

InKind Advertising Program

Proposed Changes to the Methodology to Calculate Possible Cash Portion of the InKind Obligation

Public Consultation

November 2022



Blue Box Transition Plan Amendment Required



Stewardship Ontario

Transition of communities to the new Producer Responsibility framework under *Resource Recovery and Circular Economy Act, 2016* (RRCEA) begins in July 2023.

Transitioning communities will no longer be part of the Stewardship Ontario program and therefore will no longer be reporting cost and revenue data to RPRA.

RPRA uses data from the transitioning communities in order to determine whether a portion of the obligation to be paid by NMC/OCNA newspapers must be paid in cash, according to a prescribed formula.

The prescribed formula needs to change to enable RPRA to determine whether a cash component will apply, using data available from communities that have not yet transitioned.

RPRA has developed a revised formula for consultation.

Background: InKind Advertising Program

- Under the Blue Box Program Plan (BBPP), members of News Media Canada (formerly Canadian Newspaper Association) and Ontario Community Newspaper Association (NMC/OCNA) fulfill their steward funding obligation by contributing newspaper advertising lineage to municipalities and First Nations in lieu of cash.
- The funding obligation for newspaper stewards is determined by Stewardship Ontario through its fee-setting process.
 - From 2023 fees onward, the newspapers' InKind amount is determined by applying the average 2021-2022 fee rate to the newspapers' reported quantities
- The Authority coordinates with NMC/OCNA to facilitate the lineage allocation to participating programs and administers the InKind Advertising Program.

Operation of the InKind Advertising Program

- Stewardship Ontario determines the InKind obligation for NMC/OCNA stewards
- RPPA assesses the InKind obligation to determine if a cash portion is due according to the 2005 Amendment to the BBPP
 - If a cash portion is due, the remaining obligation is allocated to participating programs in InKind lineage.
- The InKind obligation distributed by net costs is sent to NMC/OCNA, who allocate the newspaper lineage among participating programs and the associated NMC/OCNA newspapers.
- This lineage is reviewed and finalized by RPPA for the program year. The InKind program year operates from April 1 to March 31 of the following year.
- The transition issue arises because the majority of communities that currently report data separately for the grades of used newsprint (ONP #6 and #8) will transition out of the Blue Box Program in 2023.
- The formula does not allow for a proper calculation where data for one of the two grades of ONP is not available.
- The methodology is proposed to be adjusted so that the cash portion calculation can be done with only one grade of ONP.

Proposal Scope

- The purpose of the consultation is to receive feedback on the recommended changes to the methodology to calculate cash portion of the InKind obligation.
- The Authority is proposing that the changes to the calculation be in effect for Datacall reporting in February 2023.
- The proposed changes to the methodology will continue to apply to subsequent funding years until the Blue Box Transition is complete. **This only affects the funding for 2024 and 2025 transition years.**
- The proposed changes do not impact the rest of the Blue Box Windup Plan or any other Blue Box stewards.
- The proposed changes will not impact any municipalities whose transition date is in 2023.
- This consultation will not address any of the previously invoiced or calculated cash payments under the InKind Advertising Program, or newspaper steward obligations under RRCEA.
- This consultation will also not address the new Blue Box Regulation under the RRCEA, or the Authority's role in implementing and enforcing the new regulation.

Consultation Process

- Consultation on the proposed changes to the methodology to calculate a cash portion of the InKind obligation begins November 14 and ends December 9
- Feedback can be sent to consultation@stewardshipontario.ca on or before December 9
- There will be online meetings held for content review and questions on Wednesday, **November 30**:
 - MUNICIPALITIES: 10 am ET
 - STEWARDS: 1 pm ET
- If you have questions about the proposal or would like to discuss it in more detail, email us at consultation@stewardshipontario.ca
- Feedback from the consultation will be summarized in a report that will be submitted to the Authority.
- RPRA will consult on the submitted proposal following SO's consultation.

Proposed Changes to the Methodology to Calculate Cash Portion of the InKind Obligation



How is the cash portion for InKind obligation calculated?

