

2/6/2012

To: Business and Labor Committee, Oregon House of Representatives

From: Frank Goulart

Subject: Support for HB 4142. Expanding the state's preference for procurement of recycled products to include a preference for paper manufactured at paper mills located in the state.

I am a graduate student at Portland State University currently writing a master's thesis related to Oregon's pulp and paper industry. My research is a case study of the local industry that involves the examination of industry documents, solid waste management policy, trends in the global waste trade, news articles, and other forms of documentation. A large portion of the research is focused on conducting interviews and participating in planning sessions with key stakeholders in the local recycling system, labor groups, and others in both the private and public sectors. I have no special connection to the pulp and paper industry or any of the groups I have collaborated with in the process of conducting this research. My interest in the subject stems from my desire as a citizen of this state to both study and contribute to the promotion and retention of green manufacturing jobs in Oregon.

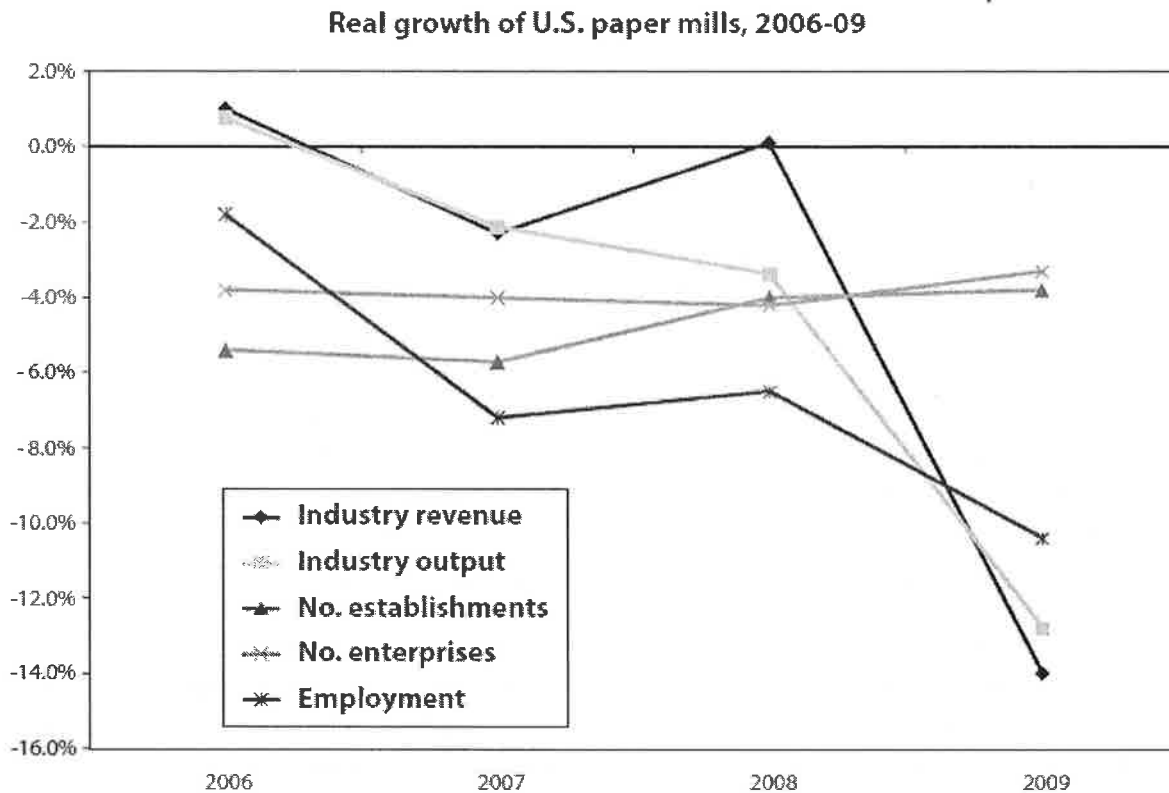
The problems facing Oregon paper mills include a dwindling supply of recovered paper, increased costs of recovered paper, shrinking domestic markets for newsprint and other paper grades, increased costs associated with the commingling of paper waste with other recyclable material, and increased and unfair foreign completion from China. All of these issues have resulted in mill closures across the country and in the state. HB 4142 helps to address some of these problems by supporting a local market for recycled paper by mandating state agencies to purchase a locally manufactured and sustainable product. By doing so, the state helps to retain some of the highest paid jobs in the recycling industry in Oregon. I urge you to support HB 4142.

