



AMO and AMRC Discussion Paper For An Alternative Approach to Ontario's Blue Box Funding Model

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Executive Summary:

There is a growing need to revise the current Blue Box funding model as municipalities are becoming more vulnerable to the rising waste management costs. The combined effect of managing more Post Consumer Packaging and Printed Paper that is difficult to recycle, and the anticipated designation of other diversion programs, such as kitchen organics and leaf and yard wastes, leaves municipalities burdened with costs that could otherwise be avoided.

In this paper, municipalities have identified an opportunity to align the current Blue Box model with other recent material designations under the Act, where end-of-life responsibility is fully borne by the industry that produces the product. Shifting the financial responsibility of managing Post Consumer Packaging and Printed Paper material from the property tax-payers, who currently subsidize an industry created problem, to a model where the industry has full financial responsibility, could produce a beneficial outcome for all parties involved.

The Association of Municipalities of Ontario (AMO) and the Association of Municipal Recycling Coordinators (AMRC) are addressing this issue with the understanding that the Province was interested in hearing more about the concept of a “functional split” or division of responsibilities associated with the Blue Box Program. The idea of a “functional split” for a diversion program is not something new to municipalities, industry or the Province, as all three parties used this model to allocate costs and responsibilities in the first phase of the Municipal Hazardous and Special Waste (MHSW) program. This is about to change as the Minister of the Environment has recently given direction that management of MHSW is to be fully borne by the stewards of this material. While this idea was perceived at having merit during the development of the first phase of the MHSW program, it does not have merit with the Blue Box. Municipalities have determined that any changes in responsibility and revenue sharing could not be done in a way that would improve the Blue Box system from its current state. Nothing short of industry assuming 100% of the costs to manage **all** postconsumer packaging and printed paper would address the fiscal imbalance in the current Blue Box model and be consistent with the other diversion programs which were recently approved¹.

¹ AMO/AMRC continues to support the relatively new deposit return program which directly provides consumer incentive to return wine and spirit containers to the Beer Store, removing materials from the Blue Box. The 1st Phase of the Municipal Hazardous and Special Waste Program, is to be amended to provide for industry stewards assuming 100% of the costs, currently it is a Functional Split. The Minister of the Environment has also given direction that MHSW Phases 2 and 3 are to be developed with industry stewards assuming 100% of the cost. The 1st phase of the Waste Electronic and Electrical Equipment Plan has been approved with Industry stewards assuming 100% of the cost.

This discussion paper examines various options associated with a change in the financial responsibility of the Blue Box Program and outlines the impacts on municipalities with each option. The AMO and AMRC Recommended Action Plan for an alternative Blue Box funding approach includes:

Recommendation 1:

Increase financial obligation of industry for all costs associated with all Post Consumer Packaging and Printed Paper produced. This would be achieved through a phased-in approach as outlined in this discussion paper as option 4 and option 5:

Phase 1 - Implementation of option 4 as outlined in this discussion paper where industry would become responsible for 100% of the Blue Box costs under an **Expanded** list of designated Blue Box materials to include all post consumer packaging and printed paper. As well industry would become responsible for 50% of the **Costs for Packaging and Printed Paper in the Waste and Litter Stream**. This option would require 3 years to implement.

Key changes that would need to be made before this phase can be implemented are:

1. Change sec: 25(5) of the Waste Diversion Act from the current 50% cost share with municipalities to full responsibility to industry to pay for all costs of printed paper and post consumer packaging;
2. Regulation 101/94 be revised to expand the list of Blue Box material to include all printed paper and packaging produced;
3. Review and revise the Blue Box Program Plan to align with the recommended action plan of this report.

Phase 2 - Following full implementation of Option 4, Option 5 be implemented – Full Extended Producer Responsibility –Where industry is responsible for **all** costs of post consumer packaging and printed paper including what is managed in the litter and waste stream.

Recommendation 2:

Ministry set strict recovery targets within the timeframe of the pending Michigan border closure so that 90% recovery is reached by 2011.

Recommendation 3:

Ministry enforces non-compliance penalties for industries that ‘free load’ off other Stewards and establish directives for foreign importers that they meet packaging guidelines/directives set out by the Province.

Recommendation 4:

Require producer management of problematic materials through a specialized recovery plan or deposit-return system.

Recommendation 5:

Appropriate Province-wide communication on transition of Blue Box Program. Also, effective ongoing public education to promote the Blue Box Program.

Definitions

For the purposes of this paper, the following definitions are provided:

Blue Box Collection costs: are costs associated with the collection of Blue Box waste materials as defined under *O.Reg. 273/02*, as amended and collection of all Schedule 1 Blue Box Waste as defined in *O.Reg. 101/94*, as amended.

Blue Box Processing costs: all costs of processing Blue Box materials in recycling facilities owned or operated on behalf of a municipality.

Blue Box Revenues: this is the money received from the marketing and selling of Blue Box materials and all corresponding revenues obtained by municipalities and operators of private sector recycling facilities from the sale of Blue Box material.

Costs for Packaging and Printed Paper in the Waste and Litter Stream:

These are the estimated costs to manage post consumer packaging and printed paper that is not diverted through the Blue Box.

Extended Producer Responsibility: this is the transfer of costs and/or physical responsibility of waste management from local government authorities and the general taxpayer to the producer. This creates the setting for a market to emerge that truly reflects the environmental impacts of the product, and in which consumers could make their selection accordingly.

Other Blue Box costs: are all costs associated with the administration of Blue Box collection, processing and marketing. This also included costs for promotion and education to residents.

Post Consumer Packaging and Printed Paper: is any printed paper or packaging generated by industry and managed in municipal waste systems.

1.0 Introduction

The 5-year review of the Blue Box Program Plan (BBPP) is fast approaching. Since the Approval of *the Waste Diversion Act*, in 2002, Regulation 101/94, Regulation 273/02 and the *BBPP*, municipalities have identified fundamental flaws in the manner in which the Blue Box program costs have been calculated. In Section 25(5) of the Act, industry Stewards are supposed to provide funding to municipalities equal to 50 per cent of the total net cost of the program.

