DATE: May 24, 2018

TO: Honorable Council President Myrtle Cole and Members of City Council

FROM: Mario X. Sierra, Director, Environmental Services Department via Paz Gomez, Deputy Chief Operating Officer, Infrastructure/Public Works

SUBJECT: China National Sword Impact on Curbside Recycling

The purpose of this memorandum is to provide an update on China’s National Sword policy impact on the City of San Diego’s curbside recycling program.

BACKGROUND
Historically, China has been the largest international consumer of recycled materials. CalRecycle estimates that one-third of recyclable material generated in California annually is currently exported to foreign markets, of which, 62 percent is sent to China. In 2017, recyclable materials exported from California had a total value of approximately $5.2 billion.

China announced a National Sword policy in July 2017 which became effective March 1, 2018. The National Sword banned the importation of certain recyclable commodities, particularly mixed paper, plastics, and metals; imposed unprecedented lower allowances for contaminants that are much stricter than international standards; significantly cut back on the import volume; and increased inspections of recyclable commodity imports.

National Sword has adversely led to a surplus of available United States material, sharp declines in pricing, and a lack of markets for the materials. For a material that now has lower value, material recovery facilities (MRF), which process and sort collected recyclable materials, are having to spend more money and resources to hire workers and slow down sorting lines to meet the higher quality standards, and stockpile material for longer periods of time until material is sold to avoid disposing it in the landfill.

On May 4, 2018, China further expanded the National Sword policy by not accepting any imports of recyclable materials from the United States for one month. This new suspension is further aggravating the situation by completely banning the few remaining commodities, including cardboard, which were still being shipped to China, and creating more price uncertainties.

DISCUSSION
The City of San Diego (City) has a contract with IMS Recycling Services and Allan Company (Contractor) for the processing, transportation and marketing of recyclable materials collected from the City’s curbside recycling program. The Contractor, as has the industry in general, has been significantly negatively impacted by the effects of National Sword.
Historically, about 80% of the City's curbside material is exported via the City's Contractor. In the first quarter of CY 2017, approximately 60% of the exported material (by weight) went to China and 40% went to other countries worldwide. During the first quarter of CY 2018, approximately 24% of the exported material (by weight) went to China and 76% went to other countries. This situation has already impacted revenue. In FY 2017 revenue to the City was $4.0 million and in FY 2018, revenue is projected to be $3.0 million.

The Contractor has asked the City to provide relief via a letter dated March 20, 2018 which they have recently shared with Councilmembers. The Environmental Services Department and City Attorney's Office have been evaluating possible responses to the Contractor's request.

The Contractor is proposing to suspend all revenue payments to the City and to assess a $20/ton charge for materials received from the City. This proposal equates to approximately $1.1 million annual cost to the City, as compared to the $4.0 million revenue in FY 2017 and projected $3.0 million revenue in FY 2018. Staff met with the Contractor on May 21, 2018 and discussed potential relief of certain aspects of the financial terms of our agreement. Staff will be drafting an amendment to the contract in coordination with the City Attorney's Office and will include the amendment in a Report to Council expected to be presented to the Environment Committee within the next 90 days.

If there are any questions, please contact me at (858) 573-1212 or msierra@sandiego.gov.

Mario X. Sierra
Director

MS/mxs

cc:  Honorable Mara Elliott, City Attorney  
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