

ATTACHMENT 4 - STATUS OF THE VICTORIAN RECYCLING INDUSTRY

Background

1. Over the past two decades Victoria and more broadly Australia has relied heavily on export markets to absorb the majority of kerbside recycling material. More specifically the materials that have been exported to China and Asia include paper, cardboard and plastics. Due to the fact that the materials have been export there has been a decline in recycling material quality within the kerbside sector.
2. The export of paper, cardboard and plastics has meant virtually no focus on the development of local markets for these materials.
3. Kerbside has been collected in a commingled bin which includes glass containers. The two major causes of poor quality recycling material has been caused by broken glass fragments being imbedded into the other recycling materials and unsuitable materials being placed into the recycling bin by the community. This has resulted in average contamination rates of 15% – 20% in the kerbside sector across Australia. This is not an acceptable contamination standard which needs to be peeled back to between 2% - 5% to ensure high quality material suitable to be used for re manufacturing processes.
4. A number of key events have impacted on the kerbside recycling export markets and created uncertainty including:
 - a. The China National Sword Policy banning the import of low quality recycling;
 - b. Asia has banned the import of low quality recycling material;
 - c. India has already signalled that they will shortly ban the import of low quality recycling material;
 - d. In July 2019 SKM collapsed and it was discovered that they were storing recycling materials for approximately two years. The affected 33 Councils across Victoria which required the landfilling of thousands of tonnes of kerbside recycling material. Although approximately one third of affected Councils have been absorbed by Visy and Polytrade the remainder still have no options but to landfill their kerbside recycling;
 - e. All Contracts between Councils and SKM have been declared void;
 - f. In October 2019 Cleanaway purchased 60% of the SKM business and has been approaching the affected Councils to sign up new agreements. The recycling processing gate fee which was approximately █████ per tonne with SKM has shifted to approximately █████ per tonne with Cleanaway;
 - g. Hobsons Bay Council has signed up with Cleanaway and on Monday the 11th Nov 2019 Hobsons Bay residents were informed that their recycling would be temporarily going to landfill due to a capacity issue at Cleanaway.
5. The current Victorian/Australian kerbside recycling model is not sustainable and needs an urgent reform.
6. In January 2018, China enforced its National Sword Policy which requires any recycling material flowing into China to meet new quality standards of no more than 0.5% contamination. This created market ripples at a global level as commodity prices fell dramatically and quickly.
7. This had major impacts in Australia including to Yarra City Council in Victoria. There are three domestic kerbside recycling material processors in Victoria. For the past two decades

the majority of the kerbside recycling material from Victoria has been exported into the Asian markets with large volumes flowing into China. Most Victorian Councils had been receiving a rebate from the recycling processors for the kerbside recycling material. Because the majority of the kerbside recycling material (mainly paper, cardboard and plastics) has been exported, there has been very little local market development for these categories of kerbside recycling material.

8. During 2018, as commodity prices fell for the kerbside recycling material, the recycling processors in Victoria approached Councils for a change in prices for the processing of the kerbside recycling material. In general terms, the pricing changes required Victorian Councils to shift from receiving a rebate for the recycling material to paying the processors a fee to process (or ship) the recycling material. Yarra City Council has taken the view that shifting the costing model for recycling processing is a short-term solution and does not provide any long-term sustainability for the kerbside recycling material as it does not address the quality issues.

The quality issue with the kerbside material stems from two major causes:

- a) Householders may place the incorrect materials in the recycling bin, including household garbage which requires processors to remove contamination during the sorting process;
- b) For the past two decades the kerbside recycling material has been collected as a commingled mix which includes glass containers in the recycling bin. The recycling material is collected in compaction vehicles which creates glass breakage and glass fragments to be embedded into the other recycling materials.

Kerbside Recycling Industry - Victoria

9. The collapse of SKM in July 2019 left 33 Victorian Councils with no facility to send their kerbside recycling material. The material from approximately 40% of the affected Councils was distributed between Visy and Polytrade. An approximate 60% of the affected Councils had no alternative but to landfill their kerbside recycling material. The collapse of SKM also identified that they had been storing processed kerbside recycling material in warehouses around Melbourne.
10. Since the collapse of the kerbside recycling industry in 2018, Yarra City Council has not sent any recycling material to landfill.
11. The SKM site at Coolaroo also contained in excess of 100,000 tonnes of stored kerbside glass fines which is contaminated with particles of other kerbside products. This has further highlighted that the current kerbside commingled recycling model containing glass is not sustainable.
12. This has placed additional pressure on Councils, State Government and the Industry to seek alternative solutions as soon as possible. The State Government has announced a \$10 million dollar loan to the SKM Recycling receivers and managers (KordaMentha) to clean up the SKM sites to enable the capability for the sites to return to recycling processing operations.
13. KordaMentha has indicated that they will work with individual Councils under contract to investigate kerbside collection models that lead to improved recycling levels and reduce contamination. This is a strong signal that there may be a growing focus across the state to transition to a more sustainable kerbside recycling model.

