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SHOREWAY OPERATIONS AND CONTRACT MANAGEMENT

STAFF REPORT

To: SBWMA Board Members
From: Hilary Gans, Senior Operations and Engineering Manager
Date: January 28, 2021 Board of Directors Meeting
Subject: Resolution Approving Contingency Measures to Dispose of Paper in Case of Shipping Emergency

Summary

Since the end of December, the Nation's recycling industry has had troubles shipping recyclables commodities to Asia due to a shortage of overseas cargo container capacity. SBR is currently storing fiber bales on-site but given the limited storage space at Shoreway, staff is requesting approval of a contingency plan for disposing of fiber bales should the on-site storage capacity run out.

Analysis

All fiber commodities (mixed paper and cardboard) generated at the MRF are exported to Asia and transported to the Port of Oakland where they are loaded onto overseas container ships. Due to surging imports of products from Asia shipping companies are struggling to keep up product shipments from Asia to the US. As a result, the shipping companies are speeding up their return trip to Asia for more cargo by skipping the usual step of loading up with scrap paper. Since nearly all west coast recycling facilities export paper to Asia on overseas cargo containers ships, recyclables exports are being stockpiled by recyclers until the surge is over (see **Attachment A - Wall Street Journal article**)

Shoreway Environmental Center usually does not have "extra-space" on which to store commodities, parking areas that administrative employees used during non-COVID time are available, providing temporarily storage space for SBR to store bales of paper. The regulatory agencies that oversee the Shoreway Facility have been notified of the situation and have approved the temporary storage of recyclables outside the MRF.

The MRF generates approximately 8 shipping container loads of fiber per day (or about 160 tons per day). There is outdoor storage capacity for a total of ~8-days of paper generation. Since commodity shipping has recently been erratic, SBR has needed to use outdoor storage when containers cannot be obtained from the Port. At the time of writing this report 3-days of materials are stored under industrial-sized tarps and stored outside the MRF building. See photos below. Related Note: if this material gets wet it will be rejected by the markets and, therefore, becomes unsellable.

Staff is requesting Board approve to landfill baled paper as a contingency should Shoreway's capacity to store bales runs out. The financial impact to the Agency of landfilling paper is estimated at \$85 - \$100 per ton or \$20K per day (includes transportation, landfilling, and lost commodity revenue).

Background

This is the first instance where shipping containers have not been available due to a shortage of container ship capacity. However, as the SBWMA's marketing agent, SBR has had to stockpile commodities outside for other reasons including market disruptions, labor unrest at the Port of Oakland, truck and container shortages.

Fiscal Impact

Estimated unbudgeted cost impact to the SBWMA estimated at \$85 - \$100 per ton or \$20K per day (includes transportation, landfilling, and lost commodity revenue).

Attachments:

Resolution 2021-06

Attachment A – Wall Street Journal Article - Covid-19 Shipping Problems Squeeze China's Exporters





RESOLUTION NO. 2021-06

RESOLUTION OF THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY BOARD OF DIRECTORS APPROVING CONTINGENCY MEASURES TO DISPOSE OF PAPER IN CASE OF SHIPPING EMERGENCY.

WHEREAS, SBR is contractually responsible for marketing and arranging transportation for all MRF commodities on the SBWMA's behalf;

WHEREAS, SBWMA is responsible for the compliance of the Shoreway Environmental Center and maintains the solid waste permit which prohibits storage of recyclables except in designated areas at the Shoreway Facility and the SBWMA has notified the enforcement agencies of the need to implement the contingency storage area that can hold roughly one week of paper:

WHEREAS, shipments of fiber on overseas container ships is temporarily problematic and unreliable due to ship container capacity shortage and materials may accumulate beyond the contingency storage capacity and require disposal.

NOW, THEREFORE BE IT RESOLVED that the South Bayside Waste Management Authority hereby approves contingency measures to dispose of paper in the case of shipping emergency.

