EMTERRA
Environmental

Executive Policy Committee

Request for Proposal 767-2017
Processing and Marketing of Recyclable Materials

April 17, 2018

RFP Process Problems

1) Evaluation criteria changed 1 week before RFP submission date

- RFP issued Nov. 1, 2017
- Question period closed Jan. 11, 2018
- Addendum 4 issued Jan. 17, 2018
  - Evaluation criteria changed
  - No penalties if start date of MRF missed
- RFP closed Jan. 25, 2018

RFP Process Problems

2) Scope of Services outdated on the day RFP issued and closed

- RFP standard: 2% contamination
- End market standard: 0.5% contamination

WHAT HAS HAPPENED IN A WEEK?

- City of Toronto expects a $9.2M annual hit to recycling budget
  - $4M per year for additional processing costs
  - $5.2M per year loss in commodity revenues
  - This is on top of 2017 contract adjustments worth a ~$98M
- District of Muskoka, Ontario re-opens RFP for recyclables processing and marketing services 176 days after closing
  - Bidders asked to re-submit pricing because "recent changes to materials markets heavily influenced by the Chinese National Sword and Blue Sky Initiatives have impacted Recyclable Materials Processing costs industry wide"

WHAT HAS HAPPENED IN A WEEK?

- City of Ottawa, Ontario
  - Newsprint revenue down 80% in February 2018 compared to February 2017
  - Newsprint revenue down 70% compared to 10-year average
- Province of Quebec
  - Providing at least $3M to upgrade priority MRFs

China's National Sword

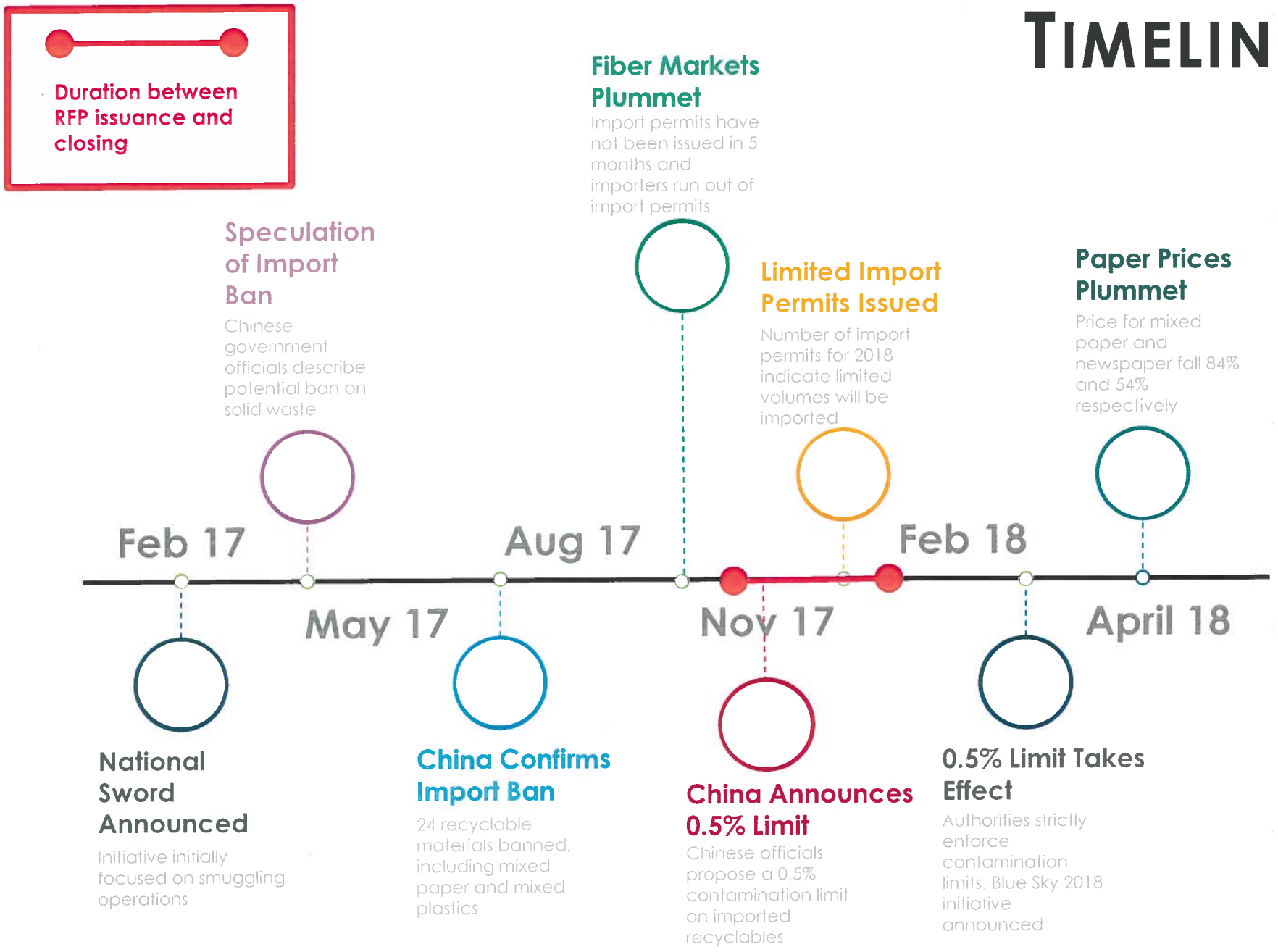
- July 2017 China confirms to the World Trade Organization what it called its "National Sword" campaign
  - Sets out restrictions on all recyclable materials imported into China including:
    - Ban of unsorted mixed paper and mixed plastics
    - Reduction of contamination in sorted paper and mixed plastics
    - Suspension of all new import license approvals
- This was acknowledged by the City in Administrative Report Materials Management Reference No. 455-2017 (162-2002) issued February 2018

