



July 27, 2016

Mr. Howard Levenson, Ph.D.
Deputy Director, Materials Management & Local Assistance
1001 I Street
Sacramento, CA 95812

Dear Dr. Levenson:

On behalf of Fiber Commercial Technologies, I would like to provide comments on the CARE California Carpet Stewardship program and its recent annual report and current effort to divert carpet from California's solid waste stream.

Fiber Commercial Technologies (FCT) is a manufacturing firm with current operations in Minnesota and which will begin PET recycled carpet processing operation in Q4 2016. We will produce building materials products for exterior application and are currently active in these spaces in affiliate companies at significant scale.

For the past several years FCT has followed CARE's progress and interacted with CARE to determine the availability of recycled carpet at the national level and more recently to understand the stability and long term feasibility of sourcing its carpet material through CARE's Stewardship Program in California. Our review has created a number of concerns and comments regarding the current CARE plan that we wish to share with the hope that CARE will amend its operation and address these concerns.

Issue One – Funding Deficiency

Current CARE subsidy levels adopted in Q3 2015, with some modification, now appear adequate to encourage and support development and recycling of the carpet waste material. However, the current consumer fee being collected will not sustain these subsidy levels, if even moderate success in collection and recycling is achieved.

Currently the fund is based at two quarters of subsidy paid, using an average of the prior 4 quarters. With low historical recycling success, the fund will be illiquid upon any significant increase in demand. FCT demand alone in 2017 will result in approximately 50,000,000# of recycled carpet diversion from the landfill resulting in a 50% increase over 2015 gross collection and a near 100% increase in the recycled fiber output. The projected CARE consumer fee, at \$.20/SY of retail carpet sold, is inadequate to fund these subsidy payments as they occur. In addition, CARE administrative costs, grants and a number of other initiatives need to be funded from the current consumer fee.

FCT believes that based on projected uses over the next two years and the subsidies presented, the stewardship fund should be required to have a minimum reserve of \$25,000,000. We believe the fund has less than \$5,000,000 at end of year 2016 with outstanding obligations still unpaid. We also project that over \$25,000,000 will be required in 2017 to pay subsidy requests, grants, administrative costs and other obligations. FCT estimates that \$40-50,000,000 may be required for these costs in 2018, based on its growth and other announced activities. The current consumer fee results in under \$20,000,000 of collection per calendar year and is inadequate to support the stewardship financial demand.

It is our suggestion that the consumer fee be set to \$.50/SY in 2017 to create the initial liquidity reserve and 2017 subsidy payments. Although this change is significant, it is the result of five years of inadequate fees, subsidies and success.

To ensure long term stability of retail carpet sales, FCT believes that the maximum level of \$.50/SY consumer fee should be set and this funding pool be established and available to users. The proceeds from this fund should be earmarked 95% to direct recycling volume achievements and 5% to defined program grants, administrative costs and marketing overhead. The subsidy rates should be proportionally reduced as the recycle hurdle rates are met and as the 375,000,000-pound recycling target is achieved, so that the annual cost of the stewardship program components equal \$50,000,000 per annum, resulting from the retail fee collected at \$.50/SY on approximately 100,000,000 SY sold to retail.

Proposed Subsidy Shedule

	California Diverted Carpet Volume			
	0 - 100,000,000#	101 - 200,000,000#	201 - 300,00,000#	301 to 375,000,000#
Collector	\$0.030	\$0.025	\$0.020	\$0.020
Tier I	\$0.100	\$0.080	\$0.060	\$0.050
Tier II PET	\$0.250	\$0.200	\$0.150	\$0.125
Tier II Nylon	\$0.125	\$0.100	\$0.075	\$0.060
Calc Carb.	\$0.120	\$0.090	\$0.070	\$0.060
Pounds Recycled	99,999,999	199,999,999	299,999,999	375,000,000
Collector	\$ 3,000,000	\$ 5,000,000	\$ 6,000,000	\$ 7,500,000
Tier I	\$ 6,000,000	\$ 9,600,000	\$ 10,800,000	\$ 11,250,000
Tier II PET	\$ 7,500,000	\$ 12,000,000	\$ 13,500,000	\$ 14,062,500
Tier II Nylon	\$ 3,750,000	\$ 6,000,000	\$ 6,750,000	\$ 6,750,000
Calc Carb.	\$ 4,800,000	\$ 7,200,000	\$ 8,400,000	\$ 9,000,000
Grants	\$ 2,000,000	\$ 1,500,000	\$ 1,000,000	\$ -
Administrative Cos	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Total	\$ 28,550,000	\$ 42,800,000	\$ 47,950,000	\$ 50,062,500

Issue Two - Subsidy Design and Longevity

FCT believes the subsidies should incent collectors, processors (Tier I), finished goods manufacturers (Tier II), and calcium carbonate recycling. We also believe that recycled nylon should be included in a Tier II rebate as it is in Tier I, at a reduced subsidy rate to PET. This would help stabilize the demand and production of both PET and nylon carpet recycling, by supporting nylon during periods when virgin nylon market pricing is abnormally low, or allowing its use in other carpet recycled finished good. The current lack of support for nylon fibers causes collectors and processors significant hardship and financial instability in a similar manner to PET.

