

ENCORP PACIFIC (CANADA)



DRAFT

STEWARDSHIP PLAN 2014 – 2018

April 1, 2013

Table of Contents

Summary of Performance Objectives.....	3
Public Consultation.....	4
Section 1. Introduction.....	5
Section 2. Program Principles	6
Section 3. Program History	6
Section 4. Consumer Awareness	12
Section 5. Management of Program Costs.....	13
Section 6. Management of Environmental Impacts	14
Section 7. System Challenges	17
Section 8. Dispute Resolution Process	19
Appendix 1 Public Consultation.....	19

DRAFT

Summary of Performance Objectives

RECOVERY RATE

- Encorp will target an overall recovery rate of 82% for the beverage containers included in the B.C. Recycling Regulation that are under Encorp's Stewardship Plan. The average recovery for the last 5 years (2008-2012) has been 79%.

CONSUMER ACCESS

- In major urban areas: as the population increases maintain the ratio of population to depots at current levels
- Improve consumer access in Metro Vancouver through a combination of new depots and innovative collection methods
- In smaller centres and rural areas: maintain the current number of depots but promote upgrades and relocations where needed
- Continue to test innovative collection options

CONSUMER AWARENESS

- Maintain a net annual awareness of container types and beverage types which carry a deposit at over 90%
- Maintain a net annual awareness of locations to which containers can be returned at over 90%

CARBON FOOTPRINT

- Refine greenhouse gas measurement methods and establish a baseline on which to rate future changes

COOPERATION WITH OTHER STEWARDSHIP AGENCIES

- Work with agents for other stewardship materials to ensure that depots continue to properly manage beverage containers while providing convenience for consumers

DEPOT CAPABILITIES

- Continue to develop and operate programs which enhance depot capabilities and efficiencies

Public Consultation

The Ministry of Environment has been explicit in its direction that the key component required of any stewardship plan submitted for its approval must be substantial public and stakeholder consultation. A further Ministry request is that the development of the consultation plan itself should have stakeholder input.

To assist in this process, an early draft of the plan was submitted to a joint meeting of Encorp's Board of Directors and its Advisory Committee. This joint group contained expertise from senior corporate management, marketing, local governments, recycling NGOs and social services.

The plan has been prepared to allow for ease of online stakeholder comments. In addition to online access, the plan will be available for review at a series of public meetings to be held in 5 locations around B.C. The time and place of these meetings will be advertised in newspapers and on the Return-It™ and RCBC website.

Following a review of the draft plan there was strong support, particularly from Encorp's Board members, that Encorp should set a high standard for consultation and should exceed the minimums required by the Ministry of Environment.

Following the direction received at this meeting Encorp management outlined a program of direct personal contact through public meetings, paid advertising, use of social media, web-based seminars and a variety of methods that will make it easy for stakeholders to submit comments on the plan.

Note:

- *The recycling regulation references Public Consultation in section 5 (1) (b)*
- *A summary of the actual consultation will be added as an Appendix*

Section 1. Introduction

Encorp Pacific (Canada) Beverage Container Stewardship Plan 2014-2018

This stewardship plan has been produced to meet the requirements of the BC Recycling Regulation which calls for submission of a revised stewardship plan on a regular basis.

The following plan has been prepared to allow for ease of online stakeholder comments. In addition to online access, the plan will be available for review at a series of public meetings to be held in 5 locations around B.C. The time and place of these meetings will be advertised in newspapers and on the Return-It™ website.

Once all stakeholder comments have been received and included, this plan will be submitted to the Ministry of Environment by December 31, 2013.

Regulatory Context

This stewardship plan has been produced to meet the requirements of Section 6 of the BC Recycling Regulation which calls for submission of a revised stewardship plan on a regular basis.

