



Blue Box Program Plan Review for 2007

Discussion Paper # 1 Stewardship Ontario Funding Formula

November 22, 2005

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Blue Box Program Plan Review for 2007 Discussion Paper # 1 Stewardship Ontario Funding Formula

Introduction

This discussion paper describes the purpose of the Blue Box Program Plan (BBPP) and Stewardship Funding Formula Review. Also, it identifies the options that have been suggested to date by stakeholders to modify or replace the current funding formula. The paper is intended to provide background information so that all potential modifications or alternatives to the funding formula can be identified and described in sufficient detail to assess their merits (within the scope of the review and in meeting the guiding principles) and how they could be practically implemented. This information will be required by Stewardship Ontario by December 22 in order for all possible modifications or alternatives to be modeled in time for the Blue Box Program Plan Review Steering Committee (SC) to make any recommendations regarding changes to the funding formula before the 2007 fees are calculated.

Background to Why this Review is Taking Place

Under the Waste Diversion Act (WDA), stewards are required to pay municipalities 50 per cent of the total net costs of the Ontario municipal blue box recycling programs. The funding formula¹ used to set fees for obligated stewards was approved as a key component of the BBPP of February 2003. Key principles that underpinned the BBPP include:

- All materials designated under Ontario Regulation O.Reg. 273/02 (amended to O.Reg. 451/03) and managed by or on behalf of Ontario municipalities should contribute to the overall program costs,
- The fees paid by a steward should fairly reflect the costs of managing these materials, and
- The program should increase the recycling of Blue Box wastes, both overall and for individual materials.

¹ The funding formula is described in detail in Section 9.10 of the approved February 2003 Blue Box Program Plan

The approved funding formula has been used for setting stewards fees for the first four program years of the plan.

Minor modifications to the funding formula have been made during this period including:

- modifying material categories to distinguish between different materials for the purpose of setting fees,
- including a calculation to recover a shortfall in the fees collected for the 2003 and 2004 program years, and
- modifying the calculation of the CNA/OCNA² in-kind contribution as requested by the Minister when she approved the 2005 fees³.

Each year the data used within the funding formula have been updated as required to reflect changes in the Blue Box system in the base year, including:

- material generation rates,
- material recovery rates,
- gross cost to manage each material,
- revenue received for each material,
- profile of stewards' reporting for each material,
- administration & program delivery costs, and
- implementation of cost bands⁴.

Stewards experienced significant annual fee increases from 2003 through 2005 largely due to:

- the removal of the discount to the Blue Box net system cost that was negotiated with Association of Municipalities of Ontario (AMO) during the start-up years,
- the inclusion of additional cost categories originally deferred in agreement with AMO, and

² CNA/OCNA are the Canadian Newspaper Association (CNA) and the Ontario Community Newspaper Association (OCNA) respectively

³ The Minister has sent a letter to the WDO indicating the approval of the amendment to the BBPP relating to the calculation of the CNA/OCNA in-kind contribution reflected in the 2005 fees to cover their entire obligation

⁴ Payment of reasonable costs according to Cost Containment Strategy approved by the Minister of the Environment when she approved the 2005 fees

- stewards have reported generating less material than originally estimated in the development of the BBPP.

In addition, some stakeholders have indicated their view that changes to the current funding formula should be introduced that would:

- provide greater rewards for materials with the highest recycling rates and stronger incentives for improved performance for those materials with the lowest recycling rates,
- compensate for the fact that lower compliance rates for some material categories lead to higher costs for compliant stewards in that category,
- lessen the administrative requirements placed on stewards to calculate their financial obligation,
- mitigate potential commercial impacts resulting from differential fees across types of blue box wastes,
- ensure that revenues attributable to individual materials are properly reflected in the fee setting for these materials,
- increase differentiation among packaging material types to reward stewards who select materials that are more readily recyclable, and
- allocate administration costs in a manner which accurately reflects the underlying drivers of these costs.

In addition to issues noted above, currently the base year of stewards' generation data used for setting the fees is different than that used for invoicing stewards and making payments. As a result, changes in annual sales over the year, incorrect reporting and non-compliance have created a small shortfall in recovery of fees during the first three years, and could continue if uncorrected.

Reference Documents for the Current Funding Formula

A list of reference documents that provide detailed information about the funding formula and the basis for its development is presented in Appendix B.

Objective of this Review for 2007 Fees

The objective of this review is to provide an opportunity for affected stakeholders to assess the current approved funding formula and to consider whether potential modifications or alternative

approaches better achieve the goals of the BBPP and the policy objectives and legal requirements of the WDA. It is intended that this review be open, comprehensive, fair and transparent.

The review will result in a recommendation of a preferred funding methodology to the Board of Directors of Stewardship Ontario and to Waste Diversion Ontario (WDO) prior to setting the 2007 fees.

