



Stewardship Ontario

**REVIEW OF BLUE BOX FEE SETTING METHODOLOGY  
AND PRELIMINARY FEE SCHEDULE FOR 2013**

**NOTES FOR INFORMATION SESSION  
SEPTEMBER 27 2012**

## **PART I: BLUE BOX FEE SETTING METHODOLOGY REVIEW**

### **Background**

In 2012, Stewardship Ontario embarked on a review of the blue box fee setting methodology to determine if modifications were required to better reflect consumer and marketplace trends, while continuing to share costs in a fair and equitable manner. This project was initiated following the 2011 fee setting process, in response to a desire by stewards to:

1. Simplify the methodology; and
2. Engage stewards in the decision-making process.

### **Consultation #1 – May 31, 2012**

On May 31, 2012 we began the process by engaging stewards in a first principles discussion of the current fee setting methodology. Stewards were asked to consider the components of the methodology in light of a number of factors, including:

- **Steward packaging innovation** and improvements to the overall sustainability of their businesses, which has resulted in the introduction/expansion of new packaging formats that outpace the recycling system, even where such innovations deliver better overall environmental performance
- **Consumer perceptions of sustainability**, where the ability to put packaging into the blue box drives consumer attitudes, regardless of other “life cycle” benefits of new formats
- **The “next least-cost tonne” approach**, which some have suggested does not sufficiently reward stewards for packaging innovation, and which may act as a barrier to the expansion of the range of materials accepted in blue boxes across the province (and therefore the achievement of program consistency)
- **The three-factor formula**, which some have suggested does not sufficiently reward stewards for improvements in the recycling of material categories that are difficult to recycle
- **Material fee rate “aggregation”**, which some have suggested has not kept pace with the evolution of the recycling supply chain
- **Life cycle metrics**, which some have suggested should be taken into account in the fee setting methodology (e.g., credits for recycled content, or discounts for materials that produce a lower carbon or water “footprint”)

In response to a series of questions posed in May by Stewardship Ontario we learned that stewards want a fee setting methodology that is fair, simple and understandable. While stewards appreciated being engaged in the decision-making process, most wanted to see specific options and understand their implications before they could form an opinion. It was also clear that there was little desire for radical change.

### **Consultation #2 -July 24, 2012**

On July 24, 2012, Stewardship Ontario met again with blue box stewards to report back on what was learned from the May discussions and to provide options for consideration. We asked them to consider a new methodology (Option 2) that had come from the steward community as a result of the May meeting.

**Option 1 (Status Quo):** Material revenues applied before the three-factor formula is calculated.

Logic	Name	Description	All Else Equal
I pay for what does not get recycled and is disposed.	Recovery Factor (35%)	Tonnes Disposed (unrecovered) distributed between PPP	If recovery rate increases, fee rate decreases
I pay for the net cost of recycling my product (costs minus revenues)	Net Cost Factor (40%)	Sum of net cost (gross cost less revenues) distributed between PPP	If net cost increases, fee rate increases
What would I be paying if I were to achieve the 60% target?	Equalization Factor (25%)	Net cost to recover required tonnes to achieve 60% target.	Higher tonnes needed to achieve 60% and/or higher cost/tonne produces higher fee rate

**Option2 (New Approach):** Material revenues are applied after the three-factor formula is calculated.

Logic	Name	Description	All Else Equal
I pay for what I put into the marketplace.	Generation factor (45%)	Generated tonnes distributed between PPP	If generation increases, fee rate increases
I pay for the cost of recycling my product.	Gross cost factor (45%)	Sum of recovered tonnes x gross cost to handle	If recovered tonnes or gross cost increases, fee rate increases
I pay for what does not get recycled and is disposed.	Unrecovered factor (10%)	Disposed tonnes (unrecovered) distributed between PPP (up to 60% target)	If disposed tonnes increase, fee rate increases

Option 2 was designed by its proponents to be simpler and more relevant to the business experience of stewards than the current formula, while continuing to be consistent with the methodology's core principles of sharing costs fairly and equitably. However, several drawbacks were also noted:

- It would still involve some complex mathematics
- In some cases it would change fee rates significantly
- It would be a departure from the methodology used by the other provinces

Stewards were also asked to consider possible changes to simplify the way in which common costs were calculated, essentially to eliminate the use of volume-based metrics in the calculation of common costs.

