

*Annual Status Report for the
Recycled-Content Newsprint
Program for Compliance Year
2002*

April 2004



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Introduction

The Recycled-Content Newsprint Certification Program (Public Resources Code [PRC] 42750–42791), established in 1991, is an environmental law that mandates California’s printers and publishers (newsprint consumers) to certify to the CIWMB the amount of recycled-content newsprint (RCN) their businesses use each year. In California, only newsprint that contains at least 40 percent postconsumer material by weight is classified as RCN.

The legislation requires all newsprint consumers to ensure that at least half of the newsprint they annually use is RCN. It also mandates that all newsprint manufacturers who sell RCN in California annually certify how much pulp was de-inked at their mills and how much RCN their company shipped into this state. Certifications from both consumers and manufacturers are due to the CIWMB by March 1 of each year.

Summary data on RCN consumption was compiled from the certifications submitted by California’s 155 regulated printers and publishers. In addition, each of the nine newsprint manufacturers that supply California consumers certified the amount of RCN they shipped into the state.

Analysis of the 2002 RCN certifications provides the following statistics regarding California’s newsprint consumers:

- There was an overall RCN consumption rate of 56 percent in 2002. This exceeds the mandated 50 percent RCN use requirement that the Legislature set for 2000 and beyond, but is the lowest percentage of RCN used in the last five years.
- Seventy-eight percent of newsprint consumers certified they met their 50 percent RCN use requirement; the remaining 22 percent requested exemptions.
- California’s newsprint consumers reportedly used 931,257 metric tons of RCN in 2002, the least amount used since 1996.
- In 2002, 91 percent of all RCN reportedly used by newsprint consumers has been reconciled with the metric tonnage RCN manufacturers reported shipping into California.
- Eleven percent of all newsprint consumers reported after the March 1 due date—but all reported prior to the penalty assessment date of April 15.
- For the third year in a row, 100 percent of all regulated newsprint consumers certified to the CIWMB.

Report and Analysis: Results of the Year 2002 Reporting Data

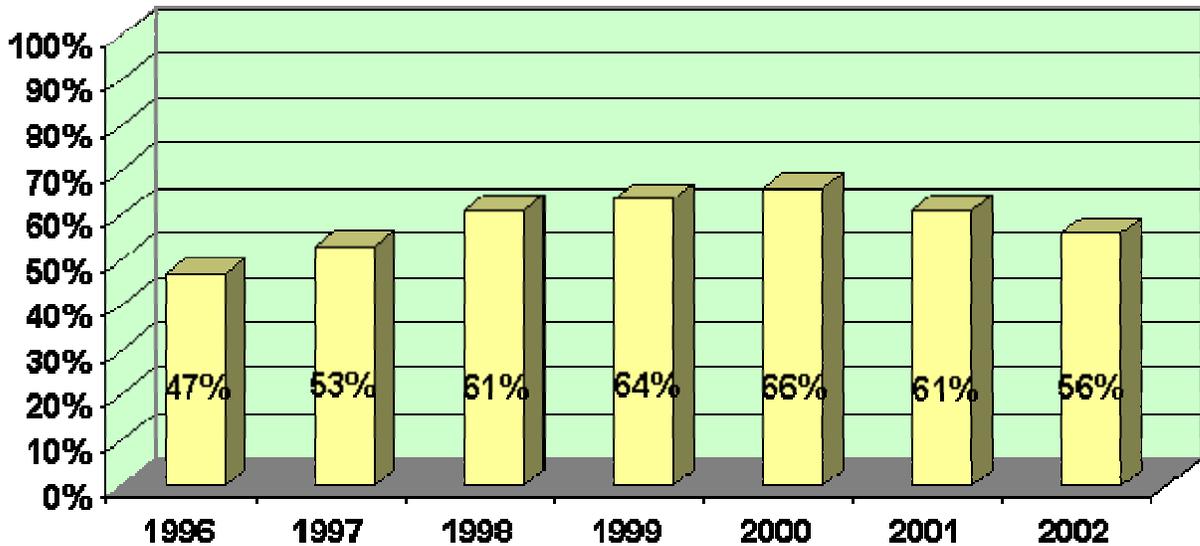
General Consumer Certification Results

Staff mailed certification packages to 170 California printers and publishers and 155 were completed and returned. Out of the 15 companies that did not submit certifications, 8 have been consolidated with other reporting businesses, 1 business closed, and 6 stated their businesses no longer used newsprint.