It should be emphasized that this is a review of the stewards' funding formula and related aspects of the BBPP within the context of the WDA. A review of the WDA itself is outside of the scope of this review.

The review must be completed in time for the annual fee-setting cycle if the results are to be incorporated into the stewards' fees for 2007. Any modification approved by the Stewardship Ontario Board and the Minister would be used to calculate the 2007 fees. If options identified require further data and analysis which cannot be accomplished within the 2007 fee-setting cycle, then the work can be carried forward and considered for subsequent fee setting.

Therefore, subject to the results of this review, a second discussion paper will be circulated, if required, to address any potential further changes that may be required to the BBPP rules.

Principles Guiding this Review

The funding formula must:

- Meet the legal requirements of the WDA, and
- Treat stewards and material categories in a fair and equitable manner.

It is desirable that the funding formula also:

- Provide incentives to encourage greater diversion (from disposal) by, (1) the reduction of materials generated, (2) the reuse of materials, and (3) recycling.
- Be transparent,
- Be simple to administer, and
- Facilitate compliance and auditing requirements of the BBPP.

The issue of transferability to programs in other jurisdictions was raised by members of the Blue Box Program Plan Review Advisory Committee⁵ (AC) for consideration as a guiding principle given the context of emerging programs in other provinces. The Stewardship Ontario Board decided that while the scope of the review is defined to be within Ontario's WDA, considering how possible changes to the funding formula might affect the potential for future transferability is important.

The BBPP seeks to further a number of public policy objectives. The challenge will be to achieve an appropriate balance among competing principles, recognizing the myriad of factors taken into consideration by stewards in production and packaging decisions. The practical effect of the funding formula to stewards should be to provide an incentive to lower the packaging or printed material costs by reducing generation and/or selecting materials which are easier or more cost-effective to recycle.

Description of Current Funding Formula

There are nine key steps in calculating material specific fee rates as follows:

1. **Determine the recovery rate** of each designated material based on Stewardship Ontario estimates of Blue Box waste generation and WDO data on the recovery of Blue Box waste reported in the annual municipal survey (3Rs Datacall).
2. **Determine the net cost** of recycling each material based on:
 - a. financial data for municipal recycling program costs reported in the annual WDO municipal datacall,
 - b. detailed activity based cost allocation studies, and
 - c. considering the revenue attributed to each material largely from its sale on secondary material commodity markets (based on a 3-year rolling average).
3. **Allocate industry's financial obligation to municipalities**⁶ to each material according to a three-factor formula, in which:

⁵ Refer to the companion document, [Description of the Process and Timeline](#) for the BBPP Review for 2007, for a description of the Blue Box Program Plan Review Advisory Committee.

⁶ Stewards are obliged under the WDA to pay municipalities 50 per cent of the total net costs of the Ontario municipal blue box recycling programs

a. Net Cost – 40 per cent

The WDA stipulates that stewards' fees reflect the cost to manage each material in the Blue Box system. Therefore, 40 per cent of municipal payments are allocated in direct proportion to the net cost to manage each material. The higher the net cost to manage a material, the higher the net cost fee assigned.

The cost to manage each material is determined through detailed, activity-based, cost studies of representative recycling programs and takes into consideration the average price for recycled materials over the previous three years.

b. Recovery Rate – 40 per cent

The funding formula is also designed to reward Blue Box materials that have higher recovery rates. Given that the higher the recovery rate of materials in the Blue Box the higher the cost of managing these materials, 40 per cent of the municipal payments are allocated according to the relative percent recovery rate of each material. The higher the recovery rate of a material, the lower the recovery rate fee assigned for each tonne of that material. Materials with the same recovery rate would receive the same recovery rate fee/tonne.

The recovery rate is determined through the annual survey of municipal recycling programs (datacall), together with generation estimates obtained through an on-going program of waste audits and stewards' reports.

c. Equalization – 20 per cent

This factor is designed to add an element of fairness to the formula, by considering the cost to achieve a common recovery rate for each material.

Twenty percent of the municipal payments are allocated in direct proportion to the incremental cost to achieve a recovery rate of 75 percent for each material.

Therefore the lower the current recovery rate, and the higher the cost to manage a material, the higher the equalization payment. This component compensates those materials that are collected in the largest volumes, and therefore which create the "critical mass" which makes the collection of low volume materials feasible.

4. **Allocate any market development** investment costs that may be required to those materials that are directly affected.

5. **Allocate direct BBPP delivery, WDO and Stewardship Ontario administration** costs to each material in two steps:

- a. first to each major material category (printed paper, paper packaging, plastics, steel, aluminum and glass) according to the relative number of stewards reporting each material, and then
- b. to each material sub-category within each major material category according to the relative quantity of each material.

