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The Hon. Matt Kean MP
Minister for Energy & Environment
Via Email – 20yws@dpie.nsw.gov.au

Re: Sims Metal Management's Response to Request for Feedback – 20 Year Waste & Resource Recovery Strategy for NSW.

Dear Minister,

Thank you for the opportunity to provide feedback for your consideration when drafting the *20 Year Waste and Resource Recovery for NSW*. We applaud your initiative and trust that the strategy will present some proactive and meaningful solutions to what is a very complex and rapidly changing landscape. Sims looks forward to continuing its proud 100 year history in delivering solutions that match your strategic objectives – solutions that are sustainable, reliable and affordable.

First of all, please allow me to present a brief introduction to Sims Metal Management.

Sims Metal Management ('Sims') is an Australian publicly listed company that has been in operation since 1917 when established by Albert Sims, a sole trader based in Newtown, NSW. Albert's business had very humble beginnings, Albert used a bicycle when he first started out before upgrading to a horse and cart.

Albert's fledgling business has since grown into a true Australian success story and into the world's largest metals and electronics recycler with over 250 operations in 18 countries across the globe - including Australia, New Zealand, Papua New Guinea, the United States. Canada, the United Kingdom, China, Malaysia and India. Sims has global revenues in excess of A$6.5 Billion and directly employs over 5,000 people as well as supporting a myriad of contractors and support businesses.

In NSW, Sims operates 9 sites - 3 in metropolitan Sydney and 6 in regional locations. Sims also operates Australia's largest e-waste recycling facility in Villawood NSW. If you would like any additional information on Sims, please feel free to visit www.simsmm.com .

We understand that your office and the NSW EPA have in recent times received and reviewed a number of submissions from Sims, its peers and the Waste Contractors & Recyclers Association ('WCRA') with regards to the impacts of waste levies on the metal recycling and steelmaking industries in NSW. We would like to request that these submissions be considered when forming your 20 Year Strategy.

The main issues that Sims wish to raise in this submission include:

- The unintended and adverse impacts of the NSW waste levy on the metal recycling and steel manufacturing industries in NSW (abridged – please refer to comments above);
- Horizontal inequity within the industry in terms of regulatory compliance and enforcement;
- Impacts of waste levy policy settings on the NSW circular economy;
- The market imbalance on the east coast of Australia brought about by waste levy variations between the States.

While Sims broadly supports the principle of waste levies and the benefits that this pricing signal brings to sustainable business practice, it both experiences and recognises the effect of this instrument on trade exposed industries. That is to say, those industries that compete on a global stage and have their price and commercial terms dictated by global trade rather than domestic competition. Sims believes that there is clear evidence that there are in cases of unintended and adverse consequences of the NSW waste levy and believes that the 20 Year Waste and Resource Recovery Strategy for NSW should address this and devise appropriate policy settings accordingly.

As you are aware, your office and the NSW EPA has assisted greatly with the granting of a short term waste levy concession, due to expire in 2024. The concession will reduce from the current 50% down to 25%.

Whereas we are extremely grateful for this short term relief, Sims believe that the NSW Government needs to consider a permanent 50% concession or a total exemption of the waste levy on a permanent basis so that stability and investment confidence is provided to one of the key recycling and manufacturing industry sectors within NSW.

In a recent review commissioned by the NSW EPA and conducted by Marsden Jacobs and Associates ('MJA'), it was asserted that *"the waste levy on shredder floc, even when applied at a concessional rate, has the potential to lead to unintended outcomes, including a reduction in metals recycling in NSW and even (under a worst case scenario) the viability of the metals recycling industry here"*.

The concessional waste levy to licensed metal recyclers has been in place since September 2013 and was enacted in recognition of the basic principle that the incidence of the levy fell squarely on the operators of licensed metal shredders, and that their ability to pass on such cost (or reduce such cost as desired by the price signal of a levy) was severely limited because of the export parity competition conditions of the domestic metal recycling industry. That is to say, that the effect of shredder operators passing on the levy to its suppliers was to either offer the suppliers a competitive buy price and accept a lower net margin or lose volume to competitors who avoided the levy imposition by exporting those volumes to other Australian jurisdictions or to overseas markets.

What is export parity? In simple terms, export parity refers to the manner in which prices for goods or services are set and move with prices for the same good or service in an overseas or out of market jurisdiction. For example, Vietnam and Turkey have large steelmaking capacity and source their scrap metal inputs from across the globe on a competitive supply/demand basis.

