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California's pioneering e-waste program a model gone wrong

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It seemed a perfect symmetry: California, the world's high-tech capital, would lead the way in recycling the debris of our digital revolution.

But five years after its launch, the state government-run electronic waste program stands out not as a model of the green innovation for which California is famous but as an example of good intentions gone awry.

By paying more than \$320 million to collect and recycle computer monitors and televisions, the state has built a magnet for fraud totaling tens of millions of dollars, including illegal material smuggled in from out of state.

"I don't think anybody could have forecast the greed that has poisoned the program," said Bob Erie, chief executive officer of E-World Recyclers north of San Diego and once an enthusiastic supporter of the state effort.

None of the many states that followed California took on e-waste recycling as a government program; instead they made industry responsible for its own waste.

California officials have long been aware of the problems with their approach, too; they met with recycling industry officials two years ago at a private club in Los Angeles to discuss solutions, including whether the state should be in the e-waste business at all.

But nothing has changed. Instead, The Bee found:

- Recyclers and collectors have submitted \$23 million in faulty and fraudulent e-waste claims that have been rejected by the state. But state and industry officials estimate that other ineligible claims, totaling as much as \$30 million, may have inadvertently been paid.
- More than two dozen e-waste firms have been investigated for fraud by the state Department of Toxic Substances Control over the past two years, but none has been fined or prosecuted.
- Even though California officials know that illegal e-waste is flowing into the state – and acknowledge that public funds are being wasted recycling some of it – no state official has traveled out of state to investigate.

A new California Gold Rush

Truck after truck drops its load of electronic garbage at ECS Refining, one of the state's best-known e-waste recyclers based in the heart of Silicon Valley.

Until it is fed into two ear-piercing shredders, the pyramid of printers, fax machines, keyboards, CD players and telephones serves as a monument to our electronic obsession.

Not far away, some of the heaviest, most hazardous material also piles up: computer monitors and TVs – both of which contain significant amounts of lead. Each year Californians discard about 3.3 million of them, 9,200 a day on average.

Those larger items are the targets of California's e-waste recycling program, which began Jan. 1, 2005. Six million unwanted monitors and TVs that had no value on New Year's Eve turned into green gold overnight.

The goal of the law was to prevent lead-laden glass tubes from winding up in landfills while jump-starting a green industry to collect and recycle the castoffs. At that, it has been a resounding success.

So far some 840 million pounds of monitors and TVs, about 17 million units, have been recycled in California, far more than in any other state.

"It's easy to throw stones, but the hard numbers on what we've recycled as a state are astonishing," said John Shegerian, chief executive officer of Electronic Recyclers International.

His firm, based in Fresno, is the largest monitor and TV recycler in the state. But that distinction bears a footnote: The state has rejected \$2.7 million of ERI's claims, mostly in 2008 and 2009, state records show.

"I am not happy about it. I am not proud of it," said Shegerian, blaming tougher state scrutiny of e-waste sources for the denials. "That was a black period. And financially it hurt."

California's electronic waste recycling system could be likened to a gigantic river. At the mouth of the waterway are some 60 recyclers who tear apart TVs and monitors for copper, steel, plastic and other components.

Upstream are more than 500 collectors, who funnel e-waste to recyclers. Farther upstream are handlers – scavengers and peddlers – who round up material to sell to the collectors.

Overseeing the flow are two agencies: CalRecycle, which scrutinizes claims and pays recyclers, and the Department of Toxic Substances Control, which investigates fraud and environmental violations.

Funding it all are state consumers, through an \$8 to \$25 fee on the purchase of new monitors and televisions.

At the program's inception, with hundreds of millions of dollars in state payments up for grabs, companies seemed to appear out of nowhere.

"It was the second coming of the California Gold Rush," said Erie, the Southern California recycler. "They came from Texas. They came from Pennsylvania. They came from all over the place and said, 'Let's open up in California because the government's paying money.'"

That frenzy caught the state off guard. Faulty and fraudulent claims of \$1.9 million the first year climbed to \$6.8 million in 2008 and to \$9.8 million last year; overall the state has rejected payment on 6.5 percent of all claims – \$22.6 million out of \$347 million.

Unknown is how many ineligible claims have escaped notice. "If you are going to hold me to a number, add probably another 10 percent for the stuff that got through," said Jeff Mahan, chief of the e-waste fraud unit at the toxic substances control department.

To qualify for payment, recyclers must document that monitors and TVs come from California. But the logbooks they give the state, with names and addresses of the original

owners – provided by collectors and handlers who gathered the waste – frequently read like works of fiction.

There are bogus names, made-up addresses, dead people and Hollywood celebrities. And there is brazenness by the truckload.

