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How Do Low Oil Prices Affect Recycling?

By Brent Bell, vice president of recycling operations for Waste Management

For consumers filling their gas tanks at the pumps, low oil prices are a boon: a way to save money and travel farther on a gallon. Lower oil and energy prices also help many businesses, especially those in energy-intensive manufacturing industries. For recyclers, however, low oil prices do not paint as rosy a picture. The global economics of oil production are having a serious, and negative, effect on the business of recycling.

Why Are Oil Prices So Low?

The rise and fall of oil prices may seem to be whimsy, but, like all goods traded on the open market, oil is subject to the basic laws of supply and demand. Thanks to ramped up production on shale and tar sands, [oil output in the United States has almost doubled in the last several years](#), reducing reliance on foreign oil. Russia, Saudi Arabia, North African countries, and other oil producers have to compete for European and Asian markets, but those markets are shrinking due to lagging economies. In short, since 2014, oil supply has grown, but global demand has shrunk. These two competing pressures have combined to [make oil prices the lowest they have been since 2003](#).

As Oil Goes, So Goes Plastic

Plastics are derived from byproducts of petroleum refining and natural gas processing. Therefore, when oil prices dip, the price of plastic resin follows. In fact, oil prices are currently so low that it's cheaper for manufacturers to buy virgin plastic than it is for them to buy recycled plastic feedstock. Needless to say, this is not good news for the recycling industry. However, with commodity prices continuing to stay low, and with the ratio of plastic packaging in our waste stream continuing to grow, [we need to ensure that recycling remains both economically and environmentally sustainable](#).

A Ripple Effect for Paper and Metals Recycling

Nothing exists in a vacuum, and the low price of oil has had a ripple effect on other recycling markets, too. Low oil prices in the United States have contributed to a strong economy compared to other countries. This, in turn, has strengthened the U.S. dollar, which makes [waste paper](#) and metal from the United States more expensive than recyclables from other countries. The strength of the dollar combined with an overall depressed global demand for metal and paper has resulted in a shrinking market for U.S. recyclables. As an example, low oil prices have led to a reduction in oil exploration and energy infrastructure—both steel-intensive areas. This contributes to the low [demand for recycled scrap metal](#).

What's Next?

Some say the definition of wisdom is knowing the difference between what you can change and what you can't. In the case of low oil prices, there is nothing that recyclers can do to change the global economics of commodity prices. However, there are some things we can do to keep costs down, starting with reducing the level of contamination coming into recycling processing facilities. With greater consumer education, like Waste Management's [Recycle Often. Recycle Right](#).sm program, consumers get the resources they need to make better recycling decisions. With less contamination, more value can be extracted from the waste stream, helping to improve the economics of recycling.

Although oil prices have always gone through boom and bust cycles, the five-year decline in commodity prices we're currently witnessing might signal a shift in the economics of existing recycling programs. Recycling has always provided economic benefits through the beneficial reuse of non-renewable resources. More important, perhaps, are the less immediately tangible benefits of recycling, such as reducing greenhouse gas emissions and reducing the need for new virgin materials extraction.

At Waste Management, we see a pressing need to preserve recycling's environmental benefits while maintaining its cost effectiveness. That's true sustainability. Working together, we all need to make the best use of our resources, now and for the future.

SOURCE:

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