Below is a more detailed examination of the trends that are shaping the pulp and paper industry. What should be clear from this discussion is that events in the global pulp and paper industry are inextricably linked to negative effects in the national and local industries.

National Paper Manufacturing Trends

Between the years 1990 and 2010 nearly 1,600 mills in the United States have either closed and laid off workers or reduced the size of their workforce (Pulp and Paper Resource Council 2011). Between 2002 and 2009 job losses in the paper and paper products sector are estimated at more than 150,000 (Pulp and Paper Resource Council 2011, Wyden 2010). While declines in print advertising, newspaper sales, and mail volumes have undoubtedly contributed to the problems faced by U.S. mills, the search by multinational paper firms for cheap labor and lax environmental standards that results in the continued offshoring of pulp and paper manufacturing combined with exponential growth in U.S. exports of waste and scrap paper and wood pulp are of equal or larger concern. In 2000 the United States exported approximately \$4.7 billion worldwide in waste and scrap paper and wood pulp. In 2010 world exports

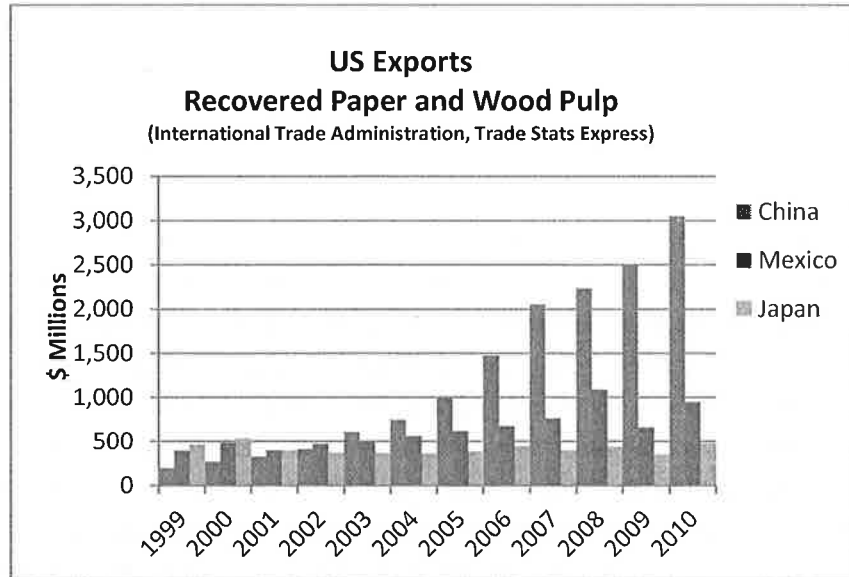
increased approximately 90% to \$8.9 billion (International Trade Administration 2012). Between 2006 and 2009 growth of U.S. paper mills fell across a number of indicators. See chart below.



Source: Haley (2010), Economic Policy Institute

China's Impact

In 2001 China became a member of the World Trade Organization (Scott 2010). Since then 2.4 million American jobs, including 38,000 Oregon jobs, have been lost to the growing trade deficit with China (Scott 2010). During this time the percentage of Chinese imports of U.S. waste and scrap paper and wood pulp increased 827% (International Trade Administration 2012). In 2008 China surpassed the United States as the world's largest producer of paper and paper products (Haley 2010). In 2010, with over \$3 billion in U.S. exports, China is by far our largest market for waste and scrap paper and wood pulp, and is over three times the size of our second largest export market, Mexico (International Trade Administration 2012). Looking specifically at recovered paper, the United States exported over two thirds of its recovered paper to China in 2009, just over 13 of its 19 million tons (RISI 2010), disrupting the domestic supply of key raw materials and inflating the price of recovered paper.



The Rising Price of Raw Materials

Between 2000 and 2008 the price of recovered paper increased about 160%, while the cost of pulp increased about 30% (Haley 2010).

Chinese Subsidies to its Pulp and Paper Industry Harm American Manufacturers

Lacking natural resources to fuel its industry, China has no natural competitive advantage in papermaking and must rely on imports to sustain growth. Despite this fact, prices for Chinese-made paper are routinely lower than paper manufactured in the United States and in Europe. According to Haley (2010) of the Economic Policy Institute, the price differentials are difficult to explain without subsidies and he estimates the following subsidies to China's paper industry: electricity, \$778 million (from 2002 to 2009); coal, \$3 billion (from 2002 to 2009); pulp, \$25 billion (from 2004 to 2009); recycled paper, \$1.7 billion (from 2004 to 2008); income reported by companies, \$442 million (from 2002 to 2009); and loan-interest subsidies, \$2 billion (from 2002 to 2009), totaling approximately \$33.1 billion.

