



Stewardship Ontario

**REVIEW OF BLUE BOX 2012 RULES RECOMMENDATIONS  
AND PRELIMINARY FEE SCHEDULE**

**DISCUSSION NOTES FOR OCTOBER 18TH MEETING  
WITH STEWARDS AND OTHER STAKEHOLDERS**

## **PART I: BLUE BOX 2012 RULES**

### **Introduction**

In 2011 Stewardship Ontario undertook a thorough review of the Blue Box Rules to determine how they should be revised to better promote fairness and clarity in the reporting and compliance process. The review was designed to address some of the most common concerns raised by stewards about the Blue Box Program, specifically:

1. Improve predictability of fees
2. Reduce free riding
3. Ensure fairer allocation of administration and compliance costs
4. Provide clearer guidance for steward reporting
5. Harmonize with other provinces to the extent possible.

On September 14<sup>th</sup>, Stewardship Ontario held a dialogue with stewards and other interested stakeholders to discuss a series of ideas and changes to the Rules that were being considered by Stewardship Ontario. These ideas were set out in a Discussion paper entitled “Preliminary Review of Proposed Changes to the Blue Box Rules: Discussion Notes for September 14 Meeting” that was distributed to stakeholders in preparation for the discussion. In summary, those ideas were as follows:

1. Address fee fluctuations and increase predictability of stewards’ budget process by:
  - a. **Changing the way steward fee payments are calculated.** Stewardship Ontario proposed to calculate stewards’ invoice using their 2011 reports, rather than calculating the 2012 fee payment based on steward reports received in 2012, as has been done in the past.
  - b. **Creating a report-verification deadline of July 31<sup>st</sup>.** Stewardship Ontario proposed that a new steward report verification period be introduced that would require stewards to verify and validate their report to Stewardship Ontario by July 31st after which stewards would not be able to claim a credit. This was proposed as a means of mitigating financial risk to the organization resulting from steward adjustments made after fees are set.
2. Ensure fairer application of administrative and compliance costs by:
  - a. **Applying administrative fees** to stewards that report late, fail to comply with program requirements, do not cooperate with the report verification process or otherwise frustrate efforts to ensure accurate reporting.
  - b. **Increasing the penalty for late payment of fees.** Stewardship Ontario considered increasing interest charged on outstanding balances by 1% per month (from Prime plus 3% to Prime plus 4%) in addition to the initial 10% late payment fee currently applied.

3. Clarify reporting requirements and guidelines by:
  - a. **Clearly identifying the information stewards are asked to provide with their reports**, such as providing more details regarding their calculation methodology, and reporting all brands that they sell (obligated and non-obligated).
  - b. **Providing new guidebooks**, that would provide a comprehensive list of material definitions and reporting categories, decision trees to assist stewards to determine their obligation, and standards for determining the amount of material supplied into the Ontario marketplace.
  - c. **Providing clarity on packaging data to be retained by stewards.** Stewardship Ontario proposed that as part of the report verification process, stewards be capable of providing a “bill of materials” type of description of their packaging.

Ninety-four attendees (in person and via webcast) participated in the September 14<sup>th</sup> meeting, representing a mix of stewards, industry associations and government. In addition to comments and input received during the meeting, the fifteen written submissions received by Stewardship Ontario proved invaluable to helping us develop this set of recommendations for the 2012 Blue Box Rules.

## Recommendations

Stewardship Ontario appreciates the many thoughtful and constructive comments that were submitted during this consultation process and we are pleased to advise that several key changes have been made to the original proposals. The following recommendations are now being put forward for the final stage of consultation:

1. **Change the way steward fee payments are calculated. Instead of calculating the 2012 fee payment based on steward reports received in 2012, we will calculate the stewards’ invoices using their 2011 report.**

This provides stewards with certainty regarding their steward obligation for 2012 by the end of the 2011 calendar year. It also helps reduce fee volatility by eliminating a key source of program deficits (or surpluses), and avoids the need for Stewardship Ontario to develop a contingency fund to finance the deficit risk.

2. **Provide stewards with an additional four months to complete their reports, by moving the reporting deadline to July 31 (the March 31st deadline will no longer apply).**

This change is made possible by the first recommendation and addresses a key steward request that the reporting deadline be changed to give them more time to verify their data. In the original discussion paper, Stewardship Ontario indicated that it would still seek an initial report from stewards on March 31st, subject to final verification by July 31<sup>st</sup>. However, after considering steward comments and reviewing changes to our business processes made possible by Recommendation #1, we have concluded that the March 31st deadline should be discontinued.

