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the box

Stewardship Ontario

# **Blue Box Program**

## **September Dialogue, 2011**

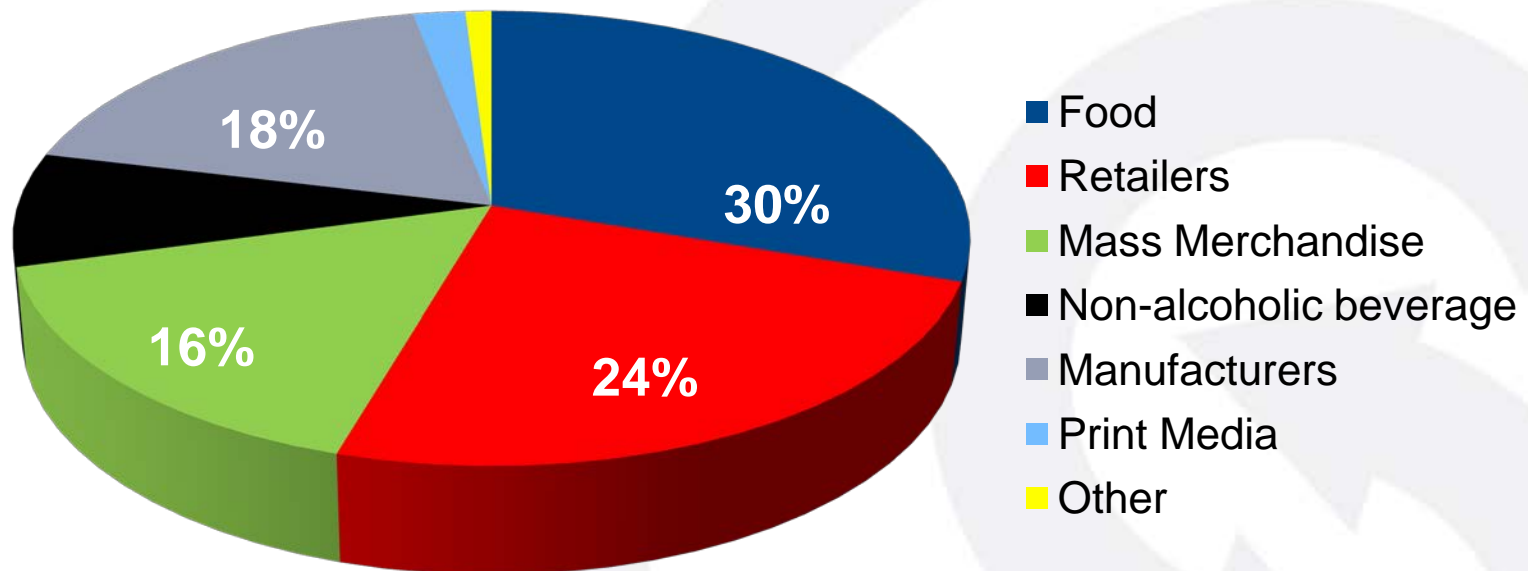
**Lyle Clarke, VP Innovation & Blue Box**

1. Program Management & Performance
2. How Fees are Determined
3. Drivers of Fee Rates & Payments
4. Moderating Fee Volatility
5. Review of Blue Box Rules

- Industry funding organization (IFO) established under the *Waste Diversion Act, 2002* (WDA)
- Develops, implements and manages:
  - Blue Box Program Plan (packaging & printed paper)
  - Orange Drop (municipal hazardous or special waste)
- Governed and funded by companies responsible for BB and OD material
- Accountable to WDO/MOE for the achievement of obligations set out in program plans