In effect, steel mills globally seek the lowest cost they can negotiate for their steelmaking inputs, and these can come from virtually any part of the world. As a seller to either NSW or overseas steel mills, a NSW domestic recycler will receive this globally set rate for their processed material. As a result the NSW supplier is competing to sell their material on an export parity basis in competition with many low cost jurisdictions and economies with resultant operating cost advantage.

Understanding these market dynamics is fundamental to the shredder operator's argument on the concessional levy. Unlike other recycling residues generated by operations that face domestic competition only (i.e. waste collection, landfill, MRF operations, C&D recycling etc.), export parity conditions can readily create differentials in the cost base of trade exposed domestic processors. What is most relevant to note in the case of trade exposed domestic processors is that artificial cost imposts not borne by their competitors cannot be readily passed upstream or downstream within the industry value chain without consequence – namely a loss of margin, volume and price competitiveness.

This means those operators in our industry that export semi or unprocessed scrap metal (which includes residual waste) to lower cost interstate or overseas jurisdictions enjoy a cost base advantage over domestic shredder operators. Needless to say, lower cost overseas jurisdictions generally also result in significantly lower social and environmental outcomes.

The simple consequence of trading at global price parity means that artificial cost increases unrelated to global demand and supply determinants occurring in the domestic market affect the ability for that party to operate commercially. This of course threatens long term investment and the ability to participate in a true circular economy – one of the stated goals of the NSW Government.

NSW metal recyclers are currently seeing significant volumes of metals exported from NSW due primarily the high cost of domestic processing and the high cost of waste levies in this state and the easy accessibility of overseas and interstate market alternatives. It is estimated that NSW metal recyclers and NSW steel mills have lost 15-20% of market volume over the last 8 years to external jurisdictions. The waste levy is the highest unit cost in a shredder operator's total production cost - this is simply not a cost that a recycler's interstate and overseas competitors carry.

These impacts are also being felt in the broader NSW economy, with NSW steelmakers now forced to import processed scrap metal as feedstock in bulk marine cargoes (30,000 tonne + cargoes) in replacement of locally supplied volume, thereby increasing their operating costs and resulting in another poor outcome for the environment, to say nothing for the lower outcomes in terms of NSW employment and investment. This bulk importation of scrap metal is a very recent phenomenon for NSW steel mills, only becoming a necessity over the last 2-3 years, not by coincidence in our view as local processing costs increase and international competitiveness decreases.

Added cost and reduced local recycled scrap availability to the steel manufacturing industry in NSW does nothing to improve its sustainability in what is already a hyper competitive global market. As such, serious consideration needs to be given as to how this vital industry is inadvertently impacted by waste levy policy. Impacts on the local steel making industry will also be felt across the critical manufacturing, infrastructure, construction and mining industries.

There is also ample and sufficient evidence to indicate that many exporters of unprocessed or semi-processed scrap metal from NSW are generally unlicensed and unregulated, are paying no waste levy and are sending materials to be processed in low cost / compliance jurisdictions. These exporters are receiving commercial advantage over licenced shredder operators for operating in this manner, to say nothing of the negative environmental and social outcomes of their activities. Sims question as to how there could be any semblance of equity when a policy instrument (i.e. the waste levy) financially favours a segment of the market that export wastes from NSW to the detriment of the NSW economy and the environment as compared to those that generate jobs, provide a better environmental outcome, participate in the local circular economy AND pay levy contributions?

Furthermore, the recent MJA review asserts that the three major metal recyclers have a significantly greater regulatory burden as compared to other operators within the industry. We assert that applying appropriate thresholds for licensing metal recyclers should be implemented prior to the concession being reduced, and that in order for there to be equity in the market, regulatory oversight of the exporting of unprocessed scrap should be a higher priority than reduction of the levy concessions.

NSW EPA did indeed have an opportunity in ~2014 to take some clear and positive action on non-compliant operators with the proposed lowering of thresholds to mirror those of waste and transfer facilities. The metal recycling industry (as was the general waste industry) was very vocal in its support of this measure, however, for reasons not known to industry, metal recycling license requirement thresholds were unchanged despite public representations by the NSW EPA to the contrary.

Sims believes that the NSW EPA is under resourced to provide adequate oversight and enforcement, and that additional resources and capacity needs to be developed as a priority. Sims also believes that the NSW Government should seriously consider adopting a multi-agency approach to dealing with sub-standard operators within our industry who appear to be operating outside of acceptable social, environmental and regulatory standards with impunity. Agencies who we believe need to be involved include NSW EPA, NSW Police, Australian Taxation Office and Fire + Rescue NSW and SafeWork NSW. This approach will take some thought and strong leadership but will ultimately be in the public interest to ensure that best practice social, environmental and economic outcomes are achieved.