In response to the options presented at the July consultation, Stewardship Ontario received 12 submissions from stewards and industry associations indicating that there was no clear consensus or preference for either Option 1 or Option 2. Of the 12 submissions:

- Three organizations supported Option 1 (status quo)

- Four organizations did not support either Option 1 or Option 2, and would like additional options to consider once the results of the Activity-Based Costing Study and waste audits are completed
- Four organizations supported Option 2
- One organization would have supported Option 2 in light of no other choices, but wanted additional options to consider

Accordingly, no changes are being proposed to the three-factor formula for 2013. However, Stewardship Ontario will continue to work with stewards on possible changes to the formula in future years.

## **PART II: 2013 BLUE BOX FEES**

### **Background**

Each year, Stewardship Ontario establishes fee rates for the blue box program according to a defined methodology approved by the Minister of the Environment. The objectives of this process are to:

- a) Ensure that sufficient funds are raised from stewards to meet industry's obligations under the program
- b) Ensure that the costs of the program are fairly and equitably allocated among the material categories

The fee setting process involves the following steps:

1. Municipalities report the volume of each material that they collected and marketed through their blue box recycling programs, and the costs they incurred in doing so, to Waste Diversion Ontario (WDO). These reports are reviewed and validated by WDO staff
2. Representatives of Stewardship Ontario, the Association of Municipalities of Ontario and the City of Toronto meet to review the data, and together determine a "best practice cost", which is used to negotiate the steward obligation to municipalities. The agreed amount is recommended to WDO which formally approves the steward obligation for a given year
3. Stewardship Ontario's provisional operating budget, WDO costs, and market development levies, if applicable, are added to the obligation to determine the total amount that must be raised from stewards. This amount is allocated to each of the material categories according to the "Three-factor Formula" to determine the **material specific fees** to be charged to each category. These calculations draw on (1) the results of an Activity Based Costing study of municipal recycling operations, (2) "curbside audits" of materials set out by Ontario residents, (3) "bale audits" of the processed recyclables sold by municipalities to re-processors, and (4) steward reports of sales into the Ontario market
4. Material-specific fee **rates** are determined by dividing the material-specific fees by the total kilograms of each material sold by stewards into the Ontario market.

### **Steward Obligation for 2013**

While the total cost of the program increased by 5.4%, there were a number of shifts in program costs that are relevant to the fee setting process, specifically:

- The “discount” from the reported cost achieved in negotiations with the municipalities decreased from 8.72% to 7.62% (although still substantially higher than 2010, which was 5.67% and 2009, which was only 2.67%)
- The 2011 data year was a peak year for fuel costs, adding about 2.4% or \$7.3 million to gross program costs
- The ongoing trend of lighter-density packaging and smaller units/kilogram generated a total estimated incremental cost of about another 2% or \$6 million
- General cost-of-living increases of about 1.9% or \$5.8 million

Increased costs noted above were offset by an increase in the rolling-three-year revenue amount of 10.7% or \$9.2 million.

