

The Freakonomics of eco-fees

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Extended Producer Responsibility

Industry and government meet this fall to prepare for EPR leadership. Is your business ready?

November 2 & 3, 2010

EPR WORKSHOP 2010 VANCOUVER

offered by  The North American Centre for Leadership in EPR at the Recycling Council of British Columbia www.rcbc.bc.ca

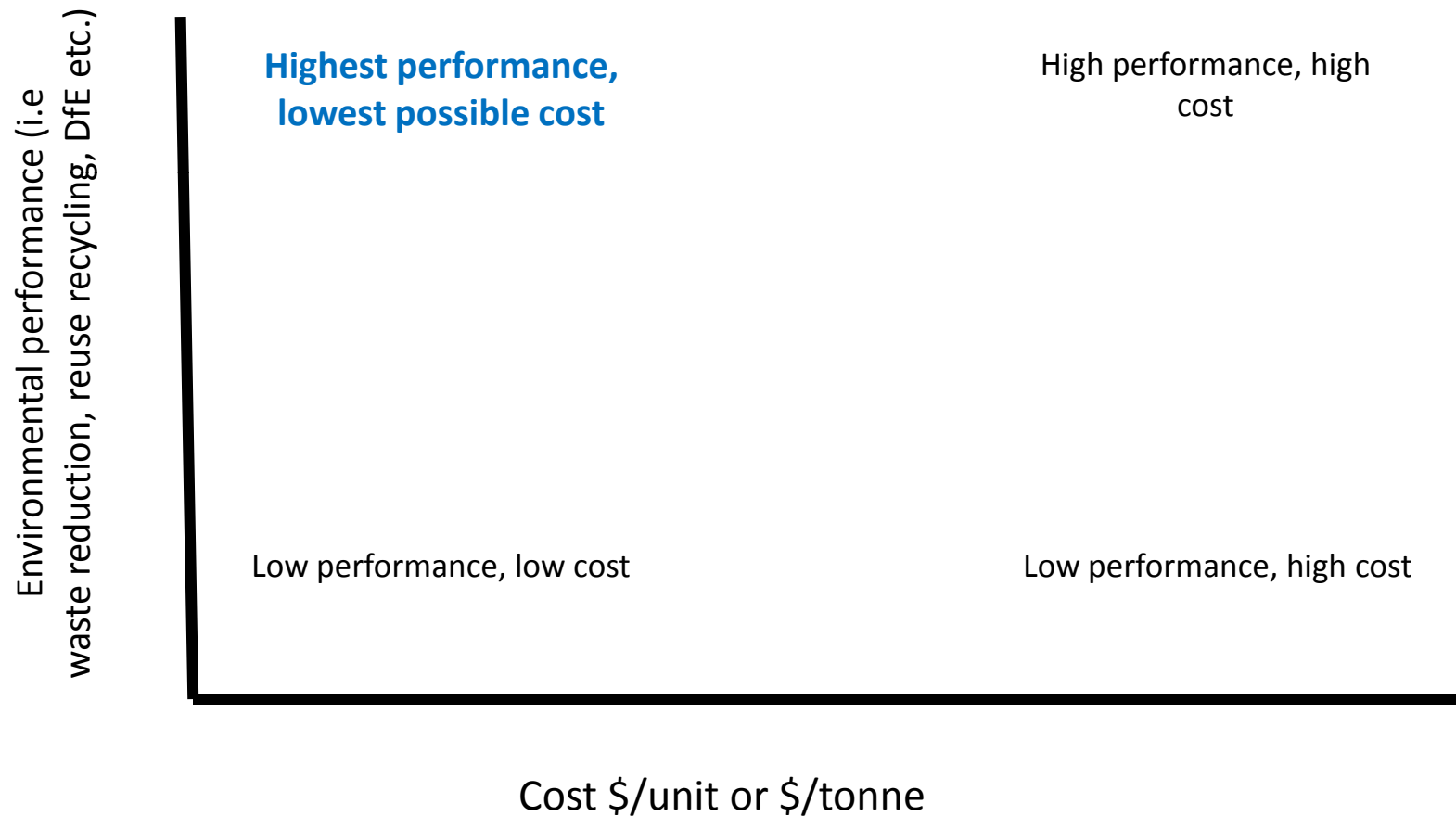
in partnership with  Ministry of Environment



“If morality represents how we would like the world to work, then economics represents how it actually does work.”

