



Stewardship Ontario

**Blue Box Program Transition Plan
Revised Fee Setting Methodology
for 2023-2025
Addendum**

Submitted to: Resource Productivity and Recovery Authority

Submitted on: January 19, 2022

1. INTRODUCTION

In December 2020, the Resource Productivity and Recovery Authority (RPRA) approved, with certain conditions, the Blue Box Transition Plan (BBTP) submitted by Stewardship Ontario.

The approved BBTP requires that Stewardship Ontario continue to set fees according to the Four-Step Fee Methodology set out in the plan, using Activity Based Costing and supply-to-market data submitted by Stewards.

On June 3, 2021, the Ontario Government issued Regulation 391/21, triggering the transition process for the Blue Box Program, and ushering in a new era for the recycling of printed paper and packaging in Ontario.

Producers, as defined in the Regulation, most of which are also Stewards under the BBTP, must begin to report supply to market data to RPRA beginning in 2021. There are significant differences between the supply-to-market data that Producers will be required to report to RPRA versus the data that they are required to report to Stewardship Ontario as Stewards.

According to the schedule set out in Regulation 391/21, participating communities will begin to exit Stewardship Ontario's program in 2023 and the process will be complete by the end of 2025. Stewardship Ontario will cease to exist in 2026.

The beginning of the transition process also marks the beginning of a stepwise decline in the amount that Stewardship Ontario must raise from stewards to meet the obligation to participating communities, which means a corresponding decline in stewards fees.

In August/September of 2021, Stewardship Ontario reviewed the BBTP to determine whether it could set fees without requiring stewards to also report supply-to-market data to Stewardship Ontario.

A preliminary review suggested that Stewardship Ontario could forecast what each individual steward would pay under the current system for a short period using recent data. While there would be some loss of precision, Stewardship Ontario concluded that it should present such an approach to stewards for consideration as it would:

- Eliminate the need to report supply-to-market data to Stewardship Ontario and reduce regulatory compliance costs, and
- Reduce the need for complicated data processing and analytics and other services, and thereby reduce program management and transition costs, and the fees paid by stewards for this purpose.

While fee setting is mainly a matter of concern to stewards, fees are closely linked to two other matters of interest to other stakeholders:

- The "in-kind" contribution that members of News Media Canada make to Participating Communities, which is of interest to Ontario municipalities, is determined by the fee setting methodology, and

- The program recovery rate, which is of interest to all stakeholders, is determined during the fee setting process.

Accordingly, Stewardship Ontario consulted with the Steward Advisory Committee to gauge whether there might be interest among stewards in a new approach. Based on that feedback, Stewardship Ontario decided to initiate a formal consultation with stewards and other stakeholders by way of a Discussion Paper and Question & Answer Document posted on the Stewardship Ontario website and distributed by email on December 1st, 2021. In addition,

- A survey on the matter was posted with the Discussion Paper.
- A webinar outlining the proposal was held on January 6, 2022.
- A Q&A document responding to questions raised was posted on January 11th.
- The period for comment and survey formally closed on January 13, 2022.
- Additional responses received on January 18th have also been considered

2. RECOMMENDATION TO PROCEED

An overview of the results of the consultation appears in Section 3 of this addendum and the full consultation report is attached as Appendix A.

Overall, Stewardship Ontario has concluded that there is very strong and broad support among stewards, and sufficient support among other stakeholders to recommend the adoption of the Simplified Fee Setting Model as described in this Addendum, including Rule Amendment and Policy attached as Appendix B.

3. SIMPLIFIED FEE SETTING

History of Fee Setting

How Stewardship Ontario sets fees for stewards has been a subject of debate, review and revision throughout the course of the program. A major review was recently undertaken in cooperation with three other participating programs in British Columbia, Saskatchewan and Manitoba, which recommended the replacement of the “3-Factor-Formula” that was implemented when the Ontario program was launched with the “Four-Step Fee Methodology”. Stewardship Ontario also participated in the project to replace “Activity Based Costing”, which is used as a key data input into the fee setting model, with “Material Cost Differentiation (MCD)”.

The Four-Step Fee Methodology was adopted by Stewardship Ontario for 2021 fees upon approval of the Transition Plan in December 2020. At present, Stewardship Ontario sets fees via the Four-Step Fee Methodology, using the original Activity Based Costing process to determine the relative cost of each material.

Changes have been made to the fee setting methodology over the course of transition through a process of continuous improvement. The aim of the continuous improvement effort was to ensure that stewards contribute fairly to the cost of the program, and be seen to be contributing fairly, based on the best available information. As the factors that impact fees are numerous, and rely on multiple sources

of data, fee setting has always been complicated. Much of the effort to date has focussed on getting better data and producing a more precise and robust methodology, while making the methodology more intuitively understandable. Since precision and robustness were a priority, the challenge was to help stewards understand and trust in the complexity and to support the effort they and Stewardship Ontario needed to make to execute a complicated methodology and update the information so that the required precision would persist over time.