Municipalities have not come close to receiving the 50% reimbursement from industry for managing **all** Post Consumer Packaging and Printed Paper. It is estimated that municipalities are still paying greater than 60% of the total cost to manage all Post Consumer Packaging and Printed Paper generated². Unfortunately, the lack of balance in the Blue Box legislation has resulted in poor direction to Producers to ensure packaging is designed for easy recyclability. There is also little guidance to industry to maintain minimum levels of recycled content in new products, which would help sustain recycling markets. This lack of balanced direction has created innumerable problems for municipalities; from collection and processing challenges to product contamination weakening the value of material marketed. Whether it is through the Blue Box, litter or landfill, municipalities are the ones that deal with the material once it reaches the waste cycle, and yet we have no control over the decisions of design in packaging or printed paper.

Since the initial Blue Box Regulations were passed, the nature of packaging has undergone dramatic changes. Greater quantities of less valuable materials are showing up in the Blue Box and municipalities subsequently cannot recycle them. The Blue Box Regulation has not kept up to the changing dynamics of the packaging industry, nor can it compare to other Ontario diversion programs, such as Waste Electronics and Electrical Waste (WEEE) that have elements of full Extended Producer Responsibility (EPR).

This paper outlines the following fundamental issues for discussion:

- Designating all Post Consumer Packaging and Printed Paper material;
- Extending producer responsibility for the cost of managing Post Consumer Packaging and Printed Paper in the litter and garbage stream;
- Minimizing Blue Box costs to municipalities so that other diversion Programs can be financially managed.

²The additional cost of managing consumer packaging through Litter clean up and garbage disposal is estimated to cost municipalities more than \$80 million, see *AMO/AMRC Discussion Paper on Strengthening Extended Producer Responsibilities for Ontario's, Blue Box, August 2007*,

Presented in this paper are five main options that have been considered by municipalities for an alternative funding approach to the current Blue Box funding model, accompanied by a list of guiding principles and transition issues that would need to be addressed prior to any final changes to the Blue Box Program.

1.1 Historical Background

During the late 1980's funding for Blue Box recycling was provided to municipalities by the Province and industry for payment of capital expenses for recycling programs. Additionally, the Province also provided funding for operating expenses for these programs, which overall amounted to each sector, (municipal, provincial and private sector) paying a third of the cost of the Blue Box. Both industry and provincial sources of funding were eliminated in the early 90's and municipalities were left to shoulder the entire cost of the Blue Box until 1994, when the Province mandated Regulation 101/94 of the *Environmental Protection Act* for Ontario's municipalities to implement a Blue Box recycling program. The Regulation stipulated the mandatory recycling of some material and voluntary recycling of other materials. At the same time that municipalities were mandated to manage the residential recycling program, major institutional, commercial and industrial generators of waste were also tasked with creating their own source-separated waste programs to ensure that valuable materials were diverted from landfill.

As time went on, the costs of Blue Box recycling and processing programs began to rise and municipalities and industry Stewards became the primary entities directed by the Province to manage and pay for Ontario's Municipal Blue Box Recycling Program. In 2002, the Province enacted the *Waste Diversion Act* (WDA) and established *Waste Diversion Ontario* (WDO) to help achieve the Provincial goal to reach 60% diversion by the end of 2008. The Blue Box Program Plan was drafted and the first industry Funding Organization, *Stewardship Ontario*, was created to ensure that all companies who introduce packaging and printed paper into the Ontario consumer marketplace pay 50% of the costs for Ontario's Municipal Blue Box program.

The initial design of the Blue Box funding model envisioned an equal cost sharing partnership between municipalities and industry. Despite having this concept enshrined in the WDA, this has never been the case as at least 40% of the material is still in the garbage or litter and not subject to funding. It was only in 2007 that Stewards were levied to pay the full 50% of the costs to manage what was captured in the Blue Box, with the exception of CNA/OCNA that does not pay in actual monetary funds but rather "in kind" publications, a concept rejected by municipalities but favored by the Province (see Appendix B).

Municipalities currently carry out all responsibilities associated with managing post consumer packaging with little opportunity to influence change in packaging designs. There are many examples of low value materials and new products which are problematic in the system and are more explicitly dealt with in the Association of Municipalities of Ontario (AMO) and Association of Municipal Recycling Coordinators (AMRC) Position Paper titled *Improving the Efficiency of the Blue Box Program*³.

1.2 Urgency of Moving to New Blue Box Funding Structure

The urgency of moving to a new Blue Box funding model at this time comes from the concern that as more waste materials are designated by the Province for diversion, the costs will dramatically increase for municipalities. This would be especially true if Source Separated Organics (SSO) which includes kitchen, and leaf and yard wastes, were to be designated, where there is no identified Industry Funding Organization (IFO). This could mean that municipalities would be fully responsible for implementing and funding the entire program.

Although municipalities have historically played a role in collecting and managing residential waste, it is not sustainable to expect municipalities to pay for the ever-increasing amounts of non-recyclable packaging and printed paper that industry produces. The combination of new diversion programs coming on-line and the current trend of industry moving to more disposable packaging design choices, compounds the financial burden on the municipal tax payer. There needs to be a sound framework within regulation that has the right incentives and penalties so that the desired outcome of true waste reduction and diversion is achieved.

1.3 Problems and Concerns with the Current Blue Box Program Design

Stewards Not Paying to Manage the Waste they Produce

The initial design of the Blue Box cost sharing model between municipalities and industry has resulted in a reimbursement system based only on the material that actually ends up **in** the Blue Box and does not reflect the costs of managing **all** packaging and printed paper produced and introduced into the market. Much of this additional packaging material goes directly to landfill or into the litter stream, ultimately disposed of and sent to landfill. Considerable amounts of packaging, due to the nature of its composition, have either no markets or very poor markets and are therefore landfilled rather than recycled. These costs are borne 100% by the municipal taxpayer.

³ IMPROVING THE EFFICIENCY OF THE BLUE BOX PROGRAM, An AMO-AMRC Position Paper, June 2006.

The industry funding levies that exist have gradually evolved to penalize hard-to-recycle packaging produced by Stewards, but this does not directly translate into more funding to municipalities. It only offsets the costs to those Stewards who have a more cost efficient product to recycle and/or a well-established market. The new levy structure does not have any effect on producers of packaging that is non-recyclable as they are completely exempt from fees as their material never enters the Blue Box. Therefore the Blue Box funding model, in its current design, indirectly encourages industry to move to more non-recyclable packaging where levies do not exist rather than to develop source reduction strategies for packaging or improving the recyclability of packaging.

