Thinking beyond the box

Stewardship Ontario

Blue Box Program

Consultation on Preliminary 2011 Fees

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Agenda

1. Stewardship Ontario
2. Program Management & Performance
3. Challenges/Market Development
4. Briefing on 2011 Preliminary Fees
   - Program costs/drivers
   - Fees based on current fee formula
5. Changes Under Consideration

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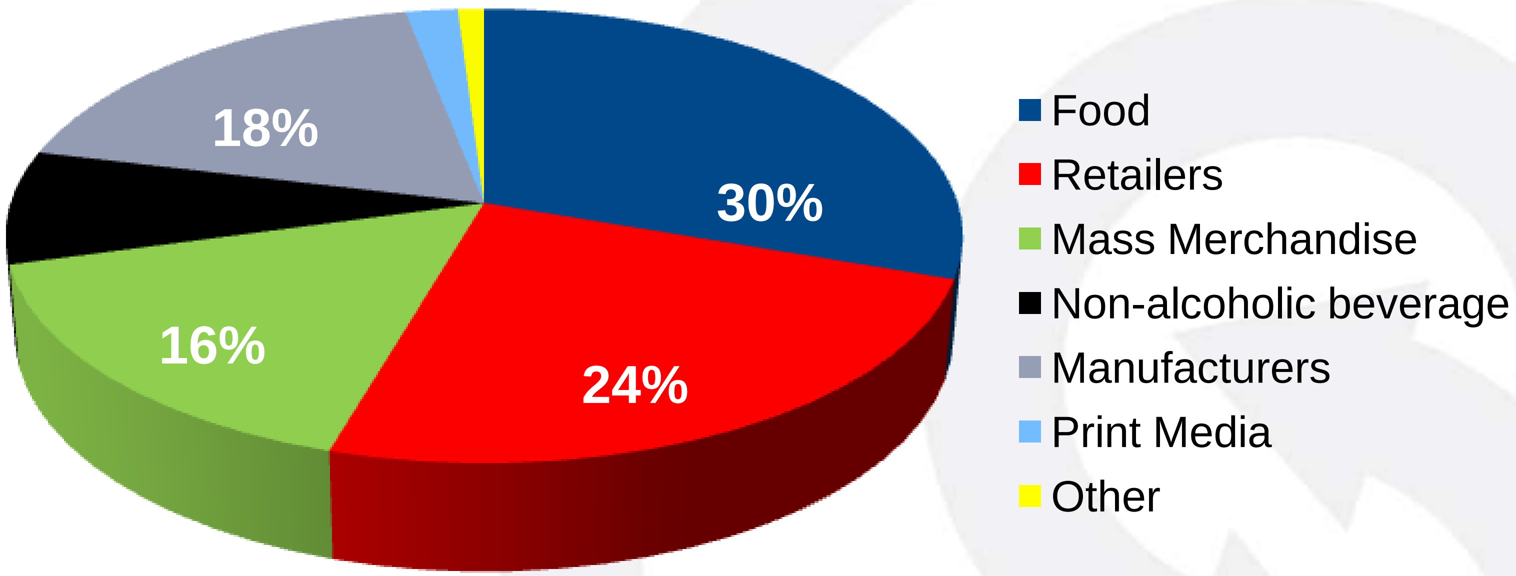
- Industry funding organization (IFO) established under the *Waste Diversion Act, 2002* (WDA)
- Develops, implements and manages:
  - Blue Box Program Plan (packaging & printed paper)
  - Orange Drop (municipal hazardous or special waste)
- Governed and funded by companies responsible for BB and OD material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

Profile: Blue Box Stewards

4,380 registered Blue Box stewards



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Program Management and Performance