"I would find Dustin Hoffman's name, Robin Williams' name, Mike Tyson's name. It's just incredible," Mahan said.

Here's what one state official wrote after spot-checking a 2009 claim from SIMS Recycling Solutions headquarters in Roseville seeking \$482,000 for 1.2 million pounds of e-waste delivered to its Southern California plant:

"100% of the sources contacted stated they DND (did not discard) ... The last names appear to have been looked up in some sort of alphabetical directory Patterns of falsehood are obvious in these logs."

That entire \$482,000 claim was rejected. In all, the state has turned down \$4.5 million in e-waste claims from SIMS, the most in the state.

SIMS has appealed the denials. But its president, Steve Skurnac, acknowledged that his firm should have screened names more carefully.

"The onus is on us to prove that it's qualified material," Skurnac added. "We understand that."

Other surprises emerged as the state learned about the scramble for e-waste on the streets of Los Angeles and San Francisco – and the sources of recyclers' paperwork.

As one claim reviewer wrote after checking with an L.A. handler who sold e-waste to SIMS last year: "Call to Issac with Cal-E. He stated almost all peddlers on logs are illegal aliens who cannot read or write. He reconstructs the logs from their pieces of paper (and) napkins."

Such discoveries, though, typically come months after monitors and televisions have been dismantled and recycled, leaving investigators with more questions than evidence.

"There is really no corpse to look at like with a murder," said Mahan, the e-waste fraud chief. "It's all paperwork."

Buried in the blizzard of payment claims and e-mails lurk enough twists and turns to fill a John Grisham novel – without the convenient conclusions. Chapters end abruptly, stories change, numbers don't add up, recollections collide and cases evaporate.

Shopping spree in Arizona

At midday, small stones along the streets of Tucson, Ariz., glitter like silver and platinum in the hot sun. In recent years, Los Angeles e-waste collector Global Comp One has been active here, buying up thousands of unwanted monitors as if they, too, were precious metals.

"We purchase in quantities of any volume," the company's owner, Allen Baker, wrote in an April 8, 2009, letter soliciting material from Rise Equipment Recycling Center. "I am in Arizona bi-weekly and would welcome an opportunity to meet with you."

A year earlier, state officials had noted that Global Comp One was delivering monitors to Electronics Recyclers in Fresno and ARC International in Los Angeles with paperwork riddled with "disconnected phone numbers, wrong numbers (and) wrong contact names," state records show.

They also had fielded a tip that the collector was buying monitors in Colorado and redeeming them in California.

Though they had documented no wrongdoing, their concern was based on simple economics. In Tucson, for example, computer monitors sell for a dollar apiece, sometimes less, while California recyclers offer e-waste collectors around \$8 to \$10 apiece.

The state of California, in turn, pays recyclers about \$15 to \$18, depending on weight, to recycle them – but only if the waste comes from California.

Jeff Hunts, manager of the e-waste payment system at CalRecycle, had forwarded the Colorado tip to Mahan, urging him to take action.

"We need a big win," Hunts wrote.

Mahan had started investigating, but he didn't get far. "All the addresses we had for him, he had moved," Mahan said. "I would certainly like to know where I can get ahold of Mr. Baker."

Baker was not hard to find. The Bee tracked him down by phone recently in Southern California, where he said the state's concerns are well-founded – just not about him.

"The system is fraught with fraud," he said.

Baker said he buys monitors across America to refurbish and sell to buyers in other countries for \$3.50 to \$12 each. He no longer participates in California's recycling program, he said, but when he did he never intentionally redeemed out-of-state material.

"I'm not saying it's not possible that, because we're doing business intrastate and interstate, that something might have gotten mixed at one time," he said. But the state, Baker said, checked him out and "we were clean ... We run a very tight ship."

Mahan said Baker has not been cleared at all. "We still have a lot of interest in talking to him," he said.

Where did monitors go?

Other mysterious cases unfold uncomfortably close to home.

Last December, six piles of used monitors from state agencies sat on pallets in the warehouse near Arco Arena where the state auctions off its own electronic discards.

There were charcoal-black HPs, just 3 years old, milky-white View-Sonics, manufactured in 1997 and a real antique: a Packard Bell, vintage 1989.

No one wanted them – except Farrah Philip, a buyer for KYO Computer, a Bay Area recycler with a history of run-ins with the state, from violations of state environmental regulations to \$400,000 in rejected e-waste claims.

But unlike Global Comp in Arizona, KYO paid a premium for the monitors at auction that day – about \$14 apiece.

CalRecycle officials were not aware that KYO had attended the auction and, when informed of the price paid, they were mystified. How could KYO make a profit?

Eight days later, The Bee tracked the monitors back to KYO's warehouse in industrial Newark, in southern Alameda County, to see what was up. There, the trail went cold.