In terms of one of the NSW Governments stated goals or creating a circular economy, the metal recycling and manufacturing industries in NSW are prime examples. NSW is home to three major steel mills manufacturing new steel for use throughout the construction, transport, mining and manufacturing sectors .Two of these three major steel mills are totally reliant on recycled scrap metal for their material infeed and the third mill is a significant user of scrap metal. The metal recycling and manufacturing industries are significant employers and contributors to the NSW and Australian economies.

The metal recycling industry is at a crossroad in NSW – the decision as to whether or not to recycle materials with diminishing metallic content in NSW (e.g. cars and post-consumer goods) will be based on commercial sustainability and sadly, not on recyclability. This conflicts with NSW sustainability and recycling objectives and those of a true circular economy in our view.

Exacerbating the export of unprocessed scrap metals to overseas jurisdictions is the market imbalance created by differing waste levies in NSW, Victoria and Queensland. The waste levy in Victoria is currently $65.90 per tonne and is $75.00 per tonne in Queensland ($35.00 per tonne for bona fide recyclers – less than half the levy paid by their peers in NSW at the 50% concessional rate). This imbalance is driving significant scrap volumes north and while such imbalances exist. The mass exodus of general waste tonnes from NSW to Queensland over recent years (and continues today) was created by the very same type of imbalance that metal recyclers have experienced over many years.

To mitigate significant losses of materials from Southern and South Western NSW, Sims acquired a business in Wagga Wagga in2014 that had traditionally sold its ferrous arisings to Sims but had been driven to sell to Victorian shredder operators due to the higher sell price that was on offer. This was also the case when Sims acquired a business in Coffs Harbour in 2012 to combat material losses to Queensland. This has added significant cost to Sims business.

In summary, any change to the current 50% waste levy concession applied to waste from metal shredding has far reaching implications for NSW recyclers, manufacturers, treasury and our environment, Sims believes that a full or anything less than a 50% concessions on the waste levy will:

- Significantly reduce recycling in NSW. The recent MJA report commissioned by the NSW EPA (as did previous Centre for International Economics modelling) clearly identifies that removing the concession will mean less metal will be recycled in NSW;
- Create even more incentive and financial benefit to those (estimated to be circa 15-20% of the market and growing) who choose to export unprocessed, waste bearing materials to lower cost and lower compliance justifications overseas. Public reaction to recent well publicised exports of Australian 'recyclables' to SE Asia has indicated the community's views on this type of activity;
- Reduce employment. With less material, it is inevitable that employment in NSW will fall;
- Reduce capital investment in NSW. It should be noted that the Sims NSW shredder is nearing the end of its effective life. Sims recently commissioned a new facility in Western Australia that cost (sans land) over $90,000,000. A significant reduction in IRR and uncertainty in the NSW market brought about in part by government policy and the increase in competitors exporting unprocessed materials would make it less likely that the company would replicate that investment in this state;
- Increase the number of trucks on NSW roads moving either unprocessed scrap or floc out of the NSW jurisdiction;
- Decrease the sustainability and competitiveness of the important NSW steel manufacturing industry that is a significant contributor to both the NSW and Australian economies as local feedstock is replaced with higher cost imported material. This is a very recent phenomenon - importing scrap in bulk cargoes in to NSW steel mills has only become a necessity over the last 2-3 years, not by coincidence aligned to the growth in the export of unprocessed scrap;
- Create an environment in which the decision on whether or not to recycle materials with diminishing metallic content (e.g. cars and post-consumer goods) will be based on commercial sustainability and sadly not on recyclability – this conflicts with NSW sustainability and recycling objectives and those of a true circular economy. The impact will be that significant amounts of recyclable materials will be simply pushed in to landfill.

The NSW EPA must also rebalance the metal recycling industry in terms of regulatory oversight through the reduction in licencing thresholds as promised in 2014 and not delivered. The NSW Government should also assist by providing enough resources for the enforcement of regulations and consider a multi-agency response to non-compliant business operators that are thriving in the current environment.

We thank you again for the opportunity to participate, Sims believes that resolving the issues that it has raised will assist in providing NSW with the stated goals of the 20 Year Waste Strategy – **Sustainability**, **Reliability** and **Affordability** and will assist in the delivery of best possible environmental, commercial and social outcomes that of course form the basis for our respective organisations core values and purposes.

Please feel free to contact me at your earliest convenience if we can assist with any additional information or clarification on any aspect of this submission.

Kind Regards

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