



Thinking
beyond
the box

Stewardship Ontario

Consultation Report on Enhancing the Fairness of the Fee Setting Methodology for Packaging and Printed Paper

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1.0 Introduction

In 2013, Stewardship Ontario conducted a review of the fee setting methodology for printed paper and packaging, in particular as it relates to an issue identified within the printed paper category. In the course of this review, opportunities were identified to improve the methodology across all material categories. In the interest of pursuing continuous improvements to the fee setting formula and ensuring that costs are fairly shared across all materials, Stewardship Ontario presented the results of this review to stewards at a webinar on March 20th, 2014. Subsequent to the webinar a briefing document was distributed to provide more detail on the issue and the proposed improvements to the fee setting formula and stewards and trade associations were invited to provide their feedback.

This report provides background on the issues that were identified in fee setting for the printed paper category, the proposed changes to the methodology designed to ensure fairness across all material categories, and the feedback received on these proposed changes from the steward community.

2.0 Background

In 2013, Stewardship Ontario made a commitment to conduct a third party review of the fee setting methodology with Blue Box Program stewards in an effort to address an anomaly that arose in part because of the cost-transfer barrier between packaging and printed paper.

The anomaly appeared in the printed paper category in 2012 and effectively defeated the fairness intention of the three factor formula for magazines and catalogue stewards. In this case, the high recycling rate of 94.7% for magazines and catalogues should have provided fee relief to this material in accordance with the equalization component of the three factor formula which transfers costs away from high-performing materials. Instead, magazines and catalogues actually attracted cost.

The Cost-Transfer Barrier

The current fee setting methodology prohibits cost transfers between the printed paper and packaging categories. Therefore, the only option is to transfer costs from the magazines and catalogues category to the lowest performing printed paper sub-category which in this case is “other printed paper”. While the recovery rate for “other printed paper” in Ontario is 50.9%, (below the target 60% recycling rate) and therefore should rightly attract some of the cost of the higher performing paper categories, its recovery rate is much higher than many packaging categories (e.g., paper laminates at 0.9% or gable top cartons at 32.1%). which, under the current methodology, attracts none of the costs from the higher performing printed paper categories. Because the current methodology prohibits cost transfers between printed paper and packaging, these low-performing packaging materials do not absorb any of the costs of the high-performing printed paper categories. Yet the low performing packaging categories benefit from sharing in the high overall recovery rate, which exceeds the 60% mandated target. The purpose of the review was to assess the fairness of the current methodology and if necessary, identify opportunities for improvement.

Unstewarded Materials

The third party review of the fee setting methodology also noted that the current practice of assigning the costs of unstewarded material to the material sub-category that it most resembles is, in some cases, unfairly attributing too much cost to single material sub-categories. Unstewarded material includes packaging and printed paper supplied by companies that fall below the government-mandated de minimis of \$2 million in revenue or 15 tonnes of material. Unstewarded material also includes products that resemble packaging but are not obligated such as sandwich bags, aluminum foil, plastic cutlery and paper products such as paper that householders buy to use in their home-printers, as well as calendars, posters and bound books. These are items that householders regularly put in their blue boxes, and which are in some cases processed and sold to market, but for which no steward exists as they are either not designated as blue box wastes or they are expressly exempted.

Arguably, the costs/revenues attributed to materials for which there is no identified steward should be shared by all material categories rather than a single material category that most resembles the item, placing the costs to manage the unstewarded materials where they belong -- shared amongst all stewards, rather than assigned to a single material subcategory.

3.0 Proposed Changes to Fee Setting Methodology

As a result of these findings, Stewardship Ontario put forward to stewards two possible solutions to address the anomaly in the fee setting methodology impacting most acutely the printed paper category:

- 1) Adjust the fee setting methodology so as to remove the cost transfer barrier between the printed paper and packaging categories. This would allow for the application of the 3-factor formula across all materials rather than separately to PP and packaging.
- 2) Redistribute all costs for “unstewarded” material across all materials in a way related to the cost of their management in the system.

Stewardship Ontario committed to maintaining the current methodology for the 2014 fee schedule but advised stewards that the feedback received from this consultation would be used in consideration of changes to the methodology for the 2015 fee schedule. Because the two proposed changes outlined above would represent a material change to the fee setting methodology, approval by the Minister of Environment would be required.

4.0 Steward Consultation

On March 20th Stewardship Ontario held a steward webinar to provide background information and an overview of the analysis undertaken to support the proposed changes to the fee setting methodology. Following the webinar, a briefing document was shared with stakeholders designed to further explain the proposed changes in the context of the fee setting methodology's original principles and the three-factor formula (please see appendix 1 for the March 25th briefing document).

Based on the information presented in the webinar and the subsequent briefing note, stewards were asked to provide their feedback on two specific questions:

- 1) Do you agree that the recommendation to integrate the 3 factor formula to allow transfer of cost amongst printed paper and packaging results in a fairer fee setting methodology? If not, why not?
- 2) Do you agree that the recommendation to redistribute all costs for unstewarded material costs across all materials results in a fairer fee setting methodology? If not, why not?

Given the significant interest in this issue, the consultation deadline was extended from April 4th to April 25th.

