

NTCRA Recycling Market Forum Notes
from
Weathering the Downturn in Recycling Commodity Prices

Speakers Panel

Andrew Kern, Corrugated Services CSI
Rusty Getter, Balcones Resources
Patricia Davis, Greenstar
Darrell Clemons, AbitibiBowater
Ron Sherga, Environmental Extended Life LLC
Arnold Gashman, Gamtex Industries

Andrew Kern

There has been a 6 month downturn in the paper market due to a decline in manufacturing and decreased demand. China had stopped taking orders for different grades of paper in December 2008, and several paper mills have filed for Chapter 11 bankruptcy. With the end of the Chinese New Year, we are beginning to see an up tick in buying. Andrew expects other paper mills to file for Chapter 11 before prices rebound sufficiently to stabilize the market. Further improvement in paper prices should occur because paper prices are historically higher in the summer.

Rusty Getter

Following up on Andrew's comments, Rusty said there were about 10 large paper mills built in the mid-1990s to process what was believed to be a large increase in paper demand as recycling programs ramped up around the country. However, the increased demand couldn't support all the new plants, which he estimated cost \$250,000,000 each.

There was a similar crash in paper market prices in 1996, but this recent crash was more rapid. The longest run he has seen of high paper prices was two years, so companies need to prepare for lower prices before they hit. He does not foresee paper prices for the most sought after varieties rise to more than about \$100 - \$120 this year. He felt 2009 would be a tough year, but Balcones saw this downturn coming last summer and prepared. However, they didn't fully expect the drop to be so quick and fall so far.

Patricia Davis

Patricia said newspaper was the most important paper grade to collect, but the price for newspaper dropped from \$120 to \$40 a ton toward the end of last year. She

stressed that in these hard economic times with some recycling companies going out of business, it was important to know who you are working with and that they are financially sound for the long term. Recyclers see themselves in partnership with municipalities and businesses and all affected parties need to work together to keep recycling viable. Residences are requesting recycling and cities will continue recycling even though their costs for recycling may currently exceed their budget. Many cities benefited financially from the upswing in recycling prices through most of the last two years. Cities will continue recycling because it is environmentally the right thing to do. She invited anyone who wants a tour, to visit their MRF in Garland.

Darrell Clemons

Abitibi is the nation's largest newsprint manufacturer. They have seen a decrease in newsprint, and with more and more people getting their news on the Internet, that trend is likely to continue. The average weight of a newspaper has dropped 20%. However, they need waste newspaper to meet current demands. China is expected to build up supplies of newsprint on a temporary basis and then drop out of the import market, driving prices lower.

They have also seen some grades of plastic drop to one cent per pound. Prices can only go up from here.

Ron Sherga

Ron suggested that everyone read the book, Natural Capitalism. The focus on recycling needs to be on developing new recycled content products domestically. Mohawk Carpet is the largest buyer of PET, but with the recession in the housing market, demand for carpet is way down. Six billion pounds of used carpet are landfilled each year. We need innovation and companies to reinvent themselves. Grant money is available to pursue development of new recycled content products. He feels industry will and must lead us out of this recession, not the government.

Now the primary recycling of PET is for bottle to bottle. Coco Cola wants to recycle 100% of its plastic bottles.

Arnold Gashman

Arnold agreed that industry can lead us out of the recession through the normal market drives of supply and demand. We need to tighten our belts, reduce costs and become as efficient as possible. He opposes protectionist tariffs that would wreck havoc on the world market.

He feels stockpiling the more desirable metals is a reasonable option, because they don't deteriorate. Municipalities and business should expect to see 40%-50% of the income this year from recyclables that they saw last year. No municipal recycling program, even with the high commodity prices we saw the middle of last year, should expect to break even. It will always cost more to collect and recycle than you will receive from the sale of recyclables.

Be aware that some buyers strapped for cash may offer significantly more for metals than the market rate. They will then sell the metal for the lower price to collect some cash. This will lead them to go bankrupt or not pay you the agreed upon price. Some buyers overseas cancelled orders while ships were in route or refused delivery. Since China defaulted on some huge recyclable commodity contracts and many Chinese manufacturers closed their doors, the working relationships with U.S. and foreign suppliers have been severely damaged. It will take time to mend those relationships with new companies. In general, know the people you are selling to and buying from.

The government wants to use some of the stimulus money for infrastructure. These projects will take time to plan and any significant increase in demand for steel will likely occur next year.

Aluminum prices will likely stayed depressed for a couple of years until car sales rebound.

General Comments

All the panelists felt 2009 would be very difficult and some of the smaller recyclers will go out of business. Recycling programs should not be scaled back or cancelled no matter how low the recyclable commodity prices go, which should only be up at this point.

Carbon credits will play an increasingly important role in the future. The full impact of recycling on green house gas emissions should be determined so that the full extent of carbon credits can be employed. This assessment should extend not just to reduced landfill emissions of methane but to mining and manufacturing operations too.

There are two major ways to weather the downturn: reduce expenses, which includes increasing efficiency, and increase income, which includes securing additional funds. CSI burns wood pallets instead of natural gas. Trucks can be rerouted to reduce driving distance and time. Arrange to operate machinery during the night when electric rates are low. Reduce contamination to increase the recyclable commodity price for cleaner material. New equipment can offer significant cost reductions compared to older models.

The following list of coping strategies are arranged in order of increasing severity so that less disruptive steps can be taken first and wratched up or down in intensity as necessary to match expected market conditions.

A. Reducing Costs

1. Obtain a better interest rate on a line of credit
2. Decrease expenses: such as increase energy efficiency, use less water, fix leaks, reduce lighting, service air conditioning, adjust thermostat
3. Perform a detailed assessment of expenses and determine those expenses that are discretionary and reduce as needed
4. Buy refurbished and used products and equipment
5. Repair equipment and delay new purchases
6. Rework collection routes
7. Always route to ensure full load pickups
8. Reduce or increase use of outsourcing, use your own staff if possible
9. Lengthen loan payment schedules
10. Reduce compensation for owner and higher salaried positions
11. Renegotiate lease payments
12. Cut back or eliminate bonuses, perks, employee benefits and salaries
13. Reduce advertising
14. Renegotiate health coverages, change health plan to lower level of coverage, increase deductibles, or join a new larger health network
15. Cut back the hours of workers
16. Reduce the number of work hours a week you operate
17. Drop collection of certain types of low profit recyclables
18. Swap accounts in outlying areas with competitor's accounts that are located in geographical areas where your accounts are concentrated
19. Require baling or compaction of low density material
20. Renegotiate contract prices
21. Drop or sell small accounts that are too far from your normal service area
22. Move into a less expensive facility
23. Reduce sales commissions and car allowances
24. Buy or merge with a competitor

B. Increasing Income

1. Store those recyclables that are likely to rebound in price the most this year
2. Increase sales effort
3. Conduct audits and assist customers in reducing contamination levels
4. Sell some of your equipment
5. Find higher paying buyers or brokers of your recyclables
6. Borrow money

7. Require single stream recycling to reduce contamination and boost value
8. Bring in a new financial partner
9. Sell stock or a portion of your company
10. Manufacture one or more products from your recyclables