About Encorp Pacific (Canada)

Encorp Pacific (Canada), herein referred to as Encorp, was originally formed as Encorp Pacific Inc. in 1994 and then as an industry product stewardship agency in 1998 to fulfill the requirements of the Beverage Container Stewardship Program Regulation (BC Reg. 406/97-repealed) and the subsequent Recycling Regulation, Schedule 1, Beverage Container Product Category (BC Reg.449/2004). As of 2013, Encorp has been appointed by beverage brand owners as the product stewardship agency responsible for all non-alcohol beverage containers and all alcohol beverage containers except for aluminum beer cans and refillable beer bottles.

Governance

Encorp Pacific (Canada) (EPC) is federally incorporated as a non-share capital corporation under Part II of the Canada Corporations Act. The corporation is exempt from income tax provided that strict Canada Revenue Agency rules are observed. This type of incorporation identifies owners as members and not shareholders and places restrictions on the use of operating surpluses.

The corporation is governed by a Board of directors consisting of representatives of the retail and beverage industries as well as non-affiliated directors with relevant expertise.

A list of current Board members is published in the corporation's annual report. This information plus more detail on how the corporation functions is available on the web at www.return-it.ca

Section 2. Program Principles

Since its inception, Encorp has operated under the following principles:

- a. Divert used products from landfill and incineration.
- b. Develop and operate a system which provides consumer-friendly and convenient return points throughout the Province.
- c. Manage the system in a cost-effective manner that has the lowest possible impact on consumer prices.
- d. Run a cost-based system in which each container type pays its own costs with no cross subsidization.
- e. Find useable end products which maximize the value of the recovered materials.
- f. Treat all brand owners equitably.
- g. Provide a high degree of transparency in all its operations.

DRAFT

Section 3. Program History

a. Chronology

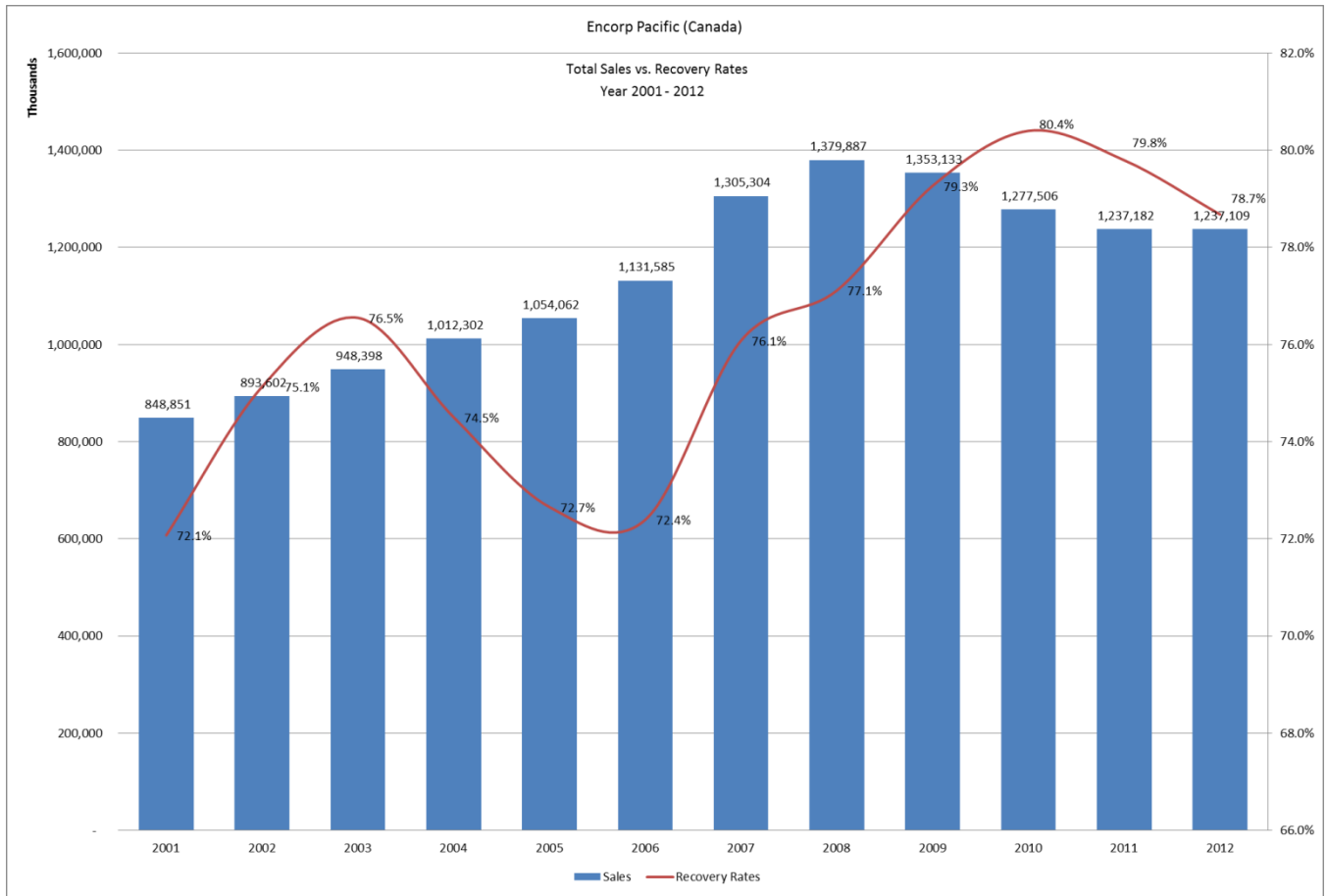
- | | |
|-----------|---|
| 1970-1994 | In 1970 British Columbia became the first jurisdiction in North America to impose a deposit/refund system on soft drink cans and bottles. The system was entirely based on return to retail with deposits and refunds being managed by retailers and brandowners. |
| 1994 | Encorp Pacific Inc. was established by the major brandowners and retailers to develop and operate a common collection system for all brands, collect and reimburse deposits and to establish a network of depots to divert returns from the major grocers. |
| 1998 | The Beverage Container Stewardship Program regulation came into force which added all ready-to-drink beverages (except for milk and milk substitutes) to the deposit/refund requirements. Encorp Pacific (Canada) was established. |
| 2000 | The Ministry of Environment approved a consolidated and amended stewardship plan incorporating polycoat containers. |

