



Recycle Record

The *Pallet Profile's* monthly answer to the recycling industry.

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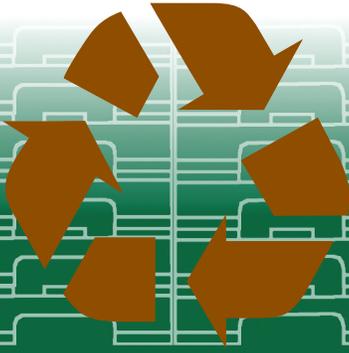
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Recycle Record

The Pallet Profile's monthly answer for the recycling industry.

FIRST SORT

The **SOAP BOX**

Publisher's
Commentary



What's the True Cost of Pallet Logistics?

CHEP Issues Letter to Recyclers Changing ARP Rates and Policies

By Chaille Brindley

Buzz is spreading around the recycled pallet market **about changes coming in CHEP Asset Recovery Program (ARP)** for CHEP-marked pallets that are recovered outside of its system. This is the **latest move** by CHEP to change its ARP **since it announced a fuel surcharge** years ago.

On May 14th, CHEP USA **sent out a letter to some recycling partners stating that it would unilaterally change its published compensation rates** effective October 1, 2019. CHEP stated that it would pay \$1.67 for CHEP pallet returned to the closest CHEP service center plus a fuel surcharge based on the National Average
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IN THE MARKET

Recycle Pallet Market

May has certainly wrapped up to be an interesting month in the recycled pallet world, and it's closing out with a new **"elephant in the room"** so to speak. With the newest announcement from CHEP this week and the changing of its Asset Recovery Plan (ARP) pricing and terms structure, this will certainly be a very interesting next few months for the recycled pallet industry. Many core suppliers and recyclers are trying to figure out **they will deal with the ARP changes**. See the lead article in this month's *Recycle Record*. New ARP pricing is set to

go into effect for some in October. It is not clear if this policy will apply to all recyclers or will be phased in over time.

There will undoubtedly be a lot of discussions going on over the next few months. A contact in the Southeast commented, "The key word here is discussions." He shared, "Graduated CHEP pricing was out there but it was always quietly discussed. Now it's out there and with stages of implementation as well as variations between vendors with the pricing. Now everyone is going to be
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While Minimum Wage Debate Goes on in Washington, 21 States Plus D.C. Go Ahead and Raise Their Base Wages

A bill that would more than **double the federal minimum wage by the year 2024** will be coming up for a full vote by the U.S. House of Representatives soon, but **many states aren't waiting around to see what happens**.

On March 6, the **Raise the Wage Act** was approved by a 28-20 vote by the House Committee on Education and Labor. The legislation, if passed, would **gradually raise the federal minimum hourly wage from \$7.25 to \$15 through 2024**. The bill
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CHEP Issues Letter to Recyclers Changing ARP Rates and Policies

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DOE Diesel Fuel Index. If CHEP collects the pallets from a recycler, it will pay \$.98 for CHEP pallets loaded onto a collection truck.

These prices are reduced from \$2.25 for delivered pallets and \$1.25 for those picked up by CHEP. Based on conversations with various recyclers, **it is clear that CHEP did offer varying levels of compensation based on travel distances, fuel, and other considerations.**

CHEP's recent ARP letter **further clarifies that its pallets cannot be bought, sold, exchanged, modified or destroyed.** While all these policies are fairly standard, the clarification that **exchange is prohibited may impact some recyclers** that have helped mutual customers in the past **by trading white wood for blue pallets** or other arrangements.

