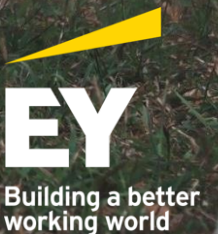




Extended Producer Responsibility Transition

Moving Towards Producer Responsibility



Moving Towards Producer Responsibility

Ontario is in the midst of transitioning municipal Blue Box programs to full producer responsibility.

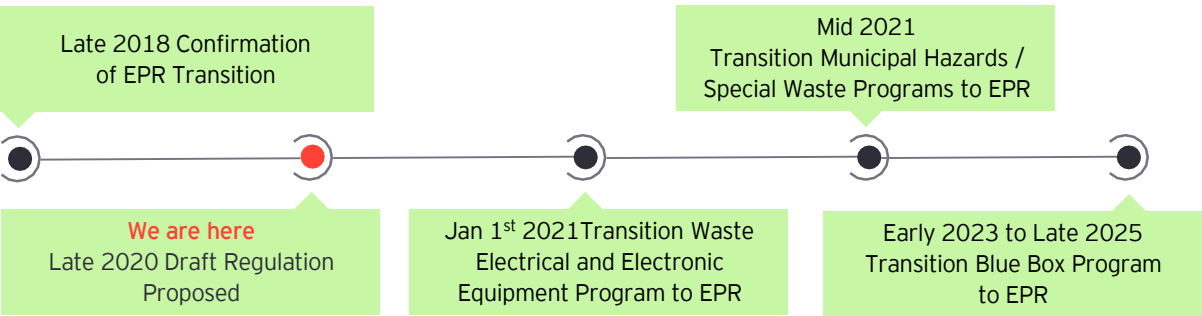
This policy approach, referred to as Extended Producer Responsibility (EPR), means Producers (brandholders, importers, and/or other suppliers of packaging) will be responsible for collecting and managing their packaging and single use products once they have been used by consumers.

Benefits of EPR

EPR is considered by the province as the most effective and accountable way to:

- ▶ Promote waste reduction and diversion
- ▶ Align costs of managing products and packaging at their end-of-life
- ▶ Save taxpayers' money
- ▶ Make recycling easier and more accessible
- ▶ Give producers incentive to redesign products and services to reduce waste and increase circularity

The province has put forward the following timeline for transitioning towards the EPR policy approach.



What does this mean for Producers?

Producers will be required to take on more responsibility for the lifecycle cost of their products, covering 100 percent of the cost to manage post-consumption waste. Producers will have flexibility to meet their obligations in a variety of ways, including partnerships with municipalities, private waste service providers, coordinating bodies called Producer Responsibility Organizations (PRO) and in-house teams to meet EPR obligations.

What does this mean for Municipalities?

Municipalities currently invest, construct, maintain and operate intricate blue box waste management programs comprising of collection, transfer, processing and haulage services. A transfer of responsibility to Producers will affect Municipalities operationally and financially.

What does this market insights piece cover?