PASSED AND ADOPTED by the Board of Directors of the South Bayside Waste Management Authority, County of San Mateo, State of California on the 28th day of January, 2021, by the following vote:

Agency	Yes	No	Abstain	Absent	Agency	Yes	No	Abstain	Absent
Belmont					Redwood City				
Burlingame					San Carlos				
East Palo Alto					San Mateo				
Foster City					County of San Mateo				
Hillsborough					West Bay Sanitary Dist				
Menlo Park									

I HEREBY CERTIFY that the foregoing Resolution No. 2021-06 was duly and regularly adopted at a regular meeting of the South Bayside Waste Management Authority on January 28, 2021.

ATTEST:

Alicia Aguirre, Interim Chairperson of SBWMA

Cyndi Urman, Clerk of the Board

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<https://www.wsj.com/articles/covid-19-shipping-problems-squeeze-chinas-exporters-11609675204>

WORLD

Covid-19 Shipping Problems Squeeze China's Exporters

Surging demand in the West and port delays drive up costs for companies that have fueled the country's economic recovery



Shipping containers are stacked near gantry cranes at the Port of Nansha, operated by Guangzhou Port Group.

PHOTO: QILAI SHEN/BLOOMBERG NEWS

By [Stella Yifan Xie](#)

Updated Jan. 3, 2021 11:34 pm ET



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HONG KONG—A logjam in the global shipping industry is testing the resilience of China's exporters, who have driven the country's economic recovery by churning out goods to meet surging global demand during the Covid-19 pandemic.

That demand in recent months has outpaced the capacity of a global shipping industry that has been slowed by pandemic safety measures. Chinese exporters have been paying sharply higher rates and struggling to find containers for their goods.

Chen Yang, who runs a textile trading unit at a state-owned enterprise in the southern city of Hefei, said the business, which mostly exports to the U.S., has weathered the pandemic and the China-U.S. trade war, but he expected to lose money in 2020 in part because of a sharp rise in shipping costs.

A 40-foot container arriving at the port of Charleston, S.C., in December cost Mr. Yang around \$7,500, up from \$2,700 in April, he said. He also has to book space on the vessel at least 20 days in advance, more than double the usual time.



WSJ NEWSLETTER

Notes on the News

The news of the week in context, with Tyler Blint-Welsh.

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“I have never seen anything like this in my 18 years of experience as an exporter,” said Mr. Yang. “We’ve been operating at a loss since August.”



Container ships moored near Guangzhou, China, in November.

PHOTO: QILAI SHEN/BLOOMBERG NEWS

The problem has been aggravated by a worsening imbalance in global trade. In November, China logged a record trade surplus of \$75 billion, fueled by strong consumer demand from Western countries ahead of the holiday season for everything from electronic gadgets to furniture and bikes.

Major U.S. ports imported 2.21 million 20-foot containers in October, up 17.6% from a year earlier and setting a record since the National Retail Federation began tracking imports in 2002. Container freight rates from Asia to the U.S. surged to a record in September and rates from Asia to Europe reached a 10-year high in December.

Pandemic-related safety measures have lowered efficiency at ports, leading to delivery delays and containers getting stuck all over the world. In November, only half of global carriers managed to stay on schedule, compared with 80% a year ago, according to a service-reliability index from Sea-Intelligence.

The average turnaround time for containers returning to China was up to 100 days in December from the more typical 60 days, according to the China Container Industry Association.

“The logjam is completely unprecedented, both in terms of the scale of the surge and the duration,” said Tan Hua Joo, a Singapore-based consultant at Liner Research Services.

High Seas

The average cost of container shipping from Shanghai to other parts of the world surged to a record in December.

Shanghai Containerized Freight Index



Source: Wind Information

While economists say that shipping problems haven't derailed China's solid recovery yet, they pose a challenge to sustaining the export growth that has driven it.

China's official manufacturing purchasing managers index, a gauge of China's factory activity, suggested that growth slowed in December. A subindex for new export orders edged down from the previous month to 51.3%, though still in expansion territory.

