

Product Stewardship and Producer Financing Approaches

Prepared for Product Stewardship Stakeholder Group
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Purpose

The purpose of this white paper is to present a brief overview of approaches producers take to manage and finance their product stewardship programs, in particular when the stewardship obligations are legislated. The paper will also summarize some of the issues concerning whether the cost of end-of-life stewardship services should be visible or not to a consumer.

There are three general financing mechanisms that producers have employed to cover the cost of their stewardship programs:

- *Individual producer cost internalization* – The producer provides the stewardship services and the costs are part of the overall price of the product.
- *Stewardship Organization payments* – Producers pay an organization that provides the stewardship services. These costs are then internalized into the price of the products offered by each producer.
- *Cost recovery systems* – A Stewardship Organization recovers the cost of stewardship services along a wider chain of commerce (e.g., distributors, retailers and/or consumers).

Producers have used individual cost internalization and Stewardship Organization payment systems in *both* voluntary and legislated stewardship programs. Cost recovery approaches have been more associated with legislated programs. An important issue is that a cost recovery system can involve companies working together (e.g., establishing fees) and creating a need for legislative action regarding anti-trust.

This paper focuses primarily on the “end-of-life” aspect of product stewardship as paid for by producers. However, this is not meant to exclude the need to be concerned about funding issues where other parties (e.g., retailers, local governments) offer some end-of-life services. Finally, though not covered here, many producers finance research and development efforts to improve their products overall life cycle performance.

I. Voluntary Producer Initiatives–Financing Approaches

Product stewardship initiatives have been established by producers in a number of industries. The type and extent of stewardship end-of-life services offered by companies varies under these initiatives. Individual companies that want to steward their product may find advantages in working together with other partners, particularly others in their own industry. Table 1 describes the two basic approaches available to producers – acting individually or in a joint effort with others.

TABLE 1 Voluntary Industry Programs - Financing Approaches

Stewardship Program	Implementation options	Program examples	Service examples	Financing
Individual Producer	Company itself or with other partner (e.g., retailers)	Ink cartridges; cell phones	Collection via mail-in or retail drop-off ; reuse or recycling of returned product	Internalized;
Industry Group	Stewardship Organization (SO)	Rechargeable Battery Recycling Corp. (RBRC); Thermostat Recycling Corp. (TRC)	Provide collectors with recycling services (i.e., collection boxes; transportation to and processing at recycler or proper disposal)	Companies pay SO and internalize these costs

Individual Producer

Many individual companies have voluntarily developed stewardship programs for their products. The table lists a couple common options companies offer for the end-of-life management of their products (e.g., mail-back or return-to-retail). It should be noted that stewardship can encompass other options such as promotion of leasing (e.g., copiers) or upgrade/replacement programs (e.g., carpet tiles).

The financing of these programs depends on the choice of the company. The costs may be incorporated into the cost of the products like any other cost of production. While there may be nothing to prevent an individual producer from identifying this cost when distributing and selling the product, it is not a known practice.

There are also a number of end-of-life stewardship programs that have been initiated by others in the product chain – in particular, retailers. For example, office supply chains and big box retailers have created collection programs for e-waste. Some of these programs have been offered for free with the cost internalized by the company. At least one program has relied on fees charged to consumers for a portion of the financing.

Industry Group

Within a number of industries, individual companies have taken steps to jointly create stewardship programs for their products. These joint efforts have been variously called a Third Party Organizations (TPO), a Producer Responsibility Organizations (PRO) or a Stewardship Organization (SO). (The term Stewardship Organization will be used in this paper.) The concept is that an entity is formed and contracted with by individual producers to provide end-of-life services that may include some or all of the services from collection to recycling or other final disposition. Stewardship Organizations have sometimes emerged as industry trade groups seek to address the life cycle impacts of their products.

Two of the best known Stewardship Organizations are the Rechargeable Battery Recycling Corp. (RBRC) and the Thermostat Recycling Corp. (TRC). In both of these programs, the member manufacturers pay into a non-profit organization that provides the end-of-life services. RBRC uses a “licensing fee” approach to finance its activities. Producers agree to pay license fees on the rechargeable batteries they sell in return for the RBRC managing all the batteries collected. The TRC program is financed by thermostat manufacturers that have sold mercury-containing thermostats in the states. Manufacturers are charged program costs based on how much of their branded product is collected.

II. Legislated Programs and Producer Financing

The Concept of Producer Choice

Product stewardship legislation has been informed by the idea that producers are better positioned than government to make decisions about how best to design and implement a stewardship program. Consistent with that thinking is stewardship legislation where producers can choose to either finance and provide their own program or jointly finance and provide a program with other producers.

Providing this choice allows a producer who believes they can provide or procure the services at a low cost the opportunity to do so. However, producers looking at how best to meet their legislated obligations may decide that working with others or contracting with an organization is a better choice. The efficiencies achieved due to economies of scale in a larger operation may be very appealing to their bottom line.

The financing mechanisms employed under legislated programs tend to mirror the options used in non-legislated programs: a) the costs of programs fielded by individual producers are internalized into general operations; and b) the costs of programs fielded by producers acting together are allocated across that organization’s membership and internalized by the individual members.

