



# PET Recycling Company NPC, trading as PETCO

## Recycler's Application for Financial Support

### BACKGROUND

PETCO has been established by the PET industry to promote collection of post- consumer PET materials for recycling.

A mechanism has been created to provide financial assistance to qualifying companies under special circumstances. This section details who may apply for financial assistance, and under what conditions this assistance will be granted.

A PETCO subcommittee of the Board will evaluate all applications. If it is felt that a project has merit and meets the relevant criteria, PETCO will enter into an agreement with the qualifying company, and the agreement will stipulate how and when assistance will be provided.

Such an agreement will be entered into entirely at the discretion of PETCO. PETCO and the applicant will sign a confidentiality agreement, to the effect that neither party may disclose any details of the agreement or the proposed business without the consent of the other party.

It must also be understood by all applicants that financial assistance will only be provided, under the conditions laid out in the agreement, subject to full disclosure by the applicant's company of all details, financial and other, of the applicant's business, on request by PETCO.

The system caters for two distinct categories of projects, as follows:

### 1. CATEGORY 'A' PROJECTS

This first category caters for projects which will increase the collection and recycling of post-consumer PET, also known as PCR. It could apply equally to existing projects, where the aim is to expand the existing collection and recycling business, or it could apply to a completely new venture.



Plastic bottles  
are not trash.

In all cases, the following basic principles will be applied:

- a) The project must under normal business conditions be economically viable. The intention of the subsidy is not to turn an inherently unprofitable business into a profitable one – rather, the subsidy is intended to act as a “safety net” to help bridge a sound business through abnormally adverse trading conditions.
- b) The project plan must specify in detail the source of PCR. A major goal of PETCO is to increase the collection of PCR, and PETCO will not provide a subsidy to enable a collector or recycler to pay more for PCR than is being paid at any point in time by another recycler.

The applicant will need to satisfy PETCO that a new source of PCR is being developed for the new project (or to supply the expansion of an existing project). This needs to apply across the life of the project, and will in all likelihood take the form of a contract or supply agreement between the recycler and landfill operator(s).

Where the only viable source of PCR is geographically remote from the recycler’s plant, and the cost of transporting the PCR from source to the recycler is a significant factor, a subsidy can be applied for to bring the delivered cost of PCR in line with what the cost would have been from an equivalent local source.

Preference will definitely be given to projects where the recycler is prepared to invest in developing new PCR sources.

- c) PETCO is prepared to assist recyclers in liaison with regulatory authorities in order to secure access medium- to long-term PCR supply on an ongoing basis.
- d) The business plan submitted must also specify the end-use and customers for the recycled PET. Again, contracts or agreements with customers are preferable. In exceptional circumstances, approval might be given for a project with an offshore or cross-border end use. However, this will not in general be encouraged, as experience has shown that, unless the end-user is integrated with the local recycler from an ownership perspective, the business is not likely to be sustainable.
- e) The recycler must be prepared to allow a social compliance audit be done for the operation.

## **1.1. REQUIRED BUSINESS PLAN FORMAT:**

### *1.1.1 Section 1 – Raw Material Sources*

This section must detail from where the PCR will be sourced. Where it is to be purchased from a collector or another recycler, this party will have to provide the supporting information to demonstrate conclusively that the PCR to be supplied will not be at the expense of another recycling project.

Agreements or contracts should be provided in support of the application, to demonstrate long-term access to PCR, at an agreed price or pricing formula.

Projected PCR availability (tons per year) must be shown per source.

Intended investment to develop new PCR sources must be itemised with projected costs.

The cost of PCR raw material delivered to site must be shown, per source, and broken down to reflect price ex source (e.g. landfill site, buyback centre) separately from transport cost. Terms of payment must also be shown.

### *1.1.2 Section 2 – Recycling Process*

In this section, the applicant must detail the processing steps involved in converting the PCR into a saleable product. Each step involved should reflect expected losses or yields (i.e., tons in versus tons out), the utilities involved (water, electricity, chemicals, etc.) per ton of material processed, labour involved, and the associated costs for each item.

Packaging of the final product (bagging, wrapping, strapping, palletisation, or whatever) must also be costed appropriately.

Overhead cost items must be shown, including rent, staffing costs other than direct labour mentioned above, security, administrative costs, and other costs associated with running the business.

The idea behind this level of detail is to ensure that, if funding is required, PETCO can be satisfied that the project has been researched comprehensively by the recycler.

### *1.1.3 Section 3 – End Use*

This section should detail to whom the product will be sold, and at what price. While this might seem an onerous requirement, it should be borne in mind that, as with raw materials, it is not in PETCO's interest to fund a price war between competing suppliers of the same product.

It should be stressed that PETCO is not attempting to stifle competition. However, if the competition results in a situation that the businesses involved become unviable, then PETCO will not subsidise either of the businesses involved, as this could lead to a totally unproductive spiral.

To avoid these situations, supply agreements with key customers should be included in the business plan, showing delivered pricing, as well as the logistical costs involved in getting the product to the end user (transport, warehousing, handling fees, sales commissions, etc.).

