

China's Recycled Wastepaper Import Policies: Part 1 Impact on the United States

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China's new rules on imports of wastepaper and their effect on the United States are the focus of this Executive Briefing on Trade (EBOT), the first of two. The second EBOT will focus on the economic effects of the Chinese ban and restrictions on the global recycling industry. Throughout 2017, China's Ministry of Environmental Protection increased its efforts to stop what it calls "foreign garbage" from coming to China. In particular, China, the world's largest importer of waste paper products, recently made significant changes to its laws to limit imports of wastepaper as raw materials. These policies have especially impacted the United States, the world's largest exporter of these goods.

China tightens imports of recyclable paper

China notified the World Trade Organization (WTO) of its intention to ban imports of 27 kinds of solid waste in July 2017 as part of its *National Sword 2018* program—a national environmental initiative; this ban went into effect on January 1, 2018. Among the banned items is certain unsorted waste and scrap, or "mixed," paper.¹ China also filed separately with the WTO in November 2017 to lower the contamination thresholds for the carried weight standard on recyclable paper commodities not covered by the ban. Among these items are old corrugated containers (OCC) and old newspapers (ONP).² The new standards that went into effect on March 1, 2018 dictate that contamination on shipments of these products cannot exceed 0.5 percent of the load. The previous standards were not strictly enforced and industry norms have allowed higher degrees of contamination to enter China over recent years.

China has also restricted and delayed annual import licenses³ for domestic companies that receive wastepaper as a commodity for recycling. Larger recycling mills are receiving import licenses at the expense of smaller mills—in a move to reduce pollution and increase efficiency. Most of the approved volume of wastepaper was allocated to the largest producers in China, while most of the smaller Chinese mills that purchase imported wastepaper on the open market have not received permits.

U.S. industry response

Several U.S. industry groups have submitted comments to the U.S. Trade Representative, the WTO, and Chinese authorities. These groups claim that the new standards are unattainable for U.S. recyclers, citing the short time frame for compliance and the quality—China's new contamination standards are much lower than industry rates—of recycling collections from American consumers.⁴ With current sorting techniques, industry guidelines set contamination rates between 1 percent and 5 percent.

U.S. leads wastepaper global exports

Since 2010, the United States has exported an average of \$3.3 billion (USD) per year (19.5 mmt) in wastepaper for recycling, accounting for 36 percent of world wastepaper exports in 2017. Although the value of U.S. exports of all wastepaper decreased slightly (3 percent) during this period, the component categories have changed more drastically. In particular, the category that contains mixed paper decreased 25 percent.

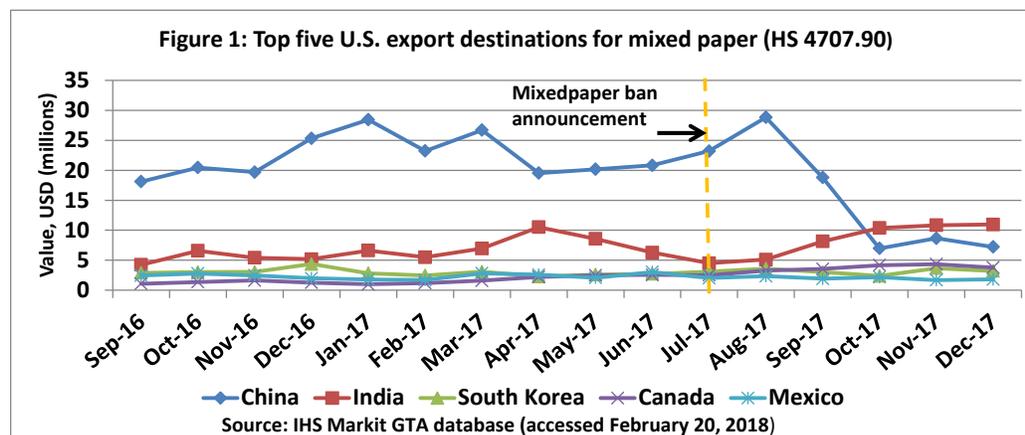
China was the main wastepaper destination for U.S. exports, accounting for an average of 60 percent since 2010. U.S. exports of wastepaper to China noticeably declined coincident with the new policies.

¹ China's filing indicates HS 4707.9000.90. The last four digits of China's import code are for its internal tracking purposes. The closest possible category to compare to trade data for other nations is HS 4707.90, unsorted waste and scrap paper. Mixed paper is a broad category that includes old magazines, low quality office waste paper (such as discarded mail) and unsorted waste/scrap paper. Recycled mixed paper can be used to make paperboard and tissue, as a secondary fiber to make paper, and as a raw input to make molded pulp products—such as egg cartons.