- 2004 The Recycling Regulation came into effect.
- 2006 Encorp submitted an updated stewardship plan as required by the Recycling Regulation.
- 2007 In July 2007 the Ministry of Environment approved Encorp's stewardship plan.
- 2007 In November 2007, the Ministry of Environment approved an amended stewardship plan for Encorp which incorporated alcohol beverage containers previously covered by a separate stewardship plan produced by the BC Liquor Distribution Branch.
- 2012 Encorp received an approval of the current plan to "remain in good standing" which provides a one year extension to its stewardship plan with the proviso that an updated plan be submitted to the Ministry of Environment by December 31, 2013. Including amended plans, this will be Encorp's fifth stewardship plan.

b. Sales and Recovery Growth

The following graph outlines the growth in the number of containers sold since 2001 for which Encorp has stewardship responsibilities. Changes in sales volumes can be noted as events described in the chronology occurred. The graph also shows the percentage of sold containers recovered and recycled with changes occurring in the years following events described in the chronology.

Overall Recovery Rates (see notes below)



Notes:

- *Alcohol beverage containers entered the Encorp system in 2007. This provided not only an increase in sales but also in the recovery rates since alcohol beverage containers traditionally have a higher recovery rate.*
- *2009 marked the first year in Encorp’s history where beverage sales fell and this trend carried into successive years. Collection of used containers, however, remained much more stable with the result that the overall recovery rate continued to improve.*

Unit Recovery Rates by Category

The following table shows the major categories of beverage containers by container type, the percentage of total sales each type has and the recovery rate for each type.

