

2020: Recycle British Columbia Costs Shoot Through the Roof

Background

Extended producer responsibility (EPR) is a mandated form of product stewardship under which producers are responsible for the post-consumer recovery and recycling of their products. Theoretically, when producers are responsible for the cost of collecting and processing recyclables, they will find ways to lower their costs by making those products more easily recyclable and less toxic. EPR is applied in many states to a variety of products with hazardous constituents, such as mercury, or that are hard-to-recycle. No state has imposed EPR on traditional curbside recyclables such as paper or packages. Five Canadian provinces, however, have EPR programs for those products.

An examination of the only program in North America that claims to cover the “full costs” of operating a residential recycling program for those products was published in February 2019. “Recycle British Columbia’s Extended Producer Responsibility for Packaging and Paper: An Assessment of Its Impact”¹ examined the accomplishments of Recycle British Columbia (RBC), raising significant questions about the cost and other shortcomings of that program. This document updates that earlier analysis.

RBC operates the residential recycling collection and processing program for producers of packaging and paper products. It is the only “producer responsibility organization” for these products. Contrary to EPR theory, it is not an independent group of producers working together for the common good. Instead it is a province-wide monopoly controlled by a Toronto-based organization, the Canadian Stewardship Services Alliance (CSSA).²

Skyrocketing costs

RBC is struggling with skyrocketing costs. In its first full year of operation, RBC required \$83,891,590 in fees from producers (note: all dollar references in this paper are in Canadian dollars).³ For the next two years, that number went down slightly then went back up. Then it started to rise dramatically. In 2020, total fees will be

¹ “Recycle British Columbia’s Extended Producer Responsibility for Packaging and Paper: An Assessment of Its Impact”

https://www.resourcecoalition.org/uploads/pdf/Recycle_BC_White_Paper_2-19.pdf

² Recycle BC Annual Report 2019, <http://recyclebc.ca/wp-content/uploads/2020/06/RecycleBC2019-Final.pdf> fn6, page 50

³ CSSA Second Annual Meeting pre-read <https://www.cssalliance.ca/wp-content/uploads/2014/10/CSSA-Pre-Read-for-Annual-Meeting-on-October-15-2014.pdf> page 14.

\$121,104,902.⁴ That is a 23.4 percent increase from the previous year⁵ and a 44.35 percent increase from 2015.

Higher fees for producers are reflected in higher program costs. Material management costs shot up from \$61,346,863 in 2017, to \$90,660,728 in 2019. This is an increase of \$29,313,865 or 47.8 percent in just two years.⁶

The cost to operate the program went from \$414 per tonne in 2017 to \$545 in 2019.⁷ Per household costs rose from \$39 in 2017 to \$55 in 2019.⁸ While costs were shooting upwards, the amount of material managed remained stagnant. Tonnes of material managed by recycling increased by only three percent and the tonnes reported by stewards increased by little over one percent during the same time period.⁹

As a result of these spiraling costs, RBC's Statement of Operations for 2018 and 2019 showed a deficiency of revenue over expenses for each year.¹⁰ RBC added two notes to its financial statements designed to help buffer it from the current business climate. Note 10 refers to new financial instruments to manage credit and liquidity risk and Note 11 to disruption businesses globally have incurred due to the COVID-19 outbreak and their understandable inability to estimate its "impact on the financial results of the Organization in future periods."¹¹

In order to help individual member companies, RBC stated in its 2019 annual report that it "has eased payment terms on steward member fees to provide some financial assistance."¹² It is likely the pandemic-induced economic pressure on paying producer fees has been more severe for businesses that operate strictly within the province or the region instead of to multi-national companies that are likely to have deeper pockets.

⁴ CSSA Report to Stewards October 24, 2019, https://www.cssalliance.ca/wp-content/uploads/2019/10/CSSA_ReportToStewards_2019_Final.pdf, page 8.