**3. Continue to issue credits and debits if a steward discovers an error in their reporting after July 31st, and apply such credits to the following program year.**

Stewardship Ontario considered setting an absolute deadline of July 31st, beyond which a steward could not claim a credit. This would have helped to address yearly fee fluctuations resulting from steward adjustments made after the fees were set. However, steward comments clearly indicated that this was not a desirable trade-off, and several stewards suggested deferring the credit to the following year, as an alternative way of dealing with the related financial risk and addressing potential volatility in fees.

**4. Provide Stewardship Ontario with the means to apply administrative fees, subject to the establishment of associated administrative policies that set out when and how they will apply.**

While stewards were sympathetic to Stewardship Ontario's efforts to eliminate free riding, there was apprehension about how administrative fees might be applied. No such fees will be applied until such time as Stewardship Ontario establishes appropriate policies for this purpose.

**5. Discontinue the late reporting penalty, but re-establish the 10% late payment penalty and increase the interest rate charged on delinquent accounts.**

There was general support from stewards on this measure.

**6. Provide more guidance to stewards on reporting, definitions of material categories, calculation methodology etc.**

Stewardship Ontario had considered asking stewards to report all brands that they sell (obligated or not) to assist us in identifying instances of free riding or "double counting" (where more than one steward reports the same brand). It was also suggested that stewards be required to maintain a "bill of materials" record of their packaging data, to support efforts to verify the accuracy of steward reporting and prevent "free riding". While stewards expressed support for efforts to improve report accuracy and eliminate free riding, our retail stewards in particular urged Stewardship Ontario to examine alternative ways of achieving these objectives. Accordingly, these suggestions will be deferred pending further analysis and discussions with stewards.

In addition to the recommendations provided above, over the coming year, Stewardship Ontario will explore other ideas raised by stewards in their comments such as:

- Conducting a review of reporting "calculators" to explore the feasibility of developing updates, improvements and alternatives.
- Reviewing the impact of the De minimus threshold on program fees.

## Next Steps

A copy of the Blue Box Rules reflecting these decisions will be made available to stewards on October 18, 2011, and posted on Stewardship Ontario's website. Comments are welcome on or before November 17, 2011, and may be submitted to [bluebox@stewardshipontario.ca](mailto:bluebox@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.

## **PART II: 2012 BLUE BOX FEES**

### Introduction

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 2012

When fees were set last year, the program had to accommodate a 10% increase in the obligation to municipalities from the previous year. The increase was due mainly to a dramatic drop in program revenues (which in turn was driven by low commodity prices and a significant drop in recycled tonnes). Fortunately, for 2012, the total obligation to municipalities has increased by only 1.8% versus 2011, primarily because of a substantial increase in the “best practice discount” as indicated in the table below.

	Last Year	This Year	Variance	%
Reported Gross System Cost	284,578,000	298,023,000	13,445,000	4.7%
Negotiated Gross System Cost	269,299,000	274,129,000	4,830,000	1.8%
Negotiated Discount \$	15,279,000	23,894,000	<b>8,615,000</b>	56.4%
Negotiated Discount %	<b>5.4%</b>	<b>8.0%</b>		2.6%
3-Year Rolling Revenue	87,402,000	85,912,000	(1,490,000)	-1.7%
Negotiated Net Cost	181,897,000	188,217,000	6,320,000	3.5%
Prior Year Adjustments	1,785,000	(1,319,000)	(3,104,000)	
<b>Obligation to Municipalities</b>	<b>91,841,000</b>	<b>93,449,000</b>	1,608,000	<b>1.8%</b>
<b>Change from Previous Year</b>	<b>10.0%</b>	<b>1.8%</b>		
Tonnes Recycled	870,214	887,242	17,028	<b>2.0%</b>

## Stewardship Ontario Operating Budget & Other Costs

The provisional budget for 2012 (including comparisons from the previous year) is as follows:

Preliminary Blue Box Budget for Setting 2012 Fees			
	2011	2012	Change
Obligation to Municipalities	\$91,841,000	\$93,449,000	1.8%
<b>Transfers</b>			
WDO Costs	\$1,025,000	\$1,025,000	
MOE Compliance and Enforcement	\$100,000	\$100,000	
<b>Investments</b>			
Market Development – Plastics	\$3,000,000	\$3,000,000	
Market Development – Fibres	\$500,000		-100.0%
Investment Expense	\$130,000	\$130,000	
<b>Program Management*</b>			
Management costs (including share of corporate expenses)	\$4,070,000	\$4,520,000	11.1%
Waste/bale audits		\$350,000	100.0%
<b>Total (excludes deficit recoveries)</b>	<b>\$100,666,000</b>	<b>\$102,574,000</b>	<b>1.9%</b>

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

While the total cost of the program will increase by a modest 1.9%, there were several shifts in the way the costs were allocated to the different material categories which will affect the fees that stewards will pay on specific materials.