2005 Amendment to Blue Box Program Plan

- The [2005 amendment, s.9.14.3 Contributions from the Newspaper Industry](#) of the Blue Box Program Plan prescribes the steps to determine this cash portion.
- In 2005, the Blue Box Program Plan was amended to require newspaper stewards to make a partial cash payment to municipalities if the price of old newsprint differs from what were considered normal market conditions at the time.
- The partial cash obligation is triggered when commodity prices for certain newsprint stock (ONP#6 and ONP#8) reach a specific threshold (price per tonne as reported in the Datacall falls below 50% of 2004 Datacall prices).

Methodology for Partial Cash Calculation

Methodology for Calculation of partial cash contribution:

- ONP #8 and ONP #6 (Old Newspaper grades) price per tonne for each Datacall year is compared to the **baseline year of 2004**. If the revenue per tonne prices for ONP #8 and ONP #6 in the year in question fall below 50% of the 2004 prices for these grades of newsprint, then the mechanism to calculate a cash portion of the In-Kind contribution is activated.
- Furthermore, the Datacall revenue per tonne for the given year is compared to the **price index** for ONP #8 and ONP #6 for the year in question.
- If the price index is 15% higher than the Datacall reported prices for these grades, then the price index less 10% is the price used to calculate the portion of In-Kind contribution to be paid in cash.

(step-by-step methodology is outlined in the Appendix)

Summary of Transition Issue

- Lack of input data to calculate the cash portion of InKind obligation, according to the 2005 Amendment, for 2024 and 2025 funding years.
- The majority of communities that currently report data for the grades of used newsprint (ONP #6 and #8) required for the calculation will transition out of the Blue Box Program in 2023, the first year of the Blue Box Program transition.
- Where sufficient data is not available – specifically where there is no data for one of the two grades – the formula laid out in the 2005 Amendment does not allow for a proper calculation. Therefore, an adjustment to the methodology is required.

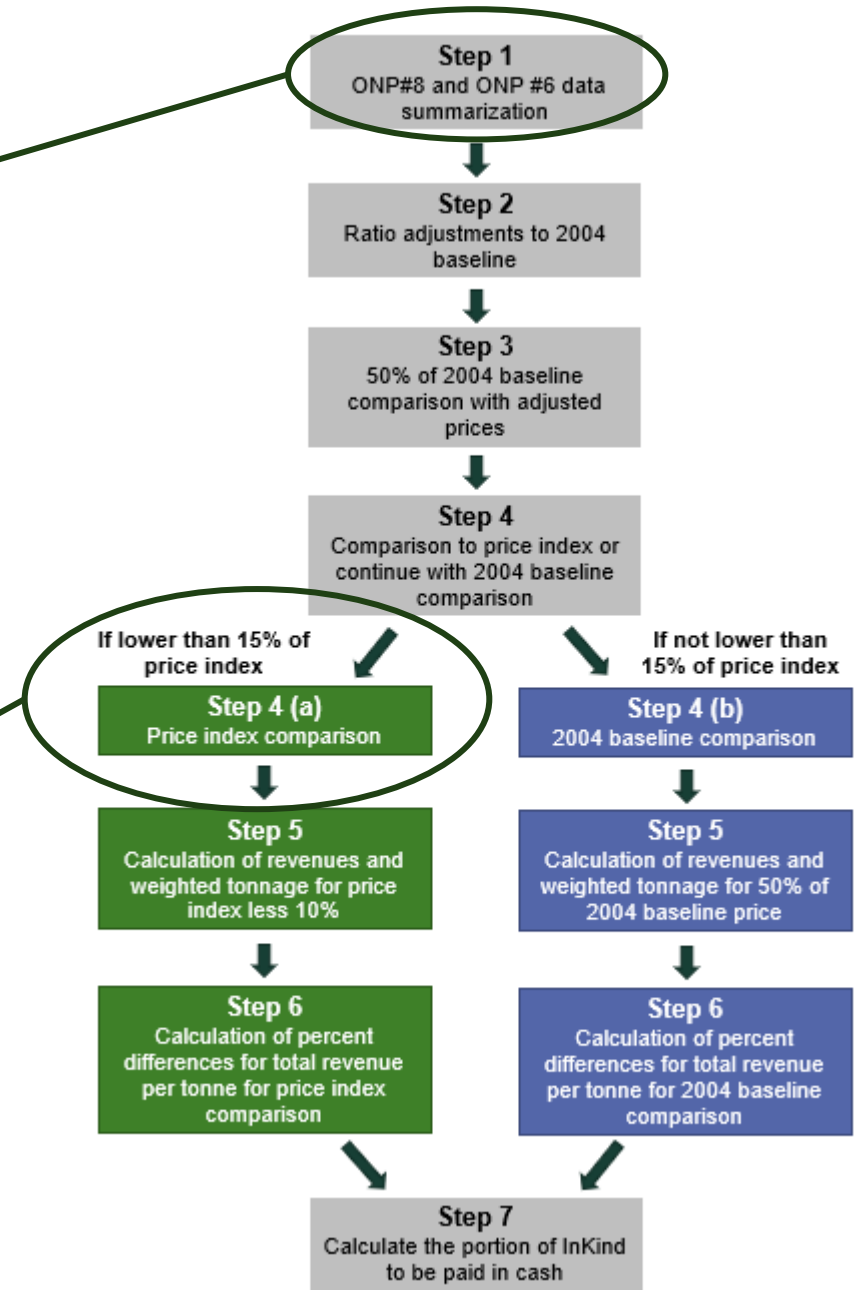
Issues for Calculation During Transition