For example, 28% of stewards report paper packaging, so 28% of the common costs would be allocated to paper packaging. Within paper packaging, corrugated cardboard represents 41% of the quantity (42% by weight and 40% by volume). Therefore, 11.5% (41% of 28%) of the common costs are allocated to corrugated cardboard.

6. **Allocate the shortfall** in fees collected to date to be recovered in next program year fees:
 - a. 50 per cent of the required make-up would be allocated in the same share as all other direct program delivery and administration costs (as per item 5), and
 - b. The other 50 per cent of the required make-up would be allocated according to the contribution to the shortfall resulting from the over- or under-reporting for each material. For example, if under-reporting of steel food and beverage cans represented 20 per cent of the shortfall, then this material would receive 20 percent of the allocation (50 percent of the shortfall)
7. **Calculate the total fee** for each material by summing the allocated costs for each of these components.
8. **Calculate the fee rates** by dividing the total fee by the quantity, in tonnes, of material reported generated by stewards.
9. **Aggregate fees for some material** categories (blending reported categories of paper and plastic packaging to give one fee rate for each of paper and plastic packaging).

How the Current Funding Formula Affects Material Specific Fee Calculations

1. Meeting BBPP recycling targets at the lowest possible costs

The total net blue box recycling system cost is allocated to each material using activity based costing studies of a representative range of municipal recycling programs in order to fairly reflect the true cost to manage each material. However, a portion of the cost attributed to those materials with the highest recycling rates is transferred to those materials with the lowest recycling rates. This is intended to recognize:

- The benefits to all stewards from the higher contribution made by some material types towards the overall BBPP global recycling target of 60% of Blue Box wastes by 2008,
- The investments already made in the BB recycling system infrastructure to allow for the recycling of these materials, and
- The resulting lower costs to all stewards from a focus on recovering the “next least cost tonne” of BB wastes.

By maximizing recovery of the materials with the lowest management cost, the total cost of the municipal blue box recycling system can be minimized while meeting the goal of increased diversion, benefiting all materials.

2. Assessing fees against all Blue Box Materials generated

Ontario Regulation 273/02 defines Blue Box Wastes as all materials made of paper, glass, plastic, metal, textiles or combinations thereof. This broad definition allowed for the possibility that all printed papers and packaging materials generated in the Province of Ontario, regardless of distribution channel (residential, industrial, commercial and institutional), could be obligated under the plan. The BBPP, however, narrowed the definition of obligated wastes to those materials made of paper, glass, plastic, metal or combinations thereof managed primarily as municipal solid waste. These are the materials that typically are managed for recycling or disposal through the municipal waste management system and that generally have been paid for through municipal tax levies. And it is these materials that the WDA intended be paid for in part by the producers and users of these products.

Even materials that are not typically included in Blue Box programs do in fact cause an increase in the cost of the BB system, generally as contaminants either pulled out of recovered materials or marketed with other product materials. This cost is increasing with the trend towards single-

stream systems and the expanded range of materials being included in municipal programs. They are also explicitly managed as part of wet/dry⁷ separation recycling programs.

3. Averaging the Costs within Some Material Groups

By aggregating the fees within some material categories (i.e. plastics and printed paper) separate fees are not set for some material sub-categories that may have differential recycling costs (i.e. PET vs. PVC; corrugated cardboard vs. polycoat cartons). This tends to temper the effect of the funding formula's transfer of cost on materials with the lowest recovery rates.

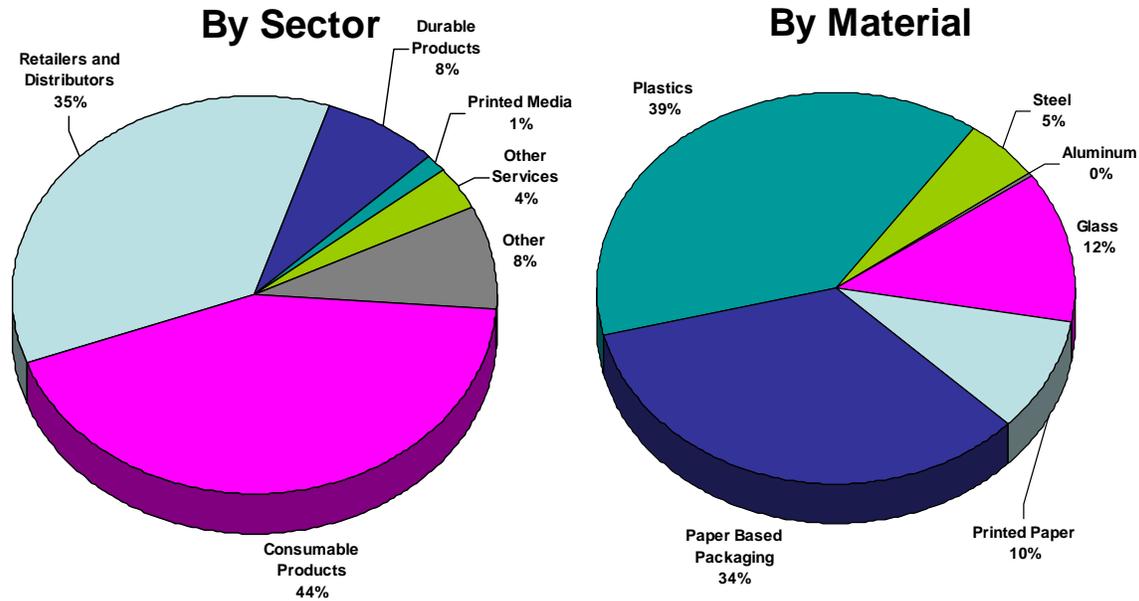
How Proposed Changes to the Funding Formula will be Evaluated