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

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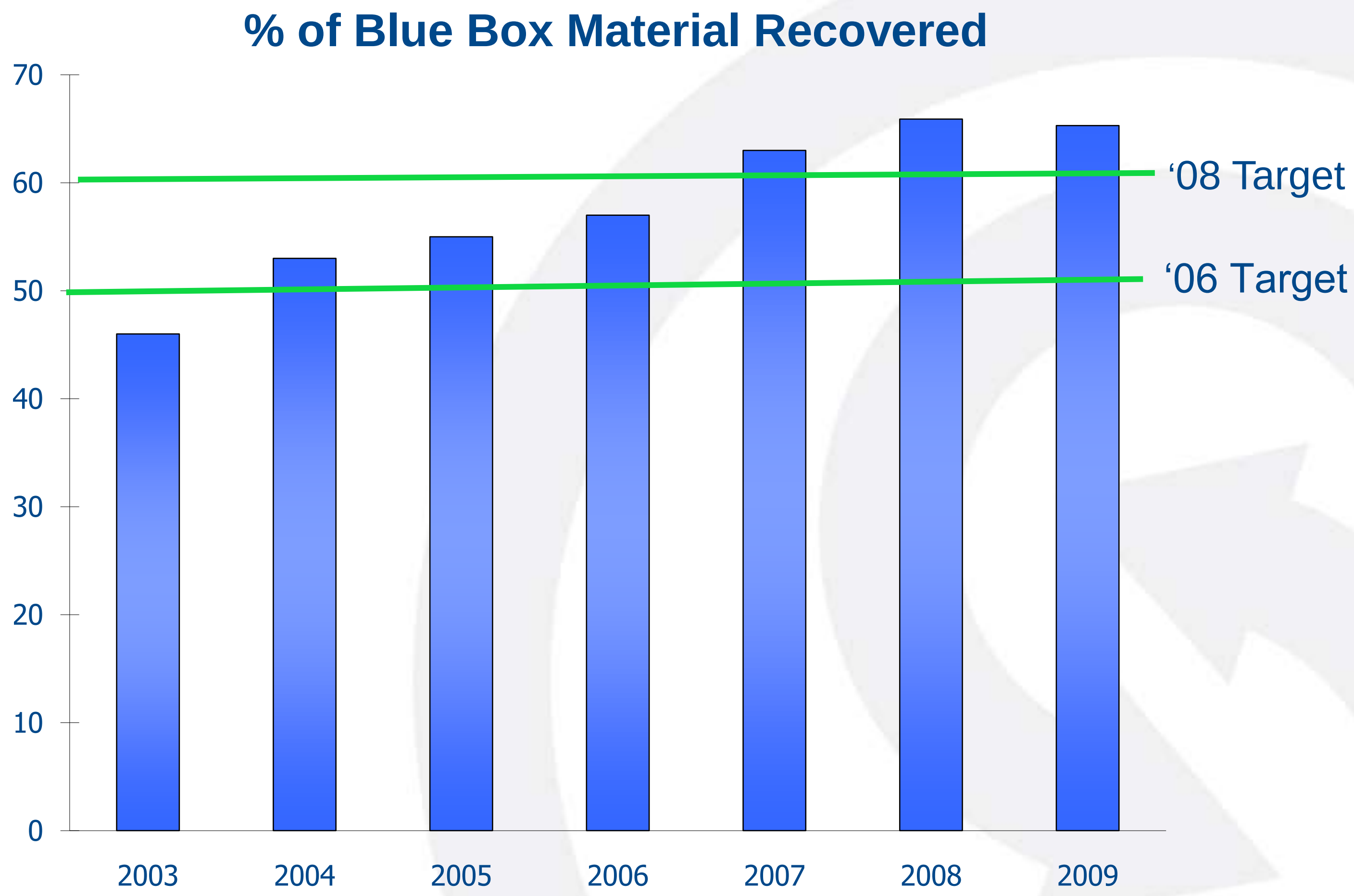
- Over 95% of Ontario households participate
- Consumers leading contribution to green society
- ~$500m from stewards:
  - Wider reach
  - More materials
  - More diversion
- Proved value of “basket of goods” approach

Blue Box Performance Since 2003



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Program Challenges and Response

Changing Mix of Materials

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- Expectations are high - 70% target
- Some high-recovery/ lower-cost materials in decline
- Lower-recovery/ higher-cost materials growing
- Costs trending up, performance trending down

New Incompatible Materials

- Much customer appeal with significant footprint in U.S.
- Risk to plastic/paper markets
- Potential major driver of costs

”Compostable” Plastics

Plastic Market Development

- Focused on other rigid plastic
- Comprehensive/ aggressive
- Aimed at constructing complete supply chain:
  - Secure supply
  - Proven technology
  - Manufacturing capability
  - Market demand

Scale & Throughput

Reliable, Consistent Just-in-Time

Paper Packaging Market Devel.

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- Long-term need for new market development is as acute as it was for plastics
- Similar problem that will likely require similar approach
- Need to construct complete supply chain:
  - Secure supply
  - Proven technology
  - Manufacturing capability
  - Market demand

Printed Paper Market Devel.

