October 30, 2018

Mr. Edward Gresser
Chair, Trade Policy Staff Committee
Office of the U.S. Trade Representative
Via regulations.gov

Re: National Trade Estimate; Docket No. USTR-2018-0029

Dear Mr. Gresser,

The Institute of Scrap Recycling Industries, Inc. (ISRI)[1], is once again pleased to submit comments for the National Trade Estimate. We sincerely appreciate that the Trade Policy Staff Committee included a comprehensive overview in last year's report of the major trade barrier in China affecting our industry, and we have sought in these comments to provide an update on that issue.

ISRI and the U.S.-Based Scrap Recycling Industry

As the Voice of the Recycling Industry™, ISRI represents 1,300 processors, brokers and consumers of scrap materials, including ferrous and non-ferrous metals, paper, plastic, tire and rubber, glass, textiles and electronics. Among ISRI members are companies from 41 different countries, but North America – and especially the United States – makes up the vast majority of our membership. The scrap recycling industry's total economic impact in the United States is over $117 billion, generating $13.2 billion in federal, state and local tax revenue while supporting more than 530,000 jobs.

In 2017, the U.S. recycling industry processed more than 130 million metric tons of recyclables. As such, the U.S. scrap recycling industry is an environmental steward and an economic driver, and is vital to the health of both domestic and global manufacturing. In fact, the scrap recycling industry is often referred to as the first link in the manufacturing supply chain, making our industry dependent on a healthy domestic manufacturing base and access to global markets.

In any given year approximately 30% of the scrap processed within the United States is prepared for export to industrial consumers around the world that demand high quality scrap. There are 150 export markets, but China, by far, is the largest consumer of U.S.-processed scrap, accounting for nearly 40% of exports.

Summary

Since the first announcement in July 2017, China has announced and implemented a number of measures to restrict or prohibit imports of scrap and recyclable materials. Some of these measures apply to all imports regardless of origin and some apply only to U.S. exports as retaliation for the ongoing trade discord

[1] ISRI is the "Voice of the Recycling Industry," promoting safe, economically sustainable and environmentally responsible recycling through networking, advocacy, and education.

between the United States and China. Taken together, a significant percentage of U.S. scrap exports to China – the total of which was valued at $5.6 billion in 2017 (a trade surplus) – has been affected. Furthermore, these measures have placed even greater pressure on recycling operations across the United States. Many tons of recyclable materials are being stockpiled or, of greater concern, being sent to landfills. China had been the destination of 40% of total U.S. exports of recyclable materials ($17.9 billion in 2017). Other markets will take time to develop, yet in the aggregate, those other markets combined may not reach the levels of consumption by China especially if China exits the marketplace completely.

Import Bans

In July 2017, China notified the WTO of its intent to prohibit, at the end of the year, imports of mixed recovered paper and recyclable plastics collected from households. The policy went into effect on January 1, 2018. In April 2018, the Chinese Government announced that it would impose additional scrap import prohibitions at the end of both 2019 and 2020. Specifically, China will prohibit the import of industrial-sourced plastics, small motors and insulated wire (the latter two having significant valuable metal content that includes copper and aluminum) starting on January 1, 2019. Additionally, beginning January 1, 2020, some of the cleanest streams of metal scrap (such as stainless steel, copper and aluminum scrap) will be prohibited from import into China. ISRI projects China's import restrictions will reduce U.S. export sales by $1.75 billion in 2018, with that figure only set to increase in 2019 and 2020 as these additional bans come into place. The measures announced in April were not – and are not likely to be – notified to the WTO and no public comment process was established by the Chinese government.

Quality Standards

China notified the WTO in November 2017 of its intent to impose prohibitively strict quality standards on imports of all types of recyclable materials. U.S. industry submitted comments describing these standards as "not possible to achieve such a control level, nor is it possible to even measure it with such accuracy." We urged China to use the internationally recognized ISRI Specifications to measure material quality as these standards are "determined through an open and deliberative process within the global recycling community, and reflect manufacturing standards and needs." China's burdensome standards were implemented in March 2018 without alteration from the original proposal, and thus, significant amounts of recyclables that were sought and accepted by China for decades have now become unacceptable due to imposition of these onerous standards.

Import Licenses and Quotas

For at least fifteen years, China has used a licensing system to oversee the import of scrap materials into China. U.S. exporters were required to apply for an export license after having met certain quality management conditions, and along with traders and brokers, Chinese recyclers and scrap consumers were required to hold import licenses with prescribed quotas in order to bring recyclables into China. Yet, as part of its nationwide crackdown on lax environmental compliance within China's recycling industry, the Chinese Government tightened eligibility requirements for these export and import licenses. Although U.S. exporters seem to be relatively unaffected, only Chinese companies that process and/or consume recyclables are allowed to hold licenses (prohibiting traders and brokers from being license holders). The negative impact is two-fold: vastly fewer Chinese companies may hold licenses; and the Chinese Government has been granting far lower quotas for the amount of recyclables allowed for import.

Inspections

In line with these trade deterring measures, officials at Chinese ports were ordered to inspect 100% of the containers filled with recyclable materials arriving into China. Because the quality standards were implemented in such a short time frame, it is our understanding from reports in China that some customs

officials were not fully trained, creating an inconsistency in the interpretation of these regulations and the application of the standards, not only among officials but also between the various ports of entry. Inconsistency also affected the pre-shipment inspections conducted by CCIC (the only entity licensed by the Chinese Government to conduct these required pre-shipment inspections) before containers can leave U.S. ports. As a result, many shipments approved by CCIC during pre-shipment inspections were nonetheless rejected once they arrived in China.

Worsening matters for U.S. exporters, the Chinese Government suspended CCIC's U.S. operations for the period between May 4, 2018, and June 4, 2018. The suspension was allegedly in response to concerns about CCIC's process for issuing approval certificates, however, it is a process CCIC engages in worldwide and no other CCIC representative office was suspended. Likewise, the suspension was announced in conjunction with a Cabinet-level Administration visit to China; the recycling industry is deeply concerned that the suspension was a retaliatory measure against U.S. trade policy. Nevertheless, U.S. scrap exports to China significantly dropped during the suspension period. Additionally, U.S. exporters with containers in transit to China incurred significant additional expense in rerouting containers to non-Chinese ports because of the CCIC suspension.

Moreover, ISRI members and their Chinese customers are reporting that Chinese customs officers are more strictly scrutinizing cargoes from the United States, which has led to more entry rejections for U.S. material – despite the fact that these cargoes received CCIC pre-shipment inspection clearance – as opposed to material from other countries not having a comparative level of rejections. We cannot help but suspect that this is additional retaliation for U.S. trade policy toward China.

Tariffs

In retaliation for the Administration's Section 232 tariffs on steel and aluminum imports. China imposed a range of tariffs that included a 25% import tariff on U.S. aluminum scrap. Furthermore, in retaliation for the Administration's second tranche of Section 301 tariffs on Chinese goods that went into effect on August 23, 2018, the Chinese government imposed a 25% import tariff on all recyclable materials. In fact, aluminum scrap was once again added, and thus, the retaliatory tariff rate on U.S. aluminum scrap was raised to 50%.

If there is any additional information we can provide, please do not hesitate to reach out to me directly at aadler@isri.org.

Sincerely,

Adina Renee Adler
Senior Director, Government Relations & International Affairs