All proposed changes to the formula, both those outlined below and any others proposed during the course of the review, will be considered in relation to how the modified BBPP would comply with the WDA, whether the modifications would meet the objectives of the BBPP and whether the changes taken together achieve an appropriate balance among the principles of the review. The SC will then summarize the review of the options and recommendations on potential alternatives or improvements to the existing funding formula for the Stewardship Ontario Board for the Board's review and approval.

Each option carried forward in the review will be analyzed to determine the effect on the distribution of the fees by material and by stewards. For example, Figure 1 shows the distribution of the fees for 2005 as calculated by the current funding formula. Stewardship Ontario will determine the fees for each option considered. Options must be within the scope of the review, be practical and have sufficient data available on which to assess them under a common set of assumptions and principles.

⁷ A wet/dry system is one in which all "dry" waste materials and recyclables are collected together in one stream and household organic "wet" materials are collected in another stream.

Figure 1
Current Distribution of Fees (2005)



Information Required for Each Option

Detailed information is required on how the option would be implemented in order for Stewardship Ontario to analyze and model the impact of an option on all materials and stewards.

Proponents will be asked to provide:

- 1. A concise description of the option***
- 2. The anticipated benefits***
- 3. A description of how the option would work in practice, and***
- 4. Define criteria on which it is based and how they would be measured and reported.***

The description should provide sufficient information for Stewardship Ontario to model and analyze the impacts on all materials and stewards.

Proponents of each alternative will be asked to provide Stewardship Ontario with this information by December 22 in order for all possible modifications or alternatives to be modeled in time for the Steering Committee to make any recommendations regarding changes to the funding formula before the 2007 fees are calculated.

Information should be submitted to info@stewardshipontario.ca

Further supporting details may be submitted up to January 12.

Proposed Modifications and Alternatives to the Current Funding Formula

Various stakeholders have suggested changes to the existing funding formula which they believe would improve the fairness, simplicity or accuracy of this approach to setting fees and potentially create more appropriate incentives to increase diversion. Some have suggested replacing the current funding formula with an entirely different approach. Others have suggested modifications to the current funding formula.

Suggested improvements or revisions to the Funding Formula that Stewardship Ontario has received to date are outlined in the following sections. ***It is expected that additional suggestions will be made during this consultation.***

Stewardship Ontario would strongly encourage stakeholders with additional practical ideas to notify us by December 1 and provide a detailed description. The Steering Committee will assess whether it is within the scope of the review and if so, it will be added to the agenda for the December 8 public consultation.

The modifications or alternatives suggested by stakeholders to date have been reviewed by the AC and the Stewardship Ontario Board. They have been grouped in this discussion paper into three categories.

1. Those that have been deemed by either the AC or the Board to be outside the review – These have been summarized, outlining the reasons for falling outside of the review.
2. Those that have been deemed by either the AC or the Board to be within the review and which will be analyzed depending on the comments and clarification from stakeholders regarding how the option can be practically implemented.
3. Issues that require analysis in order to identify possible improvements – The results of the analyses will be presented together with recommendations from the Steering Committee.

Suggestions Deemed to be within the Scope of the Review

Option 1) Factor Weightings

Among the suggested revisions to the funding formula are those designed to transfer more of the cost incurred by those materials with the highest recovery rates to those with the highest disposal rates/lowest recycling rates. These suggestions include modification of the current factor weightings (40% recovery, 40% net cost and 20% equalization) for example:

- Drop the recovery rate factor to zero, thereby placing the emphasis on the costs to recycle each material category and the equalization factor in fee setting, and
- In applying the equalization factor, use a lower common target recovery rate for all materials than the current 75%, possibly the 60% target set by the Minister as the global plan target.

The net affect of these options would be to transfer a greater portion of the obligation to materials with higher disposal rates.

As another possible modification to the weightings of the allocation factors, it also has been suggested that the entire obligation be allocated according to the cost to manage materials within the recycling system. That is, only those materials managed within the Blue Box would bear the cost and the allocation would be made with a weighting on the net cost factor of 100 percent.