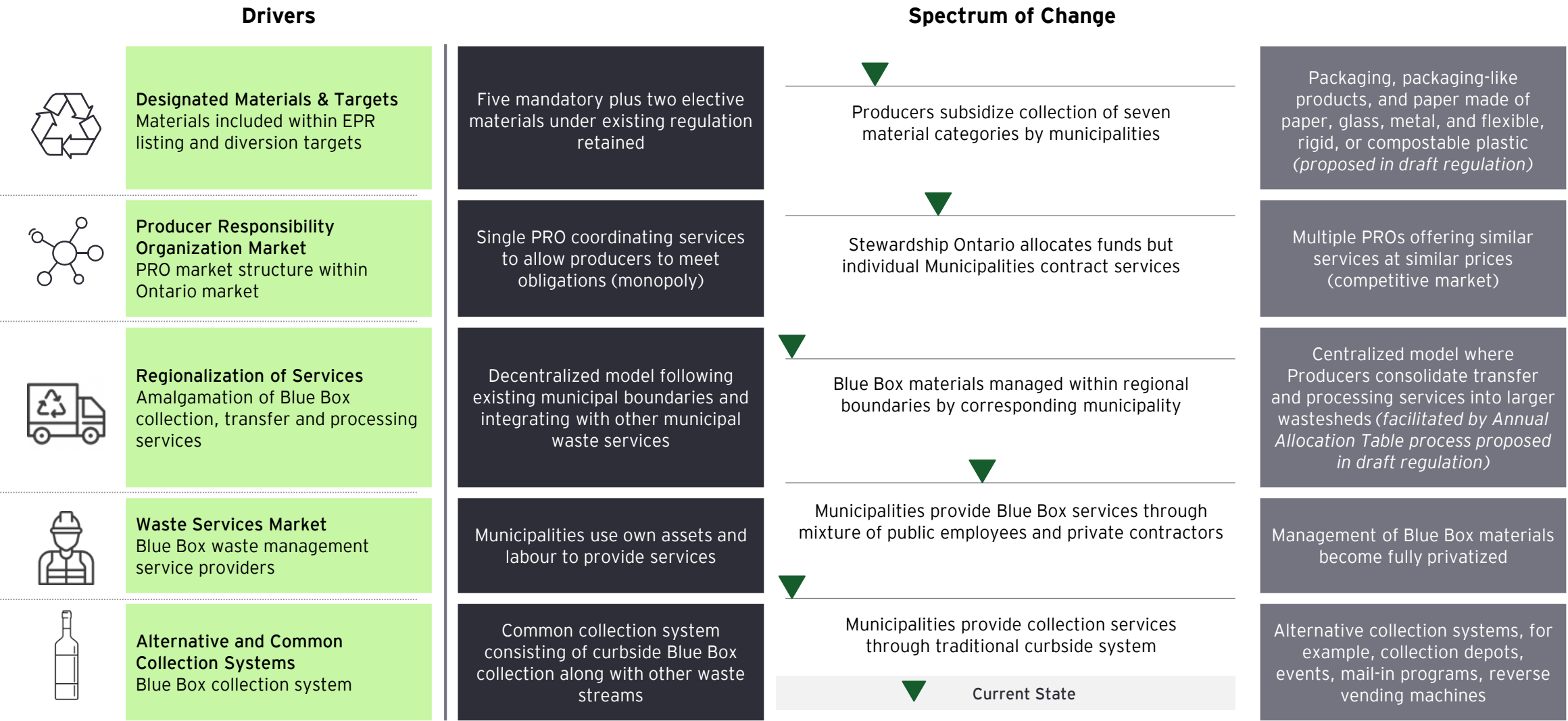
Ontario recently released the draft regulations outlining what the Blue Box Transition process scheduled for 2023-2025 will look like. This market insights report outlines:

- ▶ Key drivers likely to dictate the implications for Producers and Municipalities under a Blue Box EPR policy approach: Designated Materials and Targets, PRO Market/Landscape/Scenarios, Regionalization of Services, Waste Services Market, and Alternative and Common Collection Systems.
- ▶ Four potential scenarios for an Ontario EPR policy approach: Cautious Change, Push to Privatize, Municipalities Unite, and Strong Producer Participation.

Scenario 1 Cautious Change	Scenario 2 Push to Privatize
Scenario 3 Municipalities Unite	Scenario 4 Strong Producer Participation

Key Drivers Overview

Final EPR legislation is likely to provide Producers with a degree of flexibility in how they meet their obligations. There are multiple drivers which will influence how the current Blue Box program will migrate to an EPR policy approach and what the EPR policy approach will look like. Key drivers to consider and a comparison to the current state are provided below. Depending on the push and pull of the various drivers, multiple outcome scenarios may arise in the emerging EPR program.



