THE CHANGING LANDSCAPE OF THE METAL RECYCLING INDUSTRY

Like most other industries, the recycling industry has been confronting tremendous change with 2018 bringing in significant shifts in market trends due to various factors. As we enter a new year, we reflect on the performance of the metals recycling industry last year and examine the ongoing concerns, changing dynamics and the outlook for the sector in 2019 and beyond, especially in the light of some crucial developments in key markets. ***Swaliha Shanavas*** *reports.*

The global recycling industry has been undergoing immense change, particularly in the light of the developments in China over the past two years. With the National Sword being strictly implemented in 2018, most recyclers around the world were having a tough time dealing with the new regulations and trying to match the quality requirements of the Chinese government with regard to scrap imports. On the other hand, new opportunities are emerging as many players seek new markets for the raw material. The landscape is continually changing in the wake of the biggest importer taking steps to close its doors to the world's scrap along with other market conditions, and industry experts reveal insights into the changing dynamics of the Metals Recycling sector, which is considered to be more resilient than other segments of the recycling business. Overall, all eyes still on China!

Modest performance in 2018

"Going by my experience, I would say 2018 has been a good year for most of the metal recycling companies," says **Anshul Gupta, CEO, PGI Group**. The main reason is that the metal prices were strong till July 2018 and though there was a slight dip in prices after July the demand for raw materials in various industries has been stable, he observes. In the Middle East, government spending on major infrastructure projects has continued in most countries. "Thus the scenario remains positive and the Dubai Expo 2020 has created a good wave of projects coming up. A lot of the infrastructure projects in the UAE are creating many jobs and other opportunities for the recycling industry," he comments.

On the other hand, the real estate sector has not been faring well in the UAE and property prices continue to fall. But that is being balanced out by growing trade and expansion in other sectors, **Gupta adds**. The value added tax (VAT) implementation has also settled down and though "it had

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Engr. Salam Sharif

a ripple effect causing a certain level of liquidity earlier, hopefully by the end of this year most of the issues will be sorted."

The recycling industry has been in focus more than ever and "the concerns about the reduction of waste narrowing down to 'zero waste' objectives in many Middle East nations have set the agenda for recycling of metallic and nonmetallic end-of-life materials in a big way," says **Engr. Salam Sharif, Chairman, Sharif Group and Honorary Chairman, BMR**. Governments are taking a lead in supporting the recycling sector in regulating its activities and forming recycling designated zones away from populous cities. More awareness on environment regulations compliance, pollution crackdown, helps the long term objectives of the recycling sector, he states.

Recycling rates remain lower than industrialised countries, which actually provide more scope and higher potential for future growth, Sharif notes. "Interestingly, more and more manufacturers in the Middle East have realised that scrap is valuable raw material that can meet their quality requirements and add economic benefit to their bottom lines, due to lower cost of available resources and proximity, compared with imported virgin material."

G.P. Thiyagarajan, General Manager (Operations) at Bahrain-based Crown Industries, enumerates the factors influencing the performance of the sector including: the need for strict law to recycle end-of-life products; general awareness among public about recycling; Basel follow-up pressure on government and environment agencies; The moral undertaking of ISO certified companies and their responsibility to voluntarily recycle the waste generated by the company.

Further, recycling businesses need continual investment to upgrade the plant and machinery, and latest technical know-how, says **Thiyagarajan**. "At the same time profit margins are being squeezed by tough competition from "unorganised" companies, plus VAT impact on our business. Energy and water costs have increased considerably."

Nasser Aboura, Managing Partner, Aboura Metals and President, BMR says 2018 was a challenging year for the industry, both at the regional and international levels, "right from VAT implementation in UAE and Saudi Arabia to the US-China trade war, China's import restrictions, or CCIC issues that resulted in uncertainties and negative sentiments in the marketplace."

Post the imposition of duties on scrap imports into China from the US, Indian buyers were flooded with low cost scrap from USA that had severe impacts on the Middle East recyclers, he notes. However, **Aboura** believes the Middle East scrap sector is very much resilient and "capable of shoring up all the challenges arising. I believe, the industry is still growing, and recyclers are investing in the industry and adding capacity."

Increasing demand and tough competition in the scrap industry has resulted in narrow margins for yard owners, states **Dr. Sayed Hussain, Managing Director, Sayed Metal**. "We see many in our industry are on high leverage even when interest and banking terms are getting tougher. Due to thin margins, repayments become difficult. Companies have not been able to sustain business, which may lead them to continue down consolidation for better security or declare bankruptcy."

Nasser Aboura

Sanjay Mehta

Game-changing trends

The biggest change that occurred in the industry was the announcement by the Chinese government in 2017 regarding their new scrap imports policy that was followed through in 2018. The nation imposed restrictions on waste imports to protect the country's environment and encourage domestic recycling. Since then, China has significantly cut down on its intake of all types of scrap, forcing recyclers globally to find new markets.

