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To: VI Board
From: Bob Burnett

This article from
The June 2 WSJ
is rather accurate !!

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U.S. Plastics Recycling Advanced Last Year, Industry Group Says

By a WALL STREET JOURNAL Staff Reporter
WASHINGTON — Plastics recycling as a percentage of U.S. plastics production rose last year, reflecting heightened environmental concerns among consumers and manufacturers, the industry said.

Plastic soft drink bottles were recycled at a rate of 36% last year, up from 30% in the previous year, according to the Society of the Plastics Industry's Partnership for Plastics Progress. SPI is a trade group.

The group said about 11% of all plastic bottles and containers, including soft drink, milk, detergent, margarine, tubs and yogurt cups, were recycled in 1991 compared with 7% the previous year.

The industry's goal, set last year, is to recycle 25% of all plastic bottles and containers by the end of 1995. "We're almost halfway there," said J. Roger Hirl, president and chief executive officer of Occidental Chemical Corp. in Dallas who is chairman of Partnership for Plastic Progress.

He said 4,400 communities now leave plastic containers and bottles on the curbside to be picked up for recycling or drop them off at designated locations. He said about 120 companies reclaim those discarded plastic bottles and containers either to recycle them into the same products or to turn them into plastic bags and carpet fibers, among other products.

Space Available

Economics of Trash Shift as Cities Learn Dumps Aren't So Full

Recycling and Incineration
Help Increase Leverage
Of Hard-Pressed Towns
Court Ruling Adds to the Mix

By JEFF BAILEY

Staff Reporter of THE WALL STREET JOURNAL

Like many Americans, Robert Mehegan, a Boston public works executive, had been hearing about a national garbage crisis for years, with the dwindling availability of landfills inexorably driving the cost of garbage disposal skyward. So he was startled last year when bids for the city's garbage contract actually dropped from \$70 to \$50 a ton, saving Boston taxpayers \$7 million a year.

Mr. Mehegan, along with counterparts in Philadelphia and Cleveland, is reaping the benefits of increased competition in the estimated \$25 billion-a-year waste industry. All three major waste disposal companies showed newfound aggressiveness in bidding for the Boston contract. Contrary to dire predictions, dump capacity is increasing, fostering lively price competition that could save American cities hundreds of millions of dollars.

Yesterday, the Supreme Court issued a ruling likely to further fuel competition, stating that states can't bar interstate waste shipments. (See story on page A3). That should further embolden cities, which already are taking advantage of the new environment by demanding deep rate cuts, banding together to increase public-sector leverage over dump prices, and building new dumps of their own and expanding old ones to bypass more expensive private landfills.

High Stakes

Philadelphia and Cleveland joined Boston in recently hammering out long-term contracts that lowered their disposal costs by more than 20%.

It's true, many dumps have been closing, but they've been the tiny ones. The lost space has been more than offset by a handful of huge, new waste sites. At the same time, increased use of incineration, recycling and, more recently, the effects of the recession have combined to cut more deeply than anticipated into the nation's refuse that must go to dumps.

The stakes in the disposal price war—fought mostly between big municipalities and a handful of companies led by Waste Management Inc. and Browning-Ferris Industries Inc.—are huge. The nation generates about 160 million tons of trash a year. Should it cost \$10 a ton to dump, as it does in San Jose, Calif., or \$131 a ton, the sum Morris County, N.J., pays to have its rubbish trucked to Pennsylvania?

For most of the last 20 years, the big garbage companies have been gaining the upper hand, grabbing more than half the market. The lowly dump, with its operating profit margins (before taxes and corporate overhead) of 50%, turned garbage companies into glamour stocks. Lofty stock prices financed acquisitions, which brought growth that sent the stocks still higher.

That rise was fueled, in part, by the widespread perception that dump capacity was shrinking. In fact, most dumps that closed were tiny, more than offset by a handful of huge new waste sites. At the same time, increased use of incineration, recycling and, more recently, the effects of the recession have combined to cut more deeply than anticipated into the nation's refuse that must go to dumps.

Local Business

All the while, many municipal officials remained ignorant about the economics of trash. "It was easy in the 1970s not to deal with the issue because the average [monthly] household bill was \$5," says Gary Brayton, a garbage consultant at Deloitte & Touche. "Now it's \$30 to \$40 in some areas. It's a significant cost to citizens."

Just about the time those prices were jarring many municipalities toward action, along came the "garbage crisis." It sounded true enough. Dump closings created pockets of scarcity, and opening new dumps had grown difficult. The very local nature of the business meant that few officials knew much about the trash market beyond their own backyard.

Then, in 1987, the idea of a crisis was fixed in the national consciousness as a barge heaped with 3,186 tons of New York state garbage drifted hopelessly for five months in search of a dump. Rejected by dumps and incinerators in nine locations along the Atlantic coast and in the Caribbean, the trash returned to New York state and was burned.

Suddenly, dump fees were like oil prices in the late 1970s—unbelievably high but certain to go higher.

Handy Concept

The garbage companies didn't invent the notion of a capacity crisis, but it has worked to their advantage. And efforts to perpetuate it continue. The National Solid Waste Management Association issued a report last month declaring that "landfill capacity in North America continues to decline." In an accompanying press release, the trade group warned that "escalating disposal costs will continue" unless siting new dumps becomes easier.

However, one of the report's authors, Susan K. Sheets, says she doesn't believe capacity is declining and says that the association's public-relations person was

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responsible for that conclusion. "We didn't put that in our report," Ms. Sheets says. The PR man, "Allen Blakey, wrote it," Mr. Blakey says he believes capacity is declining and says the conclusion wasn't altered to fit the industry's agenda.