In the case where a Stewardship Organization represents all or almost all of the members of an industry, there may be additional considerations. The members may choose to finance themselves as Stewardship Organizations normally do, through allocating costs to each member. However, another approach has been to seek to collect costs from over other parts of the chain of commerce (e.g., from retailers or consumers). In the states, these “cost recovery” approaches probably require legislative backing due to anti-trust issues.

Allowing producers to choose how they finance their program was the approach adopted in both Oregon and Washington states’ e-waste laws. In Oregon, producers formed two Stewardship Organizations and one individual producer program. There is also a state contractor program for other producers. In Washington, all producers have, to date, stayed with the legislatively established and industry managed Materials Management and Financing Authority. In all cases the program costs have been internalized by the producers.

Table 2 –Legislated Programs and Producer Financing

Stewardship Agent	Examples	Financing	Visible “fee” to consumer
Individual Company Program	Oregon - cycles - Dell	Costs Internalized	No
Stewardship Organizations (SOs)	Oregon E-cycles – MRM, IPR	Pay SO & internalize	No
“Industry – wide” Stewardship Organization (SO)	a) British Columbia Pharmaceuticals b) Oregon Paint Pilot	a) Pay SO & internalize; b) Cost recovery system	a) No b) Optional

Producer Choices – Specific Implications on Financing

Independent programs

Producers fulfilling their legislated stewardship obligations through their own independent programs internalize the costs of these programs within their company’s operations. Whether such costs are spread over local, national or even global operations would be, of course, an internal producer decision. Recovering costs through end-of-life fees, however, would not be an option where state product stewardship laws prohibit that. End-of-life fees are believed to be a significant barrier to consumers to return products and can encourage illegal disposal.

Stewardship Organizations

In principle, producers meeting legislated obligations through a Stewardship Organization would apportion costs among the group program’s membership in manner of their choosing (for example, a fixed membership fee plus a variable cost based on their share materials collected). However, how a state’s legislation affixes producer’s responsibilities (e.g., market share or return share) could influence how producers approach the financing of their Stewardship Organization.

Industry-wide Stewardship Organizations

In several industries, producers have established organization or employed existing trade associations to represent the producers in that industry. These organizations have been valuable in assisting the public’s dialogue with the industry regarding stewardship of the industry’s products.

Producers joined in an industry-wide Stewardship Organization may want to use that organization to meet state legislated stewardship obligations. An industry-wide Stewardship Organization may choose to finance itself no differently from other group programs through fees apportioning costs to its members. However, there have been occasions when an industry-wide Stewardship Organization wishes to use a “cost recovery” approach.

The Oregon paint stewardship law is an example. Under the legislation, a paint industry Stewardship Organization funds recovers the cost of the program through an “assessment fee” on retail sales of new paint. To guard against anti-trust issues, the Stewardship Organization must submit the proposed assessment fee for review and approval by Oregon’s DEQ. In British Columbia, there are also instances where the industry Stewardship Organization is able to collect fees down the chain of commerce from the retailer and consumer.

III. Fees - “Visible” versus “Invisible”

Whether or not consumers see the costs of the stewardship program when they purchase covered products is often a subject for discussion in states or provinces considering product stewardship legislation. However, it is important to first distinguish between “fees” that are part of a government program and “fees” that may be part of producer responsibility legislation.

Government program fees

In the United States, a consumer is probably most familiar with fees on products that have been legislatively imposed to pay for government programs. Generally these types of fees are visible to the consumer. In Oregon, there was a state fee on tires that was used to fund the cleanup of tire piles. More recently in California, an advance recycling fee was enacted to fund electronics recycling. Under this type of legislation, the producer is not given any stewardship role or financial responsibility. As a consequence, they can play no role in controlling program costs as they might if they were providing the services themselves. They also will have no incentive to improve their product to, for example, make it more easily recyclable.

Fees under legislated stewardship programs

In Canada, there are stewardship programs with “eco-fees” that a consumer sees at retail. These fees are set and collected by the Stewardship Organization to finance their program. For example, British Columbia’s paint steward has established an eco-fee for paint. Making the fee visible to consumers places some additional administrative requirement on the stewardship organization. Oregon’s new paint stewardship law also allows a stewardship organization to collect an “assessment fee” from retailers. Retailers may, but are not required to, display the cost of the fee to consumers.

There are at least two distinct perspectives on whether the value of having such fees visible to consumers:

By one perspective, the education value of a visible fee is critical. Consumers need to know the end-of-life services that are being included in the product’s purchase price. While state stewardship laws like Oregon’s e-waste law may require retailers to inform purchasers of covered products about the availability of such services, from this perspective an actual dollar figure communicates the message better.

A contrasting viewpoint is that consumers are not faced with the specific cost of business for other product costs (e.g., meeting safety standards, pollution control mechanisms etc.). In this view, end-of-life management costs should be internalized and do not need to be visible to the consumer. The price signal that is important to the producer is the one “upstream” that may influence changes to reduce the lifecycle costs of the product.

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