



Jan. 29, 2010

Waste Management Policy Branch  
Ontario Ministry of Environment  
135 St. Clair Ave. W.  
Toronto, ON. M4V 1P5

**Sent via email to <http://www.ebr.gov.on.ca/>**

**RESPONSE BY  
PAC – The PACKAGING ASSOCIATION**

**RE:**

**REVIEW WASTE DIVERSION ACT RE: REGISTRY 010-8164**

Excel spread sheet sent with this word document

**Prepared BY:  
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## **Economic Impact – Adding cost to a manufacturing sector already under duress is an unsustainable strategy**

Minister Gerretsen, as a government leader who attended the December 2009 Copenhagen Summit you are certainly familiar with the **Triple Bottom Line model**. As you know the concept is embraced throughout the globe. The 3-P's represent People, Planet and Profit and the prevailing theory is that the three must work in harmony to ensure a long term sustainable future for planet earth.

The proposed EPR initiative of shuffling the cost burden exclusively to the business community flies in the face of the **Triple Bottom Line** concept. It certainly diminishes the relevance of a critical element of 3-P model.

In January 2009, PAC – The Packaging Association urged the Government of Ontario to conduct an economic cost impact analysis related to Ontario manufacturers and retailers complying with “Full Extended Producer Responsibility” under the Waste Diversion Act.

Following the recent consultation process in November and December, we believe that this is even more urgent under today's economic conditions, which finds even more manufacturers leaving the province -- hurting economic recovery in Ontario and the rest of Canada.

This is not an effort to shirk our social responsibility re: the environment. As we have often pointed out, the Canadian packaging industry has been a leader in developing sustainable packaging, the three R's in terms of reducing packaging waste, food and workplace safety over the years. This will be further addressed.

Rather, we are involved in a delicate balancing act, which we feel the Government has paid almost no attention to as it affects our sector. While millions of Ontario taxpayers dollars have gone towards shoring up the automotive sector this initiative only continues to layer on additional costs to the flailing Canadian packaging community.

As Canadian Finance Minister Jim Flaherty recently pointed out, Canada's economic recovery is in a fragile state. He noted that more than 190,000 manufacturing jobs were lost across Canada – with almost 50 per cent from Ontario. We estimate 10 – 15 per cent of the job losses were from the consumer goods packaging industry.

The Canadian Manufacturers and Exporters Association has called for tax incentives to industry, similar to what's already taken place in other countries to make industry more competitive.

Canada continues to lag in productivity performance relative to the G8 and the negative gap with the US and Canada continues to grow. The January 2010, Conference Board of Canada report calls for tax cuts and tax incentives for capital investment to facilitate productivity increases. This EPR proposal will

widen the productivity gap even further and leave Canada at a greater disadvantage to US producers.

### **Company Closings – Too many to list**

During the past few years a number of consumer goods and packaging converter companies, especially multi-national manufacturers have closed their plants in the province – moving production to the U.S. or Mexico.

The following is a partial and small list of these firms.

Sealed Air – Mississauga; Dometz Candy (formerly Nestle) Toronto; Kraft – Williamstown; Owens Illinois – 2 plants, including 777 Kipling Ave.; Ball Packaging – Burlington; Bemis Flexible Packaging – Toronto; Nordenia – Belleville area; Domtar – Cornwall; Nestle – Chesterville; Pfizer – Arnprior; Hershey – Smiths Falls; Printera Labels – Toronto; Winpak – Toronto.

In all, about 4,000 – 5,000 direct jobs were lost by our industry and about twice as many indirect jobs.

The latest is the closing of five plants across Canada (two in Ontario) by Crown Metal Packaging. All the equipment of these plants was moved to other Crown sites in the U.S. We are concerned, based on information from the company, that Crown will close its remaining plants here unless they can become cost competitive.

If Crown pulls out, there will be no canning production left in Ontario, which will further jeopardize the entire food canning industry in the province. And on the raw material supply side, this would have significant impact on the steelmakers.

As you are probably aware, there is no glass bottle or jar manufacturing left in Ontario with the closing of the Owens Illinois plants. Fortunately, some of this lost production is being picked up by their Quebec operations.

As you well know Ontario is one of the highest tax jurisdictions in North America. We have been working closely with the Industrial Development Division of the Ministry of Agriculture to attract new food processing firms here. Unfortunately, it has been more than five years that a firm of any significant size has set up a plant here.

There is no question that the high Canadian dollar is hurting our competitive situation, and it is expected to remain high for some time. We accept this as a factor that we cannot control. Taxes can be managed but it is in your hands to do so and we need your help.

## **Blue Box Tax (reality vs. perception) aggravates the Situation**

However, by increasing the cost burden to producers for the blue box program from 50 to 100 per cent exacerbates the situation. For many Canadian firms this will add another **two per cent** to their costs of doing business. Given the fact that there is no equivalent blue box tax in the U.S., the actual cost differential is **four per cent** higher for Canadian producers.