5.0 Participants

190 organizations participated in the March 20th webinar. 35 organizations provided written feedback on the proposed changes to the fee setting methodology. The organizations that provided written feedback are listed below:

Amway Canada Corporation	Azure Publishing	Bayard Canada
Best Buy	Canadian Beverage Assoc'n	Coca-Cola Canada
Canadian Vehicle Manufacturers Association	Canadian Consumer Specialty Products Association	Carton Council of Canada
The Clorox Company of Canada	Costco Wholesale	Retail Council of Canada
Canadian Plastics Industry Association	Dart Container Corporation	Dell Canada Inc
Dollarama Inc.	Electronic Product Stewardship Canada	Food & Consumer Products of Canada
Horse Publications Group	House & Home Media	Hewlett-Packard Canada Co.
Industrial Alliance Insurance & Financial Services Inc.	Magazines Canada	Mondelez Canada
Motorcycle Mojo Magazine	Nestle Waters	Princess Auto
Reader's Digest Association Canada ULC	Restaurants Canada	Rogers Publishing Limited
Shaklee Canada Inc.	Staples Canada	Tim Hortons
Transcontinental	Yellow Pages Group	

6.0 Summary of Responses

By and large, responses to the two proposed changes to the fee setting methodology were divided with respondents expressing both support and opposition to the questions posed.

There were however some common themes expressed by many respondents:

- Stewards and associations both expressed the need to understand the impact the proposed changes would have on their stewardship fees. While recognizing the desire to consult solely on the *principles* of the fee setting methodology, in the current climate of increasing steward fees, there is a need to understand the impact of the proposed changes on fee rates.
- Stewards expressed a desire for more data to support the proposed changes so that stewards and associations could better understand the magnitude of the problem, particularly in relation to the issue of un stewarded materials – both in terms of quantity of materials and the cost associated with the management of this material. Respondents also requested more information on current efforts being undertaken by both the Ontario Ministry of Environment and Stewardship Ontario to identify free riders and thereby reduce the amount of un stewarded material requiring management.
- A strong viewpoint was expressed regarding the lack of understanding of the three factor formula and a reluctance to modify it until it is better understood.
- Many respondents identified a need for more time in order to adequately consider the proposed changes to the methodology.
- There was a common expression of the need for fairness and transparency in the fee setting methodology and a desire for simplification in order to achieve more widespread understanding and to reduce administrative costs.

The following two tables summarize the feedback received on the two questions posed to stewards:

Do you agree that the option to integrate the 3 factor formula (i.e., remove the cost transfer barrier between printed paper and packaging) would result in a fairer fee setting methodology? If not, why not?

Support	Oppose
<ul style="list-style-type: none"> • This will result in a fairer methodology ensuring that the magazine fees do not exceed the actual cost of managing magazines within the system; • Both printed paper and packaging are co-mingled through collection and processing therefore the cost 	<ul style="list-style-type: none"> • This change would benefit printed paper disproportionately at the expense of packaging materials; • Any further modifications to the three factor formula will move the methodology further from the principle

<p>transfer barrier no longer makes sense;</p> <ul style="list-style-type: none"> • This will result in a fairer methodology by transferring costs to low performing materials which are currently not bearing their fair share of costs because of the cost transfer barrier; • This change will address a recent trend where fees for magazines have increased disproportionately to other materials resulting in an unfair distribution of costs 	<p>that fees should reflect the actual cost to manage the materials through the system;</p> <ul style="list-style-type: none"> • Disagree with the premise that the cost transfer barrier was put in place because printed paper and packaging are managed separately through the system. Rather, the cost transfer barrier was put in place in recognition of the distinct purposes of printed paper versus packaging and the fact that stewards do not have the ability to make material choices across the two categories; • This change does not address the fundamental issue that some materials are disadvantaged because they are not mandated for collection by Reg. 101/94 and therefore have little ability to improve their recovery rates.
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Do you agree that the option to redistribute all costs for unsteawarded material across all materials results in a fairer fee setting methodology? If not, why not?

Support	Oppose
<ul style="list-style-type: none"> • This change will result in a fairer distribution of costs across all material categories • This change makes sense because there is no rationale behind applying the costs for unsteawarded materials to the stewards of similar materials who are fulfilling their obligations 	<ul style="list-style-type: none"> • This is a compliance issue; Stewardship Ontario and the provincial government should step up compliance efforts in order to reduce the amount of unsteawarded material in the system; • The government should amend Reg. 101/94 and regulate the collection of <u>all</u> materials in the system to reduce the number of free riders; • Unsteawarded material is a 'system' problem and should be paid for by municipalities; • The costs associated with unsteawarded material are largely a result of poor resident education on the blue box, therefore municipalities should bear these costs; • The common cost formula includes a material density component that will result in costs being disproportionately high for lightweight materials; • A portion of the unsteawarded materials are a result

	of the di minimis provision so there is no reason to assign those costs to compliant stewards
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7.0 Conclusions & Next Steps:

In an effort toward continuous improvement and increased fairness in the fee setting methodology, Stewardship Ontario initiated a consultation with stewards on two proposals we believed would contribute to the fair and equitable sharing of blue box costs amongst all stewards. We appreciate the time and effort stewards and trade associations took in preparing their responses to the proposals presented.

Stewardship Ontario has clearly heard from respondents on the need for more time and a better understanding of the fee setting methodology in order to adequately consider the proposed changes. We also understand the pressure being felt by stewards in light of rising stewardship costs across Canada and recognize the difficulty in providing feedback on the principles behind these proposed changes without also understanding the bottom-line impact these changes would have on material fees.

Feedback clearly indicates an ongoing lack of understanding about the mechanics of the three factor formula and how it is designed and applied to produce a fairer fee schedule that encourages the use of recyclable materials. Stewardship Ontario commits to undertaking further efforts to educate stewards and their associations on this feature of the fee setting formula.

Feedback received on the proposed changes is clearly divided—with those in the printed paper category standing to benefit from the changes clearly supportive, while those in the packaging category who would bear a higher financial cost largely opposed. As consensus is likely not going to emerge in what is essentially a process that results in “winners” and “losers”, Stewardship Ontario will consult with its board of directors on the next steps required to ensure that the fee setting methodology remains committed to ensuring the fair distribution of costs across all material categories.