Please note that puts-and-takes in cost allocations among materials do not necessarily impact the total bill paid by an individual steward. Stewards that use a wide mix of materials may find that their total bill changes very little (i.e., it will increase by an amount quite close to 1.9%). However, stewards that use one material type predominantly may find that their total bill increases (or decreases) by significantly more than 1.9%. Cost allocation is by far the most complicated aspect of the fee setting process. Before the fee rates can be calculated, Stewardship Ontario must determine how the total budget should be allocated to each individual material category included in the program.

This is achieved by means of the “three factor formula”:

- Net Cost Factor: 40% of the total cost is allocated among materials based on what it cost to manage each material in the system. Higher cost materials assume a larger proportion of this factor than lower cost materials
- Recovery Rate Factor: 35% of the total cost is allocated among the materials based on their recovery rate. Materials with lower recovery rates assume a larger proportion of this factor than materials with higher recovery rates.
- Equalization Factor: 25% of the total cost is allocated among the materials based on what it would cost for the material to achieve a recovery rate of 60%. Materials with low recovery rate and a high cost-per-tonne assume a larger proportion of this factor. Materials that have a recovery rate 60% or more are not allocated any amount from this factor.

There are many different variables that go into each one of these calculations, and each of these variables changes from one year to the next. Some variables change in opposite directions (to some extent cancelling each other out) some change in the same direction and compound their impact on the material allocations. Some variables have a very high degree of sensitivity, which means that even a comparatively small change in the variable can have a significant impact on material cost allocations.

Stewards often express concerns about the complexity of this part of the process. The mathematics are very complicated, and Stewardship Ontario appreciates that even those who closely follow the process at times have a difficult time understanding why some material fees increase and other decrease, particularly when the changes are substantial. Unfortunately, complicated mathematics do not lend themselves to simple explanations.

In 2006, a sub-committee of the Stewardship Ontario Board was established to examine the fee setting formula to, among other things, determine what steps could be taken to make it more straightforward and simple to understand. The conclusion at the time was that, while complicated, the formula as originally designed succeeded in its main objective: fairly and equitably allocating the cost of the program among the various material categories.

That said, Stewardship Ontario is mindful of ongoing concerns from stewards about the complexity of the formula, and will therefore initiate a new review of the formula in 2012, with a view to making it more simple and straightforward, while continuing to uphold the principle of fairness and equity.

## Material Specific Fee Rates

The last step in the process is to calculate **fee rates** that will be used to calculate steward invoices. Unlike the material cost allocations, this step is mathematically simple: Material Specific Fees, calculated as above are divided by steward sales (in tonnes of packaging).

While simple, this step can also lead to unexpected results. A decline in package tonnage reported by stewards (as we have seen in some categories this year) can lead to a significant increase in the fee rate, even if there is no change in the share of costs allocated to that material category.

This year, we observed that stewards reported substantially fewer tonnes of some materials versus the year previous (even though the amount of material recycled in the system did not change as significantly). Since the total cost of managing the same volume of material does not change, dividing that cost among fewer tonnes sold results in a higher **fee rate** for that material. This is most evident in the Old Corrugated Container category. Despite the fact that the total costs attributed to this material decreased by \$2.5 million, sales reported by stewards (in tonnes of packaging) decreased by 27%, which means the **fee rate** for Old Corrugated Containers will increase by about 11%.

Stewardship Ontario researched this matter extensively in August and September, and the time it took to complete this research is the key reason the fee setting consultation was delayed this year.

What Stewardship Ontario was able to determine as a result of the research is that previous steward reporting of a few key materials (corrugated cardboard in particular) has been overstated by a significant margin. That is to say, the actual amount of corrugated cardboard sold in the market **has not declined by 27%**, but stewards have become increasingly diligent in calculating their tonnage, and many have discovered that they have been over-estimating their sales.

This means that the fee rates for this material have been artificially low, and will need to be readjusted to better reflect the reality in the marketplace.

## Material Deficits

Finally, for the first time, we have seen significant deficits appear in three material categories (Corrugated Cardboard, Boxboard and Other Plastics) due to the decline in steward reporting noted above. Because of this, it will be necessary to include a deficit retirement fee for these materials in order to recover amounts that should have been collected in 2011 but were not.

Charts showing 2012 fees and fee rates for each material category are attached to this note as Appendix A and Appendix B.