# Profile: Blue Box Stewards

~4,400 registered Blue Box stewards

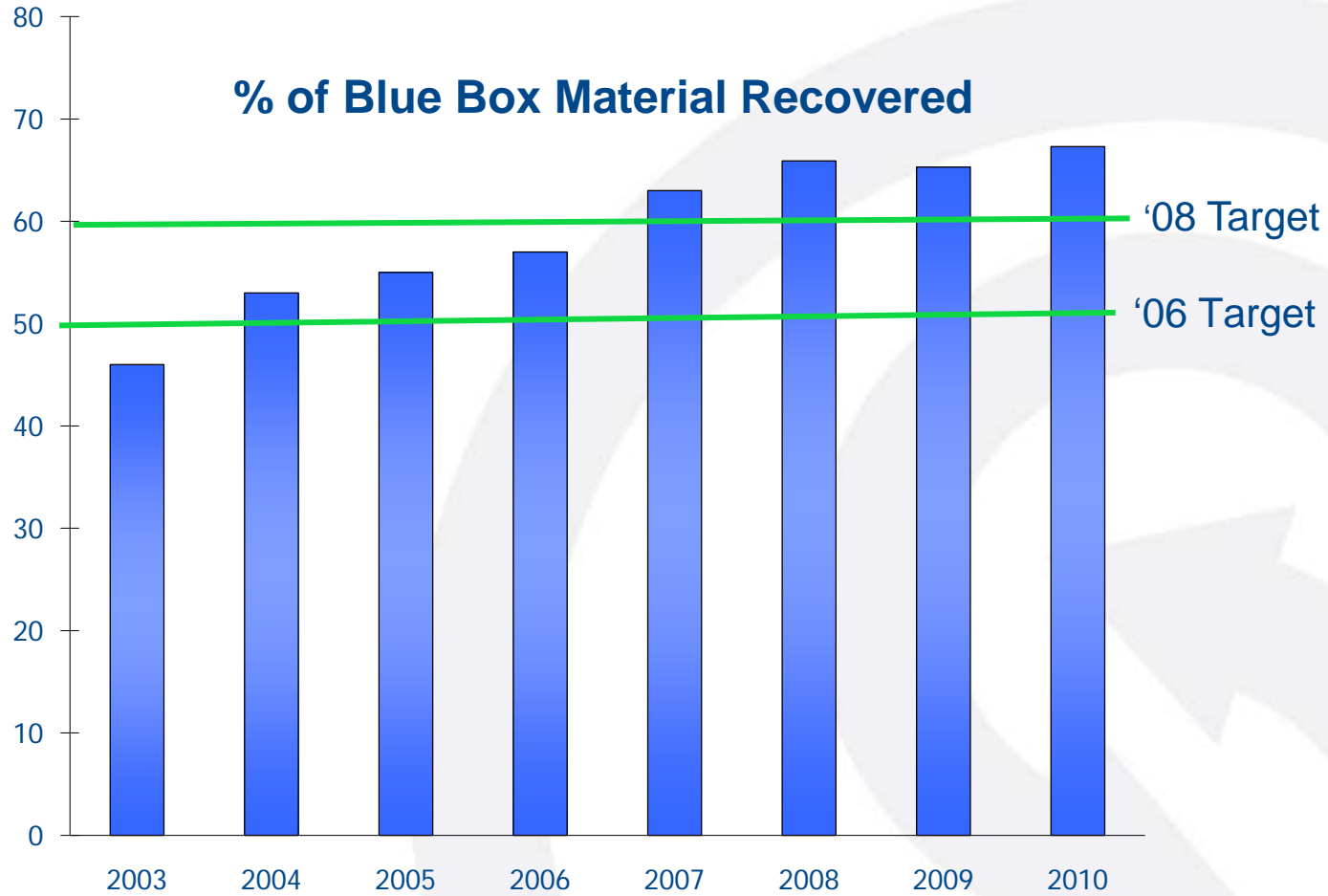


# Blue Box: Shared Responsibility



- Municipalities
  - Determine program scope
  - Define diversion strategy
  - Deliver/contract services
- Stewardship Ontario
  - Develops funding plan
  - Finances 50% of costs
  - Improves material markets
- Jointly
  - Use \$\$\$ to promote best practice & invest in system

# Blue Box Performance Since 2003



# Blue Box Brand Endures

- 57% of consumers still “feel good” about blue box
- 75% say the blue box is their primary environmental effort
- 89% say blue box is the main driver of recycling
- 82% say being “friendly” depends on acceptance in blue box



# Threats on Horizon



- 75% say they can't fit all their recycling in their blue box
- 68% say they have too much recycling they're not allowed to put in their blue box
- 37% say the blue box has fallen behind trends in consumer packaging
- Few recognize role of manufacturers and retailers in funding the program



# We're Making Progress



- New capacity for rigid plastics coming on stream
- Leading Canadian grocers driving major “supply side” initiative to support strategy
- Successful “Plastic Is In” marketing initiative
- Strong response to SO’s call for innovation/investment



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## **Shedding More Light on How Fees Are Determined**

# Multi-Step Process

1. Expenses reported by municipalities
2. Steward obligation adjusted based on “best practice” discussions with municipal sector
3. Obligation allocated among individual material categories based on three-factor formula:
  - Actual costs, based on activity-based costing analysis
  - Recovery rates (relative to other materials)
  - Equalization (cost to achieve a common recovery rate)
4. Specific material fees determined by dividing obligation by tonnes sold by stewards

