



CARPET AMERICA RECOVERY EFFORTSM

*Developing market-based solutions for the
recycling and reuse of post-consumer carpet*

November 1, 2016

Ms. Brenda Smyth
Ms. Georgianne Turner
CalRecycle
1001 I Street
Sacramento, CA 95812

RE: CARE Response – CalRecycle Letter 10-10-16: Notice to Subsidy Participants

CARE is responding to CalRecycle's letter of October 10, 2016 regarding the subject assessment increase from 20 cents to 25 cents per square yard effective January 1, 2017. As explained in the letter to subsidy participants, the increase is necessary to ensure CARE's ability to payout programmed subsidies as pounds of recycled output are anticipated to increase.

The following points are a response to the requests raised in your October 10th letter.

- As the AB-2398 Stewardship Organization, CARE has worked aggressively over the past several years for continuous meaningful improvement in the Program to divert and recycle carpet. In making the decision that January 1, 2017 was the best time to increase the fee to \$0.25/sqyd, CARE's basis and sole desire was to have a program that met these goals and worked within the existing approval.
- CARE communicated with Brenda to advise CalRecycle of the desire to increase the assessment and confirmed CARE has the authority to process the assessment increase based on the January 26, 2016 approval of Addendum 3. It was noted at that time CalRecycle preferred a minimum 60 days' notice and in this case CARE is giving 90 days.
- Timing was important due to our current quarter plus 4 quarters notification guarantee of any subsidy decreases. On September 15th CARE provided notice of this intended increase to CalRecycle and the response of 9/16 confirmed that CARE was allowed to make this increase so we felt confident we had the ability to move forward with notification of the increase. A request was made for CARE to send a letter on this intent to the Director which was done on 9/23.
- CARE did not receive a notice to discuss the increase until September 30th, after the notice had gone out. CARE had no intention to short circuit appropriate dialog, but felt the 9/16 email response provided the appropriate notice and when no other communication was received, CARE proceeded to issue the assessment increase notice.
- CARE has consistently maintained that subsidies have the guarantee, but other components of the program, such as growth incentives, are subject to quarterly review and changes.
- CARE responded quickly and aggressively several times in 2015 to move the markets. These moves began to manifest themselves in early 2016. As a result, the current Plan is working and the net result is a rapid increase in dollars paid out. This justified the need to increase revenue collections.
- The monthly gross collections and recycled output trending chart shown below demonstrates the program is continuing on the path of continuous and meaningful progress. Recycled output, a key indicator, clearly shows a positive trend since January of this year. In fact, the chart below now includes August data and you will see a 45% increase in recycled output. This is a direct result of the subsidy increases and grant program implementation made in 2015 and in particular late 2015.

CARE Response_CalRecycle Letter 10-10-16: Notice to Subsidy participants





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While one big jump does not a trend make, it is right on track with expectations/projections and experienced-based time to implementation of new technology and bringing new capacity on-line. As a reminder, CARE still expects to see the normal 4Q and 1Q dips tied to the annual selling cycle.

- CARE invested a great deal of effort in running a multitude of economic scenarios and came to the conclusion that based on projected growth in recycled output, it was critical to increase the assessment as soon as possible to avoid any possibility the fund would run short and could not pay out full subsidies, an outcome that was seen as catastrophic to the recycling community.
- It was also not possible to predict the collapse of demand for N6 nor that the market would see a trade off in pounds of N6 paid out at 6 cents/lb. for PET paid out at 25 cents/lb. The net result was a dramatic jump in Tier 2 pounds, and associated dollars, but no net increase in recycled output pounds.
- Several factors contributed to this decline for N6:
 - a) The start-up of 3 caprolactam plants (basic building block for virgin N6) in China resulting in a global collapse in capro pricing
 - b) The economic slowdown in China affecting the movement of all recycled commodities
 - c) The shutdown of Evergreen Nylon Recycling in Augusta, GA (100M pounds of PC N6 demand)
 - d) The strong U.S. dollar further lowering the value of recycled commodities
 - e) The drop in crude oil prices driving down virgin feedstocks
- Unfortunately, there really was not enough time to fully engage the Council for input given the complexity of the analyses once the models were perfected (late August). CARE was under a time constraint to act quickly to make an announcement before end of September to ensure a January 1 increase was possible.