China's National Sword

Why is this a big deal?

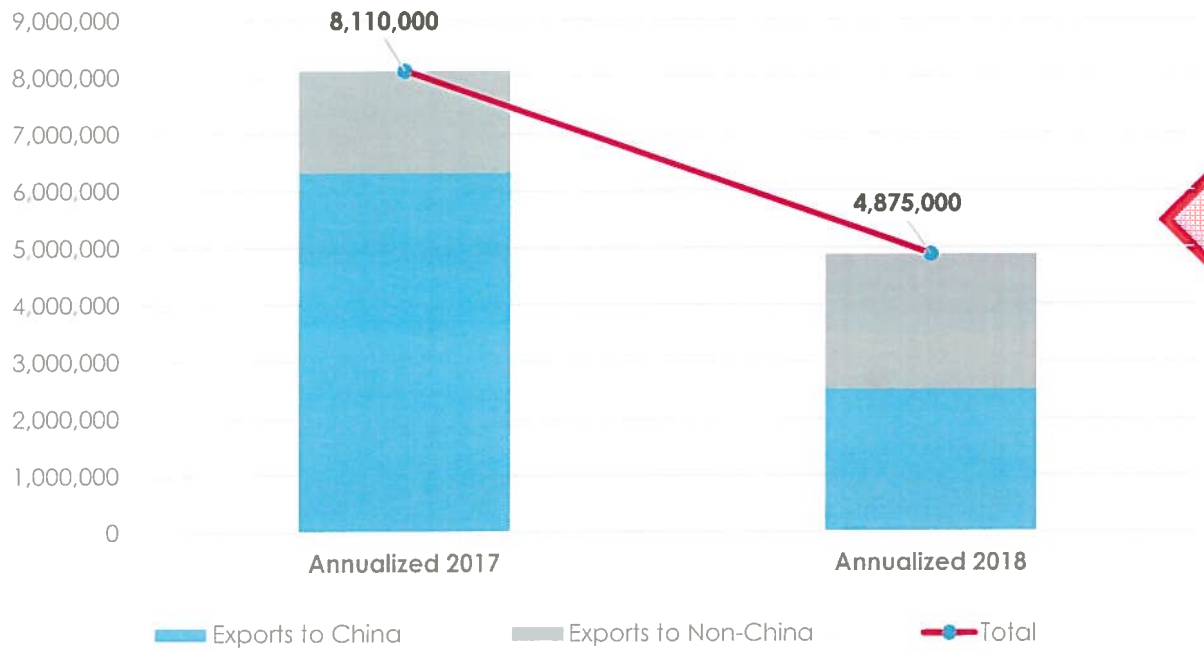
- China consumes nearly 70% of the world's recycled commodities
- China consumes nearly 70% of the City's finished recycled products
- Without the Chinese market the world price for recyclables has plummeted driving down revenues municipalities make off their recyclables
- Winnipeg receives ~$4M a year from sales of recycled papers