14. Cleanaway has purchased 60% of the SKM business. The original Contracts between Councils and SKM are now void. Cleanaway has commenced working with the affected Councils to strike new recycling processing agreements. It is not clear at this point where the markets for the processed recycling material through Cleanaway will be.

Export Markets – Kerbside Recycling Material

15. China has signalled to the industry that in January 2020 it will no longer accept any recycled paper and cardboard. This will place additional pressure on the kerbside and commercial recycling market in Australia. The value of paper and cardboard would then be likely to drop further and would have a flow on effect on the value of kerbside recycling material.
16. India has also signalled that it will no longer take kerbside recycling material in the near future. This will place additional pressure on the kerbside and commercial recycling market in Australia.
17. The State Government has announced that they will explore the banning of recycled material being exported overseas. This would intensify the need for the development of local markets for recycling material.
18. Banning the export of recycling material will very likely create a glut of recycling material in the market creating further drops in material value and potentially further increases in material processing gate fees.
19. The average recycling processing gate fee in Victoria at the moment is [REDACTED] per tonne. Depending on China's positioning and the potential reset from the SKM Administrators, this may increase again in the near future for material that is commingled with glass.

Yarra Recycling Processing Contract

20. Currently Yarra has a processing contract with Polytrade until September 2020 with an option to extend for a further six month period. Currently Polytrade has confirmed they are still exporting kerbside paper, cardboard and plastics into China. The reason they are able to achieve this is that the owner of the business is Chinese and has facilities in China where the material is further processed for use in China. It is uncertain how long this practice will be sustainable for given China's National sword stage 2 and the possibility that the export of recycling material may be banned in the future.

Yarra Kerbside Collection Contracts

21. Currently Yarra has a kerbside collection contract with Four Seasons Waste until September 2020 with an option to extend for a further six month period.

Current Victorian Recycling Processors

22. There are currently three kerbside recycling processors in Victoria (Visy, Polytrade and Cleanaway who have taken over the SKM sites) that process commingled kerbside recycling containing glass.
23. Australian Paper Recovery (APR) have now entered the market to process kerbside recycling without glass. The Yarra Holistic Trial Material is being processed by APR. The Laverton APR site has the capacity for approximately 50,000 tonnes per annum of commingled with no glass.

Risks for Yarra City Council

24. Yarra currently has a kerbside recycling Contract with Polytrade until September 2020, with a six month extension period which takes us to March 2021. Given that the Polytrade

business has processing capability in Victoria and China, it is reasonable in the short term to assume the Yarra kerbside material is secure until March 2021.

25. The recycling processing gate fee at Polytrade is locked in until March 2021, with CPI increases. Currently Yarra is paying a [REDACTED] per tonne gate fee. Given that the many Councils are paying up to [REDACTED] per tonne, it is reasonable to assume that except for any unforeseen circumstances there are no major financial risks associated with the kerbside recycling processing contract.

Long Term Risks – All Councils

26. The current kerbside commingled recycling model is not sustainable in the long term. The reasons include:
 - The collapse of the recycling export markets
 - Lack of local markets for kerbside recycled paper, cardboard and plastics
 - Commingled kerbside recycling material is contaminated by broken glass shards
 - Commingled kerbside recycling material is contaminated by unsuitable materials (Poor use of the recycling bin by the community)
 - The community has become confused about the correct kerbside recycling practices
 - Increasing packaging volumes that are not recyclable
27. Without a sweeping reform of the kerbside recycling industry, all Councils face the risk of having to landfill kerbside recycling materials. This would result in environmental, social and financial impacts not only for Yarra but for Victoria and across Australia.