# Obligation Has Many Drivers



- Absolute program costs driven by amount of material recovered
- Cost-per-tonne driven by changing mix of materials
- Net costs driven by volatile commodity prices, moderated by 3-year averaging
- “Best Practice” deduction driven by performance statistics and benchmarking

# As Do Material Cost Allocations



- Higher tonnage drives higher fees
- Lower relative recovery rates drives higher fees
- Lower relative costs per tonne drives lower fees
- Despite averaging, annual peaks and valleys in commodity prices lead to significant shifts in fees

# And Steward Reported Tonnage



- Recessionary conditions and/or market evolution impact total sales
- Sustainability Plans, Cost Containment & Packaging innovation leads to:
  - Product Light-weighting
  - Packaging reduction
  - Material substitution
- Closer steward attention to reporting leads to more accurate tonnage



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# Drivers of 2011 Obligation

- Amount recycled increased by 17,000t or 2%
- Costs per tonne increased by 2.9%
- Overall/average revenue per tonne is:
  - Down by 16% versus 2007
  - Down by 5% versus last year, and
  - Down by 6% on a three-year rolling average
- Deduction from obligation due to “best practice” analysis increased by 56% from \$15.3M to \$23.9M

# Drivers of Material Allocations

- A wide mix of changes in recycling rates for individual materials:
  - 8 materials had rate changes of 15pts or more
  - 16 materials saw rate changes of 6pts or more
  - Only 4 materials had steady recycling rates ( $<\pm 2\%$ )
- A wide mix of trends in cost-per-tonne:
  - 4 have decreased steadily over the past five years
  - 5 have increased more than 5% annually
- Wide mix of shifts in revenue-per-tonne
  - 5 have decreased by more than 8%
  - 6 have increased by more than 8%

# Reported Tonnes & Fee Rates

	<u>Case A</u>	<u>Case B</u>	<u>Case C</u>
<b>Material Cost</b>	\$5,000	\$5,000	\$5,000
<b>Estimated Quantity</b>	90t	100t	120t
<b>Fee Rate</b>	5.55¢/kg	5.00¢/kg	4.17¢/kg

# Tonnes & Financial Stability

	<u>Fall'11</u>	<u>Mar'12</u>	<u>Later</u>
<b>Material Cost</b>	\$5,000	\$5,000	\$5,000
<b>Quantity Sold</b>	90t	100t	120t
<b>Fee Rate</b>	5.55¢/kg	5.00¢/kg	4.17¢/kg
<b>Surplus</b>		\$550	\$1,656