⁵ Ibid, page 8

⁶ See 2017 and 2019 Recycle BC Annual Reports <https://recyclebc.ca/wp-content/uploads/2018/07/RecycleBCAR2017-June292018.pdf>, page 38 and <http://recyclebc.ca/wp-content/uploads/2020/06/RecycleBC2019-Final.pdf>, page 46.

⁷ 2017 and 2019 Recycle BC Annual Reports <https://recyclebc.ca/wp-content/uploads/2018/07/RecycleBCAR2017-June292018.pdf>, page 1 and <http://recyclebc.ca/wp-content/uploads/2020/06/RecycleBC2019-Final.pdf>, page 4.

⁸ Ibid

⁹ Ibid, see pages 1 and 3 respectively.

¹⁰ For 2018, see <http://recyclebc.ca/wp-content/uploads/2019/06/Recycle-BC-2018-Annual-Report-1.pdf> page 37 and for 2019 <http://recyclebc.ca/wp-content/uploads/2020/06/RecycleBC2019-Final.pdf> page 45.

¹¹ <http://recyclebc.ca/wp-content/uploads/2020/06/RecycleBC2019-Final.pdf> page 51, notes 10 and 11

¹² Ibid page 5

What Caused the Financial Strain

CSSA blamed its spiraling costs on “increased supply chain costs, partially offset by a \$10 million drawdown on resources. Supply chain increases are due to increased collection and post-collection costs along with reduced commodity revenues.”¹³

The increased collection costs refer to the addition of five new communities to the RBC incentive fee program along with directly providing collection service in three Metro Vancouver communities. The incentive fee is the payment to a local government that either collects recyclables with its own crews and trucks or contracts with a private hauler. RBC pays the “reasonable cost” as calculated by its consultants. The fee is paid on a per household basis. These five new communities are small. The extra cost should have been minor. When RB directly provides service to a local government, it will hire its own hauler to collect the recyclables. Because this is competitively bid, it should have led to lower collection costs.

RBC also referred to greater pressure on processors to meet “higher” quality standards with less contamination.¹⁴ Yet this is the same organization that has boasted in the past of its ability to meet quality processing standards.

Recycling programs throughout North America are being hit by revenue shortfalls due to the Chinese government’s decision to ban imports of mixed paper and mixed plastic along with the economic impact of the COVID-19 virus. RBC has not disclosed what steps it has taken to control costs in response to a revenue decline. Nonetheless its members have no option but to pay ever rising fees and then to pass those costs on to their consumers, most of whose taxes were not cut when RBC began its operations.¹⁵

Lack of Financial Transparency

Unfortunately, it is impossible to get a complete view of RBC’s costs and revenues, including the impact of bad markets on RBC’s revenues. In its Statement of Operations, RBC lists fee revenue (the charges assessed to each steward) and investment income. In its 2019 Statement, member fees comprise 98.22 percent of its \$100,211,811 in revenue. “Investment income” comprises the other reported revenue. Expenses include “material management costs” which are 89.6 percent of expenses,

¹³ 2019 CSSA Report to Stewards https://www.cssalliance.ca/wp-content/uploads/2019/10/CSSA_ReportToStewards_2019_Final.pdf, page 7

¹⁴ Ibid, page 7.

¹⁵ In 2015, RBC claimed that “most communities have reduced the amount of taxes that residents pay for recycling collection” as a result of RBC’s financing, see <https://recyclebc.ca/one-year-in-reflecting-on-12-months-of-operations/>. However, it failed to name any communities that lowered taxes and the amount they were lowered.

“program management”, which is 8.7 percent of expenses and promotion and education and research and development.¹⁶

Program management costs cover management services, such as administrative and technical support, other services and facilities for administrative, technical and reporting activities. These are paid to the CSSA, the organization that controls RBC.¹⁷

Material management costs are defined as “all costs related to the collection, transportation and processing of materials managed through the program, net of credits for indexed value of commodities processed”¹⁸ (emphasis added). The phrase “indexed value of commodities” appears to refer to the revenues received by the processors for the sale of the recyclables. No additional reference to the index used to value commodities processed is found in the annual reports or in other RBC documents. In other words, while RBC reports fee revenue from its members, it does not report revenue from the sale of its recyclables.

