

Discussion Paper # 3
Impacts of the Blue Box Program on Small Businesses
& Incentives for Small Business
to Improve Diversion of their Blue Box Wastes

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1.0 Introduction

This Discussion Paper has been prepared by Waste Diversion Ontario (WDO) in co-operation with Stewardship Ontario. The Paper is intended to highlight issues and provoke discussions at the consultation workshops and solicit comments through written submissions. Given time constraints with the Minister's request, the Paper has not been prepared to set out exhaustive lists of options nor has the paper been comprehensively supported with research data.

Earlier drafts of this Paper have been reviewed by the WDO's Municipal-Industry Programs and Municipal Affairs Committees and Stewardship Ontario's Material Supplier Advisory Group, although each group had limited time for review.

1.1 Background

On December 22, 2003, Minister Dombrowsky informed Waste Diversion Ontario that she had approved the Blue Box Program Plan (BBPP). In her letter, the Minister requested that WDO propose "new measures and enhancements to existing measures that will allow the Blue Box system to divert at least 60% of Blue Box wastes by 2008". Among other detailed program requirements, she asked WDO to:

- 1) Undertake analysis of the financial and operational impacts of the Blue Box Program Plan on the small business community; and
- 2) Consider incentives for small business to improve diversion of their Blue Box Waste in order to reduce their cost.

There are a number of definitions of what constitutes a small business. The Canadian government deems a small business as being fewer than 100 employees and Revenue Canada often uses \$5 million in revenue as the basis. The Ontario government's capital tax threshold is set at \$5 million taxable capital. Under the BBPP the key factor is whether an organization sells or distributes 15 tonnes or more of designated Blue Box Waste.

There is no correlation between revenues and generation of designated Blue Box Waste. Companies with hundreds of millions in sales could be exempt from paying fees under the BBPP because they generate less than 15 tonnes of obligated materials. Alternatively, a company with sales of between \$2 and \$5 million could generate more than 15 tonnes of Blue Box Waste and therefore be considered a steward under the BBPP. For the purposes of this Discussion Paper, a small business steward is defined as a company that has sales greater than \$2 million and generates 15 tonnes or more of Blue Box Waste per year.

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2.0 Financial and Operational Impacts of BBPP on Small Businesses

With the Minister's approval and signing of Ontario Regulation 272/02, the Blue Box Program Plan is now law. The Plan requires stewards of designated Blue Box Waste to:

- register with Stewardship Ontario,
- file a report on the quantities of Blue Box Waste sold or distributed in Ontario in calendar 2002; and
- pay fees associated with the amounts shown in the report.

Stewards are defined as brand owners or first importers of products and printed paper that result in Blue Box Waste. Blue Box Waste is defined as printed materials and packaging that are made of paper, metal, glass, plastics, textiles or any combination of these and that make their way into municipal waste management systems. For further clarification, the steward is required to report on all packaging and printed materials that are primarily destined for consumers and Ontario households and therefore managed by municipal waste management systems. This includes consumer packaging and printed material sold through all distribution channels that may subsequently find its way into the municipal waste stream such as from convenience, retail and take-out food service.

The amount of time required, and therefore costs incurred, by a small business to register with Stewardship Ontario and file a report on the quantities of Blue Box Waste sold or distributed in 2002 are difficult to predict. Some businesses are reporting that the registration process is straightforward and the compilation of data to file a report will require minimal time, given their internal information management systems. Other businesses are suggesting that some time will be required to compile the necessary data.

It is likely that the time required by any given small business will be dictated by the degree to which their 2002 sales and distribution data are readily accessible in an electronic format that supports analysis or interpretation for the purposes of identifying and quantifying Blue Box Waste. As the methods used by small businesses to manage their sales information vary dramatically, the financial and operational impacts of the Blue Box Program Plan on any individual company, or even on sectors, is difficult to estimate.