Table 1 shows the breakdown of relative waste management costs. Under the current arrangement of the Blue Box Program Plan, municipalities should receive \$72 million⁴ from industry Stewards, of which only \$57 million is paid in cash with the remainder paid through in-kind contributions⁵ or retained through the Continuous Improvement Fund (CIF)⁶. The municipal taxpayer is burdened with subsidizing the cost that should be paid by industry for the management of packaging and printed paper in litter and in the garbage. It begs the question in this climate of the growing municipal fiscal gap, why are municipalities mandated to continue to subsidize the private sector? Currently municipalities carry out all responsibilities associated with managing post consumer packaging with little or no opportunity to influence change in packaging designs.

TABLE 1: TOTAL WASTE OPERATING EXPENDITURES FOR ONTARIO MUNICIPALITIES 2006*

Year	Waste Collection Costs ^v	Waste Disposal Costs ^v	Municipal Recycling Costs			Total ^v
			Municipal Cost for Blue Box and Other Consumer Packaging and Printed Paper	Industry Obligation to Blue Box Recycling	Estimated Remaining Municipal Recycling Costs ^{**v}	
2006	\$241,639,912	\$361,578,563	\$161,903,956	\$ 72,096,044.50	\$127,406,635	\$964,625,110

* Ministry of Municipal Affairs and Housing, Total Operating Expenditures for Ontario Municipalities, Financial Information Return, 2006, **Estimated Remaining Municipal Recycling Costs** are those associated with other programs such as MHSW, WEEE and Organics

^vCost may include cost for institutional and commercial waste managed by municipalities.

NOTE: Please refer to *note* under Table 2 regarding explanation of industry obligation number discrepancy.

Market Instability

Markets for processed recyclables vary. The market value at the time of sale of the processed recyclables is governed by the need for the material, the quality of the product, the quantity of material and the transportation costs. The transportation costs for Northern and rural communities significantly reduce the value of the material being marketed. Viable markets must re-use and recycle (recover) paper and packaging regardless of location or collection method, otherwise they will end up in the disposal stream. The MOE may want to

⁴ WDO reported that funding to municipalities under the Blue Box Program Plan (BBPP) in 2008 is \$66million plus approximately \$5million in LCBO transition funding: www.wdo.ca

⁵OCNA-CNA In-kind contribution of \$1.8million (see Appendix B)

⁶ The Continuous Improvement Fund (replacing the Efficiency and Effectiveness Fund) has been established through an agreement with WDO, AMO, City of Toronto, and Stewardship Ontario to fund municipally sponsored projects that increase the effectiveness and efficiency of municipal Blue Box programs. This is calculated as 20% of remaining cash funding to municipalities equal to approximately \$13million.

consider identifying a specific residue contamination allowance for materials processed under *O.Reg. 101/94*, to further encourage non-production of residue packaging or hard-to-identify materials. Such residue allowance would, logically, over time, decrease to zero.

Another market concern for municipalities is how to deal with the ever-changing quality and quantity of material that producers are choosing to create. An example of this can be seen through the aluminum markets. Historically aluminum was considered the only product that had a stable market and could be consistently counted on for value. The soft drink industry however, has decreased the quantity of soft drinks sold in aluminum cans and is increasing the use of Polyethylene Terephthalate (PET) bottles that have a significantly lower value as a recyclable material compared to aluminum. Therefore even the most dependable product is starting to have some instability.

Similarly in the plastics market, the introduction of PETG (Glycol-modified Polyethylene Terephthalate), a new and indistinguishable lower grade of plastic, has caused problems for recyclers. While this introduction of cheap plastic is helping the profit margins of industry, it is also making PET worthless to mills as PETG is considered a contaminant to the recycling process of conventional PET.

Municipalities do not design these products and yet have been charged with the responsibility of trying to market material that is becoming worthless. The only way to stop this downward spiral of market instability for recycling is to create new demand to ensure the consistency of revenue. Municipal taxpayers should not be the ones that have to shoulder the cost associated with industry Stewards' packaging design choices.

Diversion Goals

The main drivers behind the Province's admirable diversion goal of 60% is to minimize the ecological and carbon foot-print on the land and conserve valuable resources through recycling. Industry however, has very different goals and drivers compared to that of the Province and municipalities. Industry's primary focus is on their profit margins, where as for municipalities, it is to provide waste management services to its residents. Municipalities responsible for their own landfills work especially hard to conserve landfill space by creating incentives for their residents to reach diversion goals. The more reusable and recyclable material redirected from disposal, the longer the life expectancy of a landfill.

Investment Needed for Improvement

The needs and desires of residents drive municipalities to continually work to improve their recycling programs. To do this, requires flexibility for change and investment to expand and make improvements. Unfortunately, for municipalities, who are under funded for their diversion programs by industry, they do not have the available financial resources to invest in program expansion. As a result, inefficient programs continue to be inefficient and become open to criticism for poor recycling performance. Municipalities need investment to become more effective and efficient.

WDO Board Structure

The Minister of the Environment approved the restructuring of the Board which will have a more balanced structure to reflect a broader membership at large. AMO supports this change.

1.4 Examples of Alternative Funding Models for Packaging Stewardship in Other Jurisdictions:

Europe - Strict Regulatory Framework

In Europe, Germany is a prominent example of a jurisdiction where a full Extended Producer Responsibility (EPR) program for packaging waste has been implemented. In 1993, Germany's *Ordinance on the Avoidance of Packaging Waste* gave retailers the option to either 'take back' all post consumer packaging at the point of sale or set up a system that meets the program's reuse and recycling goals. The collective of industry packaging Stewards decided to go with the latter option and created the Duales System Deutschlands (DSD), who became the organization responsible for the collection network for all glass, metal, plastic and fiber containers. DSD also provides centralized "igloo bring banks" for householders to deposit their printed paper and glass. Another interesting component of the DSD system is the provision made for Refuse Derived Fuels (RDFs). This is the recognition that some packaging is not effective to recycle, however can still be utilized as an RDF to provide for power generation for local residents and business⁷.

⁷ Der Grüne Punkt - DSD, Plastic Recycling, Product Specification; 365 Primary Product for RDF. www.gruener-punkt.de

In the first year of the program, the DSD collected four times the amount of plastic packaging that the program was designed for⁸. Since 1993, the program has had to overcome different growing pains; however it has effectively increased the awareness of packaging costs to both the consumer and producer. As a result, producers in Germany have taken steps to reduce the amount of packaging they produce or enhance the recyclability of their packaging.

The German model has been criticized for being too end-of-life focused and has been viewed as a costly program for consumers of Germany. The German DSD program's net cost for 2004 was \$550 million⁹ and was considered high for a diversion program. However when this cost is translated into a cost per tonne of \$122/tonne¹⁰ and compared with Ontario's 2004 cost per tonne of \$134/tonne¹¹, it is evident that although the DSD is an expensive program, it is also the most effective EPR program to date¹².

