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Entrepreneurs See Dollar Signs in Garbage Piles

By Lena Smirnova

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The million tons of waste that lie in Russian landfills are an eyesore for ecologists and those who reside nearby, but some ambitious entrepreneurs are beginning to see gold mines where others see garbage piles.

Ecology experts describe recycling as a promising business in the country where the industry is still underdeveloped while the demand for recycled products is growing. But there is a catch — being a pioneer in this field means huge initial overhead, unforeseen costs and a host of bureaucratic inconveniences — all of which have already proved enough to send some brave entrepreneurs down the toilet.

“We have waste with which we can work with. What is the Bulgarian market in comparison? There are six million people there. We have 25 times that amount, so we’re saying that this market is capital-intensive,” said Konstantin Rzayev, chairman of the director’s board at the Tver-based EcoTechnologies recycling company. “Despite the challenges, we think that this

business is attractive."

About 50 million tons of household waste is thrown out in Russia every year, Rzayev said. Of this, 20 million tons could be recycled, including 4 million tons of plastic.

A 2013 report by the International Finance Corporation, the venture funding arm of the World Bank, estimated that about 95 percent of household waste in Russia goes to landfills, more than 80 percent of which are functioning beyond their planned obsolesce date.

In comparison, the United States recycles 40 percent of its waste and European Commission countries recycle an average of 60 percent.

Only 5 to 7 percent of household waste is currently recycled in Russia, according to the IFC study. Investment of approximately 44 billion euros ($58 billion) is required to increase this number to 40 percent by 2025.

One Man's Garbage

This looming environmental disaster provides good opportunities for entrepreneurs who are looking to dive into the recycling business.

Authorities are already giving more attention to this sphere and are expected to introduce recycling fees by 2016. Under the proposed changes to the waste management laws, manufacturers would have to recycle their waste or hire specialized services to undertake the task — a move that experts said would boost entrepreneurship in the industry.

In the Moscow region, which contains a fifth of Russia's refuse, officials have received President Vladimir Putin's blessing to close 24 of the 41 existing landfills. New landfills will be mapped out to compensate for the closures, but for now there are no concrete plans on when and where they might be set up.

In addition to the political moves that are drawing attention to the issue, the economic picture is, at least in part, encouraging.

Since recycling is a new industry in Russia, prices for recycled polymers are as much as twice as those in countries with developed waste management systems, EcoTechnologies' Rzayev said. The price for a ton of new polypropylene ranges from 58,000 ($1,794) to 70,000 rubles, while a recycled version of the same product sells for up to 45,000 rubles per ton.

Despite an attractive threshold on market prices of some recycled products, the cost of running processing facilities can be prohibitive, depending on expected return-on-investment periods and the level of technology employed.

A number of recycling plants shut down between 2005 and 2012 because owners found the business unprofitable, Rzayev said. The key challenges were finding technologies that would be compatible with the specifics of Russian waste, making long-term business plans in the absence of state regulations in this sphere and collecting enough waste to feed the recycling cycle.

Changing Mentalities

The underlying issue is that Russians — both citizens and government bodies — still have not embraced the culture of recycling, which means that recyclers have to get their waste from landfills and then spend additional money on separating it from nonprocessable refuse.

"We all remember how we used to have milk in metal bottles," said Natalya Sokolova, head of the Federal Service for Environmental, Technological and Atomic Inspection, reminiscing about the more ecologically friendly practices of the Soviet era that disappeared following the collapse and their replacement with modern packaging methods. "And now? People throw out tons of plastic packaging that they don't even bother to flatten. Garbage trucks are just carting around tons of air."

One of the rare success stories in separating waste is in the Moscow region's Solnechnogorsk, where the Plarus local recycling factory, municipal authorities and the Coca-Cola Company set up more than 100 bins for collecting plastic bottles near regular garbage containers in October 2011.

Solnechnogorsk residents have gotten into the habit of recycling their plastic, but the road to eco-consciousness has not been a smooth one. Andrei Balachikhin, procurement manager of Coca-Cola Hellenic Russia, recalled issues ranging from non-participation to vandalism of the recycling bins. Some residents even stole the wire mesh containers to convert into homes for their pet rabbits.

Balachikhin agreed, however, that recycling could be a profitable business once it gets off the ground.

"If we collect a bottle, it won't be any problem to find a recycler for it," he said.

Moscow volunteers have also launched several private initiatives to separate waste. Greenpeace Russia has published an interactive map with the locations of different collection points people can visit to dispose of recyclable products. Moscow now has 80 to 250 such points, according to different estimates.

Greenpeace has reported that 16 other Russian cities have recycle points.

Volume Needed

The key to succeeding in the recycling business is to keep capacity big, Rzayev said. A cost-effective capacity for a large plastics processing plant would be 5,000 to 10,000 tons of recycled materials per year. The managers would need to spend 3 to 5 million rubles per month to keep such a plant running. The break-even point, in this case, would be a production of 8,000 tons of materials per year.

A smaller recycler could have an output of 600 to 2,000 tons per year, spend 0.5 to 1.5 million rubles per month on operation costs and break even with 1,000 tons of recycled materials.

Though smaller operations in this field tend to be less financially viable, large volume plants are challenged by the deficit of readily available waste. Rzayev said he has had to ship plastic bottles from Barnaul to Tver because there has not been enough material in the Central

Federal District to keep the plant running at capacity.

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