Container type	Percentage of total beverage unit sales (2012)	Recovery Rate (2012)	2014-2018 Performance Objective (Annual Average)
Glass	17%	94%	Sustain recovery rates above 90%
Plastic	36%	75%	Achieve recovery rate above 78%
Aluminum	36%	82%	Achieve recovery rates above 85%
Polycoat	10%	57%	Increase recovery rate to 65%
Other	1%	53%	Increase recovery rate to 60%
Performance Objective 2014-2018			
Overall recovery rate by units		78.7%	Achieve an overall unit recovery rate of 82%

Weight Recovery by Commodity - 2012

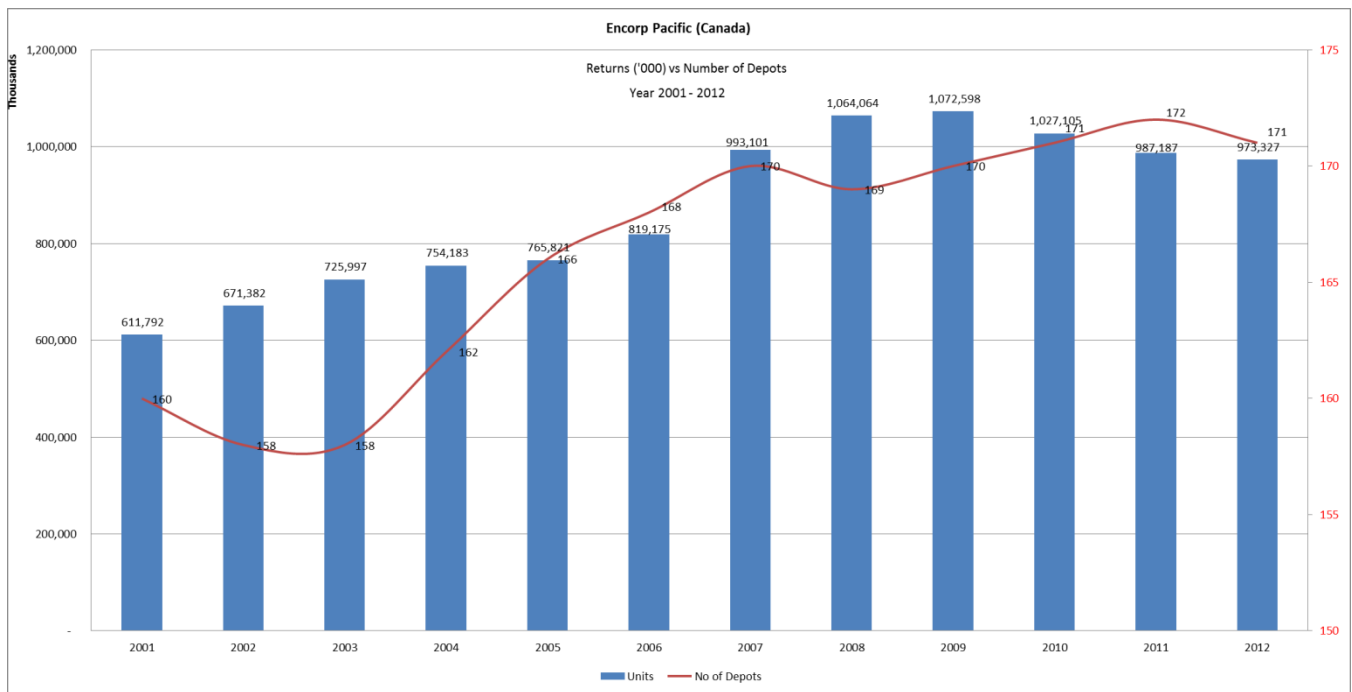
In addition to unit recovery rates Encorp also calculates commodity weights. The weight of material recovered is the most common measure of recycling performance for product stewardship categories other than beverage containers. In 2012 the overall recovery rate for beverage containers by weight was **88.6%**