But even some industry executives call the purported trash crisis a bunch of rubbish. Currently, only New York and New Jersey among major markets face a serious capacity shortage, and both states border Pennsylvania, where there is a glut of dump space. "This perceived capacity crunch — I don't know where it is," says Hugh Dillingham, a Browning-Ferris vice president.

It has nevertheless frightened many municipalities. "We were at their mercy," says Phyllis Barry, an official in Oyster Bay Township on New York's Long Island. The last three years, Oyster Bay paid Waste Management, based in Oak Brook, Ill., \$101 a ton, then \$111 and then \$117 to take its 175,000 tons of trash a year.

When the township finally put the work out to bid, it discovered how badly it was overpaying. Browning-Ferris, based in Houston, earlier this year agreed to take the trash for \$77 a ton, a \$7 million annual savings. Even at \$40 a ton less, Browning-Ferris says the work is profitable.

Waste Management denies any price gouging on its part. "Our rates were not out of line," a spokesman says. "It really is a reflection of the market."

Some municipalities know they're paying too much but can't do anything about it. At \$131 a ton, suburban Morris County, N.J., about 25 miles west of Manhattan, will pay \$49.8 million to dispose of this year's expected 380,000 tons.

Morris County must pay that rate through the end of 1994 in part because it allowed a single company, Chambers Development Co. of Pittsburgh, four years ago to step in and gain control of the county's only two disposal outlets. "That lack of control really costs us," says Glenn Schweizer, the county's trash czar. "The rates are excessive." Chambers says the rates are reasonable.

To be sure, household garbage bills aren't headed back to \$5 a month. Disposal, with environmental safeguards, will remain costly. And a lot of trash has to travel farther these days as scores of town dumps close and are replaced by big regional sites.

But overall, the supply of dump space exceeds demand, and that should send prices down in some areas and keep them from rising much in others. Investment dollars poured into the dump business in recent years chasing the high profits. The cost of building and operating a dump rarely exceeds \$30 a ton. In most cases, the cost is far below that.

Capacity Levels

Browning-Ferris has more than 485 million tons of capacity at its 100 dumps. Waste Management won't disclose the capacity of its 130 dumps, but probably has

between 650 million and a billion tons of space. Together, their daily permitted volumes could handle 70% of the nation's trash, estimates Douglas R. Augenthaler, a trash-stock analyst at Oppenheimer & Co. Other companies, including Chambers, Laidlaw Inc. and Western Waste Industries, have added to their dump space, too.

Meanwhile, companies and municipalities have invested heavily in trash incineration, which burned about 16% of the nation's volume last year. That could grow to 25% by the year 2000, and recycling could roughly match that amount. If so, the volume going to dumps could drop from the current 130 million tons to less than 100 million tons by the end of the decade, even as total trash output rises to 210 million tons a year.

Municipalities didn't see this coming, of course, and many still haven't taken advantage of the oversupply. In Pennsylvania, a late-1980s surge in dump permits, part of a state effort to avoid a crisis, has given the state about three times the permitted capacity it needs to handle its 25,000 tons a day. Waste Management alone could handle all the state's trash with its Pennsylvania dumps. Yet prices, at \$35 to \$60 a ton, remain relatively high.

Under a 1988 contract, Philadelphia is paying Waste Management \$67 a ton through 1994 to take the city's 650,000 tons a year. "It looked like a good deal at the time," says Jack Siderer, the city's chief sanitation engineer. In March, Philadelphia signed new contracts for 1995 through 2001 at about \$50 a ton with Browning-Ferris and Waste Management. The city will save about \$20 million a year.

Other cities have taken notice. Pittsburgh's contract with Chambers is up at the end of 1993. And Robert A. Lewis, assistant planning director, has news for the company: The new price will be "the same or better" than the 1993 price of \$38.17 a ton.

Elsewhere, municipal efforts have gone far beyond simply knowing the market and driving a harder bargain. Palm Beach County, Fla., spent \$420 million to build its own incinerator, dump and other disposal facilities. Household bills there have more than quadrupled since 1980 to about \$21 a month. But the county hopes public ownership will help insulate it from future private-sector price increases.

Running a Monopoly

The state of Delaware used high dump fees to finance its own dumps in the early 1980s. In the last few years, however, neighbor states reliant on the private sector have been paying more than Delaware's \$43.51 to \$49.60 a ton, says N.C. Vasuki, the state's trash chief.

Municipalities have some advantages over the trash companies. Cities' borrowing costs are often lower, and they don't pay taxes or look for profits. And they can legislate so-called flow control, which gives them the power to steer all the trash

within their borders to their own dump — a monopoly.

"Anybody who can walk and chew gum on a clear day ought to be able to beat out the private sector," says H. Lanier Hickman, head of the Solid Waste Association of North America, a group of mostly municipal waste officials. "We're learning to compete with the private sector."

In Los Angeles County, the nation's largest trash market, and in big Texas cities like San Antonio and Dallas, officials are fighting to preserve municipal control of dumps. Losing that control could cost Los Angeles County \$350 million a year in added dump fees, officials estimate.

Even in Waste Management's backyard, the Chicago area, municipalities are fighting back. In the northern suburbs, Lake County has essentially said no to any private-sector dump or incinerator project and instead plans to build its own. "Ownership is key" to controlling costs, says Bill Barron, deputy county administrator.

Cities in northern Cook County have banded together to build their own dump, too. And to the west, in DuPage County, where Waste Management and Browning-Ferris each operate a huge dump on Forest Preserve land, beginning this month the companies get to keep only \$16 of the \$26-per-ton fee. Says Wallace H. Brown, a Forest Preserve official: "Municipalities now have assurances they're not being taken to the cleaners."

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