TIMELINE


Duration between RFP issuance and closing
Feb 17
May 17
Aug 17
Nov 17
Feb 18
April 18
National Sword Announced
Initiative initially focused on smuggling operations
Speculation of Import Ban
Chinese government officials describe potential ban on solid waste
China Confirms Import Ban
24 recyclable materials banned, including mixed paper and mixed plastics
Fiber Markets Plummet
Import permits have not been issued in 5 months and importers run out of import permits
China Announces 0.5% Limit
Chinese officials propose a 0.5% contamination limit on imported recyclables
Limited Import Permits Issued
Number of import permits for 2018 indicate limited volumes will be imported
0.5% Limit Takes Effect
Authorities strictly enforce contamination limits. Blue Sky 2018 initiative announced
Paper Prices Plummet
Price for mixed paper and newspaper fall 84% and 54% respectively

NOT ENOUGH END MARKETS TO REPLACE CHINA

US Recovered ONP & Mixed Paper Exports (MT)



40% or 3,200,000 MT of papers in US have no buyers

Source: US Department of Commerce, Bureau of Census

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Not Enough End Markets to Replace China

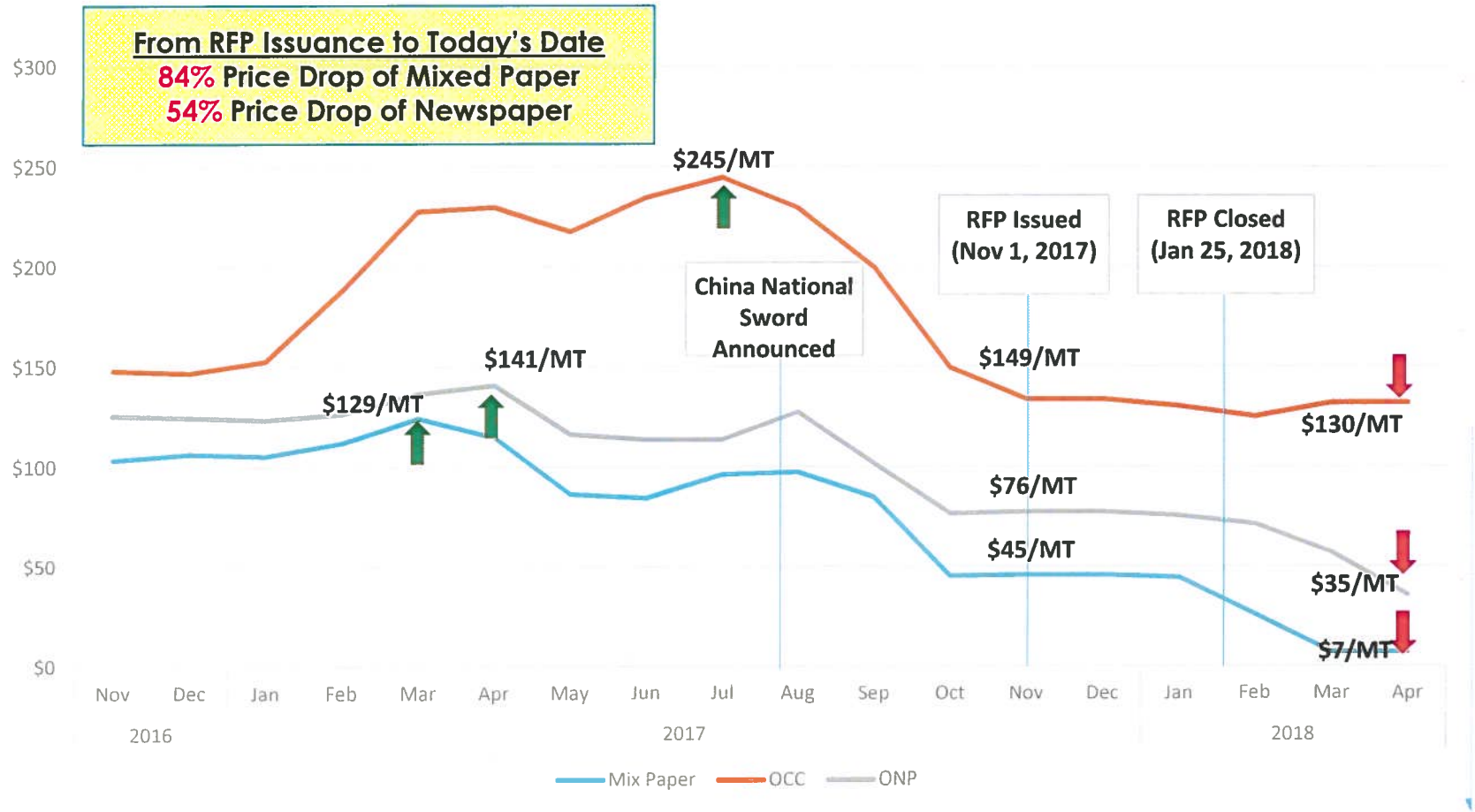
China/HK Demand for US Papers				
	2017*	2018*	Change (MT)	Change (%)
Newspaper	668,438	400,557	- 267,881	-40%
Mixed Paper	385,008	18,432	- 366,576	-95%
Total	1,053,446	418,98[illegible]	- 634,457	-60%

