

# THE REGIONAL MUNICIPALITY OF YORK

Solid Waste Management Committee  
December 10, 2008  
Report of the  
Commissioner of Environmental Services

## CONTINGENCY PLAN FOR RECYCLABLE MATERIALS DURING UNSTABLE MARKET CONDITIONS

### 1. RECOMMENDATION

It is recommended that:

1. Council receive this report for information.

### 2. PURPOSE

This report updates Committee and Council on current changes in the recyclable materials markets and reviews contingency options for managing inventory, fluctuating material values and possible long term recession conditions. It also considers the impacts unstable material markets may have on public participation in recyclable materials diversion in York Region.

### 3. BACKGROUND

The current state of the commodity markets is a growing concern. Since early October 2008, commodity markets have destabilized as a result of the global financial markets crisis. Specifically, the last few weeks have resulted in the worst commodity market conditions analysts have seen since inception of the blue box program. Futures analysts do not expect any significant change in commodities markets until Fall 2009. This is particularly evident in fibre (paper and cardboard) markets. In September 2008, mixed paper produced an average revenue value of \$94 per metric tonne for York Region. For the first time ever, we will have to pay about \$26 per tonne to mills to take our fibre materials.

Unprecedented drops in material values are the result of oversupply and plant closures. Mills that purchase recycled materials as feedstock for new products are shutting down due to an over-supply of inventory and a sharp drop in demand for their products. Traditionally when domestic mill demand softens, we are able to cushion the impact using export markets. However as this economic crisis is global in scale, foreign mills are also shutting down production. Where purchase contracts exist, several mills are declaring force majeure and abandoning their commitments. Staff continue to work with our Material Recovery Facility Operator to keep our materials moving to end markets.

Currently, steel mills in Ontario have sent out notices stating they will no longer accept deliveries and a similar situation exists with aluminum. So far, due to the quality of our material and the volume we represent we are still able to sell our materials, though at a much reduced value.

#### **4. ANALYSIS AND OPTIONS**

##### **Contingency actions are focused on continued diversion**

Every effort is being made to steadily move inventory, which has been successful so far due to strong relationships with end markets both domestically and internationally. While having to pay some end markets to accept our materials is not desirable, this option is in keeping with our diversion from landfill goals. Overall, York Region continues to be in good shape compared to other GTA municipalities. Several municipalities at the recent AMRC conference indicated they are facing a decision to either temporarily warehouse or landfill their materials, as they are unable to move them to end markets. York Region is one of the few municipalities still able to move recyclable material to end markets.

##### **Options to consider for the contingency strategy include temporary material storage**

York Region staff are working together with our Material Recovery Facility operator to create a contingency strategy that anticipates long term recession conditions. Options that will be considered in order of priority include:

- 1) Sell materials at current market prices.
- 2) As space at the MRF allows, continue to temporarily store materials to get best price for materials.
- 3) Divert unmarketable materials to Energy from Waste facilities such as Dongara or Covanta.
- 4) Warehouse off site.
- 5) As a last resort, allowing certain materials to by-pass sorting and be directly sent to transfer stations for disposal.

More than ever, it is critical that the quality of our materials remains high and we minimize the potential for end market material downgrading as a result of contamination. Ensuring our materials are not contaminated will increase the likelihood of continued movement of goods to end markets. We will continue to work with our public and private sector business partners, including local municipalities and our MRF operator to ensure we have the best quality of materials and continue diversion to end markets.

Where it may make sense to warehouse items such as steel and aluminum, the storage of old newsprint may not be advisable as after a few months the ink penetrates the fibre too much to be washed out and the paper becomes unsalable. Table 1 outlines contingency strategy management options. The contingency strategy will be continually reviewed and updated as more information becomes available.