Item	2010	2011	Var %	Variance
Negotiated cost	\$ 274,108,902	\$ 293,352,857	7.0%	\$ 19,243,955
3yr rolling avg rev	\$ 96.68	\$ 104.92	8.5%	\$ 8.24
Calculated marketed tonnes	887,242	904,850	2.0%	17,608
Revenue	\$ 85,778,577	\$ 94,936,862	10.7%	\$ 9,158,285
Net cost	\$ 188,330,326	\$ 198,415,995	5.4%	\$ 10,085,669
Prior year adjustment	\$ 1,431,635	\$ 2,214,633	54.7%	\$ 782,998
Cost minus adjustment	\$ 186,898,691	\$ 196,201,362	5.0%	\$ 9,302,671
Typo adjustment	\$ -	\$ 400,000		\$ 400,000
Steward obligation	\$ 93,449,345	\$ 98,500,681	5.4%	\$ 5,051,336
<i>In-kind contribution</i>	\$ 3,571,471	\$ 6,140,409	71.9%	\$ 2,568,938
<i>Cash portion</i>	\$ 89,877,874	\$ 92,360,272	2.8%	\$ 2,482,398

### Stewardship Ontario Program Management Budget

The provisional budget for 2013 (including comparisons from the previous year) is as follows:

Stewardship Ontario PROVISIONAL 2013 Blue Box Program Management Budget			
	2013	2012	Variance
WDO and MOE	1,050,000	950,000	100,000
<b>System Improvement</b>			
Promotion & Education	900,000		900,000
BB System Transformation	1,650,000		1,650,000
Market Development - Plastics	-	3,000,000	(3,000,000)
Other projects	150,000	125,000	25,000
<b>Program Management</b>	<u>5,084,077</u>	<u>4,811,120</u>	<u>272,957</u>
<b>Total</b>	<b>8,834,077</b>	<b>8,886,120</b>	<b>(52,043)</b>

## **Allocation of Costs to Individual Materials (Material Specific Fees)**

As noted in Part 1, in addition to this year's review of the fee setting methodology, Stewardship Ontario undertook two key research initiatives as part of our efforts to continuously improve the accuracy and fairness of the fee setting process:

1. A new Activity-Based Costing analysis (which is fundamental to how the steward obligation is allocated) was carried out in order to ensure cost allocations were consistent with the current blue box infrastructure and operational practices
2. New waste stream audits were commissioned to gain a more accurate picture of how material is managed to inform material aggregation/disaggregation

### Activity-Based Costing Study

In 2012, Stewardship Ontario initiated a new Activity-Based Costing analysis in cooperation with the Continuous Improvement Fund to inform 2013 fees. Activity-Based Costing analysis provides the information that Stewardship Ontario needs to allocate costs of shared infrastructure to individual materials. For example, if x% of the material in a collection truck is HDPE plastic bottles, these materials would be responsible for x% of the cost of the collection truck.

The 2012 study revealed that the printed paper category should be allocated a greater share of costs, leading to a significant increase in fee amounts for all printed paper categories. While accurate and up-to-date analysis and information is key to ensuring that the fee setting methodology continues to achieve its primary objective of fairly and equitably allocating costs to individual material types, the change revealed two key consequences: an increase in the in-kind contribution to municipalities from the Canadian Newspaper Association (CNA) and the Ontario Community Newspaper Association (OCNA) stewards, and an anomaly in the total fee contribution from the magazine category.

### In-Kind Contribution for Newspapers

One impact of the increase in cost allocation to printed paper is a significant increase in the amount of the steward contribution paid to municipalities in the form of "in-kind" advertising space. Stewardship Ontario, and the CNA/OCNA intend to work with representatives of Ontario municipalities to assist them in realizing maximum value from this contribution. Also, as noted in the provisional program management budget, Stewardship Ontario is planning to allocate additional resources to achieve system improvements, which will benefit both stewards and municipalities.

### Anomaly for Magazine Fees

The shift in costs to the printed paper category has also revealed an anomaly in fees for magazines. Despite a very high recovery rate (greater than 80%), stewards of magazines under the revised fee schedule, would be required to contribute more than what we estimate to be the total cost of managing magazines. While this is common for materials with low recovery rates (indeed the formula is designed to shift costs onto materials with low recovery rates), it would not be fair and reasonable for this situation to persist in a material category with a very high recovery rate.

The anomaly arises out of the aggregation of fee rates for magazines, directories and "other printed paper". Stewardship Ontario is currently reaching out to stewards of these materials in order to develop potential solutions that are fair and reasonable to all.