2.1 Current BBPP Reporting Requirements

There are three questions that potential stewards, including small businesses in Ontario, must answer to determine if they are stewards under the BBPP:

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Questions	No	Yes
1) Do I generate designated Blue Box Waste?	Exempt from obligations as they are not a steward of designated Blue Box Waste. Online button allows for quick declaration.	Proceed to next question
2) Did I have sales in Ontario in 2002 of \$2 million or greater? Note: In a retail context, \$2 million cost of goods purchased from vendors is the relevant threshold	Exempt from obligations to Stewardship Ontario as they were below <i>de minimis</i> threshold of \$2 million of sales in Ontario in 2002. Online button allows for quick declaration.	Required to register with Stewardship Ontario and file a report
3) Did I generate greater than 15 tonnes of designated Blue Box waste in 2002? ¹	Exempted from financial obligations in 2004 as they were below 15 tonne <i>de minimis</i> threshold	Obligated to contribute as a steward in 2004

Stewardship Ontario will be releasing a quick assessment guide that will assist companies in assessing whether they may generate less than 15 tonnes of Blue Box Waste.

Stewardship Ontario has made provision through the pre-registration process to allow companies to click on a button on the web site to address questions one and two above. If the answer to either question is “No” the respondent receives an immediate reply that they are not obligated, with the caution that Stewardship Ontario retains the right to contact them to confirm the basis for this submission or if it is subsequently determined that an error has been made.

The operational time and cost incurred by any individual business to go through these steps is difficult to estimate. In many instances, the process of determining if you are obligated may only take a few minutes. In other instances, the process could take several hours or days if the person needs to review the posted Guidebooks assemble data on their business from internal sources or contact Stewardship Ontario directly through email and/or the telephone call centre.

¹ For non-commercial organizations, the *de minimis* threshold is based on 15 tonnes of Blue Box Waste.

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Stewardship Ontario has also developed for use in the first reporting year a sectoral calculator that allows obligated companies to input dollar sales information rather than measure actual Blue Box Waste generation. The sectoral calculator converts the dollar sales figures to an estimate of kilograms of packaging generated. The projected weights are then used to calculate total fees owing for the estimated Blue Box Waste generation. The approach will be allowed for the first reporting year, however, it does provide a relatively quick and low cost option for selected small business sectors.

In summary:

- the \$2 million *de minimis* threshold determines if a small business has to *register and file a report* with Stewardship Ontario
- the second *de minimis* threshold of 15 tonnes determines if a steward has to *pay fees* in 2004

If a steward exceeds both *de minimis* levels of over \$2 million in sales and 15 tonnes of designated Blue Box Waste, then material specific levies apply to all stewards equally. The total fees due from the company are calculated by multiplying the total weight of printed paper and packaging for each material type, by the material specific rates published by Stewardship Ontario.

2.2 Options for Modifying Stewards Reporting Requirements

Stewardship Ontario welcomes proposals for modifying these reporting requirements that will:

- reduce the burden on stewards (or potential stewards) for reporting;
- reduce the administrative costs to reporting companies and to Stewardship Ontario;
- promote a level playing field for all stewards.

In order to facilitate discussion of alternative options, the following sets out potential alternative options that have been identified by Stewardship Ontario staff. We welcome your comments on these or the submission of other alternative options that you may want to identify.

Any changes to existing reporting procedures will require the approval of the Stewardship Ontario Board before they can be implemented. It should also be noted that if any of the proposed changes are considered substantive changes to the rules, they will also have to be approved by WDO and the Minister (as per the Blue Box Program Plan).

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Option 1 – A Simplified Declaration Form for Small Businesses

Under this approach, year one data submitted could be used to establish future reporting bands on the basis of weight reported by material type. For example, there may be large numbers of stewards that report an obligation for printed paper material only. In subsequent years, this initial generation report for defined small businesses could be adjusted on the basis of appropriate factors (e.g. cost of living increase, increases in Stewardship Ontario payments to municipalities, the percentage annual increase in total reported tonnes from all stewards etc.). Subsequent invoices to the small business steward would indicate the weights reported by the company in the previous year, the adjustment factor and the new levy rates. The small business steward would then have the option of accepting and paying the fees as invoiced or filing a new report based upon actual company data for that year. This type of approach would require a review and declaration process to ensure that where significant increases in Blue Box Waste generation do occur (e.g. company growth, packaging changes, mergers and acquisitions etc.) the increases can be accounted for.