1. The initial comparison required to determine if a partial cash payment calculation is triggered for a given year cannot be done with only one of the grades as the input. The calculation requires a comparison for both grades of ONP to determine if a cash payment needs to be calculated.

- A reduced Datacall dataset may result in fewer than two municipalities reporting tonnage and revenue for ONP#6

2. The second threshold comparison to the price index becomes unworkable with the absence of one of the two grades of ONP.

- In the absence of one of the two required inputs this calculation produces an inaccurate percentage.

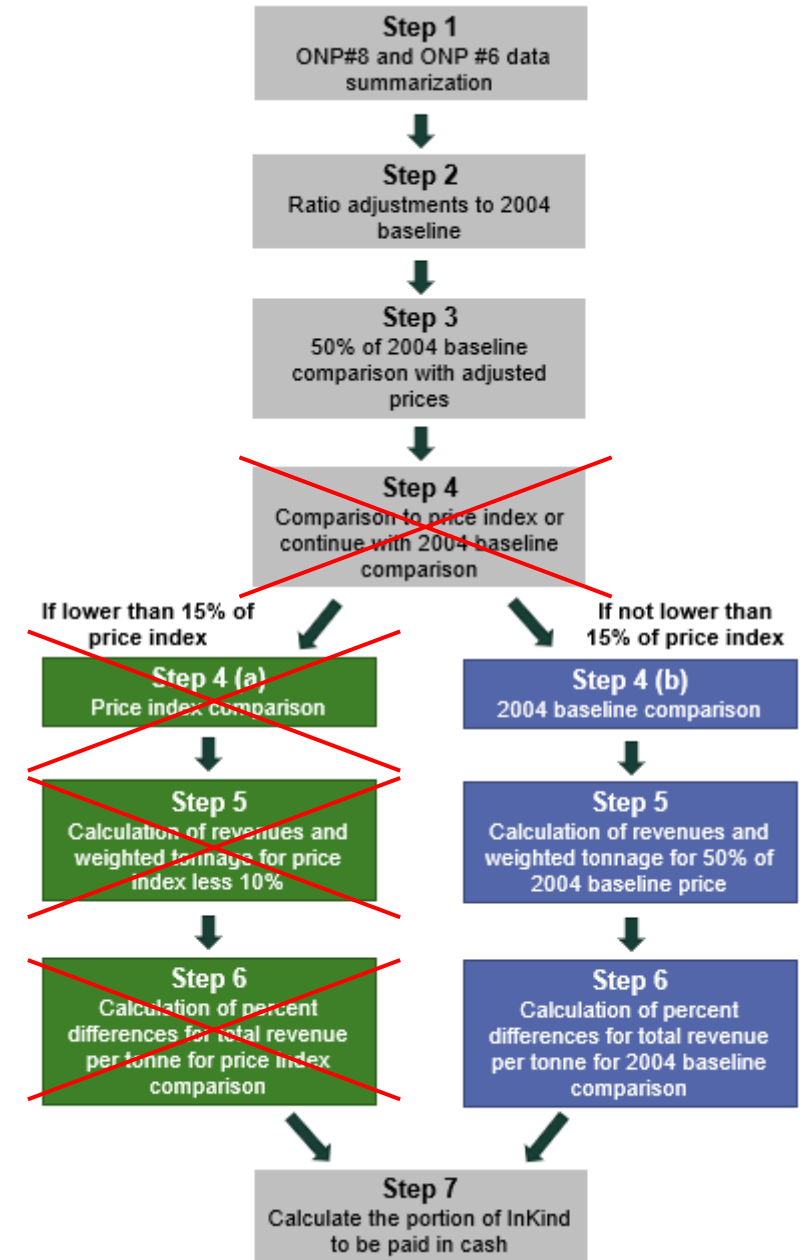


Recommended Adjustments to the Methodology

- The methodology to calculate a partial cash obligation for InKind is proposed to be adjusted for the 2024 and 2025 Blue Box Program transition years **to allow for calculation with only one grade of ONP, in the absence of data for both grades:**
- The initial comparison to determine if a cash payment calculation is triggered in a given year would be conducted with only one grade of ONP.