Ontario does differ from European countries in population and land mass. The cost to recycle materials here are different because we do not have the same economies of scale as in Europe, however elements of the German DSD model continue to make sense when considering changes to Ontario's model.

Australia - Voluntary Regulatory Framework

Australia's system differs from the European example in that it uses a voluntary approach. In 1999, two National policies were introduced to oversee the management of packaging waste; The National Packaging Covenant and the National Environmental Protection Measures (NEPM). Brand owners are given the choice to either: voluntarily sign the National Packaging Covenant which is an agreement to take full responsibility for ecological effects associated with their organization's activities, or adhere to NEPM, which requires producers and retailers of packaging to establish:

- Reliable recovery system for used packaging and do so in an ecologically sound manner (i.e. Reduce, reuse, recycle)
- Inform consumers on how to properly return packaging
- Report annually to State Government on the amount of packaging put in the market and how obligations have been met

The Australian approach is designed to give flexibility to signatories of the covenant. This element of the model however, has been criticized for being too soft on producers and is not fully supported by government officials as there are no universal performance measures and some industry action plans have been sighted as weak¹³.

⁸ Motavali, Jim. The Producer Pays. E: The Environmental Magazine. Norwalk: May/June 1997. Vol.8, Iss.3, pg. 36-41

⁹ Profits warning: why Germany's Green Dot is selling up, letsrecycle.com, 25-11-2004

¹⁰ Profits warning: why Germany's Green Dot is selling up, letsrecycle.com, 25-11-2004,

¹¹ 2004 Ontario Blue Box Net cost /tonne. www.wdo.ca

¹² Quin, Lisa, 2004. *Stewardship of Plastic Packaging*. University of Manitoba and National Library of Canada, 2004pg 61-70.

¹³ William G., 2003, March 3. A New Covenant: Some Issues. www.packcoun.com.au

Canada - Diverse Regulatory Frame Work

Within Canada there are a number of examples of different models where industry is responsible for the majority, if not all the costs associated with recycling of packaging and printed paper.

New Brunswick and Nova Scotia

Both New Brunswick and Nova Scotia use the 'half-back deposit' model where consumers pay a full deposit on all beverage containers, printed paper and cardboard packaging. The consumer is responsible for taking their packaging waste to the Redemption Centers where containers are prepared for processing at one of two plants: Neighbourhood Recycling (for alcoholic beverage containers) and Encorp Atlantic (for non-alcoholic containers)¹⁴. Refillable containers such as glass bottles receive a full refund whereas non-refillable containers receive only half of the deposit refunded. In New Brunswick, the retained deposits for non-refillable containers are used to pay for the collection and disposition of litter and promotion and education of the deposit system¹⁵. Nova Scotia has also decided to utilize the retained deposits for the development of local recycling markets within the Province.

The criticism of implementing a full deposit return system in Ontario is that it would mean abandoning the infrastructure that already exists for curbside collection which, helps to make recycling easier for the participant. Industry has also criticized these programs for poorer performance and high costs.

Manitoba

Manitoba's Product Stewardship Plan (MPSP) is unique in that it is managed by the Manitoba Product Stewardship Corporation (MPSC) which is an independent, non-profit organization representing the interest of all sectors of Manitoba. This includes consumers, industry, municipalities and governments. This system implements a two cent per container levy that is applied to all non-deposit and non-dairy beverage containers sold in the Province. In parallel to the MPSP program, there is a deposit return program for beer containers only and is managed directly through Brewers Distributor Limited. The accumulated levy collected from the MPSC supports over 80% of the cost to manage municipal recycling programs in the Province¹⁶.

¹⁴ The N.B. Liquor Corporation has contracted with Neighborhood Recycling to process all alcoholic beverage containers.

¹⁵ S.N.B. 1991, c. B-2.2

¹⁶ <http://www.bottlebill.org/legislation/canada/manitoba.htm>

The Manitoba program is flexible and allows for municipalities to design their recycling program(s) to the specific needs of the community. Each municipality is free to establishing, promote, expand, and maintaining their own recycling services¹⁷.

1.5 Benefits of Ontario Moving to an Alternative Funding Model for Packaging Stewardship:

Moving more responsibility to Stewards that produce packaging and printed paper makes sense to do at this time for a number of reasons.

Overall control of system design; Ability to implement best practices in every municipality

Shifting this responsibility to the private sector would also provide for consistency of decisions across the Province, helping to establish a more uniform Blue Box program. Most importantly the benefit to Stewards for taking full responsibility for their waste is that it is good for business. Decisions could be made faster, with decreased time spent negotiating with the municipal sector. Stewards would also take control of all advertising and communication strategies.

Control of fee structure will drive better product design which will in turn drive costs of end of life product management down

It would provide Stewards with the ability to achieve higher recovery rates through their involvement in the management of the entire life cycle of the product. Waste management costs would be reflected in the product price, instead of being subsidized through municipal taxation.

Residuals will be reduced as a result of more efficient design

It is also reasonable to expect a positive change in product design for increased recyclability as a result of this increased responsibility. Consumers are becoming increasingly aware of the ill effects of excess consumer packaging and are more environmentally motivated in their purchasing choices. Consumers have begun to communicate their willingness to pay more for products, if their money ensures that Post Consumer Packaging and Printed Paper is re-usable and/or recyclable in local and North American markets.

¹⁷ <http://www.mpsc.com/main.asp?contentID=25>

Municipal collection costs shifted to other materials

It will also be good news for municipalities who are beginning to see other materials designated by the Province for diversion from waste. Municipalities could utilize funds, which currently go toward subsidizing industries' costs for managing Post Consumer Packaging and Printed Paper generated, to the management of other diversion initiatives where Stewards are not readily identifiable, such as the kitchen organics and leaf and yard waste.

In anticipation of the closure of the Michigan border, municipalities will be drafting comprehensive residual waste management master plans, protecting residual landfill space remaining in Ontario and putting in place alternative residual waste treatment technologies and waste treatment plants. Having stronger initiatives from industry to reduce and minimize the packaging they produce will help to minimize the impact of residential waste municipalities will have to plan for.