At a time when most costs are rising for labor, warehouse space, trailers, trucks and even fuel in some regions, **it is interesting that CHEP is reducing its ARP.**

CHEP did not state the reason for its move in its letter to recyclers. One major recycler that had unofficial conversations with CHEP explained that the **biggest driver behind the decision is to remove the fat from the program** that allowed some recyclers to convince mutual customers to **opt out of the official program in order to share in ARP fees.** This recycler suggested that some customers were deciding to become non-participating distributors so that their CHEP pallet transfers would be considered out of market transactions that earn ARP

fees. **CHEP found its approach was subsidizing and encouraging some customers to take actions that strained its business model.** The primary reason that companies become a Participating Distributor (PD) is to have lower channel pricing versus higher fees charged for NPD transactions. At the same time, **if you are a PD you have to agree to safeguard and return CHEP pallets at the end of the supply chain.**

Others just believe **CHEP is trying to lower costs as other system costs rise.** Others recognize that lowering the ARP could impact core pricing. I will say more about that later. Regardless the motivation, the outcome could be that CHEP just "kicked a hornets' nest." For years the ARP has **kept recyclers somewhat acceptable** to returning stray CHEP pallets. They have wanted more, but they found the compensation acceptable. **Nobody was getting rich off CHEP pallets,** but they were getting something. **This reduction could trigger some responses by recyclers.**

So, **what can a recycler legally decide to do?** Some recyclers will just take the money and grumble about it. **They will participate begrudgingly and ship pallets back to a service center.** In my opinion, these are the real losers. **They are tying up their valuable truck drivers** and fleets to subsidize or at least benefit a prime competitor. Is that really worth \$.69 per pallet? I wonder if it really is for many recyclers, especially if the service centers do not allow for quick drop offs or unloading.

Then, there are those who will say, **"You want em, come get**

em." These recyclers will receive \$.98 per pallet and are legally participating in the program without subsidizing CHEP logistics. Yes, **they will receive less money.** But if enough companies take this route, **CHEP may be forced back to the negotiating table** due to higher rates charged by their common carrier partners. The **logistics headache of collection falls back on CHEP.** Since this is part of the ARP, CHEP has no real legal response. If enough recyclers took this option, **you might find that CHEP would quickly reverse its position.** Then again, maybe not.

Another legal option is for a recycler to say, "You want em, here they are come get em, **but I am not loading them.**" **What you decide to charge** for this collection, sorting, storage and safeguarding service **is up to you** since you are not part of the ARP. CHEP may or may not agree to those terms. If you issue CHEP official letters with established timelines, **you could then start charging daily storage fees** after a certain period of time (maybe 30 days). If CHEP refuses, you could then sue CHEP in small claims court for fees or possibly abandonment. **As long as you allow CHEP to obtain its assets,** you provide little legal groundwork for counter claims, such as conversion or lost revenue. Of course, you may want to **discuss this strategy with your legal counsel.**

I have heard other options being considered by recyclers. **Some are blatantly illegal.** Others skirt that line.

Why does the ARP really matter, especially if you don't do

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CHEP Issues Letter to Recyclers Changing ARP Rates and Policies

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a lot with blue pallet returns? **The reason is that many recycled pallet contracts now have some considerations built in for rental pallet impact.** If you receive trailers full of cores, for every rental pallet on there, you are losing white-wood revenue. You have a headache that must be managed, not an asset to sell. **Rental companies rely on recyclers to help them secure stray assets.** This is a burden they have pushed onto recyclers because mutual customers will not sort and in some cases abide by their contractual obligations if they are a PD.

Most core agreements have some considerations for rental because **even if you don't pay for every pallet on a trailer, the fact is there is a cost factor associated with every rental pallet taking up space on the trailer.** As the ARP goes down, the likely market reaction is for pallet recyclers to complain more about rental pallets on those trailers. **Core suppliers may start trying to charge more for the good pallets at a time when ARP fees go down,** further putting strain on recyclers. **A likely result is for white-wood recycled pallet prices to rise,** and this would benefit rental by comparison as well as possibly new pallets.

ARP fees have become such an integral part of the cost calculation, that any major change is going to have ripple effects. These factors must be considered in any future contract negotiation moving forward.