CalRecycle requested more information about the notice of subsidy analysis and implied decrease. Simply stated, as the expected pounds of subsidized recycled output continue to grow, there are only three options to make the finances work: raise the assessment, decrease the total amount of subsidies paid out or an optimized balance of the two. CARE has accepted CalRecycle guidance that the Plan should be made flexible to allow for rapid and creative responses to changes in the marketplace. In order to honor the guarantee period, CARE was compelled to notice the recyclers by the end of September in order to make any subsidy adjustments by October 1, 2017. CARE has not made any final conclusions that changes in the subsidies will be required; instead CARE needed to establish the flexibility to make modifications, if needed. CARE now has time to evaluate the impact of changes just now becoming obvious and to consider a multiple number of ways to deploy funds, including evaluation of Council ideas, while balancing the size of the assessment. Just as CalRecycle considers feedback from the stakeholder group, so does CARE and this includes the retail and manufacturing communities. There is a rising tide of negative feedback regarding the level of the assessment and the impact on business. The optimization of how best to meet the demands of AB2398 and maintain a healthy carpet sector are part of this calculus. It will take some time to work through the options and implications. CARE is taking actions to allow for the flexibility and creativity needed to react most positively to the extremely dynamic marketplace we have, and will experience, including drafting the new Plan to incorporate significant flexibility with maximum options for continuous improvement in carpet diversion and recycling.





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CalRecycle has also asked that CARE speak to stability for program participants and how these changes offset risks, and our commitment to solicit feedback from stakeholders. Stability of the program, as noted above, is a complex challenge requiring optimization of two industries: carpet manufacturing and carpet recycling. California law requires macroeconomic factors to be taken into account and cannot unfairly impact an industry. Feedback from the recently announced assessment increase has been uniformly negative by many mills and the retail sales community. Comments received indicate the increasing assessment is adversely impacting CA carpet sales vs the rest of the Nation and sectors of the soft flooring industry, particularly the builders trade. We need the support of all stakeholders to build a solid program that supports a stable operation, enables a growing recycling community and ensures a healthy carpet manufacturing industry. Unlike all other California recycling programs such as plastic bottles, mattresses or paint, carpet faces direct, readily available and financially viable alternative flooring products. Ensuring fund solvency is one such way to dramatically reduce risk for all recyclers. The notice to adjust subsidies gives us time to examine the program trajectory in the first half of 2017 as recycled output grows, understand the pace and mix of that growth, and how that will influence payouts.

A full year guarantee to make adjustments in program elements is simply too long to allow for efficient administration of this complex system, especially given market dynamics: Or said another way, the lack of market stability. CARE takes pride in the observation that we have continuously evaluated and modified our program as we learn and respond to the marketplace. The recently submitted Plan is designed to allow for flexibility, thus ensuring our ability to meet our targets while adjusting based on market feedback. This very recommendation was made by CalRecycle to allow for better forecasting and responsiveness. The speed with which CARE has implemented program changes and refinements is much faster than any agency could possibly reproduce. Feedback from the field comes via regular SPC meetings, reporting, site visits, retailer visits, retailer emails, and phone calls. Our shift to monthly reporting has been very beneficial to gain timely insights and feedback while financially supporting our recycling community.

The current Plan is working and we are just at the beginning of a significant rise in gross collections and recycled output. It would be wise counsel to allow the current program to expand as projected rather than try to force changes that are unproven and driven by some who have no experience or expertise in administering such a complex program.

Sincerely,

Robert Peoples, Ph.D.
Executive Director, CARE

cc: Howard Levinson, Ph.D.
Sustainable Planning Committee
Sustainable Funding Oversight Committee





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Monthly Trending Chart

