

Scrap steel prices continue to fall, severely impacting on recycling businesses

The continuing sharp fall in scrap steel prices is having a large impact on the auto recycling businesses. Although scrap steel was selling for as much as more than 25,000 yen per ton in January 2015, it was going for only plus/minus 14,000 yen in November. For automobile recyclers who depend on scrap steel for most of their income, it is "the matter of life or death", said an executive of one auto recycling group. With some recyclers even calling for inverse onerous contracts, the business environment enveloping recyclers is heading for harder times.

With prices near 30% of peak, recyclers calling for inverse onerous contracts

According to Metal Recycling Japan, the high for scrap steel prices in January 2015 was 26,500 yen per ton. Prices were down by 4,000 yen in August and continued to drop to around 14,000 yen in December. Compared to a peak of 40,000 yen in 2013, prices are now nearly 30 percent lower than what they used to be.

The situation is having a terrible impact on recyclers. If prices continue at the present level, "Profit would be around 7,000 yen to 8,000 yen per ton, after taking into consideration of the costs of ELV transport, recycling and wages," said a major dismantler. That suggests just how difficult it is for recyclers to profit from their usual operations of ELV acceptance and dismantling.

Recyclers whose profit mainly comes from scrap business are, especially, on the verge of having the foundations of their business shaken.

If steel scrap prices continue to go down and fees for accepting ELVs do not go up, it is likely that Japan might experience a reoccurrence of illegally discarded vehicles. It seems that not only recyclers, but ELV acceptance operators and related businesses as well, will soon have to start adjusting prices.

Worsening the situation is the fact that the deteriorating market conditions for scrap steep seems to be affecting ELV collection volume. According to The Japan Automobile Recycling Promotion Center, ELV collection in first half of fiscal 2015 (April to September 2015) declined about 90,000 units from a year earlier to a record-low 1.62 million units. Falling scrap steel "make recyclers hesitate to purchase vehicles at auto auctions" said the Japan Automobile Recycling Promotion Center.

Because active buying by exporters is causing trading prices at auto auctions to



The deteriorating scrap steel market is putting pressure on recyclers' bottom line.

increase, scrapping a vehicle could result in a deficit. Therefore, to reduce possible losses, recyclers are buying fewer ELVs at auto auctions.

Concrete measures inevitable

In addition to the scrap business, another pillar of the auto recycling business is the sale of recycled parts. But for recyclers focused on the scrap business, "Even if they hastily begin recycled parts sales, it's not so easy as if they would be profitable all of a sudden," said a recycled parts industry official. Production of such parts requires know-hows and new comers are unable to sell well-selling lines of products efficiently amid today's sluggish market.

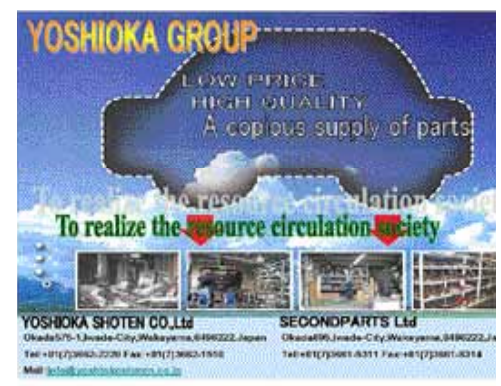
There are some regions in which the most-recent scrap steel prices have begun to rebound to 16,000 yen per ton. But this does not mark a departure from the current low-price range, despite expectations that the market will improve. Industry-wide counter-measures will apparently be needed. (*Daily Automotive News, Jan. 7 issue*)



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YOSHIOKA SHOTEN CO., LTD
10-4-17-1, Nishio City, Aichi Prefecture, 486-0222, Japan
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Mail: yoshio@yoshio.co.jp

SECOND PARTS LTD
10-4-17-1, Nishio City, Aichi Prefecture, 486-0222, Japan
Tel: +81(7)3663-4311 Fax: +81(7)3663-4314
Mail: sp@secondparts.co.jp

JARA to establish its own quality standards for rebuilt-parts

Major recycled parts sales network JARA Corporation presented last year's transaction results and plans for this year to rebuilt-parts makers at a JARA gathering in January in Tokyo, followed by an exchange of opinions among attendees.