Commodity	Weight collected (Tonnes)	Recovery Rate	Weight uncollected (Est.Tonnes)	Percentage of weight uncollected
Glass	70,011	93%	5,525	7%
Plastic	10,884	78%	3,159	22%
Aluminum	5,026	82%	1,094	18%
Polycoat	1,933	64%	1,098	36%
Other	582	52%	544	48%
Total	88,436	89%	11,420	11%

Note: The Recycling Regulation references Unit Recovery Rates by Category in section 5 (a) (i)

c. Consumer Access to Collection Points

The following graph shows the growth in the number of Encorp authorized depots since 2000; with the 2012 count at 171, as well as the total number of containers collected and recycled by the system.



Urban Areas

In the major urban areas of Metro Vancouver, Fraser Valley, Capital and Central Okanagan Regional Districts, the current population serviced by each depot ranges from 35,000 people in Metro Vancouver to 19,000 people per depot in the Fraser Valley with an average of 26,000 people per depot in these urban areas.

The Metro Vancouver ratio is skewed by lack of depots in the City of Vancouver where there is one depot to service every 80,000 people; compared with the City of Richmond where there is one depot for every 25,000 people. It has been difficult for Encorp to obtain municipal support for depot placement from the City of Vancouver but recent discussions with city officials indicate that a more positive position is possible.

- **Performance Objective for 2014-2018** – Ensure that these Regional Districts receive the same or better level of access as their population grows by opening additional depots at a rate which will reduce the population depot ratio.

Smaller communities and rural areas

In smaller centres and rural areas Encorp has established depot coverage based largely upon municipal boundaries and/or population concentrations. The key deciding factor in locating a depot is the volume of business required to sustain a profitable dedicated depot site. Once a depot is operational Encorp's efforts have focused on improving customer convenience and satisfaction with the depot and on improving depot efficiencies.

- **Performance Objective 2014-2018** – In smaller centres and rural areas Encorp will maintain the current number of depots but will assist in relocations or facility upgrades to provide an enhanced customer experience.

Mobile and Commercial Collectors

Encorp has assisted independently-owned specialized mobile and commercial collectors to establish viable collection programs to service commercial establishments such as hotels, office buildings, restaurants, other businesses as well as multi-family buildings. Their services are primarily provided within the Vancouver area where there are limited permanent Return-It™ Depot locations.

- **Performance Objective 2014-2018** – Encorp will continue to explore opportunities and encourage such enterprises where a viable business opportunity can be identified.

Note: The Recycling Regulation references Consumer access to Collection points in Section 5 (c) (iii)

Return-to-Retail

The unique and mandatory return-to-retail requirement of the beverage container schedule (Section 6[2]) means that there are, potentially, thousands of return points for consumers. However, due to the greater convenience of depots which accept unlimited quantities of all deposit-bearing containers, the vast majority of containers are returned through the depot system. Despite the presumed convenience of return-to-retail, a declining share of containers, currently around 7%, are returned through the retail system. There are approximately 360 retailers from whom Encorp collects containers but there are a number of them which do not collect containers in sufficient volumes to justify service by Encorp transporters.

Wholesale Depots and Retailers – In certain circumstances, primarily larger urban areas, Encorp authorized depots provide collection and sorting services for smaller retailers and IC&I accounts. Service areas are established by the depots independently of Encorp and, in some cases, fees for collections are charged. Volumes collected in this manner are not identified separately but are included in the overall depot

collections. Encorp does not pay an extra fee to depots providing this type of service save as explained in the Mobile and Commercial Collectors section above.

Section 4. Consumer Awareness

Since 1998 Encorp has conducted regular, and extensive, consumer research to determine attitudes, motivators and habits. This research has been used to develop a multitude of consumer awareness programs designed to inform consumers about which containers are part of the system, deposit levels for containers, how and where to return them and what happens to the collected containers.

