

## A CIRCULAR ECONOMY NEEDS RESILIENT MARKETS FOR SECONDARY RAW MATERIALS

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*In the third in his series of Opinion pieces on the Circular Economy, David Palmer-Jones, President of the European Federation of Waste Management and Environmental Services (FEAD), and CEO of SUEZ UK, explains why the Commission's revised circular economy proposals must facilitate the creation of resilient markets for secondary raw materials.*

Europe's economy can only be truly circular if markets are available for the secondary raw materials (SRM) the recycling and reprocessing sector produce. But our sector has faced particularly difficult market conditions this past year, with businesses failing in the wake of soft global prices for some recyclates which barely cover the up-front cost of collection and processing, along with acute price volatility and intense competition from lower-priced virgin material.

This exposes the fragility of our transition to a circular economy. Because a viable business model for the creation of SRM depends on reliable and predictable off-take markets, any weakness in those markets will affect the entire supply chain, down to the collection of SRM. There is little point in collecting the material if no end market can be found for it.

Drawing on our experiences of recent trading conditions, Europe's move towards a circular economy is vulnerable on a number of fronts, despite all the hard work put in by the waste and resource management sector to improve the quantity and quality of recycling.

First, raw material prices are influenced by a different set of factors to those for SRM. SRM prices are set according to the cost and efficiency of waste collection and processing, mediated by market demand. For plastics, the current drop in oil prices has lowered the price of virgin plastics to below that for recovered plastics. According to the latest "Commodity Markets Outlook" for April 2015, published by the World Bank, for metals a market surplus of virgin material coupled with weakening demand from China has also depressed prices, making secondary metals uncompetitive. Unsurprisingly, in these circumstances businesses are opting for virgin material in preference to SRMs when procuring their raw materials. Recyclers and re-processors have been unable to compete, putting the entire SRM value chain for some materials at risk. Because the business cycles of virgin and SRM production are so different, the damage to our sector and to the circular flow of SRM cannot readily be rectified.

The second vulnerability relates to the first, in that price volatility is especially pronounced in the SRM market, making it difficult to operate a stable business. Price volatility can cause instability between the input and output price to the extent that operators can even face negative net margins. Recyclers are unable to deploy strategies to catch the commodity market at the right price point, such as stockpiling SRM or reducing plant output by restricting the flow of collected waste into the processing facility. The high standing costs of waste collection and processing means that these activities must continue unabated irrespective of the state of the SRM market. The third vulnerability relates to Europe's dependence on the export market to place the SRM it produces. The lack of demand-side measures has resulted in soft markets in the EU for our recycled streams. Even at current recycling levels the EU exports about 25% of the SRM it generates, according to Eurostat, so we are already on a knife-edge with respect to internal

markets for SRM. An element of international trading will always remain and must be kept open if only as a safety valve, but in the medium to long term Europe needs to use more of the SRM it produces and not overly rely on end markets outside the EU because, soon enough, they will generate and consume their own SRM. Hence, the goal of re-industrializing the EU (20% of GDP by 2020) should continue to be a priority.

The current market disincentivises SRM production and uptake by Europe's industry, putting the Commission's vision for a circular economy at risk. Moreover, while secondary materials are in direct competition with low-price virgin materials, we will not deliver a more circular economy in Europe, even when overall demand for raw materials is strong, unless the cost of externalities is better reflected in the price of primary raw materials.

FEAD is calling for credible and effective measures to help build resilient markets for SRM across Europe by boosting demand and creating the conditions for price stability. The measures we have proposed include the following:

- In order to reduce dependency on virgin raw materials and increase the circulation of SRM, the EU's reindustrialisation strategy should boost markets for SRM within the EU.
- The Ecodesign Directive should go beyond energy efficiency and include measures for material resource efficiency, including recyclability requirements for selected products such as electronics.
- Eco-labelling rules on products should be amended to make it easier for consumers to choose recycled and resource efficient products.
- The Commission should encourage collaboration between all actors in the value chain, fund innovative substitution technologies and reward first-movers through market instruments such as a lower rate of VAT on second-hand goods and products with recycled content, to promote waste prevention and re-use.
- The Commission should clear the barriers impeding the wider adoption of Green Public Procurement practices, a potentially powerful market driver. Public procurement should be by open competition and should be awarded to the offer which delivers the most sustainable outcome.
- The Commission should ensure that extended producer responsibility schemes operate in a transparent way, to incentivize manufacturers to design their products in a recyclable and non-hazardous way and to ensure fair and equal access to materials and resources.

Only by facilitating resilient markets for SRM through its Circular Economy Package will the Commission create a sound foundation for business growth and investment in a European circular economy.

#### About FEAD

FEAD is the federation of the European private waste management industry. FEAD's members are national waste management associations covering 18 EU Member States, Norway and Serbia. They have an approximate 60% share in the household waste market and handle more than 75% of industrial and commercial waste in Europe. Their combined annual turnover is approximately € 75 billion.

FEAD represents about 3,000 companies with activities in all forms of waste management. These companies employ over 320,000 people who operate around 2,400 recycling and sorting centres, 1,100 composting sites, 260 waste-to-energy plants and 900 controlled landfills. They play an important role in the determination of the best environmental option for waste management problems and in returning valuable secondary raw materials to the European economy.

FEAD's recently-launched Strategy 2014-2020 brochure "Driving the Circular Economy" sets out our vision of the policies needed to allow the industry to play its full part in achieving economic growth in a resource efficient and environmentally sound way, and it can be downloaded [here](#).