CHEP provided the following comment about this decision. Dan Gormley, the vice president of asset control for

CHEP USA, stated, **"As a business, we constantly evaluate our policies and procedures in line with market conditions.**

This includes our Asset Recovery Program (ARP), which offers compensation to recyclers who return stray pallets. In recent months, we have completed a detailed analysis of the logistics and handling costs of all pallet movements across the supply chain. From a logistics stand point, **we prefer to collect our pallets directly from retailers.** We also reviewed in detail the use of the ARP program by some recyclers to subsidize other asset collections or to provide incentives to retailers."

Gormley added, **"All these factors contributed to a change in the ARP program.** We value our partnership with the recycler community and believe the new pricing structure provides fair compensation for stray CHEP assets that they handle and return to us or make available for collection."

CHEP's statement certainly **points to concerns about rebates monkeying with its business model. Don't be surprised if other rental companies follow CHEP's lead.** CHEP further clarified in its letter to recyclers that it will only pay for pallets not coming from CHEP customers. In the letter, CHEP declared, **"If you return pallets from a CHEP customer using your own GLID, you shall be required to reimburse CHEP the amount paid to you.** It is up to you to ensure the correct GLID is presented when returning pallets to CHEP."

The financial markets so far seem upbeat about the new ARP approach. Simon Mitchell of UBS

recently projected in research that **CHEP's new ARP approach could boost the company's earning by more than 5%.** He wrote, "Assuming 10% of pallets are collected through the ARP, the change would result in an additional US\$20m of EBITDA which is a 5% upgrade to CHEP Americas EBIT."

The UBS analysis **did reflect that a recycler backlash could have some negative impacts for CHEP.** Mitchell warned, "Some recyclers could choose to retaliate against the fees by refusing to deliver pallets back to CHEP (**thus putting strain on CHEP's transport logistics costs**) or by exiting the ARP program altogether. **While this would come at a cost to the recycler,** it would also force CHEP into finding, sorting and loading more pallets which might not be the best use of its resources."

It remains to be seen what reaction recyclers will have. In the past, recyclers have grumbled but basically complied with CHEP's ARP because it covered some costs and provided a clear path to deal with CHEP pallets with no legal hassles involved.

Every company has to decide how it plans to deal with these recent developments. What is clear is that CHEP is fighting back to prevent some recyclers and customers from negatively affecting its system. But **nobody said that you have to play CHEP's game its way.** There are numerous legal options available to pallet companies. **It all starts with knowing your costs** and doing what is right for your business. 

While Minimum Wage Debate Goes on in Washington, 21 States Plus D.C. Go Ahead and Raise Their Base Wages

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would also **do away with special “subminimum” pay for tipped workers, young workers and workers with disabilities.**

Democrat Bobby Scott of Virginia, who introduced the bill in Congress, told NPR: “After nearly 10 years with no increase in federal minimum wage, minimum-wage workers have suffered a 17% pay cut due to inflation. The result is that there is **no place in America where a full-time worker who is paid the current federal minimum wage can afford a modest two-bedroom apartment.**”

On the opposite side of the issue, some Republicans argue that the **higher wage will result in a significant number of jobs**

being cut as small businesses struggle to come up with the higher costs of paying minimum-wage workers.

The **bill is expected to pass in the House** where there’s a Democratic majority, but it’s **questionable as to whether it will make it through the Republican-controlled Senate.**

While they debate the issue in Washington, many states have taken on the initiative to increase their own minimum wages beyond the federal minimum. **In 2019, 21 states and the District of Columbia have increased or will increase their minimum wages.**

These include Alaska, Arizona, Arkansas, California, Colorado, Delaware, Florida, Maine, Massachusetts, Minnesota, Missouri,

Montana, New Jersey, New York, Ohio, Rhode Island, South Dakota, Vermont and Washington, in January; Michigan in April; and Oregon and Washington D.C. in July.

Some cities have also moved forward with increasing local rates to surpass their state’s minimums. And some states and cities have also implemented **varying minimum wage levels** based on different factors such as location, industry or employer size. The most notable example of this trend is **New York City**, which increased at the end of last year the minimum wage to **\$15 for businesses with 11 or more employees and for fast-food workers**, the wage was only raised to \$13.50 for other types of workers. 