Provincial Benefits

For the Ministry/Province, moving to an alternative funding approach that supports stronger EPR from industry would show the Province's commitment to waste reduction and diversion goals by ensuring strict enforcement and establishment of the right incentives for industry. Canada has most recently committed to a national strategy to reduce Canada's total Green House Gas emissions by 20% before 2020¹⁸. This commitment will certainly depend on the resource management of each province and with recycling deemed the better alternative to the extraction of raw material, it is imperative that producers become environmentally responsible for their packaging choices. Shifting more responsibility onto industry for their packaging would help Ontario to surpass goals of reducing Green House Gas emissions sooner and provide significant carbon savings to the environment.

The Ministry of the Environment, however, must remain involved in the alternative funding approach by mandating participation and performance measures through appropriate legislative tools. This critical role must continue through successful transition and beyond.

¹⁸Harper, Stephen. *A Healthy Environment for Canadians. Improving the Environment and Health of Canadians*. October 2007, <http://www.sft-ddt.gc.ca>

2.0 Guiding Principles

Municipalities have developed the following list of guiding principles that should be incorporated into any alternative Blue Box Funding Model.

Expand the List of Designated Materials

The current list of mandatory Blue Box waste material obligated under the Environmental Protection Act, Regulation 101/94 is broadened to include all printed paper and packaging produced.

Increased Financial Obligation to Industry

The producers of printed paper and packaging be responsible for all costs associated with all post consumer packaging and printed paper waste produced, whether it is in the Blue Box or not. This would also include the costs of managing residues from mills in accordance with the Waste Management Hierarchy¹⁹.

Ministry Set Strict Recovery Targets and Enforce Non-Compliance

Strict capture targets be established within the timeframe of the pending Michigan border closure so that 90% recovery is reached by 2011. Non-compliant producers should be penalized for 'free loading' off other Stewards and efforts should be put forward to ensure that foreign importers meet packaging guidelines/directives set out by the Province so that local producers are not put at a disadvantage in the market place. Ontario committed to taking the lead on packaging at the CCME table and this recommendation is consistent with their commitment. A detailed plan for defining and enforcing recovery targets should be developed before the funding model is initiated. The MOE should administer the compliance program, the targets and how it will be enforced.

Producer Management of Problematic Materials

Problematic materials that are hard to collect, process or market would require producers develop a specialized recovery plan that could include items going to a Deposit-Return system managed by the producer.

Effective Ongoing Province-Wide Public Communications and Promotion of Recycling

The Province needs to ensure that ongoing, province wide, effective communication programs are being carried out by industry to promote, educate and encourage participation to the Blue Box program. This communication strategy and program should be agreed upon by municipal governments and the MOE. The Province would also need to ensure that appropriate communication is made to the public regarding any transitions made to the current structure of the Blue Box Program.

¹⁹ AMO's Proposal for an Integrated Waste Management Strategy, December 2005

3.0 Financial Analysis

In 2006, WDO reported that 938,000 tonnes of Blue Box material was diverted from landfill equating to a 63% diversion rate. This means that the majority of almost 551,000 tonnes of Post Consumer Packaging and Printed Paper was not diverted and ultimately managed as litter or garbage at the municipal tax payer's expense²⁰. The total estimated cost to manage the non-diverted Blue Box material is approximately more than \$80 million²¹. In total, it is estimated that the cost to managing all Post Consumer Packaging and Printed Paper generated is greater than \$234 million²².

This entire cost represents almost 24% of the total municipal waste management costs for Ontario of \$965 million²³. Figure 1 below shows that in 2008 municipalities will receive less than \$57 million in cash²⁴ for their 2006²⁵ Blue Box program costs, covering less than 7% of the total cost to municipalities for waste management.

²⁰ It is recognized that detailed waste and litter audits are required to better quantify this number more precisely.

²¹ The estimated cost to municipalities for managing Blue Box material not diverted is calculated by multiplying the average cost of disposal (\$150/tonne) by the tonnes that are estimated as not diverted (551,000tonne)= \$83,000,000 and has been conservatively rounded down to \$80,000,000..

²² Estimated cost for managing all post consumer packaging and printed paper is from the total 2006 WDO reported BB costs of \$154million plus the estimated cost of \$80million to manage this material in the garbage and in the litter.

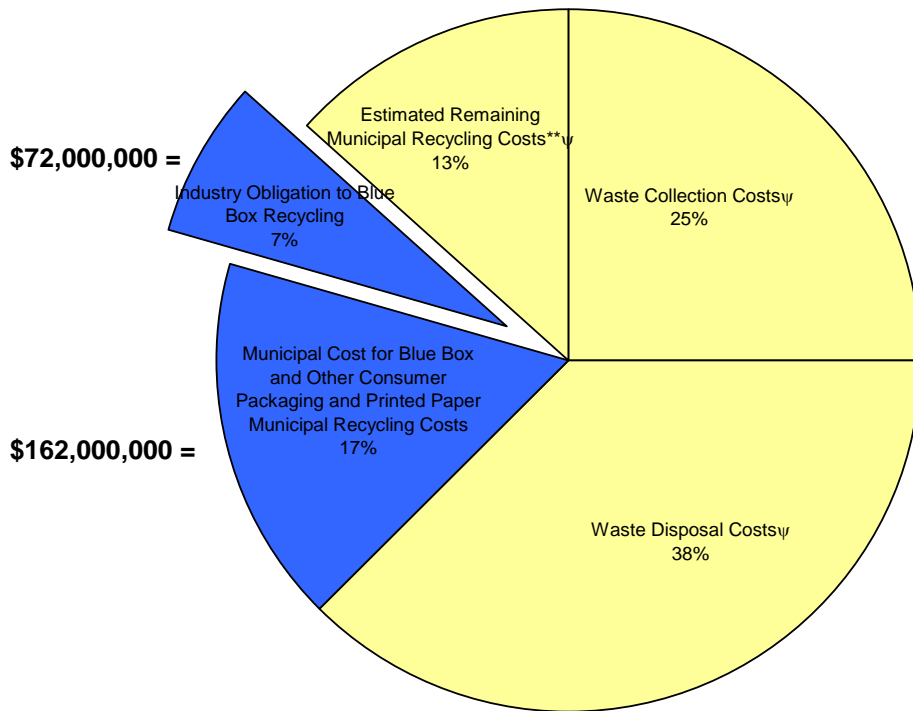
²³ Ministry of Municipal Affairs, Total Operating Expenditures For Ontario Municipalities, Financial Information Return, 2006

²⁴ This amount does not include the in-kind contribution for OCNA-CNA. See Appendix B

²⁵ The current Blue Box funding model is designed so that funding in any given year is based on the costs from two years prior.