As trucks rumbled by outside, Philip insisted the purchase made sense. The state, she said, would pay her 39 cents a pound for the monitors to be recycled, at least \$15 each. Even

after paying another firm to process the glass, she could make money off the copper and plastic.

And because these monitors obviously were from California, there would be no challenge to her logbooks' veracity. "The state knows this came from them," she said.

Could we see the 108 monitors from Sacramento? That would not be possible, Philip said, because they had already been dismantled, their glass tubes shipped to the nearest glass recycler in Oregon.

In the wake of the auction, CalRecycle has launched an internal audit of KYO to scrutinize its e-waste. In such audits, one scenario the agency must rule out involves shipping working monitors overseas for resale, then backfilling those spots for state recycling reimbursement with out-of-state or other ineligible monitors.

Reached recently at her office, Philip said she was not aware of the audit. Asked again about the December auction purchase, her story changed. She said KYO did lose money on those monitors after all; she had bought them to keep workers busy while searching for cheaper units.

Philip declined to discuss details.

"This is secret, confidential," she said. "We cannot share (with) everybody."

Tough talk, no prosecutions

Recycling fraud was among many topics quietly debated in the summer of 2008, when state and industry officials met in Los Angeles to discuss the program's flaws.

"We need a bill to be introduced that will fix the e-waste program," say official notes of the meeting obtained by The Bee.

Ideas filled the room: better tracking, more transparency, tougher enforcement of fraud, stricter standards for collectors – and shifting the job of recycling to manufacturers.

"Producer responsibility makes more sense," the notes say. "You built it, you take care of it."

Two years later, not much has happened.

"The enforcement is there, but we could do better than what we are doing," said Gary Petersen, a former California Integrated Waste Board member who called the meeting. "There are bad people out there. We've got to make sure those guys get caught."

Mahan, who has tried to catch them for two years, said 26 investigations have been launched. Five were strong enough to forward to criminal investigators in his department; two have been referred to the Los Angeles County District Attorney's Office and the state attorney general's office.

To date, there have been no prosecutions, penalties or fines. But there is plenty of pent-up anger and finger-pointing.

"Clearly DTSC has not made this their priority," said one senior state e-waste official, speaking on condition of anonymity. "Why are they not picking up these things and running with them?"

Mahan said part of the problem lies with his department's regulations, which are "geared to enforcing environmental violations, not financial things."

CalRecycle's Hunts counts himself among the frustrated.

"It's tough to get a DA or the AG interested in recycling crime," Hunts said. "It's not sexy. It's not going to get anybody re-elected."

Another case has been referred to the Santa Clara County District Attorney's Office, according to one state official. But Ken Rosenblatt, a supervising district attorney for environmental protection in Santa Clara, refused to talk about it.

"I'm afraid I just don't have any information on that subject for you," Rosenblatt said.

In lieu of prosecutions, Hunts said the state's most effective strategy has been denying payments on bad claims – a process that has pushed some out of business.

But The Bee found that several companies docked for large volumes of suspect claims remain active.

That includes Tung Tai Group, a San Jose recycler that had 38 percent of its claims – \$1.6 million in all – rejected over the past two years and is under investigation by the state.

John Chen, Tung Tai's executive vice president, said his firm fell victim to unscrupulous e-waste collectors: "A lot of it was not having proper logs – not fraudulent logs – and not understanding what our mistakes were."

Chen complained that the state took months to inform his company about problems and rejected many claims for minor paperwork infractions.

Overall, Chen said he believes CalRecycle is improperly denying millions of dollars of legitimate e-waste. Because recyclers pay for the waste months before the state rules on claims, they are the ones who suffer the financial consequences, he said.

Others feel too much attention is devoted to the provenance of e-waste, not enough to the importance of recycling.

Beyond basic ethical concerns, Mark Murray, executive director of Californians Against Waste, said out-of-state waste getting recycled in California is no big deal.

"Frankly I'm glad that there is a recycling opportunity for that waste so that hazardous material isn't getting illegally dumped," Murray said.

Recyclers with good track records, though, are unhappy with the lack of action against scofflaws. Paul Gao, president of California Electronic Asset Recovery, east of Sacramento, has had less than one half of one percent of his claims turned down since 2005.

"We try our best," Gao said. "Why can they not prosecute somebody?"

Part of the problem may lie in the DNA of California's e-waste recycling program, in particular its reliance on tedious after-the-fact verification, and its focus on documenting minute volumes of waste.

"Focusing on fraudulent activities like shipping truckloads of (monitors) in from other states is imperative to keeping our program honest," Gao said.

Instead, he said, the state often insists recyclers track down and produce documentation for just a few monitors at a time.

"The program could be run better," Gao said. "You have to catch these bad guys."

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