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- Combination of economic factors has interrupted local de-ink capacity
- Overseas markets holding, but what is the future?
- Options to be considered as part of commodity risk assessment of all material categories

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Fee Setting

Overview of Process

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1. Expenses reported by municipalities and validated by WDO (2009 expenses for 2011 fees)
2. Steward obligation adjusted based on “best practice” analysis
3. Draft fees set by established/approved formula reflecting costs, recovery rates and expected steward sales
4. SO consults with stewards/others on system challenges and possible changes to formula
5. WDO approves fees (Minister if formula changes)

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System Costs

System Cost Changes/Trends

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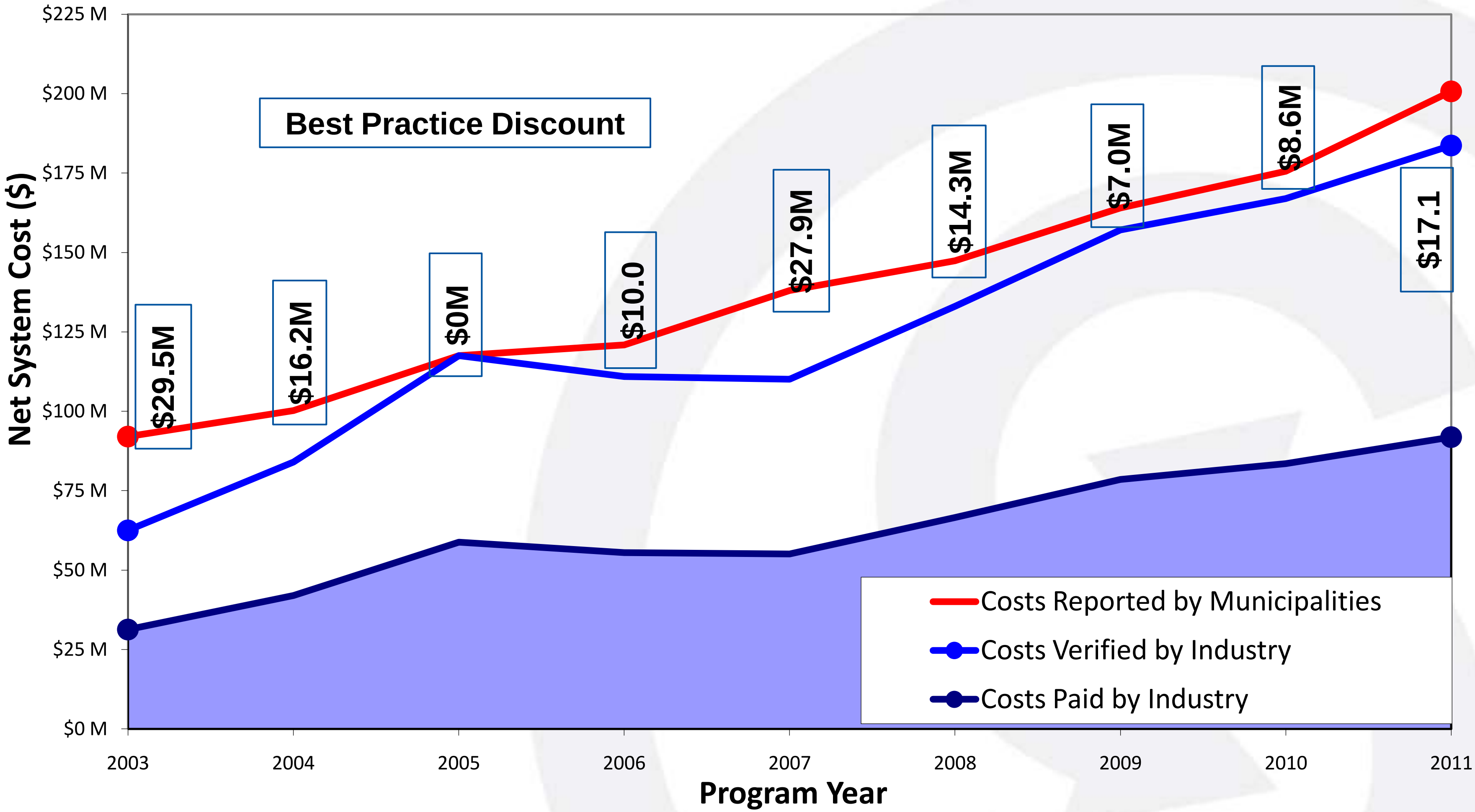
	2008	2009	% Change
Gross Cost	$312.60t	$330.40/t	+5.7%
Material Revenue	$132.95/t	$119.32/t	-10.3%
Net Cost	$179.65/t	$211.08/t	+17.5%