Figure 1: 2006 Breakdown of Municipal Waste Management Costs (as reported by Ministry of Municipal Affairs and

Total Breakdown of Municipal Waste Management Operating Costs



Housing)

** Remaining Municipal Recycling costs are those that may result from other diversion programs such as MHSW, WEEE, source separated organics waste recycling programs.

†Cost may include cost for institutional and commercial waste managed by municipalities

NOTE: Please refer to *note* under Table 2 regarding explanation of industry obligation number discrepancy.

If industry were to pay the full cost of the Blue Box, municipalities would see a significant cost saving of over \$234million, which could be then used to strengthen other diversion programs that are coming on line.

4.0 Analysis of Options for Alternative Blue Box Funding Approach

The present Blue Box cost sharing model is designed so that both industry and municipalities are paying equal costs of managing the materials that are recovered in the Blue Box. Table 2 below shows the five main options that have been considered by municipalities for an alternative funding approach to the present Blue Box funding model that has effectively addressed the following fundamental issues of:

- Designating all post consumer packaging and printed paper material;
- Extending producer responsibility for the cost of managing post consumer packaging and printed paper in the litter and garbage stream;
- Minimizing Blue Box costs to municipalities so that other diversion Programs can be financially managed.

Table 2: Analysis of Alternative Blue Box Funding Model

	Present Day		Functional Split Analysis				Shared EPR		Recommended Phased-in Full EPR			
	Municipalities Incur All Costs upfront and in two years Industry reimburses 50% of these costs to Municipalities		Option 1 Municipalities Responsible for All Costs Except Processing, Municipalities Keep ALL Revenues		Option 2 Municipalities Responsible for Collection Costs and costs for packaging in the litter and waste stream, Municipalities Keep ALL Revenues		Option 3 Municipalities and Industry Share Costs for managing all Generated Packaging and Printed Paper		Option 4 Stewards become responsible for 100% of the Expanded Blue Box costs** and take on 50% of costs for packaging as litter and garbage		Option 5 Stewards are Responsible for All Packaging and Printed Paper Produced including 100% costs for packaging managed as Litter and Garbage	
COSTS(\$Million)	Municipal	Industry	Municipal	Industry	Municipal	Industry	Municipal	Industry	Municipal	Industry	Municipal	Industry
BB Collection Costs ¹	\$69	\$69	\$138		\$138		\$69	\$69		\$138		\$138
BB Processing Costs ²	\$38	\$38		\$75		\$75				\$75		\$75
Other BB Costs ³	\$14	\$14	\$28			\$28	\$14	\$14		\$28		\$28
BB Revenues ⁴	-\$44	-\$44	-\$87		\$(87)		-\$44	-\$44		-\$87		-\$87
Costs for Packaging and Printed Paper in the Waste stream and Litter ⁵	\$80		\$80		\$80		\$40	\$40	\$40	\$40		\$80
Totals	\$157	\$77	\$159	\$75	\$131	\$103	\$117	\$117	\$40	\$194	\$0	\$234
% of Cost	67%	33%	68%	32%	56%	44%	50%	50%	17%	83%	0%	100%

NOTE: The values shown in Table 2 are sourced from the 2006 WDO datacall, however they differ from the actual industry/LCBO pay-out by \$5 million, due to the nature of how correction are made to the final net system cost as a result of prior year adjustments. The total industry obligation for 2008 to municipalities is \$72M not \$77M. This table is used primarily to illustrate the relative component costs for the Blue Box Program and disposal options of Consumer Packaging and Printed Paper.

¹ Blue Box Collection Costs: sourced from the 2006 Municipal WDO Datacall

² Blue Box Processing Costs: sourced from the 2006 Municipal WDO Datacall

³ Other Blue Box Costs: are the estimated costs of promotion and education, administration and overhead costs of the program

⁴ Blue Box Revenues sourced from the 2006 Municipal WDO Datacall

⁵ Please Note Costs for Packaging and Printed Paper in the Waste and Litter stream are estimated costs determined by calculating the estimated 551,000 tonnes of packaging and printed paper not diverted from landfill, by an average cost of \$150/tonne for disposal costs

** Expanded Blue Box Cost: applies to cost of the program under an expanded list of designated materials to include all packaging and printed paper

Please note that the costs presented in Table 2 are estimates using available 2006 information and have been used for the purpose of analysis in this discussion paper. **It is acknowledged that figures presented in this table require verification through detailed waste and litter audits directed by the Province.**

4.1 Functional Split - Option 1: Municipalities Responsible for All Costs except Processing Costs

For this option municipalities would continue to be responsible for all of the costs of the Blue Box with the exception of **Blue Box processing costs**, which would become the full responsibility of the Stewards. In this option municipalities would keep all revenues to further offset some of the costs and would result in a 68%-32% division of costs for municipalities and industry respectively.

Pros:

- Municipalities can focus on what they can control and no longer worry about the more variable problems encountered in recycling such as market conditions and constantly changing packaging designs;
- Municipalities can maintain control of their programs.

Cons:

- This option still requires municipalities to manage and pay for all of the post consumer packaging and printed paper that ends up in the garbage or as litter and thus continues to subsidize industry costs of packaging;
- The combined costs of collection, administration, promotion and education severely outweigh the costs of processing and the resulting division of costs is not different from the present day situation;
- There is no incentive for industry Stewards to maintain diversion goals initiated by municipalities;
- There is no incentive for industry to process and sell quality Blue Box material when they do not see any of the revenues.

4.2 Functional Split - Option 2:

Municipalities Responsible for Collection Costs and Cost of Packaging in the Litter and Garbage Stream

In this option municipalities would be responsible for **Blue Box Collection costs** only and all other Blue Box costs would become the responsibility of the Stewards. This would include **Blue Box Processing costs** and **Other Blue Box costs**. Municipalities would keep all revenues associated with the sale of Blue Box materials in order to further offset Blue Box costs.

Pros:

- Municipalities can focus on providing effective collection service to the resident and no longer worry about the more variable problems encountered in recycling such as market conditions and constantly changing packaging designs;
- Industry Stewards would realize a closer representation of what the true costs of their packaging is.

