Chair Benjamin Allen and Vice Chair Patricia Bates  
Senate Environmental Quality Committee  
Capitol Office, Room 2114  
P.O. Box 942849  
Sacramento, CA 94249-0080  

By email: senator.allen@senate.ca.gov, senator.bates@senate.ca.gov, senator.wieckowski@senate.ca.gov, senator.dahle@senate.ca.gov, senator.hill@senate.ca.gov, senator.skinner@senate.ca.gov, senator.stern@senate.ca.gov

Dear Senators Allen, Bates and Wieckowski and Members of Committee,

We are writing in with neither support nor opposition of SB 372, which would transition the State’s existing Beverage Container Recycling and Litter Reduction Act from a state government-run program (managed by CalRecycle) to an Extended Producer Responsibility program, managed by the beverage distributors through a Beverage Container Stewardship Organization (BCSO).

Extended Producer Responsibility (EPR) is the Dominant Form of Beverage Container Deposit Laws Worldwide
There are more than 50 container deposit laws worldwide, and when fully implemented, these programs will serve more than 600 million people. Only 2 programs in the world are managed day-to-day by a state agency: California’s and Hawai’i’s. No other container deposit program in the world has lost half of its infrastructure: the problems that plague the current program are unique to the structure and inflexibility of California’s law.

The EPR model allow for greater flexibility, because day-to-day operational and financial changes don’t have to go through a lengthy legislative process to be implemented. EPR also causes the beverage producers to be fully responsible for the end-of-life management of their products and packaging.

We also applaud the author for modeling much of this bill after the successful Oregon container deposit law, which currently has a redemption rate of 84%, and covers all beverages except wine, liquor and milk. Oregon’s program also uses state-of-the-art technology and has a variety of ways for consumers to return their beverage containers.

While the vision of a new program in 2024 could produce a fully-functioning program, in the meantime, millions of consumers are unable to get their deposits refunded, due to the many “recycling deserts” in the state.
Litter Prevention and Reduction
The existing program is likely California’s single greatest litter prevention and reduction program. If only 1% of beverage containers are littered in the state, that would be more than 240 million containers littered each year. Container deposit programs are proven to cut beverage container litter in half, so that means this program likely saves 120 million beverage containers from being littered each year.

Immediate Help is Needed
We are concerned that SB 372 contains provisions that would cause the immediate closure of redemption centers (RCs), such as the change from $2 million in sales to $4 million, the convenience zone radius change from ½ a mile to 2 miles, and the expansion of exemptions from 35% to 50%. Each of these changes will cause RCs to close, reducing opportunities for consumers to get their refunds. We recommend striking those provisions. We also recommend adding a provision to fully fund RCs, by increasing the handling fees and processing payments by a percentage that would fully cover losses due to depressed scrap values and increases in minimum wages. In fact, Hawaii has just made such a change, and is funding redemption centers at a level that will keep them profitable.


The California program has suffered tremendous losses in the last 5 years. Stabilizing the redemption system now is crucial because only 1,196 all redemption centers (RCs) are open for business today: fewer than half of those operating in 2013 (2,578: a 54% loss). Each center now serves twice as many customers, on average.

- Compared to 2018, redemption centers are receiving $46 million less per year in aluminum can scrap value: as the graph at right shows, the value of an aluminum bale dropped by $420 between July 2018 and June 2019, resulting in plummeting revenue for RCs.

- Scrap revenue shortfalls in glass and PET plastic have created losses for several years in a row: the gap between CalRecycle’s anticipated scrap revenue and actual scrap revenue has led to a $67.5 million loss in RC revenue over 7 years ($9.6 million per year on average).

- Minimum wage increases are inadequately accounted for in payments to RCs. The handling fees and processing payments are based on 2016 cost surveys, when minimum wage was $10/hour. It is going up to $12 in 2020, and the annual COLA does not captures the magnitude of this change, as we discuss below.
Here we lay out these issues in more detail:

- **Aluminum revenue no longer the cash cow it once was.** Recycling centers have long relied on aluminum cans to partially “carry” lower-value glass and plastic. But the average price for aluminum cans dropped by $420 per ton, or 29%, since July 2018, as the figure above shows. When this loss is multiplied by the 6.3 billion CRV cans recycled at redemption centers, it equals approximately **$46 million in revenue lost**.