While firms exporting into Canada must pay the tax, they still enjoy a major cost advantage over their Canadian counterparts.

### **Why – The Economies of Scale Factor.**

Canada represents only 10 per cent of the market for most U.S. manufacturers. When that cost is amortized over that plant's entire production, it has far less cost impact than it would for smaller Canadian operations, which sell almost 80 per cent of their production into Ontario and other Canadian provinces.

As noted earlier, the greatest impact falls on Canadian divisions of multi-national firms, which under today's severe economic conditions must also compete against similar divisions, producing the same product in the U.S.

The blue box tax is just one of many taxes imposed by the Province that is substantially higher than those imposed by states in the U.S. Such taxes as WSIB premiums, gasoline, are also taken into consideration by corporate headquarters in the U.S. Even when they factor in the higher cost of medical care in the U.S., which is often assumed by the employee as we know, the operational costs of Canadian firms is still higher.

We are now concerned that even more Canadian-owned firms are considering moving some of their operations to the U.S.

The PAC, has for the past six or seven years, urged the Ministry to examine the blue box tax in the broader context and not just to isolate it as an insignificant cost to doing business. Unfortunately, no economic cost impact analysis has ever been done by the Department.

### **Myth that Consumers will pay anyway**

The argument is frequently made by the Government that the increased blue box tax will have little or no impact on companies as it is currently being paid by consumers so when it is transferred to industry, it won't affect consumer buying decisions.

In our opinion, there are a number of flaws to this assumption.

Currently when consumers receive their tax bill from their municipalities, they don't see a line item for blue box services. In fact, they have no idea as to how

much the service actually costs. Nor has there been a tax revolt as most people seem willing to use the service.

As noted previously, once it is transferred to industry there will be an approximate **two per cent** increase price at retail for goods. This will be noticed.

At the same time, municipalities (the forgotten stakeholder) **will not likely lower tax levels** to householders even though the costs have been transferred to industry. In fact we would argue that unchecked municipal costs will sky rocket. Why? The municipalities have no accountability for their inefficiencies. These costs will unfairly and arbitrarily be passed on to manufacturers.

In effect, it leaves consumers with less disposable income to purchase goods.

A further jump in cross border shopping will occur in areas such as the Niagara Peninsula, Windsor Corridor, St. Lawrence Valley, and Sault Ste. Marie. Cross border shopping cost Ontario retailers and manufacturers billions of dollars in lost sales. Again, this transfer of blue box costs – which in total adds **four per cent** to Ontario products over U.S. products as there is no similar tax in the border states, is a further impediment to Ontario firms being cost competitive.

Even though we have been told by Ontario officials that U.S. states are moving to implement a blue box tax against their industry, this is inaccurate. We have been told this since the mid 1990's and it has never happened.

We have also checked with U.S. manufacturers in Illinois, Michigan, Ohio and New York to see if this is happening and they say no. The fact is that rather than facing higher taxes, they seem to be getting additional tax relief and subsidies in a variety of forms.

### **Expect More Closures**

Based on discussions with industry leaders in the U.S. and Canada, we anticipate the consumer goods manufacturing industry in Ontario will shrink by at least 15 – 20 per cent over the next few years unless industry here can become cost competitive again. This will result in the loss of between 20,000 – 30,000 direct and indirect jobs.

### **Conveniently Forgotten - Energy from Waste**

Although Government frequently cites the EU as leaders of EPR they have selectively omitted that Energy from Waste is a crucial component of the European waste management strategy. This state-of-the-art technology is not only an environmentally sound alternative to waste diversion it creates energy from non fossil fuel based materials. The argument that potentially recyclable materials would be redirected to this process has been unfounded in Europe. EFW is recognized as only part of the solution and not part of the problem.

There are several jurisdictions in Canada that effectively use EFW including Peel region and another state-of-the-art project destined for Durham region.

This viable alternative should be recognized and promoted as an acceptable part of the solution and credits should be issued for all materials that pass through this process.

## **Sustainable Packaging Solutions**

Government officials frequently publically state that industry is not doing enough to reduce waste but this is inaccurate. The packaging industry has a long and successful track record when it comes to the environment. Since 2006 PAC and our 375 Canadian member companies (PAC profile enclosed) have been aggressively pursuing waste reduction via the sustainable packaging process. In fact the packaging community has led industry in general on the sustainability front.

Unfortunately this government EPR tax initiative is focused on one small environmental component but the flip side has enormous financial implications for the packaging community at large. It is widely known that packaging for sustainability is a much broader and impactful environmental solution to waste reduction, safe packaging and green house gas emission reductions.

PAC has directly managed and produced several packaging for sustainability conferences, seminars and professional training courses for more than 4000 attending packaging community stakeholders and their respective companies.