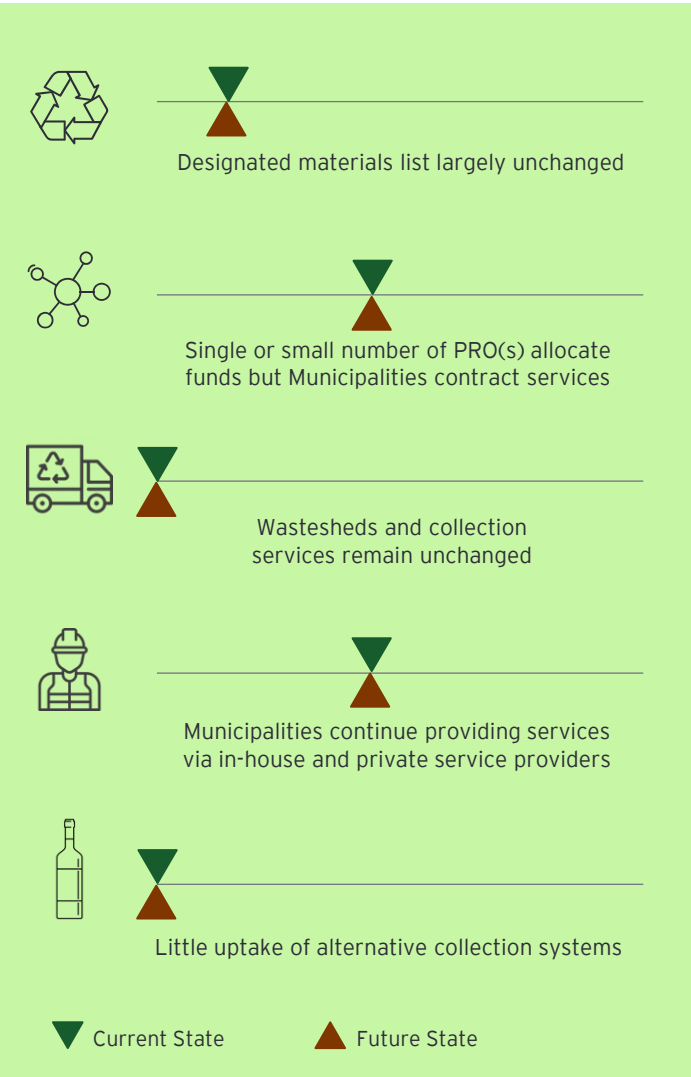
Scenario 1

Cautious Change

In this scenario, the Blue Box program will change very little to meet new regulatory requirements. Operationally, things remain largely the same in the collection of materials. A single PRO, or a small number of competing PROs, represent Producers and procure materials from municipalities with collection services through existing providers. This scenario does not realize the full potential of EPR to drive efficiency in the materials economy through incentivizing change.

Given changes proposed in draft regulation released by the Province on October 2020, this scenario would appear unlikely.

Drivers

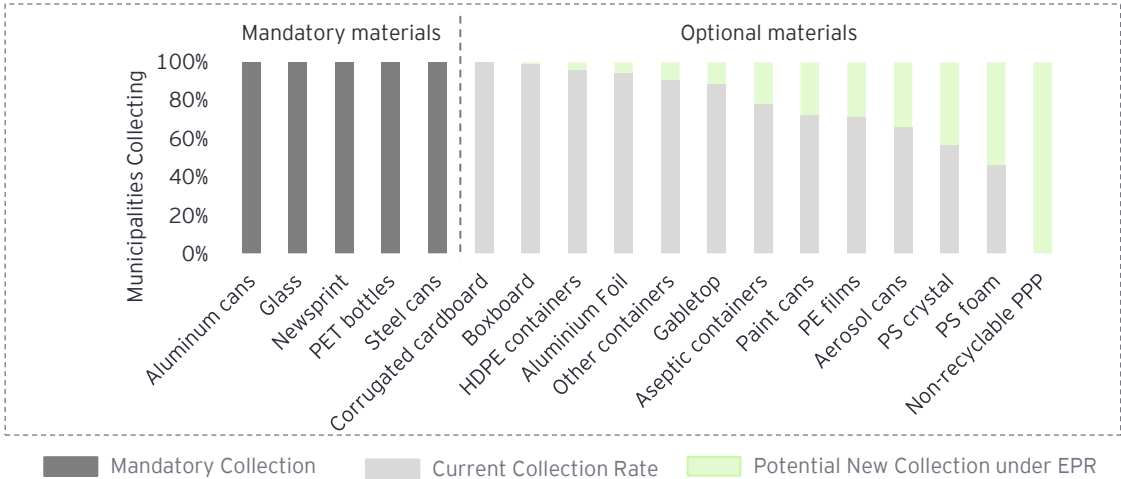


Municipal impact

- ▶ Municipalities and Producers may negotiate for the former to continue providing Blue Box services, with admin and funding now provided by the latter either directly or through a PRO
- ▶ Blue Box business shifts towards full cost-recovery model with full funding allocated to Producers
- ▶ Municipalities may need to change Blue Box Business to accommodate different designated materials under EPR Program (see diagram below)

Producer impact

- ▶ Work with a PRO to meet obligations under the EPR Program and to ensure Municipalities meet efficiency metrics to justify funding
- ▶ Shift to 100 percent funding of designated materials under EPR will result in increased operating costs
- ▶ Minimal change to organization and workforce due to outsourcing of Blue Box waste management services through PRO(s)



