

ECO FEES-HIDDEN OR VISIBLE?

Background

In many developed countries the financial and physical responsibility for managing products when they have outlived their usefulness and are ready for recycling is being transferred from the public sector (typically local governments) to brandowners and producers and, ultimately, to the consumers of those products.

Since the process of collecting and recycling products often costs more than the value of the resources reclaimed, additional sources of revenue are required. Where the recycling is done by local governments, and material revenues are insufficient, top-up funds come from municipal taxes or fees. Where recycling is the responsibility of brandowners, producers or importers, under an Extended Producer Responsibility (EPR) program, the required additional revenue is raised through fees attached to the sale of new products either by incorporation into the base price, i.e. hidden, or as a visible fee added at the time of purchase.

Much debate has ensued over the best way of applying recycling fees with a rough division between the public sector, which seems to favour hidden fees and the private sector, which largely prefers visible fees.

Bury Article in Canadian Tax Journal

In a recent [article](#) prompted by the imbroglio in Ontario in the summer of 2010, consultant Duncan Bury reaches a conclusion that eco-included (hidden) pricing is better for politicians, consumers and for producers. He advances his position in the form of a syllogism consisting of two premises and a conclusion. In other words, if the premises are true, the conclusion must be true.

His two premises are:

1. The Ontario situation, in which fees set by the PRO (Stewardship Ontario) and charged to obligated producers and passed on by them to their retail customers were then, at some large retail chains,, calculated incorrectly and then passed on as visible fees causing significant consumer anger. Subsequently the provincial government rescinded phase 2 of the Municipal Hazardous and Special Waste program (MHSW). Mr. Bury asserts that this controversy would have been avoided if eco-included (hidden) pricing had been used
2. Eco-included (hidden) pricing is an essential and necessary component for EPR programs to achieve product redesign and innovation; in other words, better environmental performance

From these premises he reaches his conclusion that the arguments advanced by product stewards and PROs in favour of eco-excluded (visible) pricing are insufficient to overcome their disadvantages or the advantages of eco-included (hidden) pricing.

PREMISE 1

Let's look at his first premise which concludes that the Ontario fuss could have been avoided by hidden fees.

Mr. Bury acknowledges that the introduction of the Phase 2 MHSW program in Ontario did not go as planned and that other programs in other provinces have avoided these difficulties. BC has had stewardship programs with visible eco fees for a wide range of consumer products and packaging since the mid 1990's with little controversy. While the launch of this program was controversial, it should be noted that many of the products in phase 2 are household "consumables" used on a daily basis with little or no residual content for which a cost can be implied nor a fee required. Inevitably this created confusion and resentment by consumers.

He cites the errors in the Ontario launch as being:

- The launch date being coincident with the introduction of Harmonized Sales Tax
- The Stewardship Ontario consumer awareness program could not succeed in explaining the fees
- A complex fee structure
- Errors in calculating and applying the fees
- Poor application of the fees by retailers

It is hard to see how hiding the fees would have alleviated the first four errors; in fact, he argues that a consumer awareness program is essential for a hidden eco-fee program as well. With respect to faulty introduction by retailers; given the other errors it is likely that implementation at the retail level would have gone no better because a program which causes significant price jumps across a range of products would confuse retailers and anger customers, regardless of whether the eco fee was visible or hidden as the latter would have simply bumped up the base price.

In fact, producers in Ontario used visible fees for phase 1 of MHSW, for the Ontario Electronics Stewardship (OES) and for the Ontario Tire Stewardship (OTS) programs, all of which proceeded without either consumer backlash or government angst.

What is clear is that the Ontario experience in the summer of 2010 showed what will happen when visible eco fee programs are launched without targeted communication for consumers on the fees themselves and sufficient coordination between the PRO, manufacturers and retailers. It certainly does not inform the debate over the policy efficacy of visible versus hidden eco fees.

What is lacking in his analysis is any recognition that there are significant advantages to visible fees including:

For brandowners/manufacturers:

- Visible fees enable companies to see that their competitors are participating, free riders can be identified.
- Visible fees provide financing for the recycling of “orphan” or other older products which existing manufacturers did not produce. Manufacturers naturally oppose higher prices for their products to cover products they did not make.
- Changes in fees don’t require changes to retail and wholesale price lists or advertisements

For consumers:

- Visible fees act as a reminder to recycle.
- Fees reflect the net cost of recycling, there is no opportunity for markup as the product passes through distribution networks.
- Consumers can monitor the product stewardship agency’s efficiency and fees directly.
- Fees can be changed, up or down, to reflect the actual costs and timing requirements of recycling, not the brandowners’ needs.

Of course there are disadvantages to visible fees:

For the provincial government:

- Fees are often described, usually by uninformed retail staff, as being another “tax” levied by the government.