- When relying on only one grade of ONP, the methodology would omit the comparison to the price index.
 - Instead, use only the comparison to the 2004 Datacall baseline year.

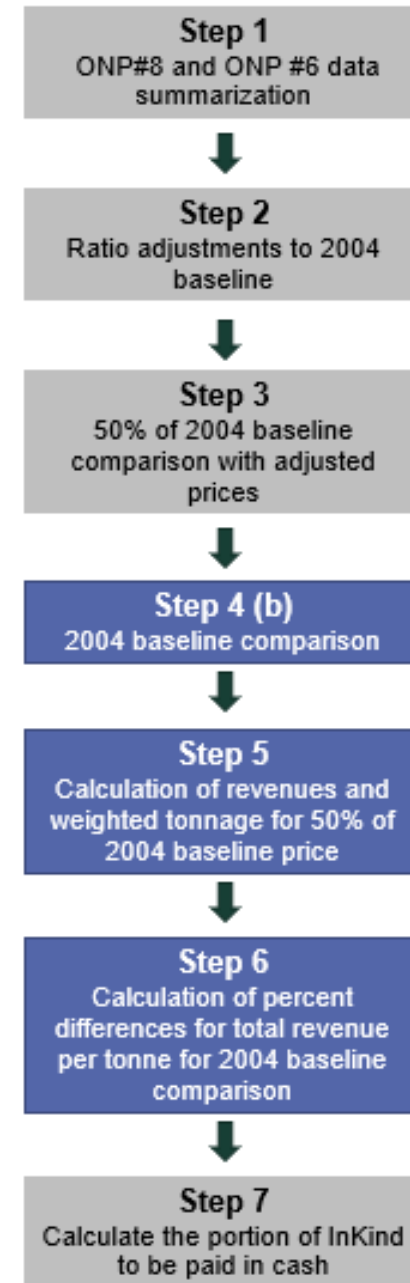
Recommended Methodology

- The recommended calculation adjustment omits steps 4(a) through 6 for **price index comparison**.
- It recommends the cash portion of the InKind obligation be calculated using only the **2004 baseline comparison (Step 4(b))**.



Recommended Methodology (Cont'd)

- This is the proposed new methodology.



Considerations for the Recommended Changes

- Alternative solutions, particularly those of a no-cash and an all-cash InKind obligation were also considered.
- Neither of these options follow the intent and principles of the 2005 Amendment, which contemplates a cash contribution in the face of certain market conditions.
- These are not viable solutions due to the specific interests of the stakeholders (the NMC/OCNA newspaper stewards and the municipalities).
 - Municipalities would not agree to a no-cash option.
 - NMC/OCNA newspaper stewards would not agree to an all-cash payment.

