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Understanding National Sword in Pennsylvania

National Sword is not the name of a new Monty Python skit or Hunger Games tool, but rather an ongoing initiative of the Chinese Government to restrict importation of contaminated recycled materials into China. How may this effect Pennsylvania recycling programs? How may this impact those who use your recycling program? What is the word on the ground in China? Read on and hear from the Pennsylvania Recycling Markets Center and the Pennsylvania Office of International Business Development.

A bit of background first. As one may easily realize many of the products we buy in the United States have been made in China. Goods are shipped via ocean freight to the United States often without American made goods returning to China on the same vessels. As a result of this manufacturing base in China, there is an extremely large trade deficit with China which makes return shipping to China very inexpensive. Historically, this is what has made shipping recycled materials to China attractive, and has equally made recyclable materials from the United States the sixth largest import to the Chinese economy.

Simultaneously, single stream recycling growth has not excluded Pennsylvania over the last decade. Not only has recycling volume increased through single stream recycling operations, but correspondingly, inbound post-consumer materials to processors can have increased prohibitives and outthrows from previous recycling collection methods. There is concern this may be passed onto the downstream users of the processed materials in overseas markets, specifically China. This has not gone unnoticed, especially in trade with Chinese recycling markets whereby emerging growth has worked to feed use of US commodities.

As modernity has continued to grow in China, some urban areas are plateauing in their emergence cycle, and as a result, demand for imported, recycled materials has stabilized as in-Nation recycled materials are used. This creates insistence of quality amongst non-contaminated imports. This is particularly true of those materials targeted under the National Sword program, broadly, plastics, fiber(s), and mixed metals. Plastics, one of the largest contributors to residential recycling, is limited by the Chinese Government at 0.5% contamination rate, which is not aligned with internationally recognized quality standards. ISRI, the Institute of Scrap Recycling Industries, has been at the forefront of the National Sword concern, especially as it was adopted on January 11, 2018.

So how in Pennsylvania can we minimize targeting of our recycled materials by import restrictions? How can a collection program be a processor's partner in reacting to their downstream requirements?

1. **Material Quality**

Material quality, is always a popular evening talking point when at a conference, but also a clear necessity for processors to streamline sortation costs, a necessity for collection programs to avoid extra contamination charges, and a necessity for the ultimate end user of a clean, product ingredient. In all, Chinese officials have stated that approximately 24 types of plastics, fiber, and mixed metals are unwanted

and therefore need stay out of baled, desired material, ultimately translating that program material quality is of utmost importance. Whether the recycled material once sorted would be used domestically or internationally, it is far less likely that loads would be rejected by an end user if material quality is imparted starting with the consumer.

2. Program Education

Whether it be a formalized education program that is well established in a community, or as simple as item acceptance labels for roll carts and bins, in order to prevent unwanted recycled into the container, program education which leads to maintaining or improving what is regularly deposited in a recycling container is at an all-time high. Continuing to provide education programs for those who use collection programs services in order to prevent both intentional and unintentional contamination is what will more likely allow your baled materials to be market ready, international or domestic.

3. More on Prohibitives and Outthrows

With various non-recycling uses for mixed plastics and mixed paper that can be a pathway for recycled materials, such as but not limited to energy recovery, one needs to monitor for changes in end use especially throughout 2017 and 2018.

4. Demurrage, Dock Time & Charges

In the United States, one effect of the National Sword initiative is that in order to sort materials to a lower percentage of impurities, machinery may need to be slowed down, ie, slower belt speeds, slower scanning of materials, and increases potentially in picking of conveyor systems. All of this translates unfortunately to higher costs which ultimately may be reflected in rebates or charges for processing of recyclables. Also, if inspection time is increased at a receiving port, there may be charges associated with this as well, especially as it has been documented that Chinese dock charges are on the rise.

5. Understanding Contracting

If you have contracted for material processing or recycling services, read-up on your contract(s), understand your contracts, and be prepared to have discussions with your solicitor, elected official, or processor if pricing and contaminant charges becomes a concern.

The Pennsylvania Recycling Markets Center has a working partnership with the Department of Community and Economic Development's (DCED) Office of International Business Development (OIBD). With 9 Pennsylvania Business Attraction Offices around the world and 15 trade facilitation offices around the globe, OIBD places their reach, and as needed RMC's reach to 51 countries. This international network of trade and investment offices around the world works with RMC to assist Pennsylvania companies to export to new markets, but more so to assist international companies to invest in Pennsylvania. The Office of International Business can be found at <https://dced.pa.gov/business-assistance/international/>.

Recently, Mr. Robert Bylone, Pennsylvania Recycling Markets Center's Executive Director, briefly interviewed key personnel of OIBD regarding the National Sword Initiative. Specifically, Bob spoke with Mr. Eric Xu, OIBD's authorized investment representative in Beijing, China and Ms. Irene Tsai of Pennsylvania's Greater China office in Taipei. As a result, this is what we learned about the National Sword directive from their in-Country combined viewpoint, on-the-ground in China.

(RMC) 1. Are you familiar with the National Sword initiative or have you heard about it from a Chinese perspective? If so, please detail what you have learned.

(OIBD) The General Administration of Customs of the People's Republic of China indicated in February 2017 that customs will focus on the following "Five Securities" as an in-depth development of the "National Sword" joint special operations to crack down on key areas and key commodities smuggling:

First is environmental security, to crush the smuggling of "foreign garbage" and to block all entry channels for "foreign garbage" through cooperating with the environmental protection and other departments.