As noted above, material management costs shot up from \$61,346,863 in 2017, to \$90,660,728 in 2019. This is an increase of \$29,313,865 or 47.8 percent in just two years. Most businesses would have a hard time containing cost explosions of that magnitude. Yet RBC can simply charge its members more without taking steps to rein in costs.

The cost of collecting, transporting and processing recyclables should be fairly stable. Yet none of those costs are not revealed. Therefore, decreased revenue from the sale of its recyclables is most likely reason for the cost increase. Yet that revenue is also not revealed. Why the secrecy?

How can the Province effectively exercise its oversight over RBC without this data? How can its members or the public accurately assess RBC’s operations? Yet, since RBC does not disclose revenue from the sale of recyclables, the provincial government which has oversight authority over RBC, its members and the public are unable to assess how much of the loss came from market forces and how much from other operations.

RBC should be protecting its members by vigorously pursuing ways to lower those costs. It does not appear to be doing that. Instead it is just passing higher costs onto them. They in turn, will find ways to pass those costs onto consumers.

¹⁶ 2019 Recycle BC Annual Report <http://recyclebc.ca/wp-content/uploads/2020/06/RecycleBC2019-Final.pdf> page 45

¹⁷ Ibid page 50 note 6

¹⁸ Ibid, page 50 note 8.

Lack of Recycling & Market Transparency

RBC gives tonnage data for supplied, collected and recovered paper, rigid and flexible plastics, metal and glass recyclables.¹⁹ Yet it does not give data breaking these general classifications into more specific materials such as corrugated boxes or residential mixed paper or PET bottles or aluminum cans.

It's not that the organization doesn't have this data. Stewards report their fees for six material categories (printed paper, paper packaging, plastics, steel, aluminum and glass) that are further broken down into 22 subcategories. Printed paper has four, paper packaging has five, plastics has six, steel has three, aluminum has two and glass has two. The plastics subcategories, for instance, include PET containers, HDPE containers, plastic film plastic laminates, polystyrene and other plastics.²⁰ Given the sophisticated nature of its recovery facilities this data should be available. In fact, RBC previously boasted of its ability to "precisely monitor the details and movement of each of the 12 different materials types tracked in the system."²¹

Transparent data on individual materials types, such as PET bottles and old corrugated containers, are essential to understand how effectively EPR programs are meeting their goals of increasing markets for recyclables. For instance, RBC claims that "more than 98% of plastics collected in BC are sold to end markets in BC with a local end market in Metro Vancouver where it is processed into pellets to be recycled into new packaging and products."²² But that just begs the question. Are the pellets sold to manufacturers in British Columbia or exported to the United States, China or other countries? Are the pellets all mixed plastic or do they also make PET or HDPE pellets that can be recycled into new PET and HDPE containers? Successful recycling programs normally brag about the new products made from their recyclables. This is especially true for plastic recyclers.

Similarly, the 2019 Annual Report claims that "paper is sold to end markets overseas, the United States and BC where it is processed into egg cartons, boxes and other paper products."²³ Why doesn't RBC say what percentage of old corrugated boxes are sold to mills that will use them to make new boxes and what its mixed paper is used for?