Option 2 – A Simplified Unit Based Declaration Form

A variation on Option 1 would involve having stewards report on the units of products sold or distributed by the company, together with the weight of accompanying packaging and printed paper. This would allow Stewardship Ontario to calculate average unit weights for these products. In subsequent years the simplified declaration would ask companies to update their unit sales data which would then be used to calculate estimates of Blue Box Wastes.

Option 3 - Use Small Business Data Report for More than One Year

Establish rules by which registered stewards would be grouped by selected categories such as tonnage of Blue Box Waste generated. Stewards in the smallest category would only be required to file detailed reports every second or third year as the basis for determining annual fees due. These groupings could also be staggered (i.e. split into 2 or 3 groups) with only a percentage of companies, but not all, filing reports each year. This type of approach would require a review and declaration process to ensure that where significant increases in Blue Box Waste generation do occur (e.g. company growth, packaging changes, mergers and acquisitions etc.) the increases can be accounted for. This approach would reduce filing requirements and reduce administration cost for both stewards and Stewardship Ontario.

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Option 4 - Graduated Flat Fees within Categories

Under this option, stewards within defined categories would be assessed flat rates on an incremental basis. The categories could be based on total dollar sales or generation bands of designated Blue Box Waste.

This approach would require that fees be established for categories of stewards based on banded categories of sales or Blue Box Waste generation. The fee for each category would be set for the steward, thereby giving them greater cost certainty. Stewardship Ontario would benefit by eliminating the need to review detailed reports from stewards that were within the banded categories.

Option 5 - Adjust De Minimis Thresholds

After this first reporting year, Stewardship Ontario will be in a much better position to evaluate and analyze actual Blue Box Waste generation data provided by stewards and the impact of the current *de minimis* threshold process. Options for adjusting the thresholds could include:

- Adjusting the \$2 million sales *de minimis* exemption only;
- Adjusting the 15 tonnes of Blue Box Waste exemption only; or
- Adjusting both exemption levels together.

Stewardship Ontario will not have data identifying the number of companies in Ontario that fall below the \$2 million exemption level. However, Stewardship Ontario will be compiling data on the number of companies that registered and reported less than 15 tonnes of Blue Box Waste (for which the costs for managing these materials will be borne by registered stewards reporting more than 15 tonnes). Sensitivity analyses can then be completed on such issues as:

- the number of companies reporting slightly over 15 tonnes;
- the financial and administrative costs and benefits of registering small generators;
- the total quantities of Blue Box Wastes generated that will not be paying a levy; and
- the cost impact of a revised *de minimis* on fees that must be paid by other stewards.

The options presented above present options for reducing reporting requirements. The fees themselves provide an incentive to stewards to reduce the amount of printed paper and/or packaging that is managed in the Blue Box system and municipal waste stream in order to reduce these fees.

3.0 Incentives for Small Business to Improve Blue Box Waste Diversion

A letter from the Minister dated December 22, 2003 requested that WDO undertake further analysis on incentives for the small business community to improve diversion of their Blue Box Wastes in order to reduce their costs. While this Discussion Paper identifies some possible options for promoting increased recovery of Blue Box Wastes from the small business sector, whether these options would reduce costs for any particular company is a function of many factors including:

- materials available for recovery;
- the quantities of materials generated;
- financial arrangements in place for managing company wastes; and
- diversion rates achieved.

Insufficient baseline data related to the current costs of small business are available to estimate the potential cost savings that may be achieved for the Ontario small business sector from these initiatives.