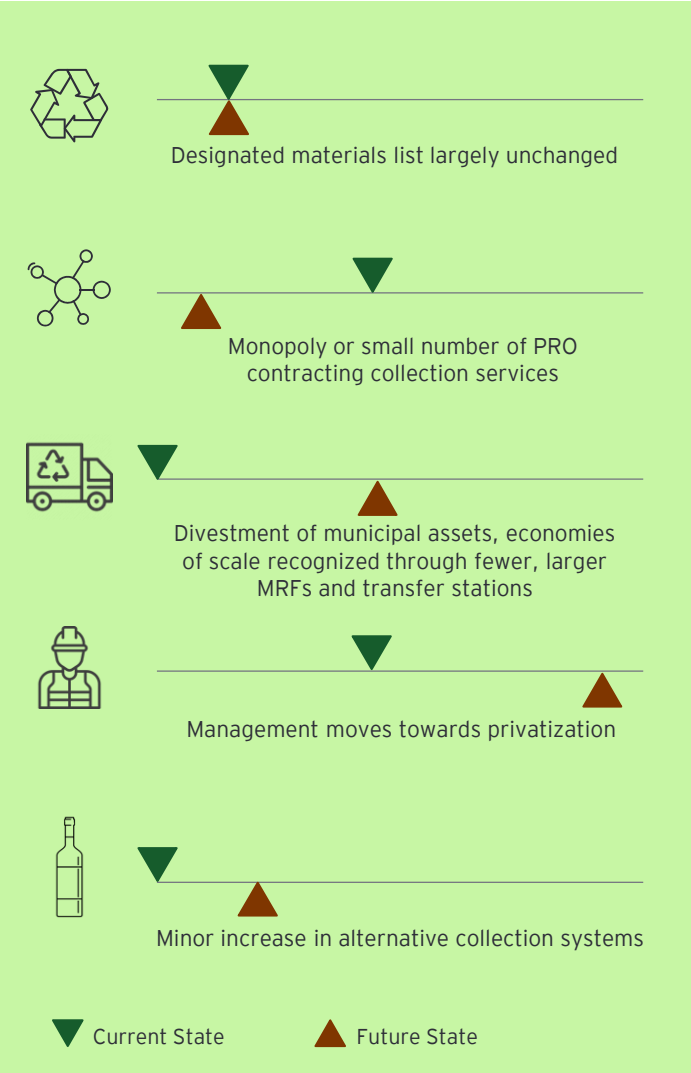
Source: RPRA Datacall

Scenario 2

Push to Privatize

This scenario would see Municipalities choose not to compete or unable to compete for Blue Box management contracts against private providers, and sell off assets and exit the market. In such a scenario, Municipalities find the continued operation of Blue Box management services financially inefficient to the taxpayer.

Drivers

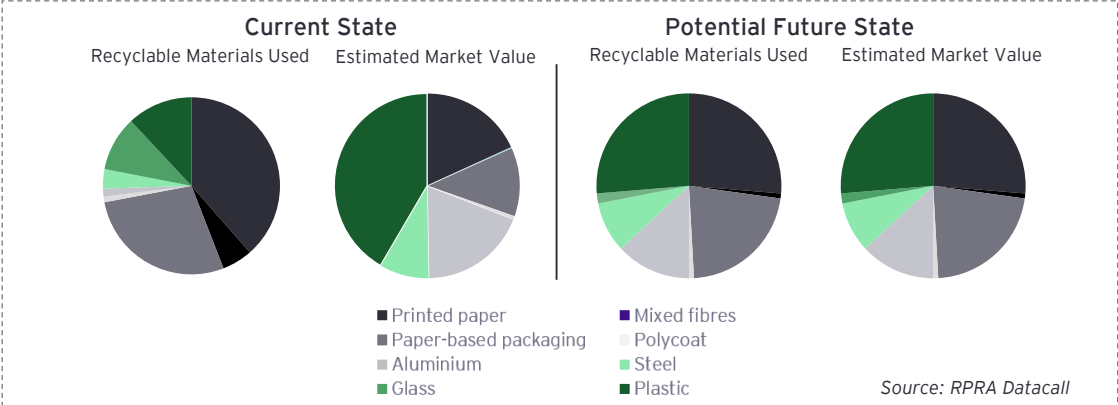


Municipal impact

- ▶ Municipalities exiting Blue Box market would reallocate staff and pursue divestment of stranded assets
- ▶ Municipalities may seek professional advice to understand options available with regards to stranded assets
- ▶ Materials collected become more market-driven and harmonized across Ontario
- ▶ Municipalities may choose to stay in the market as a service provider and scale operations by absorbing surrounding municipalities' operations