² These restricted categories include HS 4707.10 (for example, OCC which is used to make shipping boxes and paperboard for product packaging—such as cereal boxes), 4707.20 (high grade deinked paper, including letterhead and copier paper; used to make high grade paper products—such as printing and writing papers or tissue), and 4707.30 (for example, ONP, which is used to make new newsprint, paperboard and tissue).

³ Shipments to China are subject to two inspections: Pre-Shipment Inspection (by an independent third party organization that is accredited by the Chinese government) and a check at the designated Port of Entry in China by the Chinese authorities.

⁴ U.S. recycling collections are usually unsorted and include commingled trash.

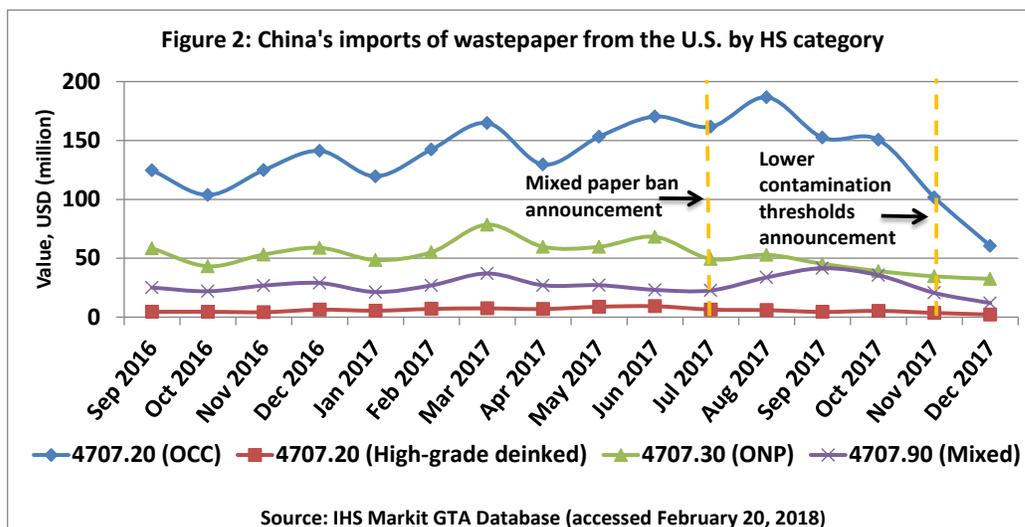


The initial slight uptick in U.S. exports to China after China’s mixed paper ban announcement reportedly reflected U.S. exporters’ slow backlog adjustments and excess confidence in the ability of U.S. industry

groups to appeal China’s new rules. Exports of mixed paper drastically declined as implementation of the policies neared (figure 1). Notably, India overtook China as the main U.S. export destination for mixed paper in October 2017. But, increased U.S. exports to other countries have not kept pace with the loss of exports to China.

China leads wastepaper imports

Since 2010, China has imported an average of \$5.8 billion per year from all sources in wastepaper for recycling (26 mmt). accounting for 55 percent of world imports in 2017. In 2017, 63 percent of these imports from the U.S. were in the category that contains OCC;



China remains the top U.S. export destination for the categories that contain OCC and ONP. China’s imports of the four categories of wastepaper from the U.S. noticeably declined corresponding with the new policies (figure 2).

New potential wastepaper markets for the United States

This commodity is sold in the global marketplace—consumed by recycling mills and used as feedstock for manufacturing—in competition with virgin raw materials. In recent years, most of these recyclables have been consumed offshore and developing new U.S. recycling mills was slow due to profitability concerns. As a result of China’s new policies, stockpiles of U.S. recyclables are building up as stakeholders develop new options for processing recyclable products. Although China continues to make investments in recycled capacity, Vietnam, Indonesia, Thailand and India are also planning to bring new capacity online in the next year and may become important new U.S. export markets.

Sources: BIR. “China Trade: National Sword 2018 and Review of changes to China’s Import Controls,” February 22, 2018; ISRI, “Statement of the Institute of Scrap Recycling Industries,” (accessed March 8, 2018); Margolis, Jason. “Mountains of US recycling pile up as China restricts imports,” PRI; RISI, “China issues new round of RCP import permits,” February 28, 2018; Szczepanski, Mallory. “ISRI, NWRA, SWANA respond to China’s finalized contamination standard,” Waste 360, January 12, 2017; Young, Leone. “The China Conundrum,” Waste 360, December 6, 2017; Wiener, Robin. “Comments to the Draft Environmental Protection Control Standards for Imported Solid Wastes as Raw Materials (GB 16487.1-13)” ISRI, August 25, 2017; Wiener, Robin. “China’s WTO Compliance; Docket No. USTR-2017-0011,” ISRI, September 20, 2017; WTO Committee on Technical Barriers to Trade, Notification G/TBT/N/CHN/1211, July 18, 2017; WTO Committee on Technical Barriers to Trade, Notification G/TBT/N/CHN/1225, November 15, 2017.