It is important to note that, while much effort has been made to make the process as precise and comprehensive as possible, Stewardship Ontario's ability to do so is limited by its continued use of Activity Based Costing as a primary data input, which is based on an outdated dataset.

With the pending end of the current program, the opportunity arose for stewards to consider a different trade-off, i.e.: whether it is worthwhile to accept a loss of precision to gain relief from the effort and expense of maintaining and executing the current methodology.

Principles for Simplified Fee Setting

Accordingly, Stewardship Ontario asked stewards to consider a revised set of principles to related to simplified fee setting, specifically:

1. Reduce regulatory compliance costs for Stewards by eliminating or minimizing the need to provide information to Stewardship Ontario
2. Reduce Stewardship Ontario transition costs by minimizing the need for detailed research and analytics and other services
3. Provide stewards with more predictable fees over the transition period when municipalities begin to exit the program and overall Stewardship Ontario fees are in decline
4. Ensure stewards' contribution to the cost of the program during transition is reasonably fair.

How Steward Fees Would Be Determined

If Stewardship Ontario discontinued steward data reporting beginning in 2022, it would not be able to determine fees for stewards using the current methodology for 2023, 2024 or 2025. Instead, steward fees would be determined using data already in Stewardship Ontario's possession. The aim would be to approximate as much as possible what stewards would have paid in fees using the current methodology, recognizing that past results are no guarantee of future experience, and that, whatever method were chosen, fees would likely be different under a simplified model.

Stewardship Ontario considered and evaluated a variety of alternative approaches to using existing data to approximate future fees, especially considering the impact of Covid 19 on the marketplace. Through its process, and recognizing that it will take some time for the market impacts of Covid-19 to work their way through the economy, Stewardship Ontario concluded that the fairest approach would be use a combination of data from the years before and after the emergence of Covid-19, specifically:

- 2019 sales data reported to Stewardship Ontario in Steward's 2020 reports for the 2021 invoices (the 2021 Invoice Year), and
- 2020 sales data reported to Stewardship Ontario in Steward's 2021 reports for the 2022 invoices (the 2022 Invoice Year).

The proposed methodology consists of four parts:

- 1) Extract invoiced fees for each steward for invoice years 2021 and 2022 (2019 and 2020 sales data), including adjustments.
- 2) Calculate invoiced fees for each steward as a percentage of the total SO budget for 2021 and 2022.
- 3) Assign a percentage for each steward that is the average of:
 - a. The year prior to Covid-19, reflecting supply to market data from 2019
 - b. The first year of Covid-19, reflecting supply to market data from 2020
- 4) Adjust each steward's percentage as required to account for changes to the percentage assigned to members of News Media Canada, for stewards entering and exiting the Ontario market, and for major acquisitions/divestitures that occurred between 2019 and 2021.¹

Impact on Determining the Recovery Rate

The material recovery rate reported by Stewardship Ontario is the ratio between what the Blue Box Program Plan defines as “marketed tonnes” and “generated tonnes”. Under the Plan, “generated tonnes” were to be determined according to a program of waste characterization studies carried out in a selection of small, medium and large municipalities. Stewardship Ontario has not been able to gain access to the material generated in the larger municipalities since 2014. Stewardship Ontario has used trends in steward supply data to adjust the calculation in a best-efforts attempt to improve the estimate of “generated tonnes”.

With simplified fee setting, Stewardship Ontario would not have the steward supply data with which to make these adjustments, and Stewardship Ontario would report the program recovery rate using the methodology set out in the Blue Box Program Plan and determine generated tonnes according to the Plan, relying solely on the waste characterisation data it is able to accumulate.

Stewardship Ontario proposes to engage with each of the larger municipalities and the Continuous Improvement Fund in a revitalized waste characterization program. Stewardship Ontario is optimistic that it will achieve wider participation in the waste characterization program due to recent improvements in the relationship between municipalities and Stewardship Ontario. Accordingly, Stewardship Ontario plans to establish a joint committee structured as follows to oversee the waste characterization work:

- Representative of Stewardship Ontario (Co-Chair)
- Representative of the Continuous Improvement Fund (Co-Chair)
- Technical Representative of RPRA
- Representative of Each Participating Municipality

Each participating municipality's representative (or their designate) may observe the characterization process. Data related to each individual municipality would remain confidential to the participating

¹ Stewards that undergo a divestiture after the new policy is announced will be encouraged to address the change as part of the divestiture agreement and minimize pressure on Stewardship Ontario's administrative resources

municipality and only be used by Stewardship Ontario in aggregate form for purposes of calculating the program recovery rate.

A different approach will be required once municipalities begin to exit the program and recovery for exited municipalities is being tracked under the RRCEA.

Addressing Entering & Exiting Stewards

If a steward that is currently obligated claims that it is no longer obligated, Stewardship Ontario would verify this claim in the according to its established compliance process, and if verified would discontinue fees for that steward.

New stewards would be required to submit a data report to Stewardship Ontario, which would be used to determine that steward's share of the Stewardship Ontario budget as a proportion of the volume of material reported by all other stewards in 2019 and 2020.