- Steel price down 64%, aluminum down 36%
- Plastic prices down 54%
- Newspaper price down 41%, corrugated cardboard down 39%, boxboard down 58%

Program Cost Trend



Steward Obligation

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Obligation for 2011	**$91.84 million**
Obligation for 2010	**$83.49 million**
Difference	**$ 8.35 million (+10%)**

- Increase mitigated by:
  - Best practice discount
  - 3-year rolling average for commodity revenues

Translating Costs into Fees

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1. "Three Factor Formula" whereby:
    - First factor apportions "actual" costs based on ABC
    - Second and third factors share cost of high-recovery materials among low-recovery materials
2. Key decisions to be made:
    - Are there unusual market conditions that should be accounted for?
    - What changes to the formula should be considered (e.g., aggregating/disaggregating materials)?
    - Are there major swings that may require special action to mitigate market impacts?
    - Are funds required for market development?

Unusual Market Conditions (1)

- 2008/9 recession created “perfect storm” of negative drivers for steward fees:
  - Commodity prices down across the board
  - Lower product sales, fewer tonnes to recycle, fewer tonnes against which to allocate costs
  - Fuel costs, changing material mix and largely fixed costs offset any reduction from fewer tonnes
  - Newsprint generation continues to decline

Unusual Market Conditions (2)

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- 2003-2008 material generation was steadily increasing due to growing economy
- Generation dropped in 2009 due to recession and impact of steward efforts to reduce product packaging
- Clear but weak economic recovery suggests higher sales for some materials in 2010 versus 2009
- Examined economic conditions on material basis and adjusted forecasted sales to reflect findings

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Break: 15 Minutes

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2011 Fees Based on Current Formula

Preliminary 2011 Fees (cents/kg)

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Material	2010	2011	Change
CNA/OCNA Newsprint	0.17	0.28	65.8%
Other Newsprint	0.71	1.12	57.7%
Other Printed Paper (magazines, catalogues)	1.97	2.48	25.9%
Cardboard and Boxboard	7.81	7.70	-1.4%
Other Paper Packaging (gable top containers, aseptic containers, paper laminate)	19.65	23.75	20.9%

Preliminary 2011 Fees (cents/kg)

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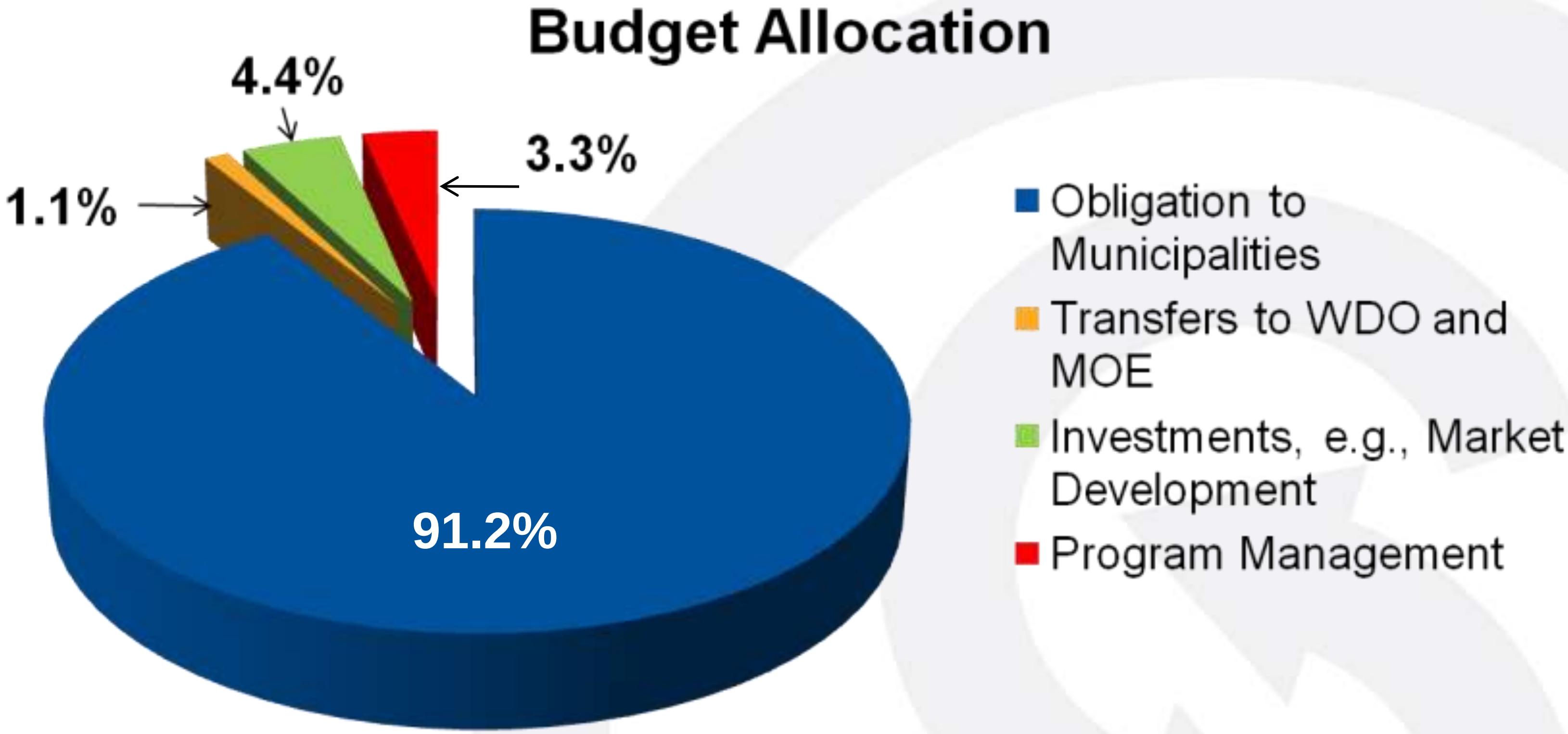
Material	2010	2011	Change
PET Bottles	12.98	13.78	6.2%
HDPE Bottles	12.49	13.27	6.2%
Other Plastics	24.65	28.16	14.2%
Steel	5.54	6.26	13.0%
Aluminum Food and Beverage	-2.20	0.52	123.6%
Other Aluminum Packaging	1.39	7.50	439.6%
Clear Glass	3.80	3.69	-2.9%
Coloured Glass	4.10	5.35	30.5%