Key questions to be addressed in the evaluation of these options include:

- Will the adjusted weightings meet the legal requirements of the WDA for fees to fairly reflect the cost of managing the materials?
- Do the adjusted weightings result in rewards for waste reduction and greater recycling?
- Do the adjusted weightings achieve the policy objective and result in incentives to greater diversion?

Option 2) Common Program Costs

As well, there are suggestions relating to the allocation of common BBPP costs, which include program delivery and WDO and Stewardship Ontario administration costs. The current formula allocates these common costs:

- first to each major material category (printed paper, paper packaging, plastics, steel, aluminum and glass) according to the relative number of stewards reporting each material and then,

- to each material sub-category within each major material category according to the relative quantity of each material.

For example, 28% of stewards report paper packaging, so 28% of the common costs would be allocated to paper packaging. Within paper packaging, corrugated cardboard represents 41% of the quantity (42% by weight and 40% by volume). Therefore, 11.5% (41% of 28%) of the common costs are allocated to corrugated cardboard.

Suggested modifications have included allocating these costs:

- by developing a flat rate for every unit of packaging or printed material generated or,
- a rate based entirely on the relative volume and weight generated (currently using this method but applied only to sub-categories)

Key questions to be addressed in the evaluation of these options include:

- To what extent does the modification better reflect the drivers of WDO and Stewardship Ontario administration and program delivery costs?
- Are the data required to calculate the allocation readily available?

Option 3) Aggregation of Printed Paper Fees

It has been suggested that all the printed paper fees be aggregated to address concerns raised by stewards of “other printed paper” that their fees are disproportionately high relative to other printed paper categories including newsprint, magazines and catalogues and telephone directories and that in some cases these paper grades are managed in the same way in municipal recycling systems.

The “other printed paper” category experiences one of the highest rates of BB wastes generated for which a cost is incurred in the Blue Box system but for which Stewardship Ontario fees cannot be collected. There are several key reasons for this:

- material is generated by the large number of companies that fall under the de minimis and do not have to report their sales quantities,
- paper is generated from home offices, schools, etc. collected in BB programs, and
- magazines from many out-of-province publishers have not registered with Stewardship Ontario.

With the confirmation of the CNA/OCNA in-kind contribution, a separate fee would need to be calculated for CNA/OCNA newsprint representing only their allocation of the WDO and Stewardship Ontario administration and program delivery costs.

Key questions to be addressed in the evaluation of these options include:

- Should the costs within the printed paper category associated with de minimis, non-reporting, material for which it is difficult to identify a steward and non-compliance be shared across all printed paper stewards?
- Is an incentive to switch between paper grades desirable?
- Is aggregation more justifiable given that the printed paper is generally marketed as mixtures and data available on recovery rates of specific grades of paper is less accurate?
- If aggregation is preferred, should the CNA/OCNA newsprint be included in the aggregation?

Option 4) Dis-aggregation of Plastic & Paper Packaging Fees

It has been suggested that the fees for some plastic packaging and for paper packaging categories be dis-aggregated.

Under the current aggregation, the funding formula does not recognize and reward materials such as PET and HDPE plastic packaging and corrugated cardboard which have relatively high recycling rates, particularly in comparison to film plastic and composite plastic and paper packaging. Because these materials are aggregated within the same material groups – “plastics” and “paper packaging” the sub-categories with the highest recycling rates may not be adequately rewarded or compensated. Nor is there a significant incentive to improve the diversion rates of lower performers. The aggregation of these categories effectively tempers the effect of the three-factor funding formula. Further dis-aggregation of these material categories would result in differential fee rates for each sub-category.

Suggestions have included:

- complete dis-aggregation,
 - creating a separate category for composite packaging because of the particular challenges for recycling these packages
 - defining separate fees for PET and HDPE, but maintaining aggregation of remaining plastics,
- and similarly for paper packaging,
- separate fees for corrugated cardboard and boxboard with aggregation of remaining paper.

On the other hand, some stewards in materials with lower recovery rates point out that their packaging choices are limited by regulations and specific requirements for product quality.

It also should be recognized that in the case of stewards who use a broad range of material types further differentiation of material sub-categories will simply shift costs among product lines while total costs may remain the same.

Key questions to be addressed in the evaluation of these options include:

- What is the appropriate trade-off between rewarding stewards which use materials with high recycling rates (and providing an incentive to higher diversion) and imposing a cost on stewards for which there is little choice in packaging type?
- To what extent does aggregation offset the effects of other funding formula calculations such as the weightings?
- What level of dis-aggregation would be most appropriate if any?

Option 5) Recycled Content

It has been suggested that stewards should be able to claim a reduction in their fees based upon the recycled content in their products and packaging or that an explicit average credit be attributed to material categories reflecting typical recycled content.