Data indicates that typically 50-60 stewards enter or exit the program per year, representing 1-2% of the total budget. While the net amount is positive in some years and negative in others, it is typically within the range of prior year adjustments Stewardship Ontario addresses each year. Therefore, these changes are not expected to have a material impact on the percentages applied to individual stewards.

Impact on Determining In-Kind Amount

Fees for Members of News Media Canada are unique in several key respects:

- Newsprint is the only significant material category for which members of News Media Canada report and pay fees.
- The volume they supply has been declining in a substantial and predictable quantity over the past several years, due to the ongoing digitization of the industry, resulting in declining fees.
- They are entitled to pay a portion of their fees to Stewardship Ontario in the form of in-kind advertising space, which has an impact on Ontario municipalities.

Accordingly, this sector requires a unique solution that takes these circumstances into account and can be validated based on actual experience.

Stewardship Ontario would require members of News Media Canada to continue to report their supply-to-market data. The simplified fee rate for these stewards would be adjusted to reflect the change in the amount of material supplied to market each year. For purposes of clarity, if the tonnage supplied by the members of News Media Canada were to decline by 10%, its share of supply chain management costs (and the associated in-kind contribution) would decline by 10%. Due to the ongoing digitization of the news media industry, an increase is considered highly unlikely.

Shortened Timeline for Prior Year Adjustments

If the new methodology is approved, Stewardship Ontario would need to "lock in" steward fee percentages before the 2022 Annual Steward Meeting. Therefore, the Rules would be changed to require that stewards submit all prior year adjustments no later than July 31st, 2022. This is consistent

with the shortened deadline for reporting adjustments for the last year that stewards are required to report data under the current Transition Plan.

4. RESULTS OF STEWARD CONSULTATION

A full consultation report is attached to this addendum as Appendix A.

Stewardship Ontario initiated consultation on the proposal in October of 2021. A discussion paper was published on December 1st, 2021, along with a Q&A document. A webinar was held on January 6th, 2022, and while the consultation formally closed on January 13th, Stewardship Ontario accepted and considered responses until January 19th.

While there were several questions, comments and requests for clarification, and support is not unanimous, the depth and breadth of support among stewards for the proposal is very substantial.

On behalf of their members, each of the Retail Council of Canada, the Food Health and Consumer Products Association and the Canadian Beverage Association expressed strong support for the proposal. Members of these three trade associations represent most of the fees paid annually to Stewardship Ontario (responses attached).

The response rate to the survey was not high but is consistent with the strong support articulated by the trade associations.

- Only 105/991 or 10.6% of fee-paying stewards replied, but they did represent 35% of total kilograms and 37% of fees paid.
- 19 or 18.1% of the respondents opposed the proposal (representing 1.9% of total stewards, 6.7% of total kilos and 7.9% of fees).
- 71 or 67.6% of the respondents expressed support (representing 7.2% of total stewards, 26.2% of total kilos and 27.0% of fees).

In view of the strong support from the major trade associations, we believe that it is reasonable to conclude that those that did not respond either support the proposal or were neutral.

While dissenting views require due consideration, and Stewardship Ontario will reach out to those who do not support the proposal, they clearly represent a minority view.

Stewardship Ontario also received responses from the Association of Municipalities of Ontario and City of Toronto, and from the Region of Peel. Municipalities are interested in more detail regarding how the in-kind amount will be determined, how the program performance rate will be determined and what impact the loss of steward supply-to-market data might have. Stewardship Ontario will reach out to these stakeholders to answer the questions they have raised.

We conclude that the proposal has very strong and broad support among the steward community, and that the questions that have been asked by other stakeholders can be reasonably addressed.

Discontinuations and Divestitures

In response to steward feedback, Stewardship Ontario is also proposing an adjustment procedure to address situations in which stewards supply-to-market data would have changed substantially as the result of discontinuing or divesting a business unit or major product line.

The process would be available to stewards that discontinued or divested a subsidiary or product line representing at least 5% of the steward's total business. Stewards claiming an adjustment would be required to provide report detailing the quantity of material subject to the divestiture/discontinuation.

In the case of a discontinuation the claiming steward would also be required to provide:

- Confirmation that the product is no longer for sale in Ontario and,
- A complete report of similar or competing products that they continue to offer, for the years before and after discontinuation.

In the case of a divestiture, stewards would also be required to provide:

- The name of the acquiring company, and
- A copy of their notice to the acquiring company of their intention to seek an adjustment.

The adjustment for a divestiture would be approved once the associated amounts were validated and accepted by the acquiring steward.

5. CONCLUSION

Stewardship Ontario is proposing the adoption of Simplified Fee Setting as described, as it has broad support of the steward community and other stakeholders, and it would:

- Relieve stewards of a significant burden for regulatory compliance
- Provide greater fee predictability to stewards over the course of transition
- Enable Stewardship Ontario to achieve a significant reduction to its program management and transition costs over the course of transition, which will be passed on to Stewards.

Attached consultation report as Appendix A