## Next Steps

To assist stewards in the preparation of their comments, spreadsheets illustrating changes to tonnes recovered, costs, etc. and supporting the preliminary fee schedules as shown in the attached appendices



will be posted on Stewardship Ontario's website on October 18<sup>th</sup>. Comments are welcome on or before November 17, 2011, and may be submitted to [bluebox@stewardshipontario.ca](mailto:bluebox@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 2012

Material	Fees 2011 (\$)	Fees 2012 (\$)	Change	Deficit Recovery
Newsprint - CNA/OCNA	\$ 499,145	\$ 626,907	\$ 127,763	
Newsprint - Non-CNA/OCNA	\$ 1,359,705	\$ 2,828,907	\$ 1,469,202	
Magazines and Catalogues	\$ 1,675,801	\$ 2,932,205	\$ 1,256,404	
Telephone Books	\$ 322,898	\$ 521,053	\$ 198,155	
Other Printed Paper	\$ 1,428,601	\$ 3,327,606	\$ 1,899,005	
Old Corrugated Containers	\$ 13,257,884	\$ 10,740,634	\$ (2,517,250)	\$ 3,607,606
Gabletop	\$ 3,389,480	\$ 2,613,804	\$ (775,676)	
Paper Laminants	\$ 5,968,071	\$ 4,722,981	\$ (1,245,090)	
Aseptic Containers	\$ 1,496,058	\$ 1,133,229	\$ (362,829)	
Old Boxboard	\$ 12,479,640	\$ 12,631,587	\$ 151,947	\$ 1,130,373
PET bottles	\$ 7,303,400	\$ 8,049,699	\$ 746,299	
HDPE bottles	\$ 3,384,370	\$ 3,739,806	\$ 355,435	
Plastic Film	\$ 10,772,585	\$ 11,261,392	\$ 488,807	
Plastic Laminants	\$ 7,399,644	\$ 6,756,945	\$ (642,698)	
Polystyrene	\$ 3,597,565	\$ 3,946,605	\$ 349,040	
Other Plastics	\$ 17,094,960	\$ 15,387,404	\$ (1,707,556)	\$ 1,182,022
Food and Beverage	\$ 2,613,056	\$ 2,703,848	\$ 90,792	
Aerosols	\$ 414,588	\$ 261,120	\$ (153,469)	
Paint Cans	\$ 351,154	\$ 323,806	\$ (27,348)	
Al Food & Beverage Cans	\$ 131,684	\$ 487,837	\$ 356,153	
Other Aluminum Packaging	\$ 285,368	\$ 293,001	\$ 7,633	
Flint Glass	\$ 2,900,382	\$ 2,761,919	\$ (138,463)	
Coloured Glass	\$ 890,895	\$ 1,004,048	\$ 113,153	

*In-Kind* \$ 1,703,976 \$ 3,571,471 \$ 1,867,495

**Total (excl. in-kind) \$ 99,016,932 \$ 99,056,342 \$ 39,410 \$ 5,920,001**

**Appendix B: Preliminary Blue Box Program Material Specific Fee Rates/kg for  
2012**

<b>Material</b>	<b>Fee rates 2011 (cents/kg)</b>	<b>Fee rates 2012 (cents/kg)</b>	<b>Change</b>	<b>Deficit Recovery Fee</b>
Newsprint - CNA/OCNA	0.29	0.33	0.04	
Newsprint - Non-CNA/OCNA	1.12	2.02	0.90	
Magazines and Catalogues	2.48	5.45	2.97	
Telephone Books	2.48	5.45	2.97	
Other Printed Paper	2.48	5.45	2.97	
Old Corrugated Containers	7.70	8.57	0.87	2.88
Gabletop	23.75	18.76	-4.99	
Paper Laminants	23.75	18.76	-4.99	
Aseptic Containers	23.75	18.76	-4.99	
Old Boxboard	7.70	8.57	0.87	0.77
PET bottles	13.78	16.24	2.46	
HDPE bottles	13.27	13.60	0.33	
Plastic Film	28.16	27.23	-0.93	
Plastic Laminants	28.16	27.23	-0.93	
Polystyrene	28.16	27.23	-0.93	
Other Plastics	28.16	27.23	-0.93	2.09
Food and Beverage	6.26	6.07	-0.19	
Aerosols	6.26	6.07	-0.19	
Paint Cans	6.26	6.07	-0.19	
Al Food & Beverage Cans	0.52	2.00	1.48	
Other Aluminum Packaging	7.50	8.41	0.91	
Flint Glass	3.69	3.27	-0.42	
Coloured Glass	5.35	3.83	-1.52	

*In-Kind* 0.99 1.88 0.89

**Total (excl. in-kind) 8.21 8.40 0.19**