With the help of the Chinese government, Chinese manufacturers outbid American manufacturers in the market for raw materials and then sell finished products at artificially low prices.

Oregon Paper Manufacturing Trends

Consistent with national trends, Oregon's paper making industry is threatened by the high price of recycled paper and Chinese demand. Since 1990 Oregon has lost approximately fifteen paper mills (Pulp and Paper Resource Council 2011). In the same time period Oregon forests products firms filed over 430 Trade Adjustment Assistance petitions (United States Department of Labor 2012). In 1980, paper mills employed over 10,000 Oregon workers, paying them family wages and benefits with effective union representation. Today Oregon paper mills employ approximately 3,300 workers and the jobs that remain are in danger (Law 2011). In March 2011, after more than a century of operation, the Blue Heron Paper Company closed, laying off over 200 employees. In November 2011, SP Newsprint, Oregon's

largest recovered paper mill, filed for bankruptcy protection. The mill's fate, along with that of its 300 employees, remains uncertain. Conversations with industry stakeholders confirm that efforts to retain recovered paper and expand the local market for finished products would benefit the local industry.

Commingling of Recyclables

In 1991 the Oregon Recycling Act established a statewide recovery goal of 50%, added activities to develop markets for recycled materials, and established government procurement requirements for recycled products (Department of Environmental Quality 2003). In the 1990's the process of combining most recyclable material into a single collection bin, or commingling, was introduced to boost participation in recycling programs and supply a growing market for recyclables. Commingling works because citizens and businesses can place large amounts of material into a single bin without sorting material at the curb. Today, through these and other efforts, Oregonians divert over 600,000 tons of waste paper from landfills each year (Department of Environmental Quality 2011). Once commingled waste is placed on the curb for pickup it is collected by a waste hauler and is sold to Material Recovery Facilities (MRF's). MRF's sort, package, and market recyclable material for end-use markets and are a key supplier of raw material for paper mills in Oregon. MRF's in Oregon and across the country also participate in the export of recovered paper.

The Link between Export Pressures and a Dirtier Paper Stream

The perception within the recycling community in Oregon is that the majority of paper collected in Oregon is used to supply local mills. However, following national trends, the Oregon trend appears to be moving in the direction of increased exports. In 2008-2009, the City of Portland claimed that approximately 12% of the paper supply was exported out of state. Getting up-to-date data on exports has been difficult and exact numbers of exports are not available. However, informal conversations with local MRF's and City of Portland recycling staff confirm that exports are modestly rising. An executive at one large Oregon MRF indicated that exports from his firm hover around 20% today and the following quote illustrates the pressures MRF's currently face in the marketplace:

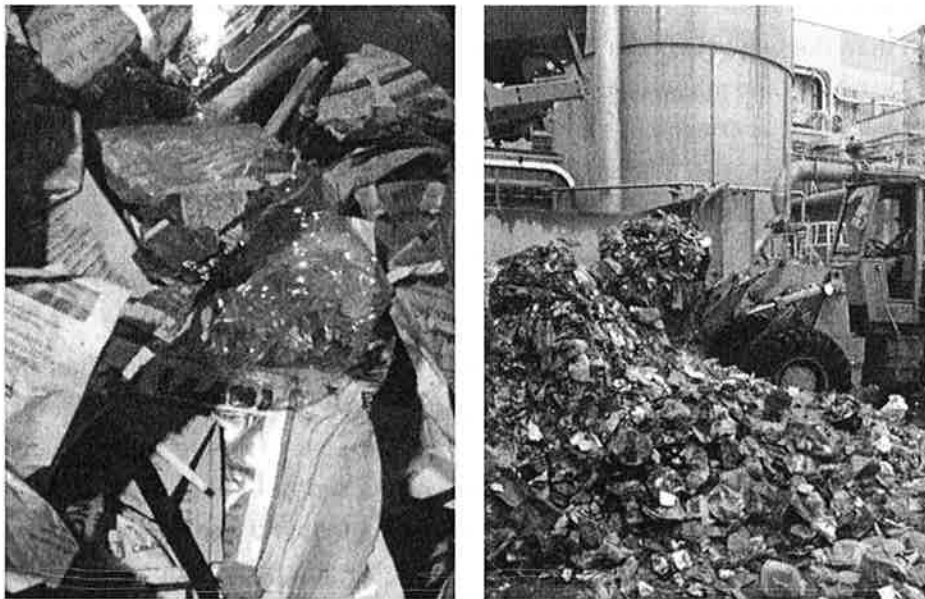
*"Matter of fact, most of our fiber is under contract with domestic markets. Part of the agreement is that they have to be competitive in their pricing. Recently this has become a huge issue. The market for curbside material in this area is very competitive...and is driven mostly by pricing. We have to stay competitive to keep the material flowing into our plants. Often we must go back to our markets and ask for some support...**it's either help us or lose the fibers all together (most of our competitors sell to the export market.) We continue to support the domestic markets but it is getting very difficult...** We are about 80/20 on domestic fiber product." Oregon MRF executive.*