Yarra Risk Management

28. Yarra has taken the view that an alternative kerbside recycling model needs to be developed to ensure the long term sustainability of the kerbside recycling industry.
29. In June 2019 Yarra commenced a Holistic Waste Trial in Abbotsford to explore a model with the potential to mitigate the long term risks facing the kerbside recycling industry.
30. The objectives of the trial included:
 - Change consumer behaviour to reduce the generation of waste
 - Explore the most effective methods for community engagement
 - Avoid having to landfill kerbside recycling material
 - Diversion from landfill
 - Resource recovery
 - Improved quality of kerbside recycling material
 - Create a model that can be replicated to other local Councils
 - Develop local markets for kerbside recycling material
 - Develop a circular economy model for kerbside recycling material
31. Officers and Councillors have been advocating to State and Federal government and other stakeholders and decision makers to inform and influence the approach to waste and recycling, including to seek investment in local processing.

Yarra Holistic Waste Trial

32. The existing waste management services in the trial area were the same as the remainder of Yarra, which is made up of 1 x 80 litre garbage bin per week and 1 x 120 litre recycling bin per week per rateable property;
33. The holistic waste service in the Abbotsford trial area consists of:
 - 1 x 80 litre garbage bin fortnightly
 - 1 x 60 litre crate or 47 litre glass container fortnightly
 - 1 x 120 litre recycling bin (paper, cardboard, metals, plastics) fortnightly
 - 1 x 120 litre Food & Green Waste (FOGO) bin weekly;
34. The Glass from the trial area is transported to Polytrade's glass beneficiation facility and then goes to OI (Owens Illinois) in Newport for the manufacture of new glass containers.
35. The commingled recycling (No glass) from the trial area is transported to APR (Australian Paper Recovery) in Laverton for processing and supply to the local markets due to the removal of broken glass and an improvement in the material quality.
36. The FOGO from the trial area is transported to Veolia Dandenong for processing into compost for the local markets.
37. The results of the Holistic Waste Trial to date have demonstrated that this type of kerbside recycling model has the potential to be sustainable in the long term and is adaptable for local Councils across Australia. The Yarra trial has raised interest from Councils across Victoria and the data has provided valuable feedback to State Government. Based on the Holistic Waste Trial Yarra has the capacity to ensure the security of its own kerbside recycling material for the next 5-10 years, should Council resolve to roll this approach out across all Yarra households.

Circular Economy Policy – State Government

38. The State Government has announced that there is a need for sweeping reform of the kerbside recycling model across Victoria and is currently in the process of completing the Circular Economy Policy which is expected to be released by the end of 2019. Officers have made submissions and had input into this Policy through a number of mechanisms.
39. According to available information it is anticipated that the Circular Economy Policy will seek to reform the current kerbside recycling model with a strong focus on:
 - Long term sustainability of the kerbside recycling industry
 - Waste Reduction
 - Diversion from landfill
 - Resource recovery
 - Separation of material at source (Potential 4 bin kerbside collection system)
 - Improved quality of kerbside recycling materials
 - State wide community engagement and education programs with standardised messaging
 - Standardisation (For example standard bin colours to make recycling easy)
 - The development of local markets
 - Procurement of materials with recycling content
 - Adequate processing infrastructure for kerbside recycling material

Emerging Milestones

40. In 2019 the Metro Waste & Resource Recovery Group (MWRRG) put out a Request for Information (RFI) to gain an understanding of potential parties interested in the Victorian kerbside recycling market and what would be required to create viability for new market entrants. The RFI has highlighted that there are a number of parties that are interested in entering the Victorian kerbside recycling market. This would have the potential to create increased competition and options to align with the State Government Circular Economy Policy.

MWRRG Recycling Tender Process

41. The MWRRG is currently in the process of preparing to go out to the market for the next round of collective recycling processing tenders. The intent is to put out tenders focused on clusters of Councils in order to draw more competitors into the market. The clusters are based on combined volumes of recycling materials to make it viable for a tenderer to invest in infrastructure.
42. The key focus of the tenders will include:
 - Attract new competition
 - Long term sustainability
 - Appropriate and adequate processing infrastructure
 - Maximum resource recovery
 - Markets (Local versus overseas)
 - Circular economy
 - Material quality (Options for source separation models such as glass out)
 - Innovation
 - Ethics
 - Audit trails for recovered materials
 - Audit requirements for the processing facilities
43. The timing of the tender process is to complete the procurement process by May 2020 with a scheduled start date of 1st July 2021. The timing of the commencement dates for the new recycling processing tenders is in close alignment with the end date of Yarra's recycling processing contract with Polytrade. This places Yarra in a position that minimises financial risks and material security risks associated with the recycling processing contract.