of recycled materials face significant difficulties. Selective collection of household waste remains at a high level despite the crisis. While household waste represents only about 10% of the total amount of generated waste, the potential for restoring recycled materials from industrial waste is much larger; therefore, it is necessary to make a clear distinction between household and industrial waste. Industrial waste tends to be more homogenous in its composition.

There is still some capacity and demand for **high quality recyclables.** Waste that is sorted to a high standard and avoids contamination has the best potential for finding a demand.

A significant drop in the value of most materials has been confirmed. Mixed wastes became quite expensive to recover while separated wastes can be recovered at a low rate or even without cost.

Plastics and mixed paper were identified as being among the most affected commodities . Higher quality paper and cardboard waste can still find a demand at reduced rates. Mixed paper experienced a significant drop in demand. Prices crashed, and mixed paper is not suitable for long-term storage owing to its degradation to the extent that it is no longer suitable for recycling. Nonetheless, there are some possible alternative processes to be applied (e.g. energy recovery).

The market for plastics remains fragile. Nevertheless, there is still some demand reported, namely for plastics with a higher quality of sorting. The key factor is the difference in price between virgin and recycled polymers. Virgin polymers reflect the price of oil. When the price of oil decreases, it creates competition with recycled polymers. Steel mainly reflects the demand of two large industry sectors, namely automotive and construction.

Developing reprocessing capacity without a commensurate increase in manufacturing capacity and the demand for the resulting goods would not solve the problem. It would merely move it up the recycling chain. Therefore, the capacity must be developed hand-in-hand with end markets. Among other problematic issues in this area is the availability of capital investment.

Some Member States believe that the current Waste Shipments Regulation, REACH, and the proposal to revise the IPPC Directive can cause a significant **administrative burden**, e.g. by requiring excessive administration as well as financialresources in connection with REACH registration. This should be assessed, in particular in the light of the European Commission guidance documents. There is also some concern that applying the proposed strengthened provisions of IPPC could unnecessarily discourage certain recycling operations.

Green public as well as private procurement is seen as a possible long-term solution to stimulate the demand for secondary materials. Therefore, trust in such materials also could be enhanced.

Some Member States believe that a **reduction in VAT rates or other fiscal incentives** should be examined. However, such debate needs to be carried out by ECOFIN.

4. POSSIBLE ACTIONS AND MEASURES

Long-term as well as short-term actions should be determined. While most actions need to be addressed on the national level, some measures on the European level could be further explored. The following indicative list of possible actions and measures is recommended for consideration:

- Maintain the existing targets for recycling. **Further development of new targets should be based on a detailed analysis.**

- Support public trust in recycling (Council/Commission to make a **public statement** to maintain and strengthen public confidence in recycling).

- Focus on **waste prevention and minimisation,** e.g. through the Eco-design Directive and implementation of the Waste Framework Directive, notably the updating of national waste management plans and waste prevention plans.

- Carefully consider and analyse all **barriers,** and where identified, reduce administrative burdens, in particular, on recycling (e.g. Waste Shipment Regulation, REACH, IPPC review). Administrative burdens could be significantly reduced by moving to e-government systems.

- The European Commission, with the support of Member States, should accelerate work on the **end-of-waste criteria**. Clear identification of when recyclable materials cease to be waste would remove the unnecessary burden of handling and transporting waste that is considered a secondary material.

- Improve collection and sorting methods on the national level and thereby **improve the quality of recycled materials**.

- Provisions for recycling already exist in the **Eco-design** Directive. The Commission, together with Member States, could accelerate developments to include recyclability criteria in future implementation measures.

- Any **financial incentives at the national level** that will improve collection and sorting and encourage citizens to separate waste - e.g. either the application of high taxes on disposal or its ban (landfilling or incineration of recyclables); reduced corporate tax rates for companies using recycled materials; increased tax rates on primary raw materials.

- **VAT reduction:** explore the possibility to use VAT reduction for some products from recycled materials. The European Commission should publish a proposal expanding the list of products to which a reduced VAT could apply. In addition, the introduction of VAT rates for energy efficient appliances has been mentioned.

- **Green public procurement** can encourage the purchase of recycled materials on the one hand and recyclable products on the other hand. Implementation of existing strategies (ETAP, GPP Communication, etc.) need to be strengthened on the national level.

- **Private procurement** could perhaps be implemented even more quickly. Business and industry could be encouraged to purchase recycled materials. It is necessary that national governments cooperate with the retail sector, as retailers are the ones who have the power to make sure that products containing recyclables are available for sale.

- Consistent application of legislation and inspection of transboundary shipments of waste.

- Last but not least is the **acceleration of the Lead Markets Initiative on recycling,** re-focusing on research and development programmes and thedissemination of best practices.

5. CONCLUSIONS

There are strong environmental and economic reasons to safeguard well-functioning recycling markets and infrastructure in the EU. Whilst markets can absorb and adjust to a high degree of volatility, safeguarding the environment requires stability and continuity in policy enforcement. This gives certainty to markets, maintains confidence and limits the scope for unfair competition. For these reasons, it will be necessary to continue firmly and even increase the enforcement and implementation of relevant environmental legislation, avoiding any slippage of recycling targets, illegal waste shipments or the lowering of standards.

A detailed analysis of the market of recycled and recyclable materials by the European Commission would provide the necessary information for further decisions on bothj short-term and long-term actions.

The Ministers' discussion on actions and measures could be reflected in the Contribution to the Spring European Council as regards the response to the European Economic Recovery Plan.