Producer impact

- ▶ Increase in the number of PRO's may lead to a new 'Producer-Led' waste market which opens opportunities for municipal and private waste management service providers
- ▶ Producers collaborate with each other to meet obligations via PRO(s)
- EPR will create greater alignment between recyclable materials used in products and recyclable material values as Producers seek to offset costs. This may result in supply chain and production changes for Producers (see diagram below)

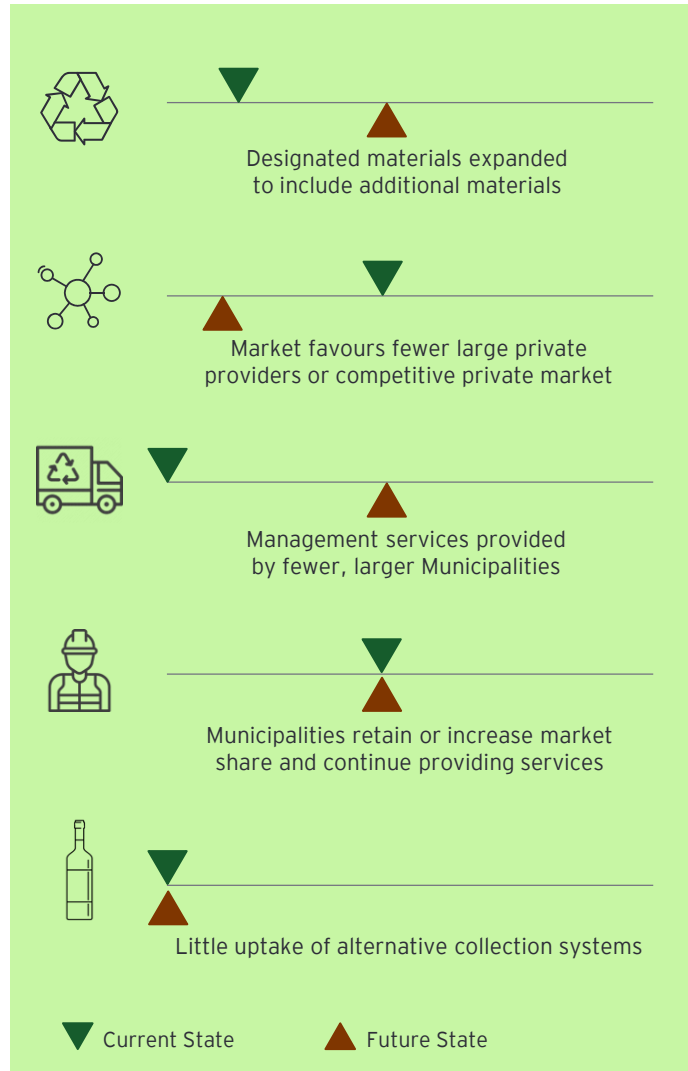


Scenario 3

Municipalities Unite

In this scenario, Blue Box waste management services regionalize, as PRO(s) seek to drive value for money through economies of scale. Services are provided by a small number of larger municipalities who have developed sufficient processing capacity, or have the ability to increase capacity, to manage Blue Box materials from surrounding smaller municipalities. In this scenario, larger municipalities may seek to provide their established Blue Box waste management services and/or facilities at a cost to PRO(s), with labour provided either through in-house resources or via contracted private service providers.