Cons:

- Municipalities may lose some control over program design, how it is promoted and how the public is educated;
- This option still requires municipalities to manage all of the post consumer packaging and printed paper that ends up in the garbage or as litter and thus continues to subsidize industry costs of packaging;

- There is no incentive for industry Stewards to maintain diversions goals initiated by municipalities;
- Industry Stewards have historically argued that packaging decisions are dictated by government health regulations or decisions are made overseas and they have no control;
- The absorbent costs of collection is still greater than the remainder of the operation costs of the Blue Box and does not provide any substantial relief to municipalities to be able to focus on other diversion programs;
- There is no incentive for industry to process and sell quality Blue Box material when they do not see any of the revenues.

For both Option 1 and Option 2, there are a number of variations of splitting or sharing the revenues associated with the sale of processed Blue Box materials. The purpose of revenue sharing is to encourage that highest quality of sellable material can be achieved. When municipalities considered these scenarios with revenue share (see **Appendix A**) it was assessed that there would be an even greater disparity of costs where municipalities would pay more than 87% of the Blue Box cost. For this reason, revenue sharing for Options 1 and 2 are not supported by municipalities.

4.3 Shared Extended Producer Responsibility - Option 3:

In this option, municipalities and industry would share costs of the current Blue Box program and also share the **Costs for Packaging and Printed Paper in the Waste and Litter Stream**.

Pros:

- By sharing equally the costs and revenues of the program, both industry and municipalities would have built-in incentives to produce good quality recycling product.

Cons:

- Does not substantially change the system from what currently exists where ongoing negotiations would be required between municipalities and Stewards to determine the annual net system cost of the Program;
- Stewards would continue to accuse the municipal programs for being inefficient and lobby for reduced industry obligation to the Program;
- The increase in funding from this option would not provide enough financial relief for municipalities to strengthen other diversion programs;
- Municipal property tax payers continue to subsidize an industry created problem.

4.4 Phase 1 in Full EPR - Option 4:

For this option industry would become responsible for 100% of the Blue Box costs under an **Expanded** list of designated Blue Box materials to include all Post Consumer Packaging and Printed Paper. As well industry would become responsible for 50% of the **Costs for Packaging and Printed Paper in the Waste and Litter Stream**. Other scenarios of this option were considered that better aligned with the AMO/AMRC discussion paper previously submitted to the Province on EPR²⁶. It was decided however that for ease of implementation, this option made more sense to do at this time. This shift would have to occur in parallel with an amendment of Regulation 101/94 of the *Environmental Protection Act* to expand the list of materials collected in the Blue Box to include All Consumer Packaging and Printed Paper. This option would require 3 years to implement.

Pros:

- Industry would realize a closer representation of the true costs associated with printed paper and packaging;
- Incentives would be created to drive packaging design so that it can be recycled rather than disposed of;
- An estimated 17%(municipal) - 83% (industry) cost share is achieved and would provide some cost relief to municipalities and allow expansion and improvement of other diversion programs;
- Municipalities would continue to have a role in the management of their programs;
- Industry and municipalities continue to share in the revenues which may encourage processing of quality Blue Box material.

Cons:

- The role of municipalities to determine the materials to be collected will be impacted;
- Industry would realize challenges of promoting and educating the program to local residents.

4.5 Phase 2 in Full EPR - Option 5:

In this option, industry Stewards become responsible for **all** Post Consumer Packaging and Printed Paper that is produced and managed in the waste and recycling streams, including what is managed in the garbage stream and litter stream. This option would be best suited in a phased-in approach, allowing for municipalities and industry time to create the right incentives for residents to recycle rather than litter or landfill, effectively diverting the majority of all packaging and printer paper from landfill. This option would also require that

²⁶ AMO/AMRC Discussion paper on *Strengthening Extended Producer Responsibility for Ontario's Blue Box*, 2007.

Province set strict recovery targets and financial incentives for industry to encourage the effective reduction recycling of Post Consumer Packaging and Printed Paper.

Pros:

- The full true cost of managing Post Consumer Packaging and Printed Paper in the waste and recycling stream would be realized by the producer;
- Costs currently incurred by municipalities would be rightfully placed on the industry Stewards and create incentives for sustainable packaging designs;
- Potential for municipalities to invest the funds, currently mandated to subsidize the Post Consumer Packaging and Printed Paper industry, towards those diversion programs with no identifiable steward such as kitchen waste and leaf and yard management.

Cons:

- Municipalities may lose control over the BB program should the industry decide to run these programs;
- Other full EPR programs like Germany have been critiqued for being costly to the consumer.

5.0 Transition Issues

Moving to an alternative Blue Box funding approach has a number of transition issues that would need to be addressed and consulted on with municipalities before any changes are made to Blue Box model, a few of these are outlined here. All costs, including municipal costs, of new program development should be, where reasonable, reimbursed by responsible stewards.

Working Within an Integrated Waste Management System

There are a number of benefits to having recycling work within an integrated waste management system. Firstly, municipalities have found a level of efficiency is achieved through functions like co-collection where organics or garbage and recycling are collected by one truck with separate compartments.

Another benefit of having this kind of collaboration within the waste system is when implementing waste reduction strategies. An example of this is reducing the resident's garbage bag limit while at the same time increasing the frequency of recycling from a bi-weekly to a weekly collection schedule. Greater results will be achieved if both systems are put in place at the same time.

Some of the alternative funding options presented in this discussion paper minimizes or even eliminated the municipal role for recycling. Municipalities would need to have a level of confidence that any transition to an alternative Blue Box model would consider the relationship recycling has within the entire waste management system.

Ensuring Levels of Service are not Compromised

Municipalities have been responsive to the needs of their residents and have been able to increase their diversion rates by providing a higher level of service for collection of Blue Box. Some programs have extended frequency of collection or expanded the list of recyclables collected in their program to include more items than what is mandated by regulation. Municipalities would need assurance that any changes to the current Blue Box would maintain at minimum the current level of service provided to residents. Changes to ownership of municipal processing and collection infrastructure must be addressed on a case-by-case basis.

Recycling and Political Profile for Municipalities

Many municipalities are proud of the diversion achieved through their recycling programs and use the successes of their programs to highlight achievements and the political profile of the elected municipal government. The regular weekly or bi-weekly recycling pick-up is one of the most visible demonstrations to the municipal resident that their municipality is doing something 'good for the environment'. Some municipalities like the profiling that recycling programs bring to their community and may have difficulty to totally part from it.

Data Gathering and Analysis of Full Costs

It is recognized that there is a large gap in the available information of what happens to the generated Consumer Packaging and Printed Paper that is not diverted. Prior to any transition to a new Blue Box Funding model, the Province will need to gather strong hard data that can more accurately reflect the total cost of managing all generated Blue Box materials.