Option 1: Provide Information, Promotional Material and Technical Assistance for Small Businesses

Existing organizations (WDO, Canadian Federation of Independent Businesses, Retail Council of Canada, Stewardship Ontario, Ministry of the Environment, etc) could be provided with resources to support an outreach program specifically to meet the needs of small businesses. Support efforts could include providing technical information on opportunities to reduce and recycle Blue Box Wastes, promote the importance of waste reduction and recycling to the company and to the province as a whole and provide practical case studies of success stories in representative small businesses.

This approach would rely on tapping into the entrepreneurial energies of small businesses to take direct action with a minimum of intervention.

Option 2: Provide Financial Incentives/Rewards for Waste Diversion

The most direct form of incentive that could be provided to Ontario small businesses is a rewards/recognition and/or financial incentives program. This could take the form, for example, of adding a stronger small business recognition program to the Recycling Council of Ontario's annual awards program or it could be a new initiative under the auspices of the Ministry of the Environment or Stewardship Ontario. There are precedents for this type of initiative, particularly

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at the federal level in the area of energy conservation for grants to support innovative waste diversion projects.

Although it's not an incentive, it should also be noted that the Ministry of the Environment's existing regulations that require waste and packaging audits and designate materials to be recycled from the business sector in Ontario could be modified to extend to the small business sector (i.e. the current regulations apply only to larger companies). Such an initiative would require increased enforcement expenditures on the part of the province and may create an administrative burden for small businesses.

Option 3: Expand the BBPP to Include Blue Box Wastes from Small Businesses

WDO's 2002 Datacall reported that about 66 of the 195 residential recycling programs collecting Blue Box Waste in Ontario also collect or process material from (primarily) small generators in the industrial, commercial and institutional (IC&I) sectors. Under the current BBPP rules, Blue Box Wastes managed outside of the municipal residential waste management system are not assessed fees by Stewardship Ontario and municipalities are not eligible for Stewardship Ontario funding for recovering these materials. The WDO Datacall does, however, track this information and provides some insight as to what Blue Box Wastes are potentially recoverable from this sector.

In total, these 66 programs serviced over 64,000 IC&I Blue Box stops. Twenty-seven percent of these stops were in Toronto, which reported a total of 13,985 tonnes of Blue Box Wastes recovered (about 65% of this material was Old Corrugated Cardboard (OCC) and glass [primarily liquor] or approximately 10% of the quantity collected by Toronto from the residential sector). The two next largest programs were about 7,000 stops in the City of Hamilton and about 5,500 tonnes collected in the Region of Niagara (which represents about 20% of their residential Blue Box tonnage). The 66 municipal programs collected and/or processed slightly more than 48,000 tonnes of IC&I Blue Box materials in 2002 (more than 50% of this is OCC; 23% is newspapers and 15% liquor glass).

Based on this preliminary information, it has been estimated that 30,000 to 40,000 tonnes of Blue Box material might be available from the small business sector in Ontario. As noted above, this tonnage, however, is not currently assessed fees by Stewardship Ontario and is not eligible for funding under the current BBPP rules. Any initiative in this area would also need to consider the role and tracking requirements related to private sector Blue Box service provision to small businesses.

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4.0 Issues for Public and Stakeholder Comment

The WDO would like your views on the following issues:

1. Options to modify stewards' reporting requirements identified in Section 2.2;
2. Other options not identified in this Paper to modify stewards' reporting requirement that should be considered;
3. Incentives for small business to improve Blue Box Waste diversion identified in Section 3.0; and
4. Other incentives not identified in this Paper that should be considered.

WDO would also appreciate any information small businesses may be willing to share on the financial and operational impacts of the Blue Box Program Plan on their business. This information will facilitate WDO's analysis of the comments received through the consultation process and the preferred options identified by stakeholders.

WDO and Stewardship Ontario invite your comments on these issues by written submission by April 30, 2004:

- By email to Stewardship Ontario at chair@stewardshipontario.ca
- By fax to Stewardship Ontario at 416 594 3463
- By mail to Stewardship Ontario, 26 Wellington Street East, Suite 601, Toronto, Ontario M5E 1S2