We also believe that CARE should be required to reimburse all submissions under approved and published protocol within 30 days of monthly submissions. We see no Stewardship Program compliance statement to this effect guaranteeing this action by CARE.

The subsidy program should be design and guaranteed for 7 years without reduction. Investment by recyclers and manufacturers in equipment requires typical 7-year depreciation. Financial horizons to project investment value need to be long term to incent recycling industry participants to make capital investments for long term recycling activities. This provides economic continuity for the processors and manufacturers as well as the basis for ultimate cultural adoption by consumers, retailers, and others, for program support. Simply put, predictability leads to success and success leads to acceptance.

Issue 3 – CARE Oversight and Philosophy

CARE's California Stewardship program is managed by carpet manufacturers who have significant concern regarding the impact of consumer fees, subsidy program cost requirements on their retail carpet demand. These concerns have restricted CARE's activities from generating consistent and increasing California carpet waste redirection to recycling.

CARE along with its board and committees, has stated publicly that it is opposed to long term economic recycling subsidies like those recently added to the CARE California Stewardship Program. These current subsidies, which compensate recyclers and processors for the extraordinary costs associated with recycling carpet, directly conflict with CARE's stated position supporting "Market Based Solutions." This term refers to recycling processes and methods which are economically achievable without subsidy. This position, which has influenced the first 5 years of CARE's stewardship, has resulted in failure to achieve the requirements of the California AB 2398.

Although it would be ideal to develop recycling use solutions that do not require subsidy, this has not been successful to date and due to the cost of recycling carpet, would not be successful in the future. Inherently, recycled carpet collection and processing costs are extremely high compared to other plastics. Generation of large volume, low value mineral process streams from recycling carpet create unfavorable financial results. End product purity is extremely challenging and costly to achieve. Competing commodity polymer pricing fluctuation and competing alternative material costs, challenge recycled carpet costs and create disruption in revenue. All told, these issues and others make unsubsidized carpet recycling an economically unstable and unsustainable business. Collection and process entities across the country, of all capital

capabilities, have emerged and failed for several years over these facts. To date, even the carpet manufacturers themselves who have attempted recycling have not achieved commercially viable and sustainable internal or external recycling technologies. Like tires, batteries, waste fluids and other difficult large recycle waste streams, subsidy will be required to compensate and provide for a consistently successful long term recycling solution.

The CARE stated position promoting “Market Based Solution”, which demand unsubsidized recycling solutions, is unrealistic and unsuccessful and it should be eliminated if CARE is to remain in charge of California’s carpet stewardship program oversight.

Summary

As a potential high volume Tier II processor, Fiber Commercial Technologies views the California program as critical in its investment decisions. The subsidies assist in confirming our decision to invest in collection and processing locations in California that will be required for using California material. In the absence of long term subsidy stability, the transportation issues and operating cost issues in California would not favor California based recycled carpet use.

We believe California is poised to achieve its diversion goals and that FCT can provide volumes that would nearly assure this fact. We also believe that industry members and stakeholders should take responsibility to provide and oversee the stewardship program. We encourage and desire CARE oversight, if their positions are amended regarding “Market Based Solutions” as defined, and that they take a more economically aggressive and long term view of subsidies. We think CARE has built the infrastructure to execute, they simply need to correct their philosophical position and install long term financial subsidy mechanics required to build the recycling industry.

We would urge Cal Recycling to require that CARE adopt and submit a Stewardship Plan amendment resolving the concerns outlined in this letter and inclusive of the elements presented in this letter. If it does so, we believe Cal Recycling should award an additional one-year term for stewardship responsibility to CARE and review the results of the plan in 2017. A properly committed CARE is perfectly capable of achieving California recycling goals.

By implementing proper stewardship program components, we believe that California can divert 100% of its carpet over five to seven-year period.

Respectfully,



Douglas G. Mancosh
President
Fiber Commercial Technologies