

ENERGY & ENVIRONMENT

Skid in Oil Prices Pulls the Recycling Industry Down With It

By **DAVID GELLES** FEB. 12, 2016

NEWARK — In a cavernous recycling facility crisscrossed with conveyor belts, enormous bales of crumpled plastic bottles are stacked one atop another, waiting to be sold to the highest bidder.

For Waste Management, the company that runs this operation, collecting, sorting and bundling recyclables was until recently a profitable endeavor. A year ago, Waste Management could have fetched \$230 for each bale of thin translucent plastic.

But today, thanks to the glut of cheap oil flooding global markets, they are worth just \$112 each.

“Recycling is in a crisis,” said David P. Steiner, chief executive of Waste Management. “It used to be that all players in the recycling ecosystem were able to make a profit. That’s not the case anymore.”

With concerns about climate change mounting, it’s an awkward time for the recycling industry to be under such pressure. The environmental merits of recycling are well accepted by the public, if still disputed by some. Curbside collection programs are commonplace.

Yet recycling is a commodities business. The paper, metal, plastic and glass that recyclers collect, sort and sell competes against so-called virgin materials. And right now, many commodities are cheap.

Abundant oil is the latest headache for recyclers. New plastics are made from the byproducts of oil and gas production. So as plentiful fossil fuels saturate global markets, it has

become cheaper for the makers of water bottles, yogurt containers and takeout boxes to simply buy new plastics. This, in turn, is dragging down the price of recycled materials, straining every part of the recycling industry.

In Montgomery, Ala., Infinitus Energy opened a \$35 million recycling center in 2014. By last October, it was hemorrhaging money and shut down. Montgomery's recyclables are now going to a landfill, and a once booming local business, United Plastic Recycling, filed for bankruptcy last year.

In Plaquemines Parish, just south of New Orleans, Republic Services decided to double the fees it charged the local government to collect and process recyclables. The cost was too high, and the parish said it would end its recycling program at the end of this month, only to reverse course after a public outcry led by energetic seventh graders.

And Waste Management, the biggest recycler in the country, has reduced the number of recycling facilities it operates to about 100, from 130, over the last two years, resulting in the loss of 900 jobs. Over the last three quarters, revenues from recycling operations are down 16 percent from the same time a year earlier, to \$878 million from just over \$1 billion.

“The recycling industry is being hit dramatically by falling commodity and oil prices,” said Michael Taylor, vice president for international trade at the Society of the Plastics Industry. “A real fear now is that recycling rates might go down. That would be a horrible situation.”

Local governments and businesses have spent decades working to increase recycling rates with new infrastructure, education campaigns and higher demand for post-consumer materials. And though recycling rates vary by material — newspaper and cardboard are recycled more than aluminum, glass and plastic — the push was largely successful. About 34 percent of waste was recycled in 2013, according to the Environmental Protection Agency, more than double the 16 percent that was recycled in 1990.

A few years ago, when oil and other commodity prices were high, these efforts paid off — companies, cities and counties were all able to make money through recycling. But abundant fossil fuels and falling prices for other commodities, including paper, aluminum and copper — largely the result of slower growth in China — are undermining these gains.

Today some environmentally minded businesses and municipalities are facing an uncomfortable reality: When oil and other commodities are this cheap, recycling doesn't always make economic sense.

Until recently, recycling programs were an unlikely cash cow for many cities and counties. Thanks to high commodity prices, recyclers like Waste Management would actually pay municipalities for used cardboard, aluminum cans and plastic bottles.

But as recyclers around the country face losses, they are passing their costs along to cities and counties. Increasingly, local governments are receiving nothing at all for their recyclables, or even having to pay companies to accept them.

Last year, the city government in Washington, D.C., paid Waste Management \$1.37 million to accept the recyclables it collected from residents. That represented a stark reversal from 2011, when the district earned \$550,000 for sending the company roughly the same amount of material.

Orange County, N.C., which includes Chapel Hill, was making about \$500,000 a year by selling its recyclables to a company called Sonoco. But as commodity prices have fallen, so, too, have the prices that Sonoco can offer local governments. Starting this month, Sonoco will not pay Orange County anything for the mixed paper, plastics and metals it collects.

“We’re at the mercy of oil prices and markets like everybody else,” said Blair L. Pollock, Orange County’s solid waste planner. “The same kind of volatility is just rippling through every part of the industry.”

For now, Washington and Orange County say there are no plans to curtail their recycling efforts. Some states require local governments to collect recyclables, and even if the programs are not profitable, they are often cheaper than sending waste to a landfill, which is expensive, especially near urban centers.

San Antonio made \$305,000 from collecting and selling 87.6 tons of recycling last year. That was far less than the \$5.2 million the city made in 2011, but it was better than the alternative. Sending those recyclables to a landfill would have cost San Antonio \$2.1 million last year.

There are still bright spots in the industry. Big companies like Pepsi and Procter & Gamble are buying more recyclable material to meet sustainability goals. And efforts are underway to build out new recycling infrastructure that could make the industry more efficient.

Some in the industry believe that for these reasons, recycling will continue to thrive even if it is less profitable than before.

“There are still some customers for recycled materials, for reasons other than pure economics,” said Mr. Taylor of the Society of the Plastics Industry. “The thinking is that that demand will grow because of the greening of the mainstream American consumer.”

And even with thinner margins, some smaller recyclers are eking out a profit. Balcones Resources, a recycler in Austin, Tex., that handles residential and commercial accounts, remains profitable.

“We get squeezed from time to time,” said Kerry R. Getter, chief executive at Balcones. “But we finished the year and we made money.”

Not all companies can say as much. At the Waste Management facility in Newark, bales of plastic, paper and metal continued to pile up, each one representing a small loss for the company. Waste Management executives expect their recycling business to shrink again this year, and others in the industry are girding for more cuts.

“Our recycling business has dramatically changed, from a business we thought was going to grow very fast and very profitable, to one that is not growing at all and not profitable,” said Mr. Steiner of Waste Management. “High commodity prices aren’t coming back anytime soon. This may be the new normal.”