2002 RCN Consumption and Compliance Rates for California Newsprint Consumers

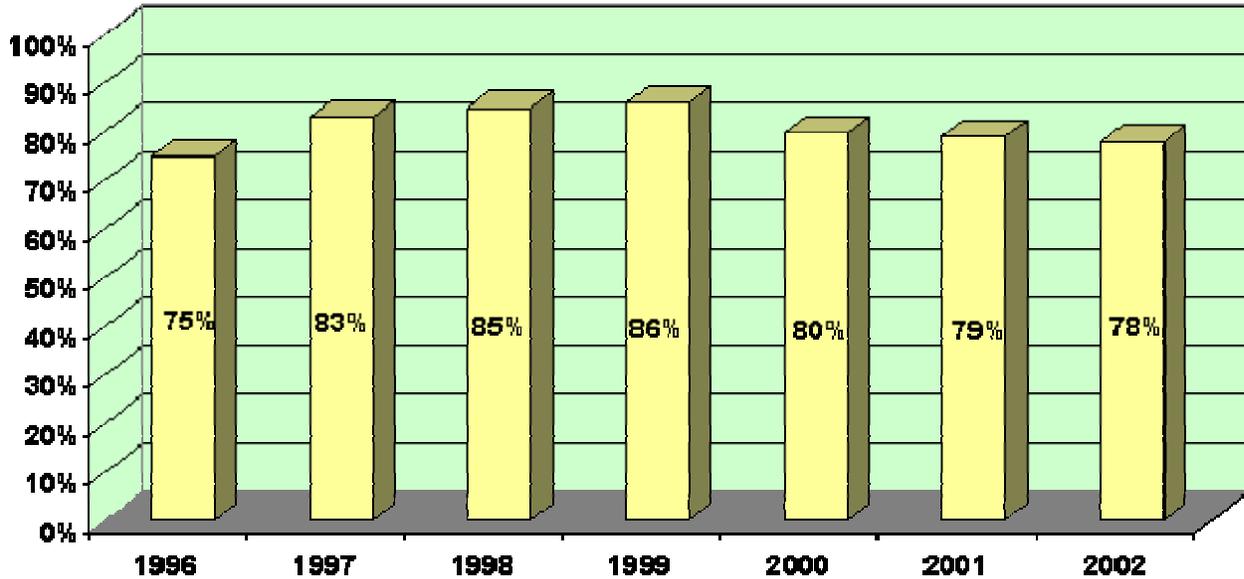
As seen in Figure 1, the year 2002 was dispiriting for California's RCN program. The aggregate RCN consumption rate was 56 percent. Although the figure indicates the average rate is above the 50 percent use requirement, it is the lowest percentage of RCN consumed since 1997. Despite the decrease in the overall consumption rate, California's newsprint consumers collectively made every effort to meet their mandated use requirement, as they have since the program was enacted in 1991.

Figure 1. Percentage of RCN Used



From 1991 to the present, the mandated newsprint consumer's minimum-use requirement increased nearly every two years—from 25 percent in 1991, topping out at 50 percent in the year 2000. For the year 2002, 78 percent of California's newsprint consumers complied with the law. Taken independently, a 78 percent compliance rate is a positive figure; unfortunately, it is the lowest percentage of compliance since 1997 (Figure 2).