Through Paris based, The Consumers Goods Forum global solutions are being worked on by the broader packaging community and will be launched later this year. PAC is a member of the Global Packaging Project steering committee that has identified the sustainable packaging metrics which will likely be adopted throughout the Canadian Packaging community. These metrics will facilitate a common language and the fast tracking of sustainable packaging solutions into 2011 and beyond.

## **In Conclusion**

On October 7, 2010, **Europen**, the European packaging environmental organization will be hosting a conference in Brussels on ***EPR – Twenty Years Later***. I've been told that the agenda will cover the good, the bad and the ugly of EPR. I know I will be there in order to continue learning about this challenging issue and suggest someone from your office attend before you make an unpopular, financially harmful to the packaging community decision.

From an economic perspective there is no one factor that can be singled out causing the industry's current demise. There are many as noted above – but the blue box tax could be the straw that breaks the proverbial camel's back.

PAC is again asking the Government, and in particular the Ministry to undertake an economic cost impact analysis on affected industries. We encourage you to embrace the Triple Bottom Line – 3 P model. Industry must be profitable otherwise we will not be sustainable. Industry has some responsibility and through our packaging for sustainability initiatives are taking fast and aggressive action.

Industry must be competitive and sustainable and in harmony with the other two P's...People and Planet. Otherwise Ontario's packaging manufacturing sector will continue to fade off into the sunset.

The PAC is more than willing to work with your officials in this endeavour.

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29-Jan-10	Waste Diversion Act review - Response and recommendations by PAC The Packaging Association											
Stakeholder and What they control		Current EPR Program			Proposed EPR Program			Proposed EPR Outcome		Fair and Balanced Proposal		
<b>Government law maker</b> Creates vision and laws		Oversight of compliance Producers make it Consumers buy it			Oversight of compliance Producers make it Consumers buy it			<b>Perceived improved diversion but minimal improvement</b>		Shared Stakeholder Responsibility Costs shared - Triple Bottom Line Harmony		
<b>What do they control</b> Decides what is collected and who pays for it		Municipalities process it and various stakeholders pay their share			Municipalities process it <b>Producers pay for it</b>			<b>Plant closures</b> <b>Job loses</b> <b>Higher consumer prices</b>		Producers make it Consumers buy it Municipalities process it		
								<b>Creates</b> <b>Winners - municipalities and Losers</b> <b>producers and consumers</b>		EFW credits allowed in total diversion Gov't endorse Sustainable Pkg Movement Environment wins big via GHG reductions Establish task force for waste management		
								<b>Zero tax reduction</b> <b>Municipalities win lottery</b>		Open waste management to private sector Put waste fees on retail tape to educate consumer Packages harmonized throughout province		
<b>Producer</b> Makes, markets and sells products via distribution channels		Currently pay 50% of recovery cost			<b>Pay 100% of the cost</b>			<b>Better package design</b> <b>Increase consumer prices</b> <b>Close high cost operations</b>		Ontario producer operations continue... jobs protected Reduction thru Sustainable Packaging Better package design		
<b>What do they control</b> Creates the product Designs package for cost effectiveness, product protection, shelf life & food safety Selects distribution channels								<b>Jobs lost</b>				
<b>How much they control to consumers</b> <b>100% to the market</b>												
<b>Consumer</b> Buys and consumes products		Currently pay 50% thru municipality taxes Likely pay 50% thru purchase of product			<b>No reduction in taxes</b> <b>Likely purchase of product</b>			<b>Buy cheaper products in US</b> <b>No tax relief from Munis</b>		Consumer prices stay as is Will buy Made in Ontario Tape will help to incentivize to reduce Will learn to dispose of packaging		
<b>What do they control</b> Select products of their choice Disposes waste not consumed and disposes packaging how they choose - options garbage, green/blue bins, litter												
<b>How much they control to waste stream</b> <b>100% of waste from their homes</b>												
<b>Municipality</b> Manages Waste Processes		Currently pays 50% of recovery cost but recovers costs in municipal taxes			<b>Recovers 100% of costs with no reduction in taxes</b>			<b>Unaccountable, unchecked cost would escalate</b>		Operations will be held accountable Possible consolidations for lower cost Outsiders may provide better, lower cost solution		
<b>What do they control</b> Collects, sorts, recycles, and sells reclaimed material								<b>Enormous financial gain for municipalities</b>				
<b>How much they control in waste stream</b> <b>100% waste collected from consumers</b>												
<b>Recyclers</b> Recycler processors and marketers		Will take some recycled materials but not all and markets set prices			No change			No change		Outsider waste management will find innovative solutions and markets		
<b>What do they control</b> Determines if a recycling market is viable and if so sets price												
<b>How much they control from munis</b> <b>100% - Whatever they want</b>												