Steven D. Levitt author of “Freakonomics: A Rogue Economist Explores the Hidden Side of Everything”

How we would like waste diversion to work



A typical Canadian stewardship program today



- Collective of brand-owner/first importers develop program (collection, transport processing) for designated product/material
- No enforced government targets with penalties
- Environmental standards set and overseen by collective
- Net program costs prorated over entire collective's aggregate unit sales to establish a common or fixed sales unit “eco-fee”

Eco-fee – fee or tax?



- Steward remit directly to the stewardship organization and "pass on" eco-fee to retailers who pass them on to consumers *or* retailer remits directly to the stewardship organization on behalf of steward
- Economic effect on stewards is indistinguishable from a sales tax levied through provincial statute for funding a government run recycling program

Distinguishing fees from taxes



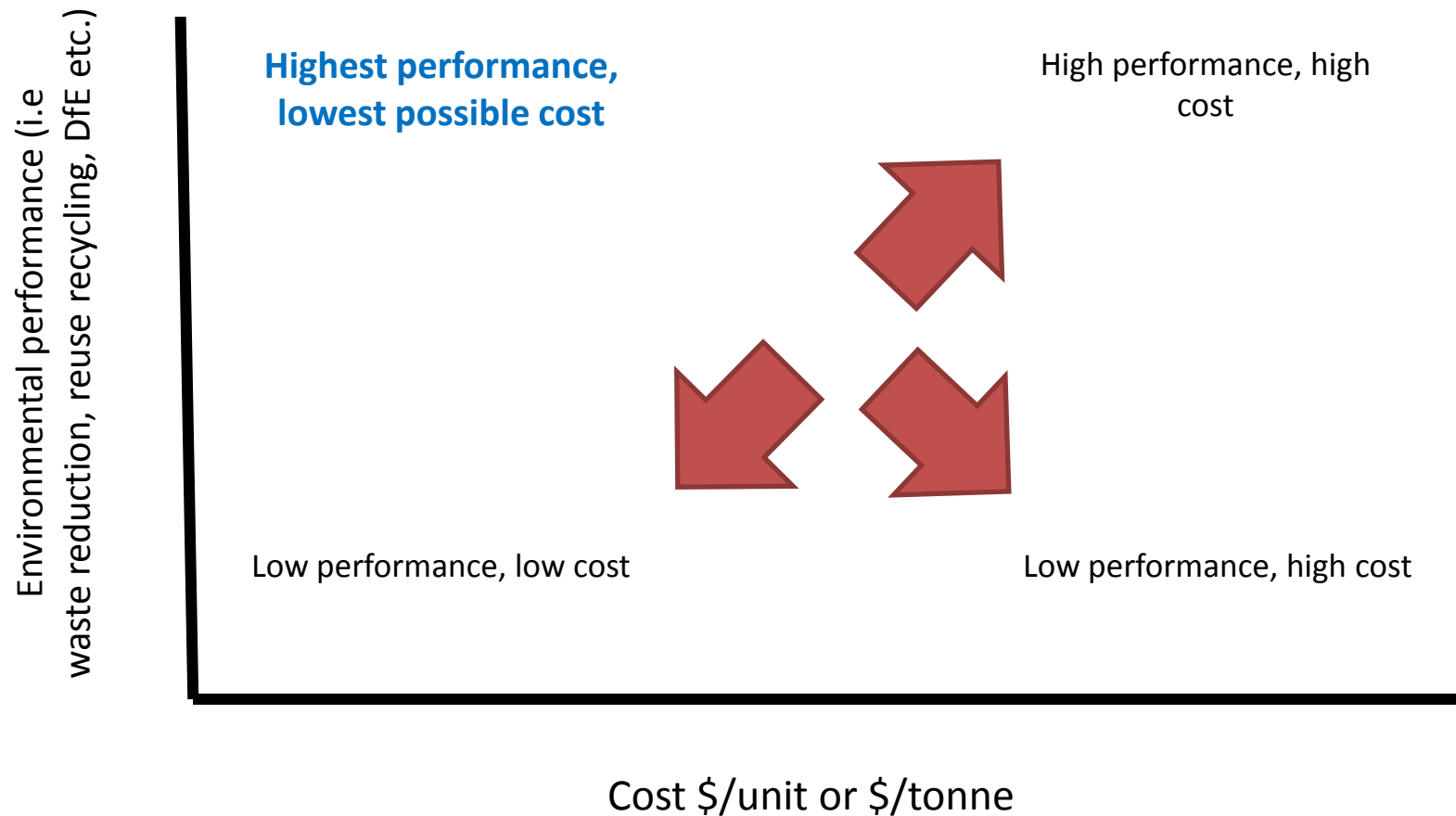
- ◁ product of a, "... complete and detailed code of regulation ..."
 - Notable exception WDO – like a public utility rate setter due to mandatory monopoly IFO
- x a specific purpose which, "... seeks to affect the behavior of individuals..."
- ✓ assessment of the "... actual or estimated costs of the regulation" and a "... reasonable connection is shown between the cost of the service provided and the amount charged."
- x regulation should establish "... a relationship between the regulation and the person being regulated, where the person causes the need for the regulation, or benefits from it."
 - Eco-fees are effectively publicly sanctioned and privately levied taxes