## Aggregation of the Composite Paper Packaging Category

Stewardship Ontario has also been reviewing the way in which fee rates for the composite paper packaging categories are aggregated when fee rates for these materials (gable-top, aseptic and laminate paper packaging) are calculated. This review has established that these materials are managed together during the sorting processing and therefore should continue to be aggregated when fee rates are calculated. More importantly, this review has confirmed that recent advancements in material reclamation technology will ensure strong long-term demand for recovered material. Stewardship Ontario will therefore step-up efforts to increase capture of these materials by promoting their inclusion in all municipal blue box programs, and ensuring that their recyclability is featured in program promotion and education.

## **Material Specific Fees and Rates**

The Preliminary Blue Box Material Specific Program Fees for 2012 are available in Appendix A. The Preliminary Blue Box Program Material Specific Fees Rates are available in Appendix B.

## **Other Changes**

Last year, Stewardship Ontario changed the data reporting deadline from April 30 to July 31. The intent of the change was to provide stewards with more time to prepare their reports, while meeting Stewardship Ontario's needs to support the fee setting process.

However, the July 31 deadline compromised Stewardship Ontario's ability to provide timely communications to stewards during the fee setting cycle. Accordingly, Stewardship Ontario is proposing to revise the reporting deadline to June 30, beginning in 2013.

## **Next Steps**

To assist stewards in the preparation of their comments, spreadsheets illustrating changes to tonnes recovered and costs that support the preliminary fee schedule will be posted on Stewardship Ontario's website on September 27, 2012. Comments are welcome on or before October 12, 2012, and may be submitted to [WeRecycle@stewardshipontario.ca](mailto:WeRecycle@stewardshipontario.ca). Following a review of comments received, recommendations will be made to the Board of Directors of Stewardship Ontario and subsequently to Waste Diversion Ontario.

## Appendix A: Preliminary Blue Box Material Specific Program Fees for 2013

Category	Material	Fees 2012 (\$)	Fees 2013 (\$)	Change (\$)
<b>PRINTED PAPER</b>				
<b>Printed Paper</b>	Newsprint - CNA/OCNA	\$ 626,907	\$ 751,887	\$ 124,980
	Newsprint - Non-CNA/OCNA	\$ 2,828,907	\$ 5,283,918	\$ 2,455,011
	Magazines and Catalogues	\$ 2,932,205	\$ 3,928,262	\$ 996,056
	Telephone Books	\$ 521,053	\$ 557,431	\$ 36,378
	Other Printed Paper	\$ 3,327,606	\$ 6,013,823	\$ 2,686,217
<b>PACKAGING</b>				
<b>Paper Based Packaging</b>	Corrugated Cardboard	\$ 14,348,240	\$ 10,339,202	\$ (4,009,038)
	Boxboard	\$ 13,761,960	\$ 13,189,158	\$ (572,802)
	Gable Top Cartons	\$ 2,613,804	\$ 2,489,014	\$ (124,790)
	Paper Laminates	\$ 4,722,981	\$ 4,706,903	\$ (16,078)
	Aseptic Containers	\$ 1,133,229	\$ 907,505	\$ (225,724)
<b>Plastic Packaging</b>	PET Bottles	\$ 8,049,699	\$ 8,290,874	\$ 241,175
	HDPE Bottles	\$ 3,739,806	\$ 3,658,521	\$ (81,285)
	Plastic Film	\$ 11,261,392	\$ 9,968,575	\$ (1,292,817)
	Plastic Laminates	\$ 6,756,945	\$ 5,322,076	\$ (1,434,869)
	Polystyrene	\$ 3,946,605	\$ 3,311,054	\$ (635,551)
	Other Plastics	\$ 16,569,426	\$ 15,621,858	\$ (947,568)
<b>Steel Packaging</b>	Steel Food & Beverage Cans	\$ 2,703,848	\$ 2,395,055	\$ (308,793)
	Steel Aerosols	\$ 261,120	\$ 237,049	\$ (24,071)
	Steel Paint Cans	\$ 323,806	\$ 270,994	\$ (52,813)
<b>Aluminum Packaging</b>	Aluminum Food & Beverage Cans	\$ 487,837	\$ 589,689	\$ 101,851
	Other Aluminum Packaging	\$ 293,001	\$ 294,739	\$ 1,739
<b>Glass Packaging</b>	Clear Glass	\$ 2,761,919	\$ 2,147,671	\$ (614,247)
	Coloured Glass	\$ 1,004,048	\$ 977,156	\$ (26,892)
	<i>In-Kind</i>	\$ 3,571,471	\$ 6,140,409	\$ 2,568,938
	<b>Total (excl. in-kind)</b>	<b>\$ 104,976,343</b>	<b>\$ 101,252,412</b>	<b>\$ (3,723,932)</b>