Proponents suggest that this is intended to recognize and reward stewards for the benefits of the market demand for BB materials recovered in Ontario

Key questions to be addressed in the evaluation of these options include:

- How would Stewardship Ontario assay the true quantity of recycled materials in a given product or package sold in the Ontario market (i.e. the precise quantity of recycled aluminum in aluminum cans sold in Ontario)?
- What would be the impact on materials that are not suitable for “closed loop”⁸ recycling, but nevertheless have relatively high recycling rates and viable alternative markets (e.g. steel cans, boxboard), but for which other viable markets exist?
- How would it be determined that “closed loop” recycling is the preferred environmental or economic choice within the context of the BBPP, and would the preference (for or against) vary from material to material?
- How would Stewardship Ontario respond to obligations within trade agreements to apply such a credit equally to products that contain recycled content even if the product was

⁸ Closed loop generally refers to the recycling of products into new products similar to the original product that was recycled

made outside of Ontario and from recycled materials recovered from other jurisdictions (i.e. glass jars manufactured in the USA from glass collected and recycled in the USA)?

- What would be the impact on products and packaging that are limited and sometimes prohibited from the use of recycled materials, e.g. when there is food contact?
- Should or how should the formula address the fact that products and packaging with recycled content products still cause the same (and sometimes additional) cost in the Blue Box system
- Could similar objectives of improving markets or prices for recovered BB materials be achieved through the use of market development fees provided for under the BBPP?
- What would be the cost of accounting for recycled content, including tracking, verification and auditing and how should these costs be incorporated into the fees assessed to these materials?

Option 6) Biodegradability

Some stakeholders have suggested that products or packaging which meet a defined threshold for degradability (either in a landfill site or improperly discarded as litter) should receive an off-setting credit on their fees.

Key questions to be addressed in the evaluation of these options include:

- How would Stewardship Ontario treat the range of biodegradable Blue Box materials and how would biodegradability be defined, e.g. the range of processes, the range of conditions, the range of timeframes, etc.?
- Should or how should the formula address the fact that some biodegradable products and packaging cause the same and in the case of some different biodegradable plastics for example, additional problems and cost in the Blue Box system?
- What would be the cost of accounting for biodegradable materials, including tracking, verification and auditing and how should these costs be incorporated into the fees assessed to these materials?

Option 7) Rewards for Using Materials with a Reduced Impact on the Waste Stream

Under this option it is proposed that the funding formula should reward stewards that shift to a packaging or material with a reduced impact on the waste stream, recognizing that in some cases

higher costs are incurred for recycling related decisions. The current funding formula rewards materials with a lower cost of management and high recovery rate, which generally correlate with recyclability.

Key questions to be addressed in the evaluation of these options include:

- How would reduced impact on the waste stream be defined – e.g. possibly some measure of reduced environmental emissions, toxicity, greenhouse gas emissions, energy consumption?
- How could the impacts be measured and compared?
- Should decisions already taken be credited, and if so, how?
- Could a hierarchy for different materials be established as has been proposed and if so, on what basis?

Option 8) Revisit De Minimis Level

Currently companies that generate Blue Box waste are exempted from paying fees if they have sales of under \$2million or if they generate less than 15 tonnes of Blue Box waste. The purpose of the de minimis is to relieve the smallest companies from the financial and administrative burden of the requirements of the program and the resulting cost of their administration on the program. The level was established to balance this purpose with the need for a level playing field for all companies.

There are proponents for both raising and lowering the level of the de minimis. Those wanting to raise the level believe the obligation to report and pay fees on the smaller stewards is too onerous and more of the smaller companies currently deemed to be paying stewards should be exempted. The result of raising the de minimis level would be that the larger companies would have to cover the fees of exempted.

Those wanting the de minimis to be lower believe that it is unfair for larger companies to be required to cover the obligation of the smaller companies.

One option proposed to minimize the administrative burden on smaller stewards would be to give the smallest companies the option to pay either a flat fee determined by Stewardship Ontario or to pay fees based on their reported data.

Key questions to be addressed in the evaluation of these options include:

- What is the appropriate level which balances these trade-offs with respect to the fairness, practicality and material impact?
- Is there a simpler more appropriate method of administering the de minimis?

Option 9) Use Steward Data for Generation and Recovery

Currently, the model determines recovery rates based on generation estimates developed from studies of the waste generation and composition set out for collection in representative programs across the province. The purpose is to determine the cost and recovery of all the blue box material managed by the recycling programs. It has been suggested that generation data reported by stewards be used to estimate waste generation and recovery of each material instead of using waste audit data. The stated purpose would be to ensure that all material has a steward identified and pays the appropriate fees.

