



Steward/Remitter Orientation to the Cost Recovery Revenue Model

- BACKGROUND -

October, 2012

About Ontario Electronic Stewardship

Ontario Electronic Stewardship (“OES”) is the non-profit, Industry Funding Organization (“IFO”) mandated with waste diversion for Ontario’s waste electrical and electronic equipment (“WEEE”) program. OES is governed by a board of directors comprised of product stewards. OES reports to Waste Diversion Ontario (“WDO”), a non-Crown provincial agency charged with oversight over Ontario’s waste diversion programs.

OES is responsible for managing the diversion of 44 types of WEEE. Since program inception in April 2009, OES has diverted more than 152,000 tonnes of WEEE from across Ontario. OES operates more than 500 collection sites and hosts almost 200 collection events annually. Through a network of 14 approved processors OES operates a processor incentive program under which processors source WEEE primarily from the commercial IC&I market. This successful program has driven almost 80% of OES tonnage in 2012.

The Minister’s February 9, 2012 direction

On [February 9, 2012, the Minister of the Environment directed WDO](#) to work with OES to develop plans to implement a funding approach based on full cost recovery, and to develop plans to recover accumulated deficits and address any accumulated surpluses. OES worked with WDO to develop a preliminary plan by April 30, 2012, following which, on May 14, 2012 the Minister wrote to WDO to convey the Minister’s desire for industry and stakeholder-based solutions for the IFOs. OES has continued to work with WDO to develop a cost recovery model that is appropriate to the electrical and electronics market, in consideration of the significant annual growth in WEEE program volumes.

The current WEEE funding model

Currently, OES is funded by per unit fees remitted to OES by product stewards, remitters and sub-remitters. Product stewards include both brand owners of designated electrical and electronic equipment and first importers of such equipment (persons resident in Ontario who import such equipment for commercial use or sale).

Retailers of designated equipment who have entered into remitter or sub-remitter agreements remit stewardship fees on behalf of the various product stewards they represent.

OES does not mandate how product stewards recoup the stewardship fees they remit to OES. Typically, product stewards and retailers have chosen to provide consumers with visibility of environmental handling fees (EHFs) at the point of sale by showing EHF’s as a separate line item on the bill of sale.

Issues with current funding model

The Minister's proposed full cost recovery revenue model arises out of several concerns with the current funding model:

1. Consumer concern: The current fees are set according to a specific methodology set out on the WEEE Program Plan. "Eco fees" have been a subject of media attention, and a focus of some consumer concern in Ontario.
2. Inflexibility: The WEEE Program Plan sets out the specific methodology by which fees are set. The fee-setting process is not sufficiently responsive to changing market dynamics where, for example, WEEE volumes exceed planned fee-based revenue targets.
3. Program surpluses: Public concern regarding IFOs accumulating large surpluses as a result of timing differences between revenues and diversion costs has driven a desire for cost recovery models where total annual costs are charged to stewards.
4. Deficit recovery: Certain material categories experience a deficit where annual diversion costs exceed forecasted steward fee revenues. Financing such deficits has been problematic under the current fee-setting methodology.

Progress to date and path forward

OES has been fully engaged with WDO and with the Ministry to develop an approach to a funding model for OES based on the principle of actual cost recovery.

Following the WDO's preparation of a draft report to the Minister on a proposed cost recovery model for OES on April 30, 2012, OES has engaged in several meetings with WDO and Ministry staff to explore options that are appropriate to the electrical and electronic product sector given the sector's complex distribution channels, current economic challenges and significant WEEE diversion growth. The WDO Board considered a staff report on possible models for OES at their meeting on September 25.

The Ministry regulated Stewardship Ontario's cost recovery model in February 2012, and is currently drafting a regulation for Ontario Tire Stewardship's cost recovery model. It is expected that the regulation would be proclaimed in January 2013.

WDO has indicated that an appropriate cost recovery methodology for OES should be implemented by March 31, 2013.

Key Changes

- **No remitters and sub-remitters**
Under the proposed cost recovery model, only product stewards (brand owners and first importers) would be charged their proportionate share of OES operating costs. There would be no remitters or sub-remitters. Retailers currently operating under remitter and sub-remitter agreements may be product stewards in their own right to the extent, for example, that they bring designated products into Ontario as a first importer or offer their own brand.
- **Stewards to be invoiced based on actual operating costs**
The Minister's February 9 direction requires that the charge to stewards be based on actual costs. Currently, OES estimates its operating costs as an input to developing steward fee rates, as specified in the Program Plan. The change means that stewards would now be invoiced for their proportionate share of actual costs incurred by OES for managing their materials. Stewards' individual proportionate shares will be calculated based on the quantities reported periodically to OES.
- **Stewards to be charged for their share of material category deficits, as applicable**
Where a material category has experienced a deficit (where cumulative steward fees revenues have been insufficient to fund WEEE diversion volumes) the relevant steward's share of a material-specific deficit would be calculated as a proportion of the total quantities reported to OES. In order to ease the burden of this requirement, OES may propose to allow for deficit recovery to be extended over 12 quarters (three years) of equal instalments.

What Stays the Same?

- **Steward reporting process**
The steward reporting process, material definitions, reporting due dates and record retention processes would not change.
- **No cross-subsidization**
Stewards would be assessed costs and any relevant share of a material deficit on the basis of their own market share. Similarly, for materials experiencing a surplus, stewards will be credited a proportionate share of that surplus.
- **A level playing field**
The new approach to financing the WEEE program relies on timely compliance with the reporting and payment requirements by all stewards. OES will take steps to strengthen our compliance program to ensure that all stewards pay their fair share of program costs.
- **Cost containment and transparency**
OES is committed to containing steward costs while still meeting our targets. We will continue to prepare an annual program budget based on our projections of the quantity of WEEE to be collected and recycled during the fiscal period.