¹⁹ Ibid, page 28

²⁰ 2019 CSSA Report to Stewards, https://www.cssalliance.ca/wp-content/uploads/2019/10/CSSA_ReportToStewards_2019_Final.pdf, page 9

²¹ "One Province, One System" Resource Recycling, February 6, 2017, <https://resource-recycling.com/recycling/2017/02/06/one-province-one-system/>

²² 2019 Recycle BC Annual Report <http://recyclebc.ca/wp-content/uploads/2020/06/RecycleBC2019-Final.pdf>, page 26

²³ Ibid, page 26

Other Issues: Price Increases, Greener Packages& Less Toxic Packages

The extent of EPR price increases on consumer prices is hotly debated. In its original Stewardship Plan, RBC (then call Multi-Material British Columbia) anticipated producers would not apply a fee at point of purchase because the per unit cost of packaging and printed paper would be less than one cent for many products. Instead, the producer fees would simply be a cost of doing business.²⁴

EPR advocates insist that producer fees are not passed on to consumers. A survey comparing the impact of EPR on prices of consumer goods in Canada claims to prove this.²⁵ However, given that 80 percent of Canada's population lives in the five provinces with EPR for packaging and printed paper, it is far more likely (and efficient) that companies will spread their EPR costs evenly throughout Canada instead of applying province-specific EPR charges to its products.

A study performed at Canada's York University estimated a 5-15 percent increase in the average cost of groceries.²⁶ That study is a computer model that used actual costs of operating the printed paper and packaging system under a 100% producer responsibility scheme, actual consumption baskets in terms of composition and price used by Statistics Canada to track regional inflationary pressures across Canada and calculation of direct costs to individual packaging materials via the fee calculation model used in British Columbia and Ontario.

It is entirely logical that a business will do everything it can to pass a "cost of doing business" on to its consumers. This holds true for increased energy costs, increased rent, labor costs and all other new costs. Why would EPR costs be excluded?

EPR proponents insist the policy will result in more easily recyclable packaging and products and less toxic packages. Yet they remain unable to supply proof of specific changes to packaging as a result of EPR fees. Efforts in Europe to encourage product redesign through "disruptor" fees that would punish harder to recycle packages have failed to show concrete examples of changed packaging. Recent research performed to analyze the impact of EPR on packaging design stated it could not "identify any research that either supports or refutes the hypothesis that internalization of the costs of end-of-life- management through EPR for packaging creates an incentive

²⁴ Packaging and Paper Stewardship Plan, 2013, November 19, 2012, updated April 8, 2013 <https://recyclebc.ca/wp-content/uploads/2017/03/MMBC-PPP-Stewardship-Plan-Apr8-2013.pdf>, page 16

²⁵ June 2, 2020 memo "Impact of EPR for PPP on Price of Consumer Packaged Goods" from Bryce Hesterman, et al to Justin Gast, et al

²⁶ <https://www.oregon.gov/deq/recycling/Documents/RSCCalLakhanPresQA.pdf>. The presentation was given on July 22, 2020, by DR. Calvin Lakhan. See slide 17

for improved environmental performance and design.”²⁷ The few examples cited, such as lightweighting of packages and increased use of recycled content paper in packages, simply reflect trends that have been ongoing for the last two decades.

As for less toxic packages, the Toxics in Packaging Law banned the intentional introduction of lead, mercury, cadmium and hexavalent chromium into packaging. This law was developed in 1989. Because packaging is an interstate business and this law was adopted by 19 states, including Washington and California, it has a national impact. The European Union followed the lead of these states and Connecticut and 18 other states and adopted this law.²⁸

Conclusion

In the 18 months since the release of the original white paper, RBC has been buffeted by economic headwinds resulting in sharply higher costs with virtually no increase in additional tonnage of recyclables. Producers have no control over collection and processing costs; they have no control over end market commodity prices; no control over “their” organization. All they can do is to write a check and hope for the best. Local and regional producers are at the biggest risk because their market base is smaller. RBC remains an extraordinarily opaque organization that offers little solid data over recycling tonnages of the different materials and products it manages and even less over its costs and the revenue from the sale of its recyclables. It is a monopoly with a great deal of power and little accountability.

²⁷ June 3 memo, Impact of EPR for PPP on Packaging Design”, from Garth Hickle, etal. To Justin Gast, etal.

²⁸ <https://toxicsinpackaging.org/model-legislation/fact-sheet>