- **Labor costs are inadequately accounted for.** CalRecycle’s cost surveys are conducted every two years, and the values being used now do not include recent minimum wage increases. The processing fee reports are published 2 years after the cost surveys are conducted, so this will be a recurring problem.

In redemption recycling—where labor accounts for roughly 50% of all operating costs—labor costs will have increased by 30% between 2017 and 2021 ($10 to $13/hour), or by **15% of total costs** (30% x 50%). **In other words, minimum wage increases are a large cost increase that is not fully covered by the COLA adjustment.**

- **Race to the bottom:** the formula for calculating the average cost of recycling is **structurally designed** to produce lower average costs as higher-cost redemption sites go out of business. This method virtually guarantees that centers with above-average operating costs will remain in the red, and that closures will continue. In previous letters, we’ve referred to this as a “death spiral.”

- **Scrap revenue calculation methodology puts recyclers at risk of loss.** As CRI has previously reported, the practice of calculating processing payments using outdated scrap values (12-month averages from the previous year—with a minimum three-month lag time) means that **in a downward trending market**—like the current one—there can be **a significant gap between the averaged values CalRecycle uses to calculate processing payments, and actual scrap values** during the period, as Figure 1 shows. Since 2012, these gaps, or shortfalls, have averaged $39 per ton of PET bottles, and at times have exceeded $100 per ton. **From June 2012 to June 2019, the cumulative shortfalls for glass and PET were $67 million.**

- **New transportation costs** are not accounted for at all. Recent closures of recycling processors—the intermediaries who purchase bottles and cans from redemption centers and sell them to end-users/manufacturers—has led to greater transportation distances. Many
redemption center operators (or their agents) must now haul their recyclables farther away for processing, leading to higher transportation costs.

In sum, the combination of inadequately assessing labor costs, using average costs for all recycling centers, and using backdated scrap values that fail to account for plummeting actual scrap values has created unprofitable operating conditions for many recyclers. Unless these issues are addressed, closures will continue, and Californians’ access to redemption opportunities will become increasingly limited. Indeed, another 12 redemption centers have closed in the last month.

To date, recyclers have experienced more than $67 million in cumulative shortfalls for glass and PET recycling in prior years, plus an additional loss of more than $40 million in reduced aluminum revenues in 2019 alone.

Other reference documents from CRI:

CRI has communicated to CalRecycle our concerns that inadequate processing payments would lead to redemption center closures since 2016:

1. In April 2016, CRI released an updated report, “Integrity of California’s Beverage Container Deposit System Threatened by Processing Payment Shortfalls.” In it we discuss how falling scrap prices and inadequate processing payments had led to a cumulative operating shortfall of $43 million for glass and PET and the closures of 421 redemption centers in one year. Since that time, cumulative shortfalls have risen to $67.5 million, and more than 800 additional redemption centers have closed.

2. In October of 2017, we wrote in support of emergency regulations to change the reasonable financial return, applauding CalRecycle’s leadership.

3. On December 10, 2018, CRI wrote to CalRecycle in favor of the emergency regulations for 2019. We wrote that the proposed RFRs of 11% and 16% for rural sites were “nowhere near enough to avert the impending financial crisis for redemption centers,” and we recommended doubling them. As we predicted, 356 redemption centers closed in 2019, based on CalRecycle’s website.

4. On August 23, 2019, shortly after rePlanet closed all 284 of their redemption sites in one day, we wrote again, explaining that a 10% RFR would be a good profit if all costs were already covered, but “only 70-80% of RC costs are covered now, [so] a 10% RFR value doesn’t provide enough revenue for centers to cover their costs.” We proposed that CalRecycle design a dynamic process for calculating and adjusting the RFR at regular

<table>
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<th>Year</th>
<th>PET Payment Shortfalls (million)</th>
<th>Glass Payment Shortfalls (million)</th>
<th>Sum of PET &amp; Glass Payment Shortfalls (million)</th>
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<td>FY 2013</td>
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</table>

*Numbers in red are profits rather than shortfalls. **FY19 derivation includes 6 months of tonnage estimated using historical data.
intervals, based on changes in scrap values, prevailing wages, and other operational costs. *Since August 2019, 28 more RCs have closed, averaging seven closures per month.*

Please contact me with any questions you may have.

Sincerely,

Susan Collins
President, Container Recycling Institute

*About the Container Recycling Institute:* CRI is a nonprofit organization and a leading authority on the economic and environmental impacts of beverage containers and other consumer-product packaging.