Further modifications have now been announced by the Chinese government as per which they would require import licenses for the 8 categories of scrap metal they had recently added to the restricted list from July 2019. "So only end users can import, which has changed the scenario a lot," says **Gupta**. Mixed metal scrap import has

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been completely stopped, but this material is now flowing toward Asia like Pakistan, India, Malaysia, Thailand, Vietnam, etc., which has created more opportunities.

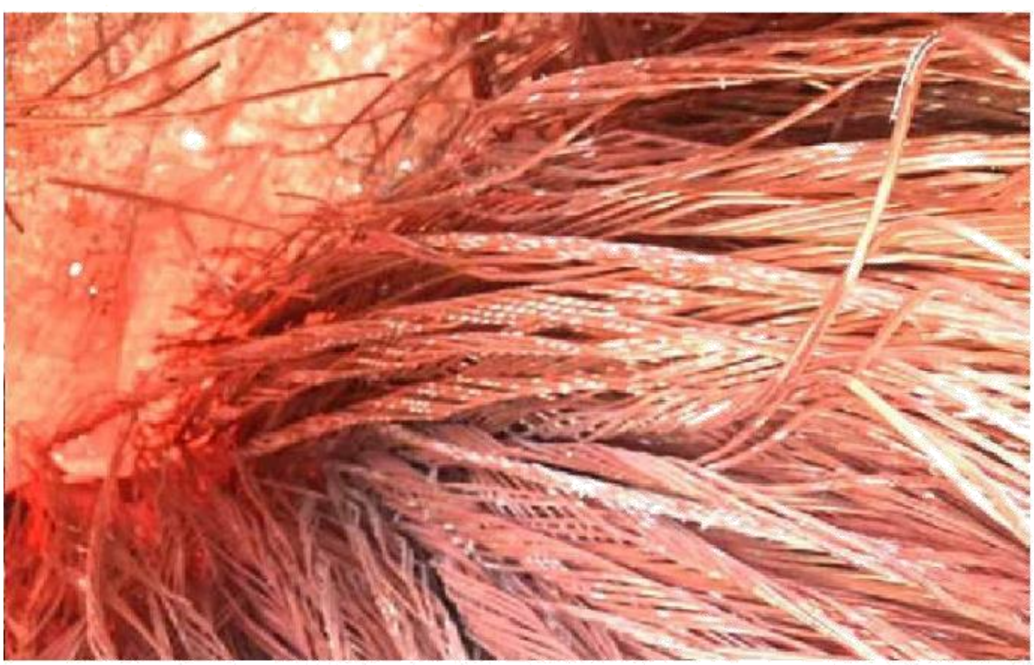
The influence of the environmental protection agencies has greatly impacted the performance of the metal industry, says **Dr. Sayed**. "Apart from crackdowns in several countries' mining fields, the National Sword policy which followed China's Green Fence will undoubtedly hurt the sector. Many countries have long relied on China and it has been the biggest influencer of the sector. Its new import policies, considering a complete ban on import of solid waste including all metal scrap, will negatively impact scrap prices."

Anshul Gupta

It is important to note that almost 50-60% of the world's scrap was flowing towards China and **Gupta** points out that the mixed metal scrap constituting 70-80% of the material had been moving into this nation. "So you can see the amount of material that is moving to other markets since the flow into China had stopped. I see many new opportunities."

In India, many companies are now importing mixed metal scrap. The trade negotiations between China and US have further created a lot of opportunities and changes in the market scenario, while the third big change is that the latest Chinese regulations are "changing the game", **PGI Group CEO** declares.

Dr. Sayed Hussain



With specific focus on factors affecting the Nonferrous scrap markets particularly in the Middle East, **Sharif** says the Chinese restrictions on scrap commodities imports due to restrictions of impurities to maximum 1.3 percent has led to recyclables being piled up in countries of origin including the Middle East. Further, the trade war between China and US has redirected lots of steel and aluminium products to the Middle East and other regions as alternative markets to USA. "Such overspill, has affected the profitability and the competitiveness of local products like steel bars and aluminium sections," he emphasises.

The implementation of VAT has had a major impact on scrap metal companies, especially those that are 100% export-oriented, **Dr. Sayed** underscores. "Apart from thin margins, cash reserves are depleting due to pending VAT refunds which might lead to business closures. In our industry, margins are hardly 0.5%; however 5% has to be kept aside for VAT which negatively affects our cash flow. It is worth mentioning that BMR is making efforts to assist the recycling industry in finding the best solution on issues concerning VAT."