Key questions to be addressed in the evaluation of these options include:

- How would fees be calculated and collected (to cover the full obligation) for material generated by stewards which have not registered and are therefore not reporting and paying into the program, but which cause a cost in the Blue Box recycling system?
- Similarly how would fees be calculated and collected (to cover the full obligation) for material for which a steward cannot easily be identified under the current rules, but which cause a cost in the Blue Box recycling system e.g. corrugated cardboard boxes used when people move from one home to another and printed paper from home offices or brought home from schools?
- How would the recovery rates reported by municipalities (including all material managed in the Blue Box system) be related to the generation estimates and how would per cent recovery rates and Blue Box program diversion be calculated?

Suggestions Requiring Further Analysis to Identify Possible Solutions

Option 10) Ensuring Accurate Allocation of Material Revenue Among All Materials

The current method of determining the per-tonne revenue for aluminum does not accurately reflect the total financial contribution to offsetting the total BB system costs. There are two reasons for this:

1. In calculating the total net system cost, the Stewardship Ontario 50 per cent share of these costs is calculated after calculating revenue from sale of recovered materials. Given that aluminum revenues exceed the costs of recycling this material, the net cost (and therefore the benefit to all stewards) is reduced by the surplus revenue generated.
2. Where the net cost paid by a municipality to a contractor for its recycling service is based upon a fixed contract price (or per-tonne fee, etc.) the contribution made by the revenue from the sale of each material is not known and therefore not attributed to that specific material.
3. The prices reported on the CSR Price Sheet are used to allocate the three-year average of municipally reported revenue to specific materials. Each of the three-year average of the material prices from the CSR Price Sheet are adjusted by a common amount (%) so that the total revenue using the CSR Price Sheet figures is equal to the total reported revenue. This means that the highest \$/tonne prices (e.g. aluminum) are adjusted the most, either negatively if the three-year average revenue based on the CSR Price Sheet prices is higher than the reported revenue or positively if the three-year average revenue based on the CSR Price Sheet prices is lower than the reported revenue. These adjustments can affect significantly the net cost for such materials.

In the recent fee-setting cycles, the net cost per tonne of aluminum has been affected the most negatively as a result of this.

It has been suggested that using the actual annual revenue for each material rather than the three-year average revenue would better reflect the actual revenue received by programs.

Key questions to be addressed in the evaluation of these options include:

- How would the potentially large swings in revenue and net cost due to changes in markets be handled to minimize the volatility of Stewards fees?
- Is there a way to recognize the benefit on the cost side and attribute it to a specific material.
- Is there another way to more accurately and fairly allocate revenue?

Suggestions Deemed to be Outside the Scope of the Review

Option 11) Eliminate in-kind contribution for CNA/OCNA

Many stakeholders have indicated that the allowance for the CNA/OCNA to meet their allocated obligation to municipalities through an in-kind contribution of advertising space is unfair and/or undesirable. They have suggested that the CNA/OCNA make cash payments like all other stewards.

The Stewardship Ontario Board decided that while the proposed modification to the BBPP regarding the level of the in-kind contribution (changing it from \$1.3 million to the entire CNA/OCNA obligation to municipalities) was before the Minister for approval as had been requested by the Minister when she approved the 2005 fees, the Board would examine questions and concerns raised by stewards and other stakeholders. However, since the Minister has recently approved this revision to the BBPP, the Board will give priority to other options.

Option 12) Flat unit-based fee for all materials

Some stakeholders have suggested that a flat fee be assessed for each unit of packaging or product sold, regardless of the material. The stated benefits of this approach include:

- Simplifying stewards' data collection and reporting requirements,
- Ensuring that there is no competitive advantage for any material type that may result from differential Stewardship Ontario fee rates, and
- Potentially facilitating fee collection along the economic chain.

Ministry lawyers attending the first AC meeting described this options as “definitely in the red zone” with respect to legal and policy issues, noting that the WDA specifies that fees paid by a steward should fairly reflect the costs of managing these materials and that the program should increase the recycling of Blue Box wastes, both overall and for individual materials. Flat unit-based fees do not reflect the different cost to manage materials nor provide incentives to reduce waste or increase recycling.

Given the comments from the Ministry legal staff about the legality of this option, the Stewardship Ontario Board subsequently decided that this option would not be considered under this review.

Option 13) Unit-based fee for all materials resulting in neutral market impacts

Some stakeholders concerned about the potential commercial affect of the current funding formula on competition among materials in the market have suggested that fee rates could be calibrated taking into consideration the final price of products in such a manner that they would

have a neutral affect across material types. Such a calculation would require accurate real-time knowledge of the pricing of all packaging and products and their inputs and would have as many fee rates as products in the marketplace.

Like Option 12 above, this option does not reflect the different cost to manage materials nor provide incentives to reduce waste or increase recycling. For this reason, and the fact that the no practical way of implementing this proposal was put forward, the AC decided that this option was outside the scope of the review.