## Appendix B: Preliminary Blue Box Program Material Specific Fee Rates

Category	Material	Fee rates 2012 (cents/ kg)	Fee rates 2013 (cents/ kg)	Change (cents/ kg)
<b>PRINTED PAPER</b>				
<b>Printed Paper</b>	Newsprint - CNA/OCNA	0.33 ¢/kg	0.42 ¢/kg	0.09 ¢/kg
	Newsprint - Non-CNA/OCNA	2.02 ¢/kg	3.62 ¢/kg	1.60 ¢/kg
	Magazines and Catalogues	5.45 ¢/kg	8.49 ¢/kg	3.04 ¢/kg
	Telephone Books	5.45 ¢/kg	8.49 ¢/kg	3.04 ¢/kg
	Other Printed Paper	5.45 ¢/kg	8.49 ¢/kg	3.04 ¢/kg
<b>PACKAGING</b>				
<b>Paper Based Packaging</b>	Corrugated Cardboard	11.45 ¢/kg	8.39 ¢/kg	-3.06 ¢/kg
	Boxboard	9.34 ¢/kg	8.39 ¢/kg	-0.95 ¢/kg
	Gable Top Cartons	18.76 ¢/kg	18.22 ¢/kg	-0.54 ¢/kg
	Paper Laminates	18.76 ¢/kg	18.22 ¢/kg	-0.54 ¢/kg
	Aseptic Containers	18.76 ¢/kg	18.22 ¢/kg	-0.54 ¢/kg
<b>Plastic Packaging</b>	PET Bottles	16.24 ¢/kg	14.70 ¢/kg	-1.54 ¢/kg
	HDPE Bottles	13.60 ¢/kg	13.52 ¢/kg	-0.08 ¢/kg
	Plastic Film	27.23 ¢/kg	23.27 ¢/kg	-3.96 ¢/kg
	Plastic Laminates	27.23 ¢/kg	23.27 ¢/kg	-3.96 ¢/kg
	Polystyrene	27.23 ¢/kg	23.27 ¢/kg	-3.96 ¢/kg
	Other Plastics	29.32 ¢/kg	23.27 ¢/kg	-6.05 ¢/kg
<b>Steel Packaging</b>	Steel Food & Beverage Cans	6.07 ¢/kg	5.51 ¢/kg	-0.56 ¢/kg
	Steel Aerosols	6.07 ¢/kg	5.51 ¢/kg	-0.56 ¢/kg
	Steel Paint Cans	6.07 ¢/kg	5.51 ¢/kg	-0.56 ¢/kg
<b>Aluminum Packaging</b>	Aluminum Food & Beverage Cans	2.00 ¢/kg	2.56 ¢/kg	0.56 ¢/kg
	Other Aluminum Packaging	8.41 ¢/kg	6.97 ¢/kg	-1.44 ¢/kg
<b>Glass Packaging</b>	Clear Glass	3.27 ¢/kg	2.84 ¢/kg	-0.43 ¢/kg
	Coloured Glass	3.83 ¢/kg	4.84 ¢/kg	1.01 ¢/kg