Drivers

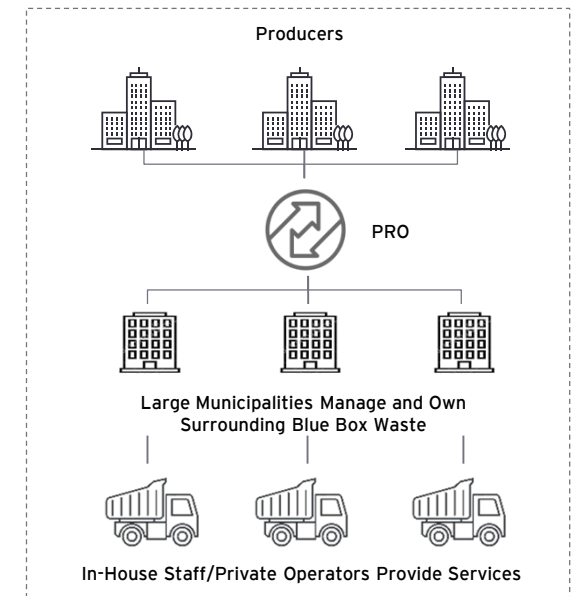


Municipal impact

- ▶ Labour unions interested in protecting public jobs encourage Municipalities to aggressively bid on work they formerly performed
- ▶ Larger Municipalities expand services to surrounding Municipalities and begin providing waste management services to Producers at a cost (see diagram below)
- ▶ Outside expertise required for larger public-to-private waste management contracts between large Municipalities and Producers, and large Municipalities and small Municipalities
- ▶ Municipalities will need to determine the level of service it wishes to retain for certain customer groups, such as not-for-profits or community facilities such as parks, recreational facilities, etc.

Producer impact

- ▶ Producers collaborate with each other to meet obligations via PRO(s)
- ▶ Producers seeking to procure waste management services via private operators may find it difficult to unseat municipal incumbents
- ▶ Opportunity for streamlined interface between PRO(s) representing Producers and a handful of private waste collection operators

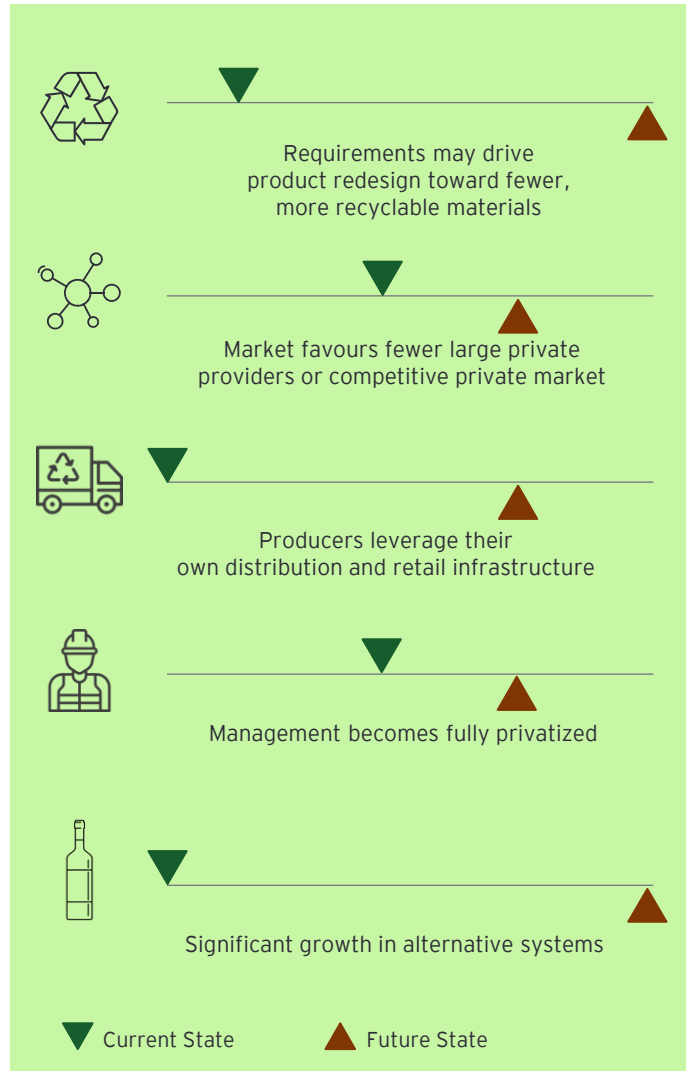


Scenario 4

Strong Producer Participation

In this scenario, producers actively engage with redesigning products and processes to improve reuse, reduction, and recycling of their packaging. This results in changes in the quantity and complexity of materials collected and adoption of alternate collection systems to better recover materials for intended reprocessing. This scenario outlines the benefits of deeper changes not only in the waste sector but upstream production and consumption.