6.0 Recommended Action Plan

The Blue Box Program has been in place for five years and municipalities have identified fundamental flaws in the design of the program which include: dealing with market instabilities, industry generating problematic packaging and the lack of available finances to improve programs. The current design of the program encourages industry to do the 'wrong thing' and produce non-recyclable packaging where levies do not exist instead of minimizing packaging and improving the recyclability of packaging. Also for five years, industry has effectively avoided the costs to manage packaging material as litter and garbage. Most importantly the current Blue Box Model promotes subsidizing an industry created problem by the municipal property tax payer rather than ensuring full industry responsibility. AMO and AMRC recommend the Province undertake the following actions:

Recommendation 1: Increase financial obligation of industry for all costs associated with all Post Consumer Packaging and Printed Paper produced. This would be achieved through a phased-in approach as outlined in this discussion paper as option 4 and option 5:

Phase 1 - Implementation of option 4 as outlined in this discussion paper where industry would become responsible for 100% of the Blue Box costs under an **Expanded** list of designated Blue Box materials to include all post consumer packaging and printed paper. As well industry would become responsible for 50% of the **Costs for Packaging and Printed Paper in the Waste and Litter Stream**. This option would require 3 years to implement.

Key changes that would need to be made before this phase can be implemented are:

1. Change sec: 25(5) of the Waste Diversion Act from the current 50% cost share with municipalities to full responsibility to industry to pay for all costs of printed paper and post consumer packaging;
2. Regulation 101/94 be revised to expand the list of Blue Box material to include all printed paper and packaging produced;
3. Review and revise the Blue Box Program Plan to align with the recommended action plan of this report.

Phase 2, - Following full implementation of Option 4, Option 5 be implemented – Full Extended Producer Responsibility –Where industry is responsible for **all** costs of post consumer packaging and printed paper including what is managed in the litter and waste stream.

Recommendation 2:

Ministry set strict recovery targets within the timeframe of the pending Michigan border closure so that 90% recovery is reached by 2011.

Recommendation 3:

Ministry enforces non-compliance penalties for industries that ‘free load’ off of other Stewards and establish directives for foreign importers that they meet packaging guidelines/directives set out by the Province.

Recommendation 4:

Require producer management of problematic materials through a specialized recovery plan or deposit-return system.

Recommendation 5:

Appropriate Province-wide public communication about any transitions from the current Blue Box Program. Also, effective ongoing promotion of recycling to educate and encourage participation of the Blue Box Program.

Appendix A: Functional Split Options with Revenue Share

	Option 1 (B)		Option 2 (B)	
	Municipalities Responsible for All Costs Except Processing, Municipalities and Industry <u>Share Revenues</u>		Municipalities Responsible for Collection costs and costs for Packaging in Litter and Garbage stream, Municipalities and Industry <u>Share Revenues</u>	
COSTS(\$Million)	Municipal	Industry	Municipal	Industry
Blue Box Collection	\$138		\$138	
BB Processing		\$75		\$75
Other BB Costs *	\$28			\$28
BB Revenues	\$ (44)	\$ (44)	\$ (44)	\$ (44)
Costs for Packaging and Printed Paper in the Waste and Litter Stream	\$80		\$80	
Totals	\$203	\$32	\$175	\$60
% of Cost	87%	13%	75%	25%

Appendix B: The Problems with CNA/OCNA In-Kind contributions

The *Blue Box Program Plan* (2003) and related amendments established an annual In-Kind Contribution by the Canadian Newspaper Association (CNA) and the Ontario Community Newspapers Association (OCNA). Through negotiations, CNA, OCNA, Waste Diversion Ontario (WDO), and municipalities have addressed several operational concerns over the last four years. However, there are inefficiencies and ineffectiveness inherent to this program, which cannot be resolved.

Of concern are ongoing and increasing rates of unused lineage, substantial effort in administering this program, and lack of evaluation of effectiveness of the advertising.

- On average over the last five years of the program there is a 9.4% rate of unused lineage. In 2007, over \$124, 200 of lineage was not used by municipalities. This represents 9% of the total In-Kind Contribution and a 2% increase of unused lineage over 2006. The municipalities not using the lineage represent approximately 50% of the programs.
- Administratively, this program is demanding. Allocating lineage takes CAN/OCNA over one month to complete. The WDO has seen substantial cost increases – according to audited statements in their annual reports, costs associated with this funding program increased 55% from 2004 to 2005, and another 4.4% from 2005 to 2006. Municipalities have experienced ongoing issues with coordinating the advertising. In a survey the Association of Municipal Coordinators conducted on the 2006 administration of the program – 67% had issues/problems.
- Evaluation of promotional/educational materials is a fundamental best practice (*Blue Box Program Enhancement and Best Practices Assessment Project, Final Report, 2007*). Approximately \$5.5 million has been spent on newspaper advertising through the In-Kind Contribution but effectiveness of the ads has not been completed.

Further, newspaper advertising may not be the most effective venue for municipalities:

- (a) Some smaller municipalities do not even have newspapers for their areas. The newspapers identified through the CNA/OCNA In-Kind Contribution in these cases, would have very limited circulation and therefore the ensuing ads would have little to no readership. In other cases, media boundaries do not correspond with municipal boundaries. Consequently, newspaper ads would have to be generic and residents would not get specifics related to their Blue Box program.
- (b) Recent best practices research and reports have indicated the need for strategic communications planning. According to this *Blue Box Program Enhancement and Best Practices Assessment Project, Final Report, 2007*,

“P&E initiatives that contribute the success of a recycling program employ a mix of media (e.g., calendars, brochures, radio spots, and others) over sustained period of time. These vary according to the audience, available budget and resources.

As well in the *Recycling Promotion and Education Workbook*, (SO/AMRC, 2007) recommends the following,

“Matching your media (e.g. print, radio, television, web, other) to your message (and budget) is an important step in the strategic communications process. You will likely want to use several types of media to improve the chances of your message getting to the target – your residents.

It is recommended that AMO and AMRC request the Minister of the Environment to end the In-Kind Contribution program in 2008 and starting in 2009, CNA and OCNA newspaper Stewards provide monetary funds to municipalities equal to the obligated cost for Stewards to manage the cost of this material in the Blue Box program. This will help ensure equity among Stewards and reduce municipal administrative costs. It will allow municipalities to customize their communications to best meet the needs of their residents and better allocate resources to improve capture rates of recyclables.