Figure 2. RCN Compliance Percentages



Total Newsprint and RCN Used by All California Newsprint Consumers

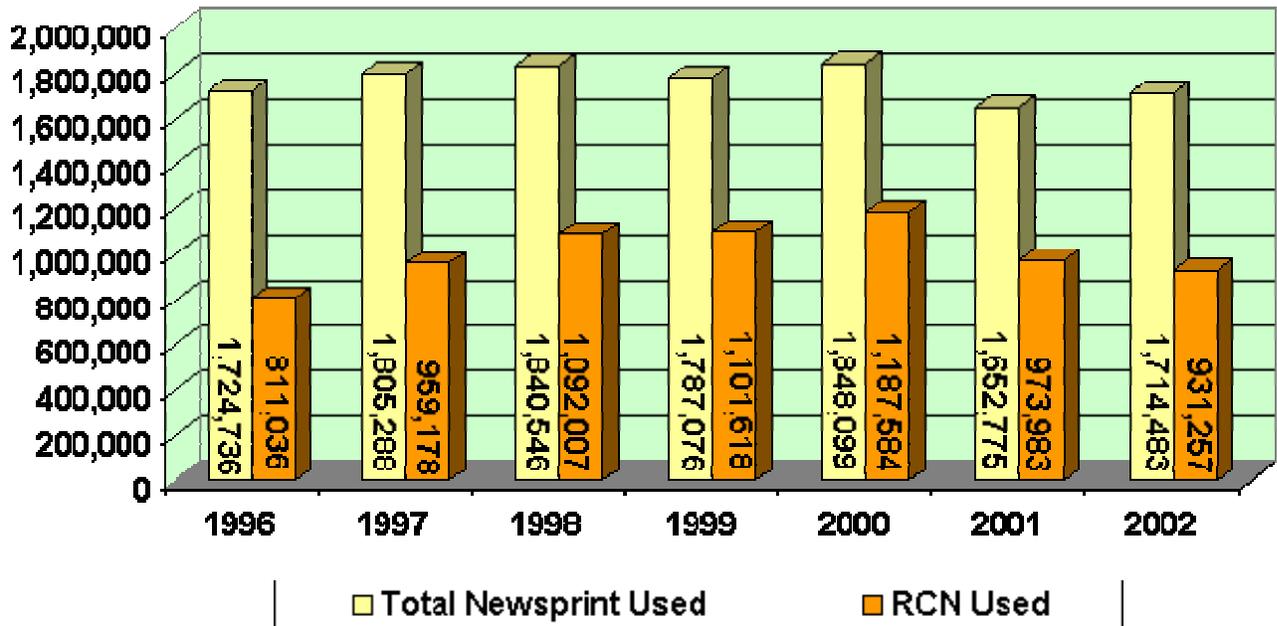
In 2002, California newsprint consumers reported they used 1,714,483 metric tons of newsprint (Figure 3). Although the total tonnage of newsprint consumed was slightly higher than 2001, it remained lower than the previous five years. The CIWMB has found that there are three very distinct reasons for the decreased newsprint usage.

The first and foremost reason is the decrease in advertising, which is a direct result of the nation's economic slump. This slump in advertising caused the second reason—the industry reduced the amount of paper it produced, closing machines at mills for months at a time. This also decreased the amount of newsprint available and raised prices of the newsprint. The third reason is that paper manufacturers are losing money in producing newsprint itself. They have reduced the amount of newsprint they manufactured and increased their non-newsprint production. These companies realize a much higher profit in making a finer grade of paper, such as office and magazine paper, rather than newsprint.

According to the March 24, 2003, edition of Pulp & Paper Week, "North American newsprint capacity has shrunk 1.05 million tons in the last five years through 2002 in the wake of record-low advertising lineage levels and an overall decline in newsprint consumption by U.S. daily newspaper companies the last two years and shifts in global capacity." The decrease is expected to last through 2004 and then bounce back up in 2005.

Of the total metric tons of newsprint used, 931,257 metric tons was RCN (Figure 3), the least amount of RCN consumed in the last five years. Aside from the aforementioned explanations for the decreased amount of manufactured newsprint, another unique situation presented itself in 2002 that also negatively impacted RCN sales in California.

Figure 3. Metric Tons of Total Newsprint vs. RCN Used



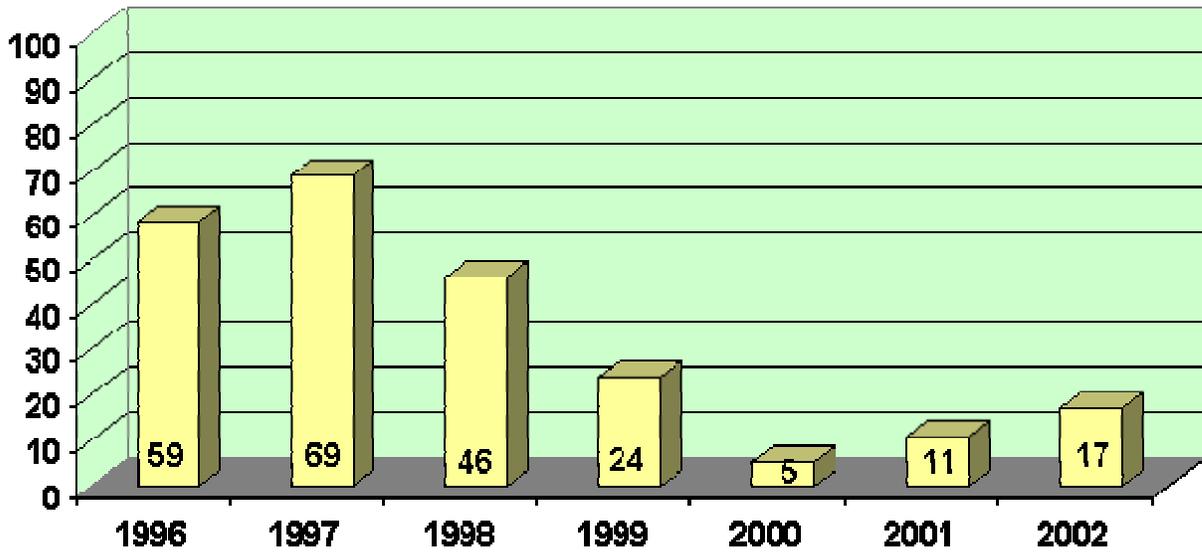
A few of the larger California newsprint consumers have long-term contracts with one particular paper manufacturer. This company decreased the amount of RCN it produced and raised the price of what RCN it did have to sell. Newsprint consumers would not pay the increased cost and were forced to request exemptions. However, as of 2003, this newsprint manufacturer has begun to produce and sell more RCN to the larger newsprint consumers at a much more competitive price. Staff expects to see an increase in both RCN usage and compliance percentages in the 2003 certifications.