Desperate Times call for Desperate Measures!



Help Protect Your Local Market and Be Entered to Win a VISA Gift Card

Submitting a *Recycle Record* data form via fax or email will enter you in a random drawing to win a semi-annual **\$100 VISA gift card.**

Every week the staff of *Recycle Record* strives to gather correct market data to report on the recycled pallet industry. And your comments are crucial to ensure accurate reporting.

You will be contacted twice per month soliciting your electronic input.

Thanks for helping us and your market at the same time.

Recycle Record — United States Hardwood Recycled Pallets

The following information describes the conditions and prices prevalent in the hardwood recycling industry. Information is reported for states and statistical reporting regions where we have enough data and input to feel comfortable with our analysis. Statistical reporting regions will be added and deleted when there is a change in available dependable data.

Our #1 and #2 pallet prices are the typical delivered 48x40 hardwood GMA prices in each region. Our definitions for #1 and #2 coincide with the National Wooden Pallet and Container Association's Uniform Standards for wooden pallets.

Our core prices represent typical prices paid for a used 48x40 hardwood GMA core delivered to the recycler.

Our prices are what we interpret as typical prices reported by our

information network. Even within small reporting regions, price variations sometimes dictate that we publish a middle price within the reported range. We seek to report a middle ground price, not necessarily one of the extreme prices on the spectrum.

Descriptions of inventory conditions help provide an overview of the market in a tabular form.

Percentage of plant capacity utilization represents a measure of pallet activity. Verbal descriptions appear in the Market Report.

Please note a change in how we report price updates. Plus and minus signs after pallet and core prices indicate actual market movements. There are times when we update a price based on better data but not actual market change. These will be updated without a plus or minus sign. No attempt is made to forecast future prices.

Region	#1 48 x 40 Hardwood GMA Pallet Prices	#2 48 x 40 Hardwood GMA Pallet Prices	Typical Core Prices Delivered to the Recycler	Core Availability	% Plant Capacity Used
New England	\$6.85	\$5.60	\$2.30(+)	Tight to Average	90%
Mid-Atlantic	\$6.75	\$5.20	\$2.75(+)	Tight	90%
Virginia	\$6.75	\$5.45	\$2.50	Tight to Average	90%
N. Carolina	\$6.95	\$5.60	\$2.95(+)	Tight	90%
S. Carolina	\$6.50	\$5.00	\$2.25	Tight	90%
Georgia	\$7.20(+)	\$5.50	\$2.75(+)	Tight	85%
Florida	\$6.90	\$5.40	\$2.50	Tight to Average	90%
Tennessee	\$6.70	\$4.75	\$2.90	Tight	90%
Kentucky	\$7.00	\$5.00	\$3.00	Tight	90%
Western PA	\$6.75	\$5.10	\$3.00	Tight to Average	95%
Western NY	\$6.50	\$4.50	\$2.50	Tight	90%
Ohio	\$6.50	\$5.00	\$2.50(+)	Tight to Average	95%
Michigan	\$7.00(+)	\$4.90(+)	\$2.60(+)	Tight to Average	90%
Indiana	\$6.90	\$5.20	\$2.50	Tight to Average	95%
Illinois	\$7.00(+)	\$5.00	\$3.20	Tight to Average	95%
Wisconsin	\$7.00(+)	\$5.60(+)	\$3.40	Tight to Average	90%
Minnesota	\$7.70	\$5.50	\$3.40	Tight to Average	90%
Iowa	\$6.25	\$4.90	\$2.75	Average	95%
Missouri	\$6.95	\$4.90	\$2.75	Tight to Average	90%
Arkansas	\$6.95(+)	\$5.50(+)	\$2.75(+)	Tight to Average	90%
East Texas	\$6.85	\$5.50	\$2.75(+)	Tight	90%
Kansas/OK	\$6.95	\$4.90	\$2.70	Tight	90%
Colorado	\$7.50	\$6.00	\$1.75	Average	85%
Arizona	\$7.00	\$5.00	\$3.00	Tight to Average	90%
California	\$7.40	\$5.15	\$3.20(+)	Tight to Average	90%
Pac. Northwest	\$7.60	\$5.75	\$3.15	Average	90%
Ontario, Canada (CAD)	\$7.00	\$5.00	\$3.00	Tight	95%