The terms of payment for the sales involved (days credit on open account, Letter of Credit, etc.) should be shown per major customer.

### *1.1.4 Section 4 – Job Creation*

The business plan should reflect the number of new jobs created, at different levels, indicating the anticipated wage rate for each position.

An estimate should also be made of the number of jobs to be created indirectly through the project, e.g. for collectors, service providers, etc.

### *1.1.5 Section 5 – Financial Projections*

Projected accounts must be projected for the first 3 years of the project as a minimum.

These accounts should include projected Income Statement, Balance Sheet, and monthly cash flow projections.

Capital cost projections, together with working capital, must also be detailed. Sensitivities should be performed on these accounts, to reflect to following scenarios:

- Volumes up or down by 20% (breakeven volumes should be calculated for each scenario below)
- Raw material prices up by 10%

- Sales prices down by 10%
- Capital costs up by 15%.

#### *1.1.6 Section 6 – Requested Subsidy*

The subsidy is not intended to make an inherently unprofitable business profitable.

The only exception to this rule is where a transport subsidy on raw material is required by virtue of PCR sources being developed in locations geographically distant from the recycling plant.

If this is the extent of the subsidy being requested, then the subsidy request is quite straightforward – the cost of delivering PCR to the recycler’s plant will simply be compared with what it would have cost should it have been delivered from a viable local source (e.g. a landfill site which has been contracted to another recycler).

It should, however, be pointed out that this subsidy is unlikely to be granted in the case where the recycler chooses to locate the plant in an area which makes no business sense (e.g., far from raw material sources and markets, poor infrastructure, etc.).

If a subsidy is requested as a safety-net against adverse trading conditions, then the request becomes potentially more complicated.

The recycler must then identify which set of trading conditions would potentially be crippling to his business. It should be demonstrated that these conditions are very much the exception to the rule, by producing historical data showing the prevalence of these conditions over a period of at least 5 years.

The recycler should then also suggest a formula which could be applied to bring the business back to cash breakeven during such conditions, allowing continued operation until the trading environment improves.

Clearly, it would be unreasonable to expect PETCO to provide a safety-net during unfavourable trading conditions, while the recycler is permitted to take all the advantage from windfall trading conditions in the good times.

The recycler must then also propose a mechanism which provides a reasonable return on his investment on average, but allows for one of the following:

- Accumulation of funds in good times over and above profits on a “reasonable return” basis, into a “rainy day” account to provide for adverse conditions, up to a reasonably prudent level;

or

- A “payback” mechanism to be applied, in a favourable trading period following receipt of PETCO subsidies, whereby some or all of the subsidies paid out by PETCO are repaid should the “reasonable return” threshold of profitability be passed during more favourable times.

## **2. CATEGORY ‘B’ PROJECTS**

This category is aimed at projects that contribute to the visible promotion of PET collection and recycling. They do not necessarily have to involve a significant volume of PET recycling.

It is not the intention for this funding to replace other potential sources of funding, such as the Poverty Alleviation Fund. PETCO will certainly offer its services to potential collectors or recyclers to facilitate such funding.

Rather, it is intended to assist in the development of new collection initiatives. These initiatives should involve permanent, ongoing, visible collection of PET, through schools, community organisations, etc.

Once-off, or even annual, events are not included in the scope of this category – the emphasis is very much on continued, visible collections.

### **2.1 Required Business Plan Format:**

#### *2.1.1 Section 1 – Project Description*

Provide a detailed description of the project, including:

- Aims and objectives
- Area of operation
- What is the scope of the project?
- What is the project plan?
- How will the project improve/promote PET collection?
- How will it be administered?
- Who are the stakeholders involved with the project
- What are the estimated costs?

- Setup
- Ongoing operation
- What revenue will the project generate, by year, over 5 years?
- How will the project achieve profitability over the lifetime of the project

### 2.1.2 Section 2 – Requested Assistance

Provide the relevant financial schedules (income and cash flow statements) indicating the level of assistance required at each stage of the project.

Provide details of other funding sources which have been explored, and results of these investigations.

## 3. SUPPLIER CODE OF CONDUCT

Supplier Guiding Principles reflecting PETCO’s values are considered by PETCO to be a vital pillar for those programs within which we play an active role, driven by the belief that good corporate citizenship is essential to our long-term business success and must be reflected in our relationships and actions in both our workplaces and of those who are authorized to directly supply services to our business.

All successful applicants will be required to provide a signed copy of the PETCO Supplier Code of Conduct: Guiding Principles, to demonstrate their commitment to these principles.

## 4. CONTACT DETAILS FOR PETCO

Applications can be mailed, e-mailed or faxed:

**By Mail:** PET Recycling Company NPC  
 PO Box 280  
 Constantia  
 7848  
 Cape Town

**By E-mail:** [info@petco.co.za](mailto:info@petco.co.za)

**By Fax:** 021 794 1724 or 086 531 0291

**Further information:** 0860 1 is PET