The pressure to export has a direct effect on the quality of recovered paper.

*"Prior to co-mingled fiber at the curb we were producing finish product that was ½ of one percent contamination. It is now over ten percent. Here is the kicker...**we can sell this dirtier***

product overseas at a higher value than we can selling it domestic. There is no incentive for MRF's to get it cleaner." Oregon MRF executive.

Because the Port of Portland lacks the capacity to allow large, deep-hulled ships access to its ports, the Oregon export market for recovered paper is, for the time being, somewhat constrained. While this has likely been a factor in keeping recovered paper in the local market, Oregon does not produce enough paper waste to support all of its mills. Oregon paper mills must supplement their paper supply by importing paper from other states. With China setting a low bar for quality and a high bar for price, the result is a dirty and expensive product for Oregon mills. As a result, mills are forced to purchase bales with less useable paper and incur added costs of disposal and equipment maintenance. **The annual disposal cost for a mill can run into the millions of dollars.** HB 4142 can increase revenue for local mills and help offset the costs of increased contaminants in paper bales due to commingling.



Waste generated at an Oregon Paper mill as a result of commingling, 2011

The Importance of Paper Making to the Regional Economy

Recycling is a proven job creator. There are more jobs created in handling recycled material than there are in handling virgin material because it takes more effort to collect, process, sort, and manufacture finished products from recycled material than from virgin material. A literature review undertaken by Cascadia Consulting Group (2009) on Behalf of King County, Washington found that jobs in manufacturing of recycled material are some of the most valuable in the industry. In the United States, **paper mills, steel mills, plastics converters, and iron and steel foundries account for 50 percent of all recycling industry employees, 62 percent of recycling industry wages, and 59 percent of total recycling industry receipts.** HB 4142 will help to retain these valuable jobs for Oregon workers and provide tax revenue for the state.

Oregon's Sustainable Values

Oregon has a long history in paper manufacturing. Paper waste collected from Oregon citizens, businesses and government offices by local governments, their agents and franchisees represents a significant public resource responsible for supporting a traditional Northwest industry. Consistent with the sustainable values of Oregonians, many of Oregon's paper mills have transitioned from making paper from wood chips to making paper from recycled paper waste, using increasingly energy-efficient and environmentally-friendly processes. Additionally, the City of Portland's Five Year Economic Development Plan and Multnomah County's Climate Action Plan have called for the development of advanced manufacturing and the advancement of clean technology throughout the state, including investments in recycling systems.

The paper manufacturing industry in Oregon, and in the United States, is one of the most sustainable paper making industries in the world. In contrast, China's paper industry has been accused of causing more pollution than the pulp and paper industry of the rest of the world combined. Oregonians who care about sustainability and jobs would not want their recovered paper to leave the state only to arrive in China's dirty mills. Just as Oregon has taken a leadership role in reducing greenhouse gas emissions through its recycling system, the state should recognize emissions *embedded in trans oceanic trade* and the role that local production can play in climate protection.

Conclusion

As Oregon paper mills close, the state loses some of the best jobs in the recycling industry and a source of tax revenue for the state at a time when we desperately need both. Unlike most states on the West Coast, Oregon has maintained an industry organized around waste paper reuse. Our workers are highly skilled, having benefited from an industry dating back over a century. Paper making can be a competitive advantage for Oregon once again. Every dollar spent and circulating in the waste paper supply chain, from haulers and sorting facilities to paper mills, is a boon to our state's economy and a step toward economic recovery. I urge you to act to save the mills that remain in Oregon by lending your support for HB 4142.

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