Market Report

(Continued from first page)

talking to everyone else to compare pricing and handling fees. **Recyclers as a whole are smart people. To think they will tip their hand so far out in the process, I wouldn't take those odds.**

The core market in most regions is already stressed. More recyclers are struggling to obtain decent cores, and some are also paying more to get what they can find. Some are even paying more for junk pallets. In a recent article in the *Pallet Enterprise*, a recycler in the Southeast shared, **"The U.S. recycled pallet market is broken....oh let me count the ways."** And he's not the only one feeling this way according to other recyclers around the country. He highlighted specifically what many recyclers are facing today, and that is **a lot of junk coming in on trucks from core suppliers which is affecting their true usable pallet count.** He stated in the article, "Let's start with pallet counts. Whether you are getting loads from other recyclers, brokers or CHEP, chances are that you are getting lots of junk in your loads. And increasingly people are paying for it. Recyclers are desperate enough for stable core supply that they will pay for scrap." (See the May 2019 *Pallet Enterprise* article "Voodoo Math – Off the Mark Pallet Counts and Crazy Terms")

With the exception of a few pockets east of the Rockies, recyclers from the Midwest to the Mid-Atlantic to the Deep South have indicated **seeing increased upper pricing pressure on core prices** as a result of growing demand for used pal-

For The Record

"It never hurts to build a better vendor relationship. Trust me, buyers would learn a lot by visiting their pallet suppliers."

(Pallet supplier in the South)

lets. One recycler in Michigan stated, "A couple of large brokers paying premium for pallet cores. The market may or may not bare the increases. **We're seeing core prices the same as sale prices of #2s.** This is not sustainable." And in the Alabama/Mississippi area, another recycler lamented, "The recycled pallet core market has gotten stupid high.

Used pallets are becoming very hard to find for a number of recyclers and more and more customers are asking for a good quality used pallet." In the Midwest, a good example of this came from a supplier who shared, "I finally ran into the situation where a **food-grade producer had to switch to new GMAs because the recycled inventory was just not out there.** In his world, even standard #1s were of such poor quality that they **would not even pass the sanitary guidelines** and failed every time he tried a new vendor."

Because of the rising cost of new pallets over the last two years, demand for used is still fairly strong in most regions. Unfortunately for the recycler, the struggle remains to find decent cores to even work with. Competition in the recycle market will increase, but as one contact stated, "Recyclers that are still doing **low-ball pricing** are still out there, but a vast majority of recyclers are saying, **'Go ahead, make my day!' In 13.5 seconds that customer will be replaced by a customer paying equal to or higher pricing, getting great**

service, and thankful for a recycler that has inventory. The low-ball recycler will find out very quickly there is no sustainable model for that right now, and the customer will find out with some level of pain, they made a big mistake."

In the **Northeast through the Mid-Atlantic area, core availability remained tight to average** and finished product prices held fairly steady. Cores saw some upward price pressure, though some pockets reported finding cores considerably below market price. Demand was average to strong for the most part though a few recyclers noted a slight slow-down in May compared to previous months.

In the **Midwest**, core availability was tight to average. Both cores and finished pallets saw upward pricing pressure. Demand remained strong, though weather has delayed some agriculture growing and shipping. June demand is expected to pick up.

In the **South and Southeast**, prices on cores and finished pallets remained steady, although Georgia experienced as one contact said, "A lot of moving and shaking." Demand was average to strong across the region.

In the **West**, core availability was reported as tight. Prices saw slight upward pressure. Demand was average to strong. With softwood lumber prices falling in the West, repair lumber has been readily available. Finished prices held steady for most areas. 