Drivers

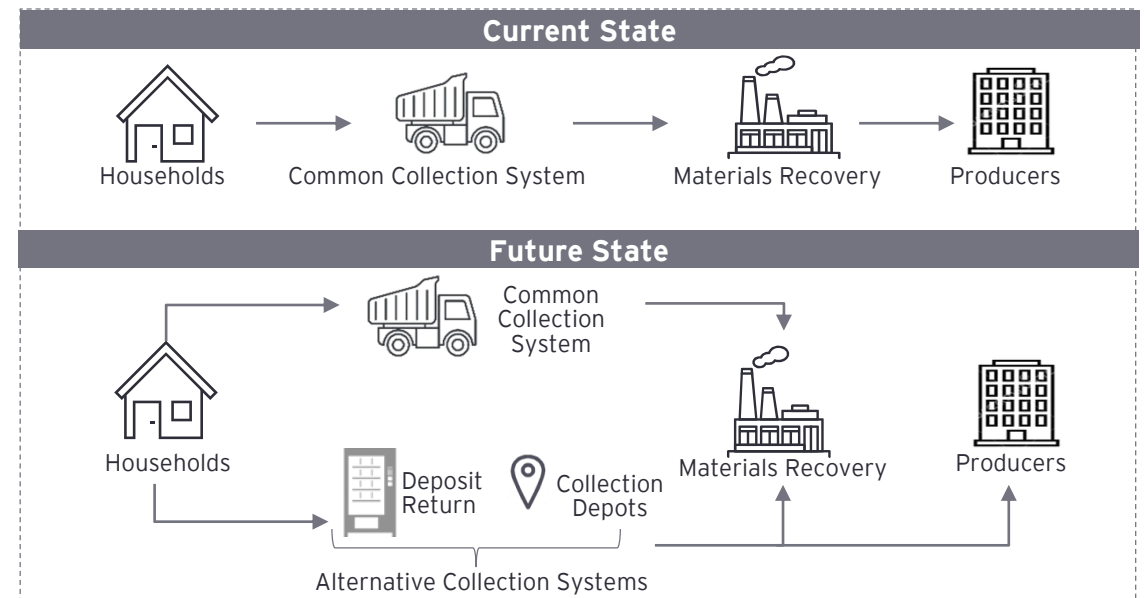


Municipal impact

- ▶ Opportunity for direct collaboration with Producers in operating alternative collection systems (see diagram below)
- ▶ Municipalities become more competitive in lower-volume markets, especially where they carry out other waste services such as garbage and organics
- ▶ Variability in the level of service provided by Municipalities for certain customer groups, such as not-for-profits or community facilities such as parks, recreational facilities, etc.

Producer impact

- ▶ Opportunity for direct collaboration with Municipalities in operating alternative collection systems
- ▶ Producers contract private operators directly to support Alternative Collection Systems
- ▶ Producers reconsider packaging used for products, and redesign supply chains to cater to alternative collection systems
- ▶ Producers invest in in-house capacity and capability to deal with a single operator or multiple different private operators



Case Studies of EPR in Action



British Columbia

First jurisdiction in Canada to implement a full EPR program which requires producers to cover the financial and managerial responsibility for residential recycling of packaging and printed paper. Individual Producers can assume individual responsibility or join together for collective responsibility through the PRO - Recycle BC. To transfer costs from taxpayers to Producers, Recycle BC pays an 'incentive' fee to local municipalities that covers what it believes is the reasonable cost of collection.



Quebec

Quebec is currently consulting to transition to a full EPR program which places full financial responsibility on producers while relying on local governments to operate recycling programs. Producers would be required to reimburse municipalities' net recycling program costs via a single PRO whilst Municipalities maintain complete programmatic autonomy, delivering service either directly or through contracts with private service providers. Program includes a performance and efficiency factor to ensure municipal costs are in a reasonable range.



Manitoba

Shared EPR policy approach for residential recycling programs where Producers pay for 80 percent of the net costs of recycling programs through a single PRO and municipalities cover the remaining 20 percent. Municipalities have operational responsibility and manage programs directly or through private service providers. Municipal programs must meet certain minimum conditions that are defined by the PRO in order to receive Producer funding.



Germany

First large-scale EPR program which came into force in 1991. The program requires Producers to either individually take back packaging waste or join a single PRO, to which it pays an annual license fee to use the green dot label, which informs consumers that they can use the PRO's collection system to discard waste. Fees are paid by Producers based on material type and weight under a differentiated fees system.



United Kingdom

The UK's program, instituted in 1997, uses tradable, verified certificates ("Packaging Recovery Notes") as a way to provide liquidity to market. Processors generate certificates for recyclables collected and sell them to companies to cover their obligations. Companies across the packaging value chain all have obligations to cover. This decentralized program has led to over 30 PROs competing, resulting in some of the lowest prices for collection in Europe.