**Table 1**  
Potential Options for Managing the Current Market Conditions

	<b>OPTION (in order of priority)</b>	<b>ADVANTAGES</b>	<b>LIMITATIONS</b>
<b>1</b>	Sell for current market price or better (If market value zero or less, Miller should consult with Region as this may trigger a decision to move to option 2)	<ul style="list-style-type: none"> <li>• Clears inventory backlog</li> <li>• Oldest inventory must be shipped out first</li> <li>• Markets may not return for some time</li> <li>• Warehousing avoided</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced revenue</li> <li>• Lower revenue means higher program cost</li> <li>• Potentially less Waste Diversion Ontario funds at end of year</li> </ul>
<b>2</b>	<p>Continue to store materials in the Material Recovery Facility</p> <p>Option A – Stack baled material to maximize use of available space</p> <p>Option B – Warehouse material outside of Material Recovery Facility</p>	<p>Option A</p> <ul style="list-style-type: none"> <li>• Will Increase storage capacity</li> <li>• Markets may improve shortly</li> </ul> <hr/> <p>Option B</p> <ul style="list-style-type: none"> <li>• Increases storage capacity</li> <li>• Markets may improve shortly</li> </ul>	<p>Option A</p> <ul style="list-style-type: none"> <li>• Need to determine maximum height without compromising health &amp; safety</li> <li>• Requires secondary handling to restock</li> <li>• Contractor will request compensation for 2<sup>nd</sup> handling</li> <li>• Finite storage capacity at Material Recovery Facility</li> <li>• Shelf life of paper is 3 months*</li> <li>• Potential fire hazard</li> <li>• Material Recovery Facility storage capacity is not infinite</li> <li>• Inability to market material if markets do not stabilize</li> </ul> <hr/> <p>Option B</p> <ul style="list-style-type: none"> <li>• Requires C of A Amendment and authorization from East Gwillimbury</li> <li>• Requires purchase of temporary building</li> <li>• Requires installation of temporary road</li> <li>• Requires 24 hour security and insurance</li> <li>• Warehouse capacity is not limited</li> <li>• Shelf life of paper is 3 months*</li> <li>• If markets do not return soon, potential for the inability to market material</li> </ul>
<b>3</b>	Divert unmarketable materials to Energy from Waste Facilities such as Dongara or Covanta	<ul style="list-style-type: none"> <li>• Clears inventory for unmarketable materials (such as paper older than 3 months)</li> <li>• Markets may not return for some time</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced revenue and increased disposal cost</li> <li>• Loss of diversion credits</li> <li>• Reduction in Waste Diversion Ontario funding</li> <li>• Potential negative public perception</li> </ul>
<b>4</b>	Warehouse on site (outside of the Material Recovery Facility)	<ul style="list-style-type: none"> <li>• Will provide additional storage capacity</li> <li>• Markets may improve shortly</li> </ul>	<ul style="list-style-type: none"> <li>• Requires C of A Amendment</li> <li>• Requires authorization from East Gwillimbury</li> <li>• Requires purchase of temporary building</li> <li>• Requires installation of temporary road</li> <li>• Requires 24 hour security and insurance</li> <li>• Warehouse capacity is not infinite</li> <li>• Shelf life of paper is 3 months*</li> <li>• If markets do not return soon, potential for the inability to market material</li> </ul>
<b>5</b>	Allow certain materials to by-pass sorting at the Material Recovery Facility (directly sent to transfer station)	<ul style="list-style-type: none"> <li>• Will provide additional inventory space</li> <li>• Markets may not return or some time</li> <li>• Permitted in operating contract</li> <li>• Will reduce Material Recovery Facility operating costs</li> </ul>	<ul style="list-style-type: none"> <li>• Potential political backlash</li> <li>• Reduction in revenue and diversion</li> <li>• Reduction in Waste Diversion Ontario funding</li> <li>• Increase in disposal costs</li> </ul>

\*Note: The shelf life of recycled paper products is approximately 3 months, after which it may not be marketable due to mould, dust, dyes set in the paper. When markets return to normal they would want “fresh” material; Overseas markets may take paper if over 3 months but if so, possibly at a reduced or negative price.

## 5. FINANCIAL IMPLICATIONS

York Region's "Basket of Goods" price has dropped from \$147 per tonne (average from January 2008 to September 2008) to a forecasted price of \$43 per tonne for November and December. Table 2 compares actual year-to-date revenues per metric tonne to a forecast for the remainder of the year based on current commodity market conditions. Given the drastic downturn in commodity market values, we have revised our forecast for our 2009 material revenues to reflect these conditions.