Alternative market opportunities

China's scrap import ban calls for new game plans. In this scenario, India and Far East markets are the best alternatives, declares **Dr. Sayed** adding that prospects for scrap metal in developing countries are improving and there are positive trends that are anticipated to continue moving upward.

Sanjay Mehta, Director, MTC Group and President, MRAI labels China's ban on various types of metal scrap as "bad news" for the trade overall, but then this has led to countries like India, Malaysia, Korea, Taiwan becoming the main players where more quantities will be moved.

The biggest gain has been for Indian companies, traders and importers, "because the policies are more streamlined in India," says **Gupta**. "The import of various types of mixed metal scrap has also picked up in India. I am aware of many importers who have started importing this material and have developed the trade as well." And then there are markets like Vietnam, Thailand, Malaysia and so on, he comments.

From an Indian standpoint, **Mehta** says the nation has emerged as the "fastest growing major economy in the world" and is expected to be one of the top three economic powers globally over the next 10-15 years, backed by its strong democracy and partnerships. "India's GDP (Gross Domestic Product) is on a recovery path after slowdown in the first quarter of 2017-18 and is expected to grow 7.3 per cent in 2018-19," he remarks. "Overall, Indian economy is in a good state and after GST implementation and demonetisation aspects are going fine as per the government plan. Auto industry is booming and has seen over 15% growth in the last 8-9 months."

Challenges

Yet there are certain challenges facing the metal recycling sector in India that have affected its performance in 2018. **Mehta** highlights some of the major issues: Incorrect valuation of imported scrap: for assessing customs duty so the importer ends up paying higher amount of duty; GST on metal scrap is 18%, while GST on other non-metal scrap like paper, plastic, cotton, silk, etc. is 5%; Goods and service tax (GST) levied on commission earned in foreign exchange on exports of services; Import duty on metal scrap imports - currently import duty is levied ranging from 2.5% to 5% on import of metal scrap; Delay in national Recycling Policy – as the draft is ready.

"We, as MRAI, are waiting for this policy to be in public domain hopefully by February end, and then release it for trade and industry," **Mehta** underlines. On scrap import duty, he says the Indian secondary metals sector relies heavily on imported metal scrap as a key raw material. "In developed nations, there is no such import duty on scrap." MRAI has been requesting the government to review and lower the GST rate on metal scrap to 5% and also remove import duty on scrap imports to make the Indian Recycling industry competitive.

Outlook

On the outlook for the metals recycling industry and the market shifts moving forward into 2019, the situation is extremely fluid and "it is not possible for anyone to predict very well in the current scenario" says **Mehta**. "I can only say that commodity prices will not move up, because China will be completely out from the market by end 2019 and scrap will be in surplus in all countries, which they might have to consume on their own and export the finished product as I don't think any big player like China will emerge in the market. No one in the world has such big capacities for recycled scrap like China was consuming."

Again, while scrap imports have gone up in India, the volumes are low as compared to China, he adds. "Everywhere metal scrap is in surplus, the prices have gone down considerably and there is no connectivity with LME now for metal scrap prices. Overall, the year 2019 will be pretty challenging for the metal recycling industry."

In the short term, **Dr. Sayed** says "premiums are down brought on by the trade war between China and US, which overall affects business badly." Market exchanges such as Shanghai, LME and Comex seem stagnant and the beginning of 2019 has been sluggish with the energy that was there eight years ago not being felt till date, he states. "Moreover, Nationalist trade policy will hurt the market further. The bottoming of market may be felt in 2020."

G.P. Thiyagarajan hopes for the best in 2019. The global recyclers will increase export volumes even with thin margins to survive, he comments.

In **Sharif's view** the markets will remain fairly flat. "SMEs will have to downsize to sustain the turbulent

G.P. Thiyagarajan

market condition expected by end 2019. There will be good news if the supply and demand in most commodities balance out. So any positive prosperity in demand in residential and commercial sectors will bring more demand for commodities. Eyeing oil prices shall be the main indicator for commodities since it's closely affected by hedge funds."

The world economic situation is still unsettled and starting 2019, "we have seen storms in the financial markets, however the metals are still holding," **Aboura** opines. "Demand for metals is still strong. UAE and Saudi Arabia have announced strong budgets with high spending on infrastructure. This should help the local economies with more scrap generation. With the hope of a U.S. /China trade deal and solution to Brexit, we hope the markets will stabilise and help us to have a better 2019."

Gupta has a more optimistic view. 2019 should be a fairly good year, "but all depends on various policies being announced by the governments. It's very difficult for us to predict. Overall, I don't see any market demand going down, except for aluminium for which the demand is fairly stable; steel was down in Q4, but I hope it will improve now," he says. Though there has been some disturbance due to different factors mentioned above, he believes the industry should focus on making the best use of existing and emerging opportunities for continued growth.