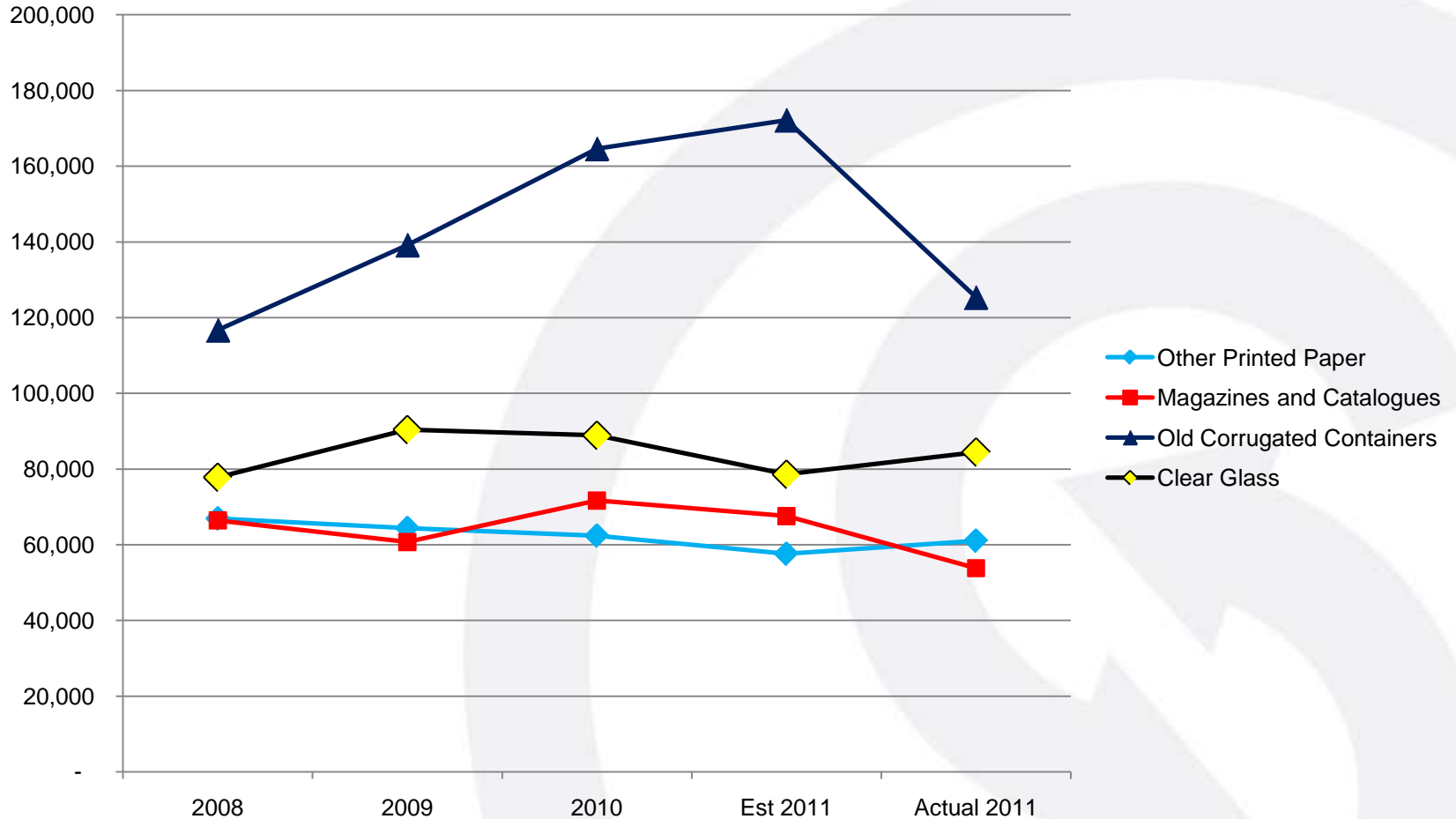
# Reported Tonnes & Fee Rates

	<u>Case 1</u>	<u>Case 2</u>	<u>Case 3</u>
<b>Material Cost</b>	\$5,000	\$5,000	\$5,000
<b>Estimated Quantity</b>	90t	80t	70t
<b>Fee Rate</b>	5.55¢/kg	6.25¢/kg	8.33¢/kg

# Tonnes & Financial Stability

	<u>Fall'11</u>	<u>Mar'12</u>	<u>Later</u>
<b>Material Cost</b>	\$5,000	\$5,000	\$5,000
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<b>Fee Rate</b>	5.55¢/kg	6.25¢/kg	8.33¢/kg
<b>Deficit</b>		(\$560)	(\$1,115)

# From 2011 Steward Reports



- Extensive array of factors driving fee rates
- Significant fluctuations in any one factor can have a substantial impact on fees
- Choices most businesses have to manage price pressure are simply not available:
  - Can't tighten margins (don't have any)
  - Can't change suppliers (municipal partnership)
  - Can't change product (other partner defines product)
  - Can't discontinue product (legal obligation)





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## What Can Be Done?



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**Break: 20 Minutes**



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## What Can Be Done?

# No/Little Influence

- Commodity prices (impact on recycling revenues) including oil prices (impact costs)
- General economic conditions or retail sales volumes
- Consumer trends, in particular the evolution of electronic media
- Trend toward harder-to-recycle packaging and product light-weighting

# Some Influence

- By working with municipalities, we can moderate some of the price swings (e.g. 3yr average for program revenues)
- Program revenues, over the long term, by helping municipalities extract more value from recyclables
- Material generation, over the long term, by working with stewards on packaging innovation
- Program costs, over the long term, by finding ways to move to a more regionally-efficient supply chain

# Potentially, Lots of Influence

- Ensuring steward obligation reflects what an efficient and effective program would cost
- Evolving the program so that stewards have more influence/control over program management (and can reduce costs)
- Improving how stewards determine and report tonnage, and how we calculate the steward payments



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## Reporting & Payment Calculation



# Sources of Advice/Learning

1. Input and requests from stewards
2. Suggestions from industry associations
3. Best practices in other jurisdictions
4. Lessons learned from SO's compliance review process

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



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**Idea Set #1: Change the way fee rates and fee payments are calculated**

Sep'11      2012 Fee Rate = known costs (calculated in 2011 from 2010 data) ÷ estimated steward sales for 2011

