



Background to Setting 2004 Stewards Fees

The Minister for the Environment has approved the fees to be paid by stewards for the period July 1 through December 31, 2004, after posting on the Environmental Bill of Rights for comment.

The new fees reflect the increase in the payments to be made to municipalities as agreed by Waste Diversion Ontario for this program period.

Total Industry Obligation

The *Waste Diversion Act* requires industry and municipalities to each share 50% of the net cost of Ontario municipal 'Blue Box' programs. For the first year of the Blue Box Program Plan (2003) (BBPP), the net cost of municipal 'Blue Box' programs for the purpose of setting the first year obligation was negotiated between Stewardship Ontario and the Association of Municipalities of Ontario to be \$62.5 million. The corresponding fees were presented in the BBPP. The actual cost of the 'Blue Box' system was calculated subsequently to be significantly higher.

When the Minister approved the BBPP, she approved the 2003 fees to June 30, 2004 and required a revised fee schedule for the following six months, July 1 through December 31, 2004. The figure for the net cost of municipal 'Blue Box' programs for the purpose of setting fees for this period was re-negotiated to be \$84 million and was intended to close the gap between original BBPP cost projections and reported actual municipal system costs. Data collection now completed and verified indicates that these costs are in the order of \$100 to \$110 million.

Calculation of Fees

As presented in the BBPP, stewards' fees are determined based on the actual cost to manage each specific material type within the Ontario 'Blue Box' system. The cost to manage each material is determined through detailed activity based costing as described in Appendix IX of the BBPP.

The first year fees presented in the BBPP were based on the best available data at the time the plan was prepared. This included previous cost allocation studies based on methodologies the same as or very similar to the methodology presented in the BBPP.

When the 2002 actual municipal cost data were compiled and the system was cost re-negotiated to \$84 million, rather than simply increase the rates proportionally, the Materials Packaging Advisory Committee (MPAC) (note 1 below) recommended that further cost allocation field studies be undertaken to:

- ⇒ improve the material cost data
- ⇒ make the data more current, and
- ⇒ ensure that there continued to be a link between the allocation of cost (and obligation) and the real cost to manage each material in the municipal 'Blue Box' system.

This work was approved by the Stewardship Ontario Board of Directors and was undertaken from November 2003 through mid-February 2004. The results of the study were reviewed by MPAC on February 17, 2004 and the report on the methodology and the results of the project has been posted on the Stewardship Ontario website (www.stewardshipontario.ca). The resulting material costs are considered to be very representative.

In addition to gross material costs, the fees are influenced by revenue from the sale of recovered materials. For determining the 2004 fees, the WDO Cost Containment Committee agreed to use the three-year average of revenue reported by municipalities in the 2002 datacall and apportioned to individual materials based on the three-year average of CSR price sheet (a monthly survey of market prices).

Lastly, the total quantities of material recovered through municipal recycling systems increased from 2001 to 2002. The quantities managed and the material specific recovery rates both affect the fees through the funding formula.

The funding formula (note 2 below) used to allocate the industry obligation to each material to determine the 2004 fees was exactly the same as that used to determine the first year fees presented in the BBPP. The funding model was re-run, populated with the updated material gross costs, revenue and recovery rates.

The following tables illustrate the key changes and the reasons for the changes.

Table 1 – Summary of Changes to the Stewards Fees

Material	BBPP (¢/kg)	2004 Fees (¢/kg)	Change	
			(¢/kg)	(%)
Newsprint	0.028	0.026	(0.002)	-6.2%
Magazines and Catalogues	0.081	0.310	0.229	281.1%
Telephone Books	0.081	0.687	0.606	751.0%
Other Printed Paper	0.251	1.318	1.067	425.5%
Paper Packaging	4.728	5.987	1.259	26.6%
Plastics	6.692	9.610	2.919	43.6%
Steel	3.633	4.391	0.757	20.8%
Aluminum	(5.465)	(3.193)	2.271	41.6%
Non-LCBO - Flint	3.723	3.682	(0.041)	-1.1%
Non-LCBO - Coloured	4.016	3.916	(0.101)	-2.5%

Table 2 – Summary of Reasons for Changes to Stewards Fees

Material	Gross Cost to Manage	Revenue	Fee	Key Reasons for Change
Newsprint, DMG	~	~	↑	Overall system cost increase
Other Printed Paper	↑	↓	↑	New Data, Revenue, Overall system cost increase
Corrugated Cardboard	↑	~	↑	Better allocation IC&I tonnes, Overall system cost increase
Boxboard	↓	~	↑	Improved allocation method, Overall system cost increase
Plastics	↑	↓	↑	Better data, Single serve, New products, Revenue, Overall system cost increase
Steel	~	↓	↑	Revenue, Overall system cost increase
Aluminum	↑	↓	↑	Better data, More clean-up, Revenue, Overall system cost increase
Glass	↓	~	↓	Reduced Sorting - lower value uses

Notes from text:

- 1) MPAC is composed of 21 industry associations and companies with groups representing each packaging material and printed paper.
- 2) The formula is based on three factors: i) net cost, ii) recovery rate and iii) equalization, weighted 40% 40% and 20% respectively. The weightings remained the same for setting fees for 2004 as for 2003.

Stewards' Payments

Please note that stewards DO NOT have to resubmit data for 2002. Stewards' fees for July 1 through December 31, 2004 will be calculated by applying the new fee rates (cents/kg) to the 2002 data (kg), prorated for the period from July 1 through December 31, 2004.