Non-China/HK Demand for US Papers				
	2017*	2018*	Change (MT)	Change (%)
Newspaper	112,939	142,430	29,491	26%
Mixed Paper	185,619	250,608	64,989	35%
Total	298,558	393,038	94,480	32%

*Jan & Feb

Source: US Department of Commerce, Bureau of Census

IMPACT ON PAPER PRICES



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SCOPE OF SERVICES OUTDATED

Scope of Services out of date on the day RFP issued and closed

- RFP standard: 2% contamination
- End market standard: 0.5% contamination
- After 15 years of being ahead of the global standard in terms of material quality, why is the City now choosing to abandon this long standing policy to be below the global standard?

Purity is the #1 Buying Criteria

What does 0.5% Contamination Mean?







Purity Tsunami

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WHY IS ACHIEVING 0.5% DIFFICULT?

- There is well over 20% contamination in the carts today
  - City audits show average of 25.5% contamination in 2017
  - Third party independent audits show average of 23% contamination in 2017
- RFP factors in 20% contamination
- MRF operator must process all recyclables to 0.5% contamination

Purity Tsunami

MATERIAL CHANGE IN SCOPE OF WORK

- Achieving 0.5% instead of 2% for contamination requires:
  - Significant process and infrastructure investments
  - Significant increases to operating costs
- **Change Order Required**
  - Otherwise MRF out of date at the grand opening if built to RFP specifications
  - Retroactive contracting

Material Change in Scope of Work

FINANCIAL RISKS TO TAXPAYERS

- **Known risks**
  - City takes 100% of commodity revenues and all market risk
  - Annual paper revenues alone are worth ~$4 million a year
- **Unknown financial risks**
  - Change order cost on day one to upgrade plant to achieve 0.5% purity from blue cart materials with over 20% contamination
  - End markets unknown
  - Price paid by end markets unknown

FINANCIAL RISKS TO TAXPAYERS

Additional risks embedded in RFP:

- Contract clause that pays contractor if commodity revenues are negative (E21.2)
- Contract clause allows the contractor to charge the City for any changes to list of what is to be processed (E10)
- Contract clause requires the City to pay Contractor if annual quantities fall below 52,000 tonnes (E3.7)
- Contract clause that allows the contractor to charge the City for recyclables that contain more than 20% contamination (Form B: Prices)

FINAL CONSIDERATIONS

RFP should be cancelled and reissued

- RFP Process Problems
- Material Change in Scope of Work due to China National Sword
- Change Order
- Financial Risks

Thank you

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