Mar'12      Stewards report 2011 sales to support 2013 fee setting and determine 2012 Steward Payment

Steward Payment = fee rate \* 2011 sales

Aug'12      Credits sometimes approved where justified long after reporting deadline

# Tonnes & Financial Stability

	<u>Fall'11</u>	<u>Mar'12</u>	<u>Later</u>
<b>Material Cost</b>	\$5,000	\$5,000	\$5,000
<b>Quantity Sold</b>	90t	80t	70t
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<b>Deficit</b>		(\$560)	(\$1,115)

# New Calculation for Discussion

- Fall'11      2012 Fee Rate = known costs (calculated in 2011 from 2010 data) ÷ actual steward sales for 2010, reported in 2011
- Mar'12      Steward Payment = fee rate x actual steward sales for 2010, reported in 2011  
Steward's report 2011 sales to feed fee setting for 2013
- Later        No downward adjustment to steward payment permitted after July 31, 2012

- Responds to key requests from Stewards:
  - Ensures 2012 fees are correlated to SO's program obligations with no structural deficit that would otherwise generate fee volatility 2013 fees
  - Enables SO to advise stewards of their 2012 obligation in November 2011, aiding budget planning and providing cost certainty to stewards
- However, stewards will not be able to claim credits for inadvertent reporting errors discovered after the July deadline



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# Questions for Discussion

1. What impacts do you see, positive or negative, from the introduction of the four-month limit to verify your report?
2. Do you agree that providing certainty for your 2012 blue box bill will improve your internal budget process?



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## **Idea Set #2: A new philosophy for steward report verification and compliance**

# Changes Under Consideration

- Introduce administrative fees to support report verification process
- Fees may be applied for:
  - Late reporting
  - Incomplete reporting
  - Non-cooperation with report verification process
  - Refusal to provide supporting documentation
- Fees calculated to directly cover costs incurred to establish report accuracy and completeness

# Higher Interest on Unpaid Fees

- Current interest calculation of Prime+3% is low by most industry standards
- Higher than prime, but lower than higher-risk lending rates and much lower than short-term consumer credit
- A higher rate (perhaps Prime+4% or more) would promote more timely payment and generate revenue to offset compliance costs



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# Questions for Discussion

3. Does the application of an administrative fee meet the objectives of reducing free-riding and a fairer allocation of administrative and compliance related costs?
4. Is the 1% increase to monthly interest on outstanding balances an equitable consequence for not paying into the program?
  - Should an even higher rate be charged consistent with high-risk loan rates?



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## **Idea Set #3: Clarify Reporting Requirements & Provide Better Guidance**

# Clear Reporting Requirements

- Description of sources of data and methodology used to calculate amount of material supplied into Ontario marketplace
- Details of deductions
- Explanations of year to year report variations
- Complete list of brands supplied by steward (both obligated and not obligated brands)



- Comprehensive material definitions, reporting categories & decision trees
- Standards for calculating amount of material supplied (e.g.: statistical significance of estimates)
- Guidance on steward report verification process & appropriate supporting documentation
- Policy for Voluntary Stewards & new agreement
- Guidance for materials reported under both Blue Box and MHSW

# Supporting Documentation

- Request that stewards be capable of providing packaging specifications that include:
  - Physical dimensions,
  - Images and
  - Component materials

- Responds to key requests from Stewards:
  - More accurate data for more precise fee-setting and a fairer allocation of costs among material categories
  - Less exposure for stewards that may mistakenly misreport, and less opportunity for deliberate “free riding”
  - Less uncertainty and confusion, and ultimately lower compliance costs
- However, it will require more preparation, effort and precision by many stewards (until new processes are established and internalized)



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## Questions

# Questions for Discussion

5. What challenges (if any) does proposed reporting information pose for stewards?
6. What other action could SO take to make the report verification and review process less laborious for stewards, while ensuring that we can verify the accuracy of reports?
7. What process would you follow to comply with a request for packaging specifications?
8. Are there other reporting guidelines stewards need?

# Closing Remarks/Next Steps

- Please complete session feedback form
- Comments due by September 30
- Send to: [bluebox@stewardshipontario.ca](mailto:bluebox@stewardshipontario.ca)
- Presentation slides and link to archived webcast will be available at:  
[www.stewardshipontario.ca](http://www.stewardshipontario.ca)
- Thank you for your participation

# Blue Box Dialogue Feedback Form

Please click the link below and complete our short feedback survey.

<http://www.surveygizmo.com/s3/636971/Blue-Box-Dialogue-Feedback>