China's rapidly appreciating currency, the yuan, which has risen more than 8% against the U.S. dollar in the past six months, is also eroding the profit margins for Chinese traders, most of whom still accept payments in U.S. dollars.



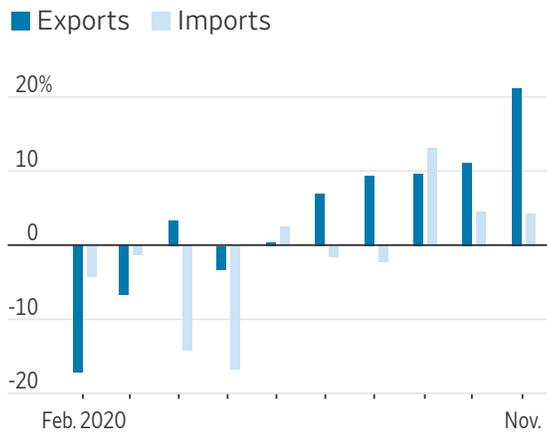
Bruce Pang, head of macro and strategy research at China Renaissance Securities, said that high shipping costs would likely remain a major headache for most Chinese exporters until the Lunar New Year holiday in February, when most factories will close for at least two weeks.

“It will certainly strain cash flow for some smaller exporters, especially those trading in low-margin goods,” said Mr. Pang. Many manufacturers have been reluctant to expand capacity and are cautious about taking new orders, he added.

Uneven Recovery

China’s exports have rebounded much stronger than imports through 2020.

China’s imports and exports, change from a year ago



Source: Wind Information

Tony Chen, a toy exporter in the southern Chinese city of Shantou, said many of his clients in the U.S. and Europe have told him to halt delivery, because the hefty logistics costs have eroded their profit margins.

“It has been very frustrating,” he said, adding that he has stopped accepting new orders from customers in recent weeks because he can’t guarantee when he will be able to deliver.

In early December, China’s ministry of commerce vowed to increase production of containers to ease the supply shortage, as well as monitor the shipping market more closely to stabilize costs.

But fixing the problems won’t be easy. China International Marine Containers (Group) Co., the world’s largest container producer, told investors in November that its factories are fully booked until the end of March. More than 95% shipping containers are built in China.

Churning out more container boxes could lead to a glut down the road, but some say that is the only viable option to ease the shortage now.



A logistics center near Tianjin port.

PHOTO: SUN YILEI/REUTERS

“You are damned if you do and you are damned if you don’t,” said Charles Du Cane, commercial director at Seastar Maritime Ltd., which operates dry bulk vessels. “The real solution to all of this is to deal with the pandemic and the global logistics system.”

The logistics challenges are also prompting some exporters to rethink their supply chains. Shenzhen Xuewu Technology Co., an e-cigarette producer based in the southern Chinese city of Shenzhen, sells mostly to consumers abroad. While 90% of its vaping products are shipped by air, those rates had risen by about 30% in December compared with a year earlier, with the shortage of shipping containers forcing more exporters to send their goods by air, said Fiona Fu, who leads the company’s overseas logistics. Logistics costs now account for about 5% of the company’s overall costs, up from 1% to 2% before the pandemic, she said.

Demand in existing markets such as Canada and Southeast Asia has grown during the pandemic as more people spend time indoors, according to Derek Li, co-founder of Shenzhen Xuewu. That has accelerated the company’s plan to source more products locally to reduce reliance on exports from China.

“We want to be closer to our consumers as well as be subject to less pressure in logistics,” said Mr. Li, “We won’t let the pandemic stop us from expansion.”

SHARE YOUR THOUGHTS

What impact could the current logjam have on the global shipping industry in 2021? Join the conversation below.

Write to Stella Yifan Xie at stella.xie@wsj.com

Corrections & Amplifications

Chen Yang expected to lose money in 2020 in part because of a sharp rise in shipping costs. An earlier version of this article incorrectly said he expects to lose money this year. (Corrected on Jan. 3.)

Appeared in the January 4, 2021, print edition as 'China Export Rise Faces Jam.'

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