Further consumer research has tested the degree of awareness exhibited by BC consumers (those who consume these types of beverages) of the Return-It™ system and it has shown steady progress to the point where virtually all BC residents are aware of the system and the vast majority actively participate in one way or another. Few consumer products have attained the level of awareness achieved by the Return-It™ brand.

Awareness can be grouped into two broad categories:

1. Consumer awareness of types of beverages and/or containers which carry a refundable deposit:

Initial Awareness – 1999 – 42%

Average Net Annual Awareness – 2008-2012 – 99%

Performance Objective 2014-2018 – Maintain an average net annual awareness of over 90%

2. Awareness of Locations to Return Beverage Containers (Depots and Retailers):

Initial Awareness – 1999 – 54%

Average Net Awareness – 2008-2012 – 92%

Performance Objective – 2014-2018 – Maintain an average net annual awareness of over 90%

Note: The Recycling Regulation references Consumer Awareness in Section 5 (c) (iv)

Section 5. Management of Program Costs

Financing Model

Encorp's Board of Directors, through strategic reviews and annual planning sessions, strive to ensure that the Company delivers a highly successful stewardship plan in a cost-effective and efficient manner. Costs for all services are compared to existing market rates on an annual basis.

The funds to pay for the costs of handling fees, transportation, processing, consumer education and administration of used beverage containers come from three sources:

1. Unredeemed deposits (Unredeemed Deposits represent 19% of the funds Encorp receives) – The percentage recovery rate for each container type varies with most categories being returned at less than 100% of sales. The unredeemed deposit for each type is used to pay the recovery costs of that specific type of container.
2. Commodity value (Commodity Values represent 17% of the funds Encorp receives) – The sale of the material collected for each container type is also used to pay the recovery costs of that specific type of container
3. Container Recycling Fees (Container Recycling Fees represent 64% of the funds Encorp receives) – Where the above two funding sources are insufficient to pay the recovery costs for a specific container type a non-refundable fee is applied to the container. These fees are reviewed on an annual basis to ensure that they are sufficient to cover only the net costs of recycling a specific container type.

Note: Encorp maintains eighteen (18) different container types

A fundamental principle for Encorp is that it is a cost-based operation in which each container type covers its own expenses with no cross subsidization between container types. To fulfill that obligation Encorp has, since its inception, employed a system of contract management to constantly test the market to ensure cost and operational efficiencies. Aside from administrative and quality control functions, Encorp contracts out all other operational aspects such as collection, transportation and processing. The single biggest category of expenses for Encorp, representing 59% of total operational costs, are the handling fees paid to Encorp-contracted depots to collect containers from consumers. Many of Encorp's depot training programs are designed to improve container management efficiencies.

For many contracts a Request for Proposal (RFP) is issued, for others Encorp utilizes independent financial studies to determine costs and viability as accurately as possible. In all cases the intent is to ensure that costs represent current fair market value. All costs are passed through to the relevant container type with no markup added.

Major costs are detailed in the independently audited annual reports which Encorp has produced, and made widely available to the public, since 2001.

Note: The Recycling Regulation references Management of Program Costs in Section 5 (c) (i) and 5 (c) (v)

Section 6. Management of Environmental Impacts

a. Management of Collected Materials

Over 97% of the materials collected by the Encorp system are processed into marketable commodities within North America.

Collected used beverage containers comprise four major material categories:

1. Aluminum

Collected cans are returned to a re-melt facility where they are turned into sheet stock from which new cans are made. It is estimated that 50% of every aluminum can on retailers' shelves has been recycled at least once. Aluminum is also the most valuable commodity collected by the system and is sent, by rail, to a re-melt facility in the U.S.A.

2. Plastic

Plastic bottles used for beverages are made from one of two resins, PET, the clear resin used for water or soft drinks and HDPE, the cloudy resin most often used for milk containers. These materials are sent to separate facilities in Vancouver and Calgary where they are washed and pelletized for further processing into new products such as new containers, strapping materials and fibres. A number of beverage manufacturers have introduced recycled content into their packaging.