For consumers:

- Fees not explained adequately, either beforehand or at point of sale, cause confusion, resentment and even anger.

For brandowners:

- Visible fees require a higher level of public transparency, consumer awareness and information provision as well as a detailed accounting/audit responsibility to the relevant government.

The first two of these disadvantages can be greatly alleviated if consumer and retailer education is focused on explaining the eco fees.

One additional point to be made about the Ontario result is that, in some cases, the eco fees added to MHSW products seemed, to consumers at least, to be disproportionate to the normal cost and/or potential hazard of the products. A large increase in the price of a product, whether fees are hidden or visible, will always cause a negative consumer reaction and some retailers will be quick to deflect the blame elsewhere, usually at the relevant government.

PREMISE 2

On to the next premise that hidden eco fee pricing is fundamental to incentivizing producers to redesign products for improved environmental performance. To our knowledge, there is no real evidence that a particular eco fee pricing regime, in any part of the world, has any impact on product innovation or redesign.

It is hard to imagine that the \$1.20 visible recycling fee charged on a laptop or tablet computer under the BC electronics program would have much impact on the design of devices costing several hundred dollars.

In fact, there is evidence that direct participation by manufacturers in the governance and operation of EPR programs for their products yields a significant benefit since it brings the producer's knowledge and creativity to bear directly on the various operational challenges faced by all EPR programs. As one would expect, this is the benefit of shifting from municipally paid programs which externalize the end of life management costs to EPR which can internalize these costs. It is important to note that internalizing has nothing to do with fees being hidden or visible. It simply means that the end of life costs go with the product.

It is more likely this engagement is the key driver and that the eco fee pricing regime is incidental. And why is this? Producers have a whole range of market reasons to redesign products ranging from gaining competitive advantage to reducing costs.

Manufacturers have a history of product innovation in response to consumer demand, not recycling costs. Consumer demand for products that are better, cheaper to buy and use, and are environmentally friendly, will always be the key driving force.

An additional decoupling of eco fees from product design can be seen in many product stewardship sectors where the fees currently being collected on new products are largely used to recycle very old products made well before consumers started demanding higher environmental standards and manufacturers started responding to that demand.

End of life management considerations are principally focused on ensuring that there are ready markets for the collected and recycled materials and products. This imperative can influence product and packaging design. However, the eco fee regime is at best incidental in product design or redesign decisions.

To give further weight to his arguments, however, Mr. Bury introduces another premise (so beyond a simple syllogism and onto a kind of regression analysis pursuing a number of purely theoretical possibilities in the search for something that fits).

He postulates that hidden eco fees can lead to differential eco fee pricing and that products with better environmental design will have lower fees and that this outcome is the evidence that producers will respond to hidden pricing by redesigning their products to improve environmental performance because of the associated promise of lower fees being charged them by the PRO.

Closer examination of the eco fee quantum in the electronics stewardship programs in Canada shows that potential for eco fee reductions for the producer with environmentally preferable products are de minimis. Why is that? There are two reasons:

- Costs to collect and transport products which have reached the resource recovery stage are often equal to the costs of processing them, and product redesign has a negligible effect on collection and transportation costs.
- The mechanics of processing of most end of life materials in stewardship programs in Canada rely on high volume bulk handling where triaging away more environmentally preferable products would, in fact, add to costs and not reduce them. The savings would simply not materialize and, therefore, lower costs would not be available and variable eco fee pricing would not materialize.

Having dealt with the premises of Mr. Bury's argument, we cannot support his conclusion that hidden eco fees are the preferred EPR policy. We are left with the real debate that government sensitivity to consumers' reaction to eco fees being seen as "taxes" is mostly a comment on governments' faith (or lack of it) in the PRO's ability or commitment to adequately inform all the stakeholders than it is about visible fees being contrary to the core principles of EPR. Incidentally, Duncan Bury's argument that eco fee excluded (visible) pricing gives the PRO a measure of independence from the producer's head office is in error.

From our experience with regulated programs for beverage containers and electronics with visible fees in BC, we have found that producers, in fact, clearly see these fees as part of the price consumers pay for their products. Being visible does not make them orphans from the parent product. Brandowners are therefore as active (often aggressively so) in minimizing these fees as they would be were the fees hidden in the product price.

In sum, we suggest that the benefits of visible pricing are sufficient to permit them in all but the most unusual of political circumstances. On one matter we do agree with Mr. Bury; governments should ensure that the delivery of public information and the proper implementation of eco fees must be at the highest level of effectiveness.

At some point in the future, should every manufacturer have its own recycling program and all products are recycled as a matter of course, visible fees may no longer be required. Until that time, visible fees provide an effective way of obtaining brandowner compliance, cost accountability for consumers and a higher profile for recycling programs.

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