**Table 2**  
Comparison of Actual Year-to-Date Revenues to  
Revised Forecast Revenues by Material Type

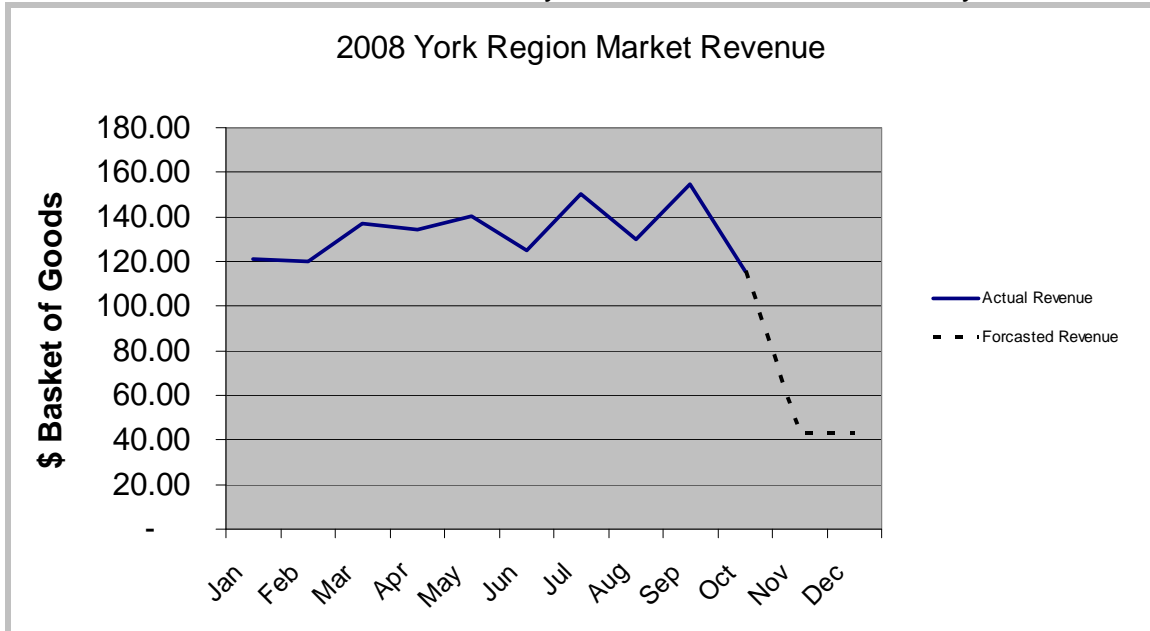
Material Type	Year-to-Date Revenues (\$ / MT)	Revised Forecast Revenues (\$ / MT)
Aluminum	\$2,454	\$1,323
Newspaper	\$149	\$26
Mixed Paper <sup>1</sup>	\$98	--
Corrugated Cardboard	\$152	\$55
Ferrous Cans	\$361	\$87
Glass (clear)	\$44	\$23
Glass (colour)	\$6	\$5
Clear Plastics	\$451	\$66
Coloured Rigid Plastic	\$762	\$450
Mixed Broken Glass <sup>2</sup>	-\$28	-\$12
Tubs and Lids	\$30	\$22
Milk Cartons	\$100	\$85
Road Base Glass	-\$62	-\$12
<b>Basket of Goods</b>	<b>\$147</b>	<b>\$43</b>

<sup>1</sup> Due to changes in the commodities market, we are blending mixed paper into other existing fibre goods.

<sup>2</sup> Increased value for mixed broken glass is a result of the new Glass Clean-Up System installed at the MRF.

Figure 1 below shows the "Basket of Goods" trend for recyclable materials from January 2008. It shows the impact of falling commodities prices on blue box recyclables.

**Figure 1**  
“Basket of Goods” trend for recyclable materials from January 2008



## 6. LOCAL MUNICIPAL IMPACT

Staff will continue to work with local municipalities to ensure every effort is made to maintain the high quality of recyclable materials throughout the supply chain – from curb side collection to materials sold to end markets. Staff will also ensure regular communication is maintained with local municipalities to keep all stakeholders informed of the situation. Although the drop in market value for recyclable materials affects where and how materials are ultimately recycled, this situation does not impact the residential blue box program, which continues to be successful due to the commitment and high participation rates by our residents.

## 7. CONCLUSION

The current instability in the commodities markets has created challenges for all municipalities collecting and selling recyclable materials. York Region staff, in partnership with our Material Recovery Facility operator, are ensuring every effort is being made to move recyclable materials to end markets. A contingency strategy for the current commodities market instability and in anticipation of long term recession conditions has been created by staff and will be continually updated as new information becomes available. Staff have revised the 2009 forecast for recyclable material revenues from \$9.8 million to a new forecast of \$3.8 million, a decrease of approximately 61%. Staff will continue to work with our partners, including local municipalities, collection contractors, and processing contractors to ensure we have best quality recyclables available to material end markets to continue meeting York Region’s diversion goals.

For more information on this report, please contact Laura McDowell, Director  
Environmental Promotion and Protection at Ext. 5077.

The Senior Management Group has reviewed this report.

Recommended by:

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