3. Glass

Glass is sent to local facilities where it is crushed into small pieces called cullet. Dependent on location, this cullet is then shipped to facilities where it is made into fiber glass insulation, new bottles, sand blasting materials and construction aggregates. The majority of Encorp's collected glass is sent to Seattle, where it is used in new bottles, or to Alberta where it is used to make fiber glass insulation.

4. Polycoat

Drink boxes and gable top containers are sold into scrap fibre markets which feed pulp mills. The valuable paper fibre which comprises the bulk of these containers is

extracted and used to make cardboard boxes and tissue paper. Current market demand for paper fibre is strongest in Asia and polycoat materials are being shipped to South Korea.

b. Management in Accordance with the Pollution Prevention Hierarchy

Reduce and Redesign

Reduction in the size and weight of beverage containers has taken two forms:

- substituting a lighter weight material for a heavier one such as plastic or polycoat instead of glass
- utilizing less material to make a container

A further design change becoming more commonplace is the use of recycled content in plastic containers. Beverage producers are constantly testing new package materials and designs which may further reduce the volume and weight of containers.

Reduction of unused portions

The reduction of unused portions is not applicable to this product type.

Reuse

There are no refillable containers covered by the Encorp stewardship plan. Containers used for in-home or “u-vint” wine production are not part of the Encorp system.

Recycle

The primary focus of the used beverage container system is to ensure that materials are recovered and recycled into new products as described in Section 6a.

c. Product Lifecycle Management

Containers for products for human consumption, beverage containers, are free of hazardous materials. As a result there are no environmental concerns with the downstream use of collected commodities. As noted in earlier sections, container designs and materials are under constant review by beverage producers.

Encorp is working with its external auditors to develop third party audit assurance of how the recovered product is managed in accordance with the pollution prevention hierarchy of the Recycling Regulation and that it is fairly stated. The assurance will focus on the process Encorp uses to track its product for recycling to its initial recycler, with audit of the material downstream processes over time.

Progress reports will be provided to the Ministry of Environment in 2013 with a full audit report effective for fiscal year 2014.

d. Greenhouse Gas Emissions

The collection and recycling of beverage containers is a contributor to greenhouse gas reduction. Encorp commenced measuring the actual reduction in GHG emissions generated by the recycling of beverage containers in 2008 with the following annual savings indicated:

- 2008 – 138,000 tonnes
- 2009 – 137,000 tonnes
- 2010 – 99,900 tonnes (restated in 2011)
- 2011 – 94,000 tonnes
- 2012 – 94,000 tonnes

The net amount of GHG reduction depends on the volume and type of containers collected and recycled. Details on methodology, and on variability factors, are published in the annual report. The methodologies used in the GHG Protocol are refined annually as there currently are not any global standards primarily due to the fact that this kind of reporting is relatively new and history is unavailable. This could, potentially, result in the future easement of prior year's figures.

Calculating and measuring Encorp's environmental footprint is also a process still under development with only a few years' data as yet available. Further refinement of GHG measurement standards is required along with several more years of base data. From this work it will be possible to establish a more specific performance measurement.

Performance Objective 2014-2018

- Refine GHG measurement standards to ensure consistent reporting of the system's overall carbon footprint.
- Establish a base performance measure by which to rate future changes

Note: The Recycling Regulation references Management of Environmental Impacts in Section 5 (c) (vii)

Section 7. System Challenges

In the 5 year term of this Stewardship Plan, Encorp anticipates confronting a series of challenges.

a. Depot Capacity

The depot network was developed by Encorp as the primary means of collecting beverage containers from consumers. The volume of beverage container collection covered by Encorp's stewardship plan provides the essential sustaining revenue stream which keeps the depot system financially viable, while other stewardship materials and agencies provide depots with additional income. In turn, the depots are critical to the successful delivery of the Encorp stewardship plan.