Eco-fees



- Are what you would expect of stewards – a logical first step
 - No understanding of what managing EOL obligations entail (information disconnect)
- Attempt to minimize cost through collective action
 - Economies of scale (logistic and administrative)
 - 3rd party PRO to operate program
 - Externalize legal and environmental liability to the PRO
 - Market power to contract for waste diversion services
- Pass on eco-fee as “necessary to comply with government recycling requirements” at zero cost and with no competitive effect
- Eco-fees are a symptom, not the problem

In most programs we know we aren't getting highest performance at lowest cost today



Worst case scenario of low performance, high cost



www.skinvitality.ca

TORONTO STAR

MOSTLY SUNNY, BREEZY, HIGH 12C (WEATHER MAP ON S16) • thestar.com • MONDAY, MAY 10, 2010

STAR EXCLUSIVE
Waterfront design panel threatens mass walkout
 Proposed sports facility wrong choice for site, all 12 members say

CHRISTOPHER HUME
 THE CO-CHAIRMAN

Plans to build a sports complex on the Lower Don Lands have the Waterfront Design Review Panel so upset that all 12 members are preparing to resign if it goes ahead. Those resignations could come as early as this week.

The blue ribbon consensus panel was created amid much fanfare in 2008. Its members include some of the most respected architects, landscape architects and engineers in Canada.

Sources tell the Star that a letter of resignation has already been drawn up. It makes clear that if the city proceeds with the \$350-million facility which includes four ice pads and parking for 440 cars, it will have no choice but to sever ties with Waterfront Toronto.

Last week's resignation of planner Ken Greenberg, resigned over the same athletic complex.

The major issue is location. The city wants to build the facility on land that has been set aside for a sustainable, transit-oriented, mixed-use neighbourhood.

Details of that plan are now being refined by a team selected through an international design competition held in 2007.

WATERFRONT continued on A1

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Star and Sun price Monday to Friday \$1.00 including GST (prices higher outside the GTA)

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E-trash piles up

Province's waste disposal program fails to keep computers, TVs out of landfills

MOIRA WELSH
 TORONTO STAR

Ontario's high-profile electronic waste disposal program is failing to recycle millions of computers and televisions it promised to keep out of landfills.

In its first year, the Ontario Electronic Stewardship (OES) — a private agency created by provincial legislation — gathered only a third of the 42,000 tonnes of toxin-laced equipment it was originally supposed to collect, according to reports obtained by the Star.

Environment Minister John Gerretsen wants to know why.

"I have been disappointed that (OES) haven't been able to meet the targets," Gerretsen said in an interview.

"I don't know what has gone wrong."

Waste Diversion Ontario, which oversees the OES for the ministry, says the private agency has broken a verbal agreement to meet collection standards set out by Gerretsen.

An OES spokesperson blamed the problem on the starting jitters of a new program.

Here's how it is supposed to work: Companies or non-profits are designated as "collectors" to pick up used electronics from owners' trash out by the millions.

OES pays collectors up to \$236 a tonne out of "eco-fees" contained in the cost of each new electronic gadget sold (from \$2 to \$26 each).

The OES then divides the haul from the collectors among eight approved recyclers, which extract usable components and safely dispose of toxic materials, such as mercury or beryllium.

E-TRASH continued on A9

ANDREW WALLACE/TORONTO STAR
 Cindy Coutts of SIMS Recycling Solutions calls province's program "a failure."