In a review of its activities in 2015, JARA also talked about a study tour to a rebuilt-parts maker's factory and the contents of a lecture provided there, as well as about a rebuilt-parts sales campaign. JARA conducted a series of workshops in blocks across the nation last year as a measure for strengthening the rebuilt-parts business,



JARA to establish its own quality standards for rebuilt-parts.

and is putting much effort into helping member companies deepen their knowledge of rebuilt-parts and how to expand sales of such.

The rebuilt-parts market has been expanding phase by phase and demand is also becoming strong. However, as clear quality standards have yet to be established for rebuilt-parts, it is necessary for recycled parts sales companies to have a good understanding of such parts. Going forward, JARA intends to find a way to address the quality aspect of rebuilt-parts as it continues to engage in the rebuilt-parts business.

JARA has already begun discussions on setting standards for the rebuilt parts it handles. At present, in the absence of industry-wide standards, transactions of rebuilt parts are being conducted under standards set by each rebuilt parts manufacturer. As such, JARA aims to clarify quality requirements by creating its own clear standards, thereby raising trust among customers.

In general, rebuilt parts are produced from used parts called "core" parts. A core is washed, disassembled, and repaired, and, if it has expendable components, those components are replaced with new parts, and then the related components are assembled to create a rebuilt-parts. Such production steps require more cost, making rebuilt parts more expensive than reuse parts. Each maker has its own production steps, as there is no set procedures used throughout the industry.

Because of this, the sales staff of recycled parts sales companies bear a big burden, as

CO2 Reduction Effect (based on Super-Line System)

The use of Reuse Parts saved
3,125 tons of CO2 emissions
in December 2015

The reference figure represents the difference of carbon dioxide (CO2) emissions at the vehicle repair using genuine (new) parts and recycled parts.*

*: Based on "Green Point System", which was jointly developed by the Japan Automotive Parts Recyclers Association and Waseda University Environmental Research Institute using a life cycle assessment (LCA) technique.

they are required to both understand each type of rebuilt parts and to explain such parts to repair shops.

That is why JARA has taken it upon itself to start clarifying standards for the rebuilt parts it handles. JARA is currently considering to have the rebuilt parts it sells: 1) be subject to requirements for after-sales products outlined by Japan's Product Liability Act, and 2) meet ISO environmental and quality standards.

JARA has already sent questionnaires to about 30 rebuilt parts makers with whom it does business. Responses will be collected and used in JARA's setting of its direction for standardization. (*Daily Automotive News, Dec. 24, 2015 and Jan. 7 2016 issues*)

Logistics study group to decide the best packing methods in February, and distribute video to each group

Automotive Recycled Parts Logistics Study Group, which consists of major recycled auto parts sales networks, a system developer and major transport companies, plans to produce a manual on "recommended packing methods for recycled auto parts".

The group intends to decide on the best packing methods in February 2016 through discussions with each members and transport companies. In order to better communicate packing methods within the industry, a video

manual will be provided to each participating group.

The study group was formed in 2013 by the NGP Automobile Recyclers Association, former EcoLine Corp., Big Wave, Automotive Recyclers Network (ARN), and AAG, as well as system developer Broadleaf Co. to facilitate talks on measures for countering the rising cost of transporting recycled parts. System Auto Parts Co. and Buyukai Corp. joined later.

The packing manual will be created reflecting the opinions of transport companies, with consideration given to both costs and what is actually possible. It will comprise methods deemed to be the best as selected from among proposals made by each group. It will have recommendations for the packing of 14 types of parts, including front doors, fenders, bonnets (hoods), housings, radiators, etc. The video

will include a "Packing spec evaluation", which is based on "material costs + operation cost + packaging cost". Narrations and subtitles will be prepared in both Japanese and English. The manual will be utilized as an outcome of the study group by each member group. (*Daily Automotive News, Jan. 21 issue*)



The study group even tackled making cardboard packing samples for each type of parts.

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