Capacity concerns are twofold:

1. **Physical Capacity** – The space available to depots is limited by many factors including cost, municipal restrictions, transportation access, etc. Where depots are seen as an existing solution to be utilized for the benefit of other stewardship programs Encorp must work to ensure that the system continues to function efficiently for beverage containers while accommodating these other stewardship programs where feasible. Approximately 50% of Encorp depots are currently collecting other stewardship products.

Performance Objective 2014-2018

- Encorp will continue to cooperate and participate, where feasible, with other stewardship programs in a manner that will ensure the continued ability of depots to successfully manage beverage containers while providing one drop convenience for consumers.
2. **Managerial and Operational Capacity** – Encorp, in cooperation with experienced depot operators and other specialists, has developed programs to train operators and their staff in depot management.

Encorp has tested a variety of automation systems designed to improve depot and system efficiency. Programs include:

- Regular upgrades in hardware and software for the Point of Return computer system utilized by the majority of depots.
- Testing and rollout of in-depot compaction equipment in locations where it is most effective.
- Purchase and installation of a major automatic sorting machine designed to speed up and refine Encorp's Quality Assurance system.

- Regular testing and implementation of new in-depot collection bags or bins.
- Continuation of the Three and Five Star depot program which provides financial and public recognition awards to depots meeting enhanced operational standards.

Performance Objective 2014-2018

- Encorp will continue to develop programs and systems to strengthen depots' management capabilities and improve depot efficiencies.

b. Commodity Markets

Volatility in commodity markets in recent years has had a significant impact on Encorp's ability to forecast overall system revenues and costs. In addition, markets for specific commodities have varied not only in price but also in processor demand. Overall, however, the system is aided by the fact that 99% of collected materials have well established markets. Encorp regularly explores alternative, including local, markets and processors in response to changing market conditions.

c. Funding Sources for the Deposit/Refund System

Until recent years Encorp's funding sources for operating the system were almost equally divided between commodity sales, unredeemed deposits and container recycling fees. The volatility of commodity markets and the steadily increasing recovery rate have resulted in container recycling fees becoming the primary source of revenue, now approximately 64% of the total in 2012. Container recycling fees are vital to make the deposit refund system work; even if all containers are returned and commodity values decline, the system can still operate. Setting the right CRF, the only funding source under Encorp's direct control, is a financial balancing act that Encorp performs at least once a year to ensure that the system continues to be able to pay for itself.

d. Costs per Unit Recovered

Encorp has recognized that, as recovery rates increase the costs will rise. While the financial costs can be clearly identified, the environmental costs are more difficult to quantify but just as important.

e. Mandatory Return-to-Retail

The Beverage Container schedule of the Recycling Regulation is the only product schedule which contains a mandatory return-to-retail requirement. While this requirement is the primary concern of retailers it also adds to Encorp system costs by requiring collection services (provided either by depots or by Encorp directly) for many stores which actually collect very small volumes of containers. Voluntary return-to-retail

would allow for consolidation of collection points to those which are economically and environmentally viable. Refer to section 3c Return-to-Retail and the depot wholesale collection system for information regarding how this consolidation could reduce costs.

Section 8. Dispute Resolution Process

To deal with issues which may arise between the corporation and its suppliers or partners, Encorp has in place a proactive and multi-layered process of consultation. Encorp has consultative groups and committees for its major suppliers of services; these groups include a Council of Depot Operators and an Advisory Committee which includes small brandowners, local governments and other interested parties.

All Return-It™ Depots have signed agreements with either automatic renewals or renewable terms. Any disputes would be resolved using normal commercial legal procedures.

Should disputes arise, senior management becomes directly engaged with assistance from outside parties as necessary. All necessary steps to resolve disputes amicably and acceptably are undertaken, including access to commercial arbitration if necessary.

Note: The Recycling Regulation references Dispute Resolution Process in Section 5 (c) (vi)

Appendix 1 Public Consultation

A summary of the schedule of public opportunities and the comments received and responses where applicable will be included here.