Late Newsprint Consumer Certifications

Seventeen out of 155 consumers filed their certifications after the March 1 deadline (Figure 4). However, none of these companies filed their certifications after the 45-day penalty assessment date. This is the third year in a row there was no need to assess penalties against any company within this program!

One of the reasons for this successful certification response is that the printer and publisher trade associations ensure their constituency is aware of a law that went into effect in January 2000. The law allows the CIWMB to assess penalties for late certifications. These fines are set forth in a graduated structure:

Figure 4. Consumer Certifications Files After March 1 Due Date



- \$500 fine for any certification that is filed 45–90 days after the March 1 due date.
- \$500 fine for any certification that is filed more than 90 days late.

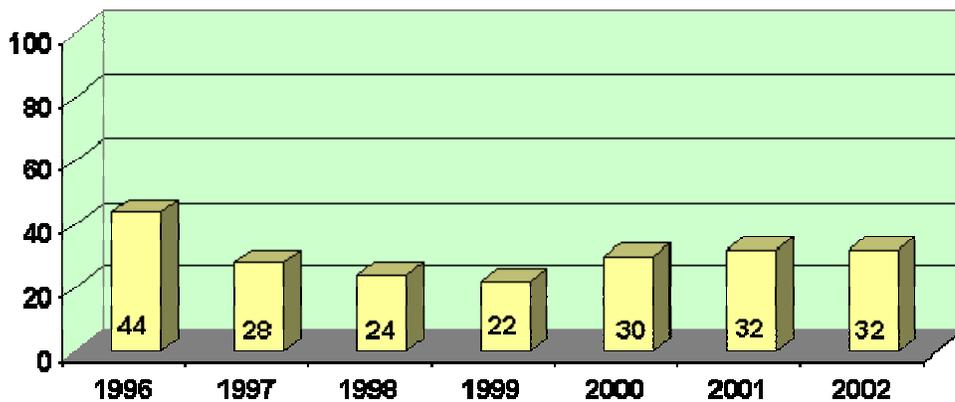
In the last four years, the CIWMB has assessed penalties against companies for either filing their certifications after the penalty dates or not filing any certification at all. All companies that have been assessed fines have paid, for a total of \$3,750.00.

Exemption Requests Made by Newsprint Consumers

When a newsprint consumer cannot obtain and use enough RCN to attain its 50 percent mandated use requirement, the business may request an exemption from the RCN law to avoid being “out of compliance.” Only three types of exemptions are allowed in the certification process:

- 1) The RCN was not available at a comparable price.
- 2) The RCN did not meet the quality standards that are annually established by the CIWMB.
- 3) The RCN was not available in a reasonable time.

Figure 5. Yearly Exemptions Requested



Along with the exemption request, newsprint consumers are required to document a “good faith effort” to purchase RCN. A “good faith effort” means contacting at least three different RCN suppliers to obtain the RCN needed to meet their mandated use requirements and documenting the attempted purchases on their certifications.

In 2002, 32 newsprint consumers reported that they did not meet their minimum-use requirement based on *one or more* exemptions allowed by statute (Figure 5). Judging by the decrease of RCN available in California, the number of newsprint consumers that did not reach the 50 percent mandated use requirement is not surprising.