“That competitive markets can, under ideal circumstances, assure an efficient allocation of resources is the most fundamental proposition of economics”

Trebilcock, M., Winter, R.A., Collins, P., Iacobucci E.M., *The Law and Economics of Canadian Competition Policy.*

“...there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”

Friedman, Milton. 1970. The Social Responsibility of Business is to Increase its Profits.
The New York Times Magazine, September 13, 1970.

Incentives in competitive markets



- Stewards, retailers, recyclers all want to maximize profit
 - To reduce cost
 - To increase price
 - To grow market share
 - To avoid regulatory penalties
 - To improve brand equity and/or and avoid embarrassment
- Stewards, retailers and recyclers all compete in their own markets

What is efficient?



- Static efficiency – minimizing the cost of waste reduction given the technology and institutions available today
- Allocative efficiency – production of goods in socially optimal amounts and the allocation of those goods to the right consumers
 - In the case of waste diversion the good in question is the reduction of environmental harm and the “consumers” of the good are the environment, economy and citizens;
 - The optimal amount of waste reduction is such that the long-run environmental and economic benefits of meeting the last unit of waste reduction or diversion target exceeds the cost of achieving the last unit of that target.
- Dynamic efficiency - innovation so that the cost of waste reduction declines over time, that is, encouraging technological progress from cradle-to-cradle
- There are tradeoffs!



“By stimulating innovation, strict environmental regulations can actually enhance competitiveness.”

Toward a New Conception of the Environment-Competitiveness Relationship, Michael E. Porter; Claas van der Linde *The Journal of Economic Perspectives*, Vol 9, No.4. (Autumn, 1995), pp. 97-118.

“The importance of innovation, technical change and efficient institutions in the long run cannot be overestimated.”

Extended Producer Responsibility, Economic Efficiency and Competition Policy,
Donald N. Dewees, Department of Economics
Faculty of Law, University of Toronto

“EPR” isn’t religion



Before regulating analyze “...a situation approximating that which actually exists, to examine the effects of a proposed policy change, and to attempt to decide whether the new situation would be, in total, better or worse than the original one.”

Coase, Ronald H. October 1960. *The Problem of Social Cost*.

Governments!

- Know harm, do no harm. Know what the “harm” is that you are trying to fix, do not cause additional “harm” in fixing it
- The goal isn’t to have an “EPR” program. The goal is to set the right incentives for desired outcomes

Carrots and Sticks



- Incentives for abuse – whoever wrote Ontario’s Waste Diversion Act never read Adam Smith!

*A regulation which obliges all those of the same trade in a particular town to enter their names and places of abode in a public register, facilitates such assemblies.... **A regulation which enables those of the same trade to tax themselves in order to provide for their poor, their sick, their widows and orphans...renders such assemblies necessary.** An incorporation not only renders them necessary, but makes the act of the majority binding upon the whole. In a free trade, an effectual combination cannot be established but by the unanimous consent of every single trader, and it cannot last longer than every single trader continues of the same mind. **The majority of a corporation can enact a bye-law, with proper penalties, which will limit the competition more effectually and more durably than any voluntary combination whatever.***

The Wealth Of Nations, Book IV Chapter VIII, p. 145, paras. c29-30.



Carrots and Sticks

- Preserve – neither fetter nor promote – competition. Markets will sort themselves out.
- If it has to be “EPR”, assign responsibility to individual stewards
 - If collectives form that’s fine but provide no shelter from Canadian competition laws in steward, retailer and recycler markets
 - Ensure collectives do not create “barriers” to escape
 - Ensure collective do not abuse dominant position with regard engaging end-of-life processing markets
- In competitive markets where there might be significant “money on the table” associated with innovation, eco-fees will be short lived
 - Trying to set differential eco-fees, as a “corrective” is a mug’s game
 - Banning eco-fees is a political salve not sound policy

Carrots and Sticks



- Define performance “targets” carefully
 - A 85% diversion target for ELVs to be met by each vehicle brand-owner selling vehicles into BC; **OR**
 - 100% of ELV in BC can only go to auto recyclers meeting a set environmental standard
 - Very different targets with very different likelihoods of measurability and success
- Don’t make the party paying to meet the environmental standard set and oversee the standard
 - Setting and overseeing the standard has to be done by someone who has an incentive to be impartial and rigorous



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