Ontario - Tires

Producers are directly responsible and accountable for meeting mandatory collection and recycling targets for used tires in the province. Producers have the choice of contracting with a PRO to meet targets or working directly with tire service providers to establish collection and management systems. Tire producers, PROs and service providers must register with the Resource Productivity & Recovery Authority (RPPRA) and report data on progress towards meeting recycling targets. RPPRA enforces compliance.



Ontario - Batteries

Battery producers are individually accountable and financially responsible for collecting and reusing, refurbishing or recycling up to 40 percent of their batteries when consumers discard them. Producers have the choice to work with one or more PROs to operate collection and management systems on their behalf if they do not want to operate their own systems. Producers must register with the RPPRA and report compliance with obligations periodically.

Helping you toward a greener future

The EPR Program has potential to represent a step-change in Ontario's efforts to promote waste reduction and diversion, move towards a circular economy and drive value for money for taxpayers.

We can offer an array of services to help you prepare for and navigate changes tied to Ontario's transition to the EPR Program.

Our experience includes:

Waste Planning & Strategy

Regulatory Monitoring & Compliance

PRO & Municipal Waste Management Operations Advice

Producer Supply-Chain Review and Optimization

Governance and Business Plan Development

Financial Planning and Strategy



We look forward to continuing the conversation on EPR as Ontario progresses towards full transition by 2025.

Lets continue the conversation

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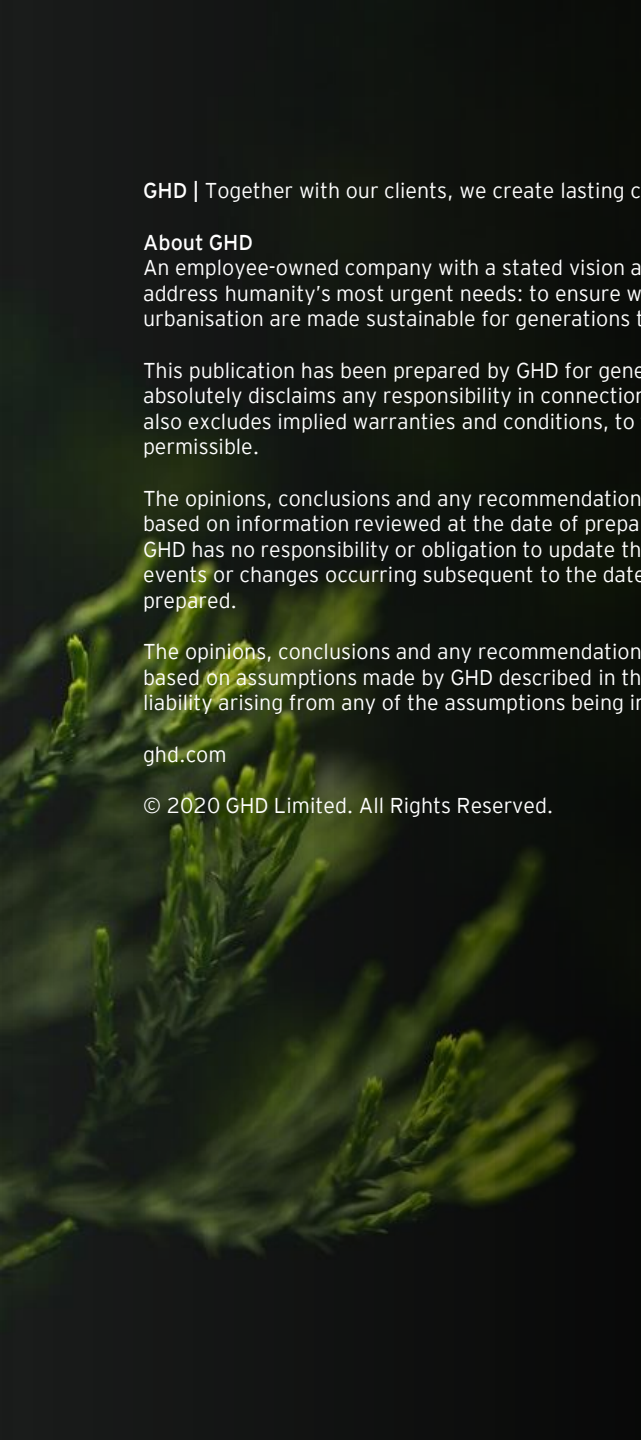
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