However, the number of companies that requested exemptions is no more than that of 2001 and only slightly more than 2000. All 32 consumers stated that RCN was not available at a comparable price to non-RCN. Eight companies claimed a second exemption: four for availability and four for quality.

Like every previous year, there is hope that in the future certification years to come newsprint manufacturers will have quality RCN available at a reasonable price for California’s newsprint consumers to purchase.

Manufacturer Certifications

Statute requires manufacturers who sell newsprint in California to certify to the CIWMB by March 1 of each year. The certification includes:

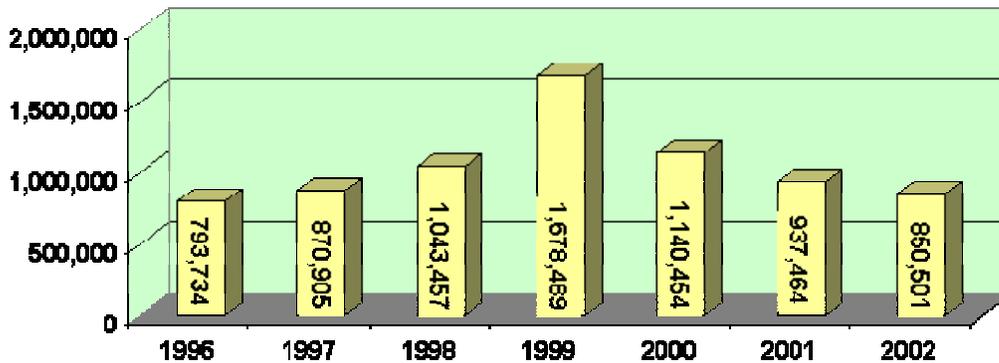
- The metric tons of postconsumer paper and/or de-inked pulp received or produced at each of the manufacturer’s mills.
- The metric tons of RCN, by grade, produced at each of the manufacturer’s mills and shipped for use in California.

RCN Shipped into California by Newsprint Manufacturers

Numerous newsprint manufacturers have merged in recent years, resulting in a decrease of the number of entities that provide the feedstock for this program. In 1992, when this program first received manufacturer certifications, 46 manufacturers reported. In 1998, the number dwindled to 13 manufacturers; in 2002, only 9 manufacturers reported to the CIWMB. With so few paper mills open and so few companies providing RCN to California’s newsprint consumers, the decrease in RCN supply and consumption is no surprise.

The year 2002 experienced the lowest amount of RCN reportedly shipped into California in more than five years. The nine manufacturers that certified noted they received or produced 2,269,467 metric tons of de-inked paper pulp and shipped 850,501 metric tons of RCN into California. Since the amount of RCN reportedly used in 2002 by newsprint consumers was 931,257 metric tons, reconciliation for the figures that newsprint consumers and manufacturers reported is at 91 percent. As in previous years, it is speculated that the 9 percent difference between RCN use and RCN supply is the result of material being purchased and/or inventoried but not shipped into California within that calendar year.

Figure 6. Metric Tons of RCN Shipped into California



Voluntary Efforts by Industry Trade Associations

As always, the CIWMB acknowledges the efforts of the Printing Industries Association of California and the California Newspaper Publishers Association ensuring their constituents are aware of the mandated RCN program. Were it not for the trade associations' efforts, many newsprint consumers would have been subject to thousands of dollars in fines in the last three years.

Conclusion

California's newsprint consumers are extremely aware of their environmental responsibilities. Their eagerness to abide by the law and attempt to meet the mandated RCN use requirements set by the Legislature is a testimonial to their respect for the environment and the people of California.

Additionally, RCN manufacturers exhibit the same awareness and respect for the environment and the law. However, with the decline in the economy these last few years, it seems the need to balance the bottom line of business is obstructing the flow of feedstock that makes this program possible. Many manufacturers are either not running their RCN mills at peak production or shutting down the mills altogether.

Furthermore, the recovered paper industry has been a rocky road for manufacturers. According to *Pulp and Paper Week* of October 13, 2003, there has been a slight increase in mixed paper and boxboard cuttings prices from a year ago. This includes nearly a 20 percent drop for newsprint and a 12 percent drop for magazines. The paper is definitely there to be deinked but the market does not seem to want the pulp. This may change with a new 100 percent RCN mill that is being built in China, which is due to be open in 2005. The mill will be able to process multiple thousands of tonnes per year.

Perhaps an upturn in the economy, which increases newspaper ads, which in turn increases newsprint usage, will cause newsprint manufacturers to increase their production and lower their prices. Then consumers may increase their use of RCN within the next few years.