Where the Money Goes



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Changes to Formula Under Consideration

Principles for Material Aggregation

- Public policy objective to disaggregate categories to achieve fee differentiation that is relevant to material performance
- Three key principles of material aggregation:
  - Policy: group materials that have similar performance
  - Operations: group materials that are handled in a similar manner in the recycling system
  - Fairness: group materials to soften differences driven by data or other factors unrelated to recycling performance or operations

Steward Concerns

- Competing concerns among stewards of composite paper packaging
  - Aseptic/gable stewards concerned that their material is grouped with lower-performing laminates
  - Laminate stewards concerned that more is not being done to improve performance of their material
- Long-standing issue of “free riding” in magazine and other printed papers categories
  - Imported magazines for which there is no steward
  - Paperbacks, notepaper, etc. deposited in the blue box, but excluded from fees

Composite Paper

Material	Current Formula	Disaggregated Formula	Change
Gable-top Cartons	$3,127,500	$2,162,500	-$965,000
Paper Laminates	$5,506,700	$6,914,700	$1,408,000
Aseptic Containers	$1,435,600	$992,600	-$443,000
Total	$10,069,800	$10,069,800	$0

Composite Paper

Material	Current Formula	Disaggregated Formula
Gable-top Cartons	23.75	18.22
Paper Laminates	23.75	28.28
Aseptic Containers	23.75	18.22

Printed Paper

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Material	Disagg. Rate	Current Formula	Shared Free-Riding	Delta
Newsprint-CNA/OCNA	0.21	0.28	0.31	+11%
*Newsprint-Non-Assoc.	0.67	1.12	1.35	+21%
Magazines & Catalogues	0.92	2.48	2.09	-16%
Telephone Books	2.43	2.48	2.09	-16%
Other Printed Paper	6.19	2.48	2.09	-16%
CNA/OCNA In-Kind Contrib.	$1.3M	$1.7M	$1.9M	+11%

Feedback Requested

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- Should the formula for the paper packaging and/or printed paper categories be revised? Why?
- If yes, are there ways in which the impacts could/ should be mitigated?
- Are there other actions that can/should be taken to address issues associated with composite paper packaging or magazines/other printed paper?
- Are there other changes to the formula that should be examined (e.g., three-factor formula)? Why?

Closing Remarks

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- Reminder: Comments due by September 30
- Send to: beyondthebox@stewardshipontario.ca
- Presentation slides and link to archived webcast will be available at: www.stewardshipontario.ca
- Thank you for your participation