Second is agricultural security, to combat the smuggling of grains and other agricultural products and never to allow smuggling to impact the domestic grain and foodstuff market to a situation where low grain prices hurt farmers and cause job instability.

Third is industry security, to control the smuggling of coal and other resource-based products. Customs will lead the way in controlling and regulating imports and crack down on smuggling to support and protect "capacity-cutting" and other supply-side structural reforms in resource-based industries.

Fourth is taxation security, to fight against the smuggling of tax-related goods, to continue to crack down on the smuggling of key tax-related commodities like tobacco, alcohol and luxury goods, as well as tax refund/rebate fraud, so as to safeguard the security of national taxation.

Fifth is societal security, to combat gunfire and narcotics smuggling. The fight against the smuggling of narcotics, arms and ammunition, and endangered species, and the crackdown of nuclear, biological and chemical explosives need to be continually strengthened, so that they are never allowed to endanger the safety and stability of society.

In fact, as early as 2011, the Ministry of Environmental Protection of the People's Republic of China, along with 4 other governmental departments (Ministry of Commerce, National Development and Reform Commission, General Administration of Customs, and General Administration of Quality Supervision, Inspection and Quarantine), jointly announced detailed specifications for the "Solid Waste Management Measures" and required local regulatory agencies to strengthen enforcement of these measures. Nevertheless, these specifications were never enforced. In April 2017, the Chinese government once again declared the "Implementation Plan for Prohibiting the Entry of Foreign Garbage and Advancing the Reform of the Solid Waste Import Administration System", to gradually ban the import of solid waste. In addition to the planned ban on the import of environmentally-hazardous solid wastes by the end of 2017, the plan also calls for the gradual ban on imports of alternative solid wastes that can be replaced

by domestic resources by the end of 2019. The program also seeks to strengthen the supervision of the import, transport and utilization of solid waste to ensure environmental and ecological safety. In accordance with the above-mentioned implementation plan, China modified and revised the "Catalog of Solid Wastes Forbidden to Import into China", "Catalog of Solid Wastes Restricted for Import as Raw Materials" and the "Catalog of Solid Wastes Unrestricted for Import as Raw Materials", and officially notified the WTO Committee on Technical Barriers to Trade on July 18, 2017, in which they indicated that by the end of 2017, 24 types of solid wastes will gradually be moved from the "Catalog of Solid Wastes Restricted for Import as Raw Materials" to the "Catalog of Solid Wastes Forbidden to Import into China" so as to achieve the policy objective of protecting the environment and human life or health.

(RMC) 2. Are there actual "blockages" of recycled materials at Chinese ports of which you are aware?

(OIBD) Below please find specific cases of returned waste released by the General Administration of Customs of The People's Republic of China:

1. Nanjing Customs Returns Solid Rubber Wastes Abroad
<http://english.customs.gov.cn/Statics/9c778121-cee3-45f6-a25e-609cf71c36fb.html>
2. Shijiazhuang Customs Intercepts 1,462.48 Tons of "Foreign Wastes"
<http://english.customs.gov.cn/Statics/2066d6ba-ae8a-45f4-99a2-e1e4eeb35172.html>
3. Hangzhou Customs Returns Imported "Foreign Wastes"
<http://english.customs.gov.cn/Statics/1e92fa31-ce03-4ac3-a81c-b87f8f5f4b70.html>
4. Dalian Customs Rejects 105-Ton Solid Waste from Entry
<http://english.customs.gov.cn/Statics/d37aa4b9-517d-4281-8232-6a49ceedba6.html>

(RMC) 3. Can you, if possible, speak with one or two Chinese recyclers to find out if they are having problems for the same?

(OIBD) With Chinese New Year earlier this month, lots of companies have been off for the holiday. However, as has been indicated through in-Country contacts, lots of Chinese recyclers have been reported to close their businesses and a lot more companies alike will close down for sure as the Customs carry out stringent inspections. We are able to confirm these facts.

(RMC) 4. Are you aware of any political inputs to the National Sword initiative and could you please detail the same.

(OIBD) This initiative itself is a national policy as China has been through a series of industry upgrades, and to a point where the government is now aware of the environmental protection issues. The policy has been enacted and will be enforced strictly in the years to come for sure. Consequently, foreign sellers are now looking for alternative markets, such as India.

Additional Resources

<http://money.cnn.com/2017/09/11/news/china-scrap-ban-us-recycling/index.html>

<http://www.isri.org/news-publications/article/2017/07/18/isri-statement-on-china%27s-intent-toban-certain-scrap-imports-.Wcb1omeWy5s>

<https://resource-recycling.com/recycling/2017/05/23/national-sword-upending-exports/>

<https://www.mnn.com/lifestyle/recycling/blogs/soon-cant-ship-recycling-china-thats-problem>

<https://resource-recycling.com/recycling/2018/02/13/green-fence-red-alert-china-timeline/>

The RMC provides this information so that readers may have a better understanding of the National Sword initiative in China, and how it may relate to Pennsylvania. Should you have additional questions or concerns with your markets development activities, please contact the Pennsylvania Recycling Markets Center at 717.948.6660 or info@pennrmc.org.