Option 14) Collecting Stewardship Ontario fees directly from the Consumer

Some stakeholders have proposed that Stewardship Ontario collect fees directly from the purchasers of obligated products and packaging at the point of purchase by the consumer.

- Stewardship Ontario can only assess fees against stewards as defined under the WDA and as designated in the BBPP. The WDA does not provide Stewardship Ontario with the power to levy fees directly against the purchaser of the packaged product.
- How the fees charged by Stewardship Ontario are managed by a designated steward is a function of their normal commercial practices.

Therefore, the AC decided that this option was outside the scope of the review as there is no authority to implement it.

Option 15) Setting Fees by Individual Brand

It was suggested that fees be established for each different brand of product or packaging in the Blue Box instead of for the defined material categories. This would require auditing the Blue Box programs throughout the province to determine the quantities and recovery rates of each brand and product managed. Then a model would have to be developed to allocate the obligation accordingly.

While this approach meets the requirements of the WDA in terms of fees reflecting the cost to manage each brand, it was not considered practically feasible by the AC because of the vast number of products and corresponding auditing and modeling requirements. Therefore this approach will not be carried forward in the review.

Option 16) Establishing a Schedule or Cap for Increases in Fees

It has been suggested that a schedule of fees be established that defines limits for the yearly increases in the fees. This approach provides predictability and stability to the stewards' cost and fees. However, it does not meet the WDA's requirement of paying 50% of the net system cost of the Ontario Blue Box system and therefore is considered by the AC and Board to be outside the scope of the review.

Appendix A

Abbreviations/Acronyms

AC	Blue Box Program Plan Review Advisory Committee
AMO	Association of Municipalities of Ontario
BBPP	Blue Box Program Plan
CNA	Canadian Newspapers Association
OCNA	Ontario Community Newspapers Association
SC	Blue Box Program Plan Review Steering Committee
WDA	Waste Diversion Act
WDO	Waste Diversion Ontario
3Rs	Waste diversion hierarchy, reduce, reuse recycle

Appendix B

Reference Documents

The following is a list of reference documents that provide detailed information about the funding formula and the basis for its development. In the interest of minimizing the amount of paper produced through this process, and to ensure easy access, direct links to these reference documents in pdf format are provided below.

- O.Reg. 273/02, designating Blue Box Waste under the Waste Diversion Act.
(http://www.e-laws.gov.on.ca/DBLaws/Regs/English/020273_e.htm)
- Blue Box Program Plan, Stewardship Ontario, February 2003, Sections 9.10 to 9.14, pg. 99 to 108 (http://www.stewardshipontario.ca/pdf/BBPP2003/BBPP_Feb28_Chapter9.pdf)
- Bill 90, the Waste Diversion Act to promote the reduction, reuse and recycling of waste
(http://www.ontla.on.ca/documents/Bills/37_Parliament/Session3/b090ra.pdf)
- Minister's letter to WDO requesting measures that will allow Blue Box system to divert 60% of waste. (http://www.ene.gov.on.ca/envision/land/wda/bluebox/2003_1477_1.pdf)
- Guide to the Blue Box Program, WDO, February 15, 2005, Section 4, pg. 7 to 12
(http://www.stewardshipontario.ca/pdf/bbpb_docs/bbpb_guide.pdf)
- Approved stewards' fee schedules for 2003 through 2005 and recommended fee schedule for 2006
 - Table of fees 2003 (approved)
http://www.stewardshipontario.ca/pdf/fees/fees2004_febtojun.pdf
 - Table of fees 2004 (approved)
http://www.stewardshipontario.ca/pdf/fees/fees2004_jultodec.pdf
 - Table of fees 2005 (approved)
<http://www.stewardshipontario.ca/pdf/fees/fees2005.pdf>
 - Table of fees 2006 (recommended)
http://www.stewardshipontario.ca/fees/fees_2006.htm
 - detailed fee calculations 2006 (recommended)
http://www.stewardshipontario.ca/xls/2006_PIM_09_01_2006.xls
- Previous Stewardship Ontario presentations about fees:
 - March 2, 2004 on 2004 fees
http://www.stewardshipontario.ca/consultation/work_web_archive.htm#is6
 - August 31, 2004 on 2005 fees
http://www.stewardshipontario.ca/consultation/work_web_archive.htm#is8

- September 1, 2005 on 2006 fees
http://www.stewardshipontario.ca/consultation/work_web_archive.htm#is9
- Blue Box Materials Cost Allocation Study Final Report, Stewardship Ontario, March 2004
(http://www.stewardshipontario.ca/pdf/consultation/workshop_2mar2004/Final_Report_Cost_Allocation_Study.pdf)
- Other documents relating to the Blue Box Program may be found on the Ministry of the Environment website <http://www.ene.gov.on.ca/envision/land/wda/bluebox/bluebox.htm>)