Impacts of the Recommended Changes

- The recommended changes to the methodology operate within the parameters of the original methodology.
- The changes will only affect 2024 and 2025 program years.
- The cost of the legacy Blue Box Program and therefore the total Steward Obligation is expected to decline significantly through 2024 and 2025.
- No other funding methodology (e.g., the Steward Obligation or the Municipal Funding Allocation Model) would be impacted by this change.

Next Steps

- Submit your feedback on the recommended changes to the methodology to calculate cash portion of the InKind obligation to consultation@stewardshipontario.ca on or before December 9, 2022
- In particular, SO is seeking feedback on the following topics:
 1. Do you support the proposed revised methodology to allow for the cash contribution of the InKind obligation to continue to be calculated during the Blue Box Program transition?
 2. If not, do you have an alternative methodology to propose to continue calculating the cash contribution of the InKind obligation?
- If you have questions about the proposal or would like to discuss it in more detail, email us at consultation@stewardshipontario.ca
- As a reminder, the following topics are out of scope of this consultation:
 - previously invoiced or calculated cash payments under the InKind Advertising Program
 - newspaper steward obligations under the RRCEA

APPENDIX



Methodology for Partial Cash Calculation

Step 1

- a) Summarize the marketed tonnes and revenue for ONP#8 and ONP#6 for the 2004 Datacall baseline year and the year in question.
- b) Calculate a revenue per tonne price for each grade of ONP, for both years.
- c) Calculate the ONP #8 to ONP #6 tonnage ratios for both years.

Step 2

- a) Adjust the given year's tonnage to the 2004 Datacall baseline year's ratios calculated in Step 1(c).
- b) Adjust the revenue for given year based on the weighted tonnage from Step 2(a).

Step 3

Compare the given year's revenue per tonne prices to 50% of 2004 Datacall baseline year's revenue per tonne prices.

→ If the given year's prices are less than the 50% threshold of 2004 Datacall baseline year's prices, then the mechanism for calculation of a cash portion of In-Kind is activated. If not, then there is no portion of the total InKind contribution to be determined in cash.

Step 4

If the given year's prices are less than 50% of 2004 Datacall baseline year's prices, then the given year's prices need to also be compared to a price index for ONP#8 and ONP#6 for that year.

a) Should the price of ONP # 8 and ONP # 6 reported in the Datacall in any year be 15% lower than the average price index for these grades for the year, the price index less 10% will be used to calculate the revenue for the year in question for the purposes of the comparison to the baseline year of 2004 Datacall baseline year.

Price Index less 10% is only used for the material grade which crosses the threshold. If a material grade does not cross the 15% threshold comparison, then the given year's Datacall price is used for that grade of ONP.

b) If the 15% threshold for the payment is not crossed for the comparison to the price index for the given year, then the methodology reverts to the calculation of the partial cash payment as done in comparison to the 2004 Datacall baseline year prices.

IF USING STEP 4(a):

Step 5

- Calculate the revenues for ONP#8 and ONP #6 using the price index less 10% or the given year's Datacall price, and the weighted tonnage, based on the result of the comparison done in Step 4(a).
- This is to calculate a total revenue to determine a revenue per tonne price based on the price index less 10% and weighted tonnage.

Step 6

- The revenue per tonne based on the price index is compared to the 2004 Datacall baseline year's adjusted revenue per tonne. The percent difference between the two prices is the portion of the InKind amount to be paid in cash.

Step 7

Calculate the cash portion of InKind obligation.

IF USING STEP 4(b):

Step 5

- Calculate the revenues for ONP#8 and ONP #6 using 50% of the 2004 Datacall baseline year price and the weighted tonnage.
- This is to calculate a total revenue to determine a revenue per tonne price based on the 50% of the 2004 Datacall baseline year price and weighted tonnage.

Step 6

- The revenue per tonne based on the 50% of the 2004 Datacall baseline year price is compared to the given year's adjusted revenue per tonne. The percent difference between the two prices is the portion of InKind to be paid in cash.

A photograph of recycling bins and cardboard boxes on a sidewalk. The image is overlaid with a semi-transparent grey rectangle containing text. The background shows a residential street with a house and a fence.

Thank You

Submit your feedback to consultation@stewardshipontario.ca