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Mr. Neil Antymis,  
Pepsi Bottling Group (Canada),  
Director, Environmental Affairs

And;

Mr. Lyle Clarke,  
Liquor Control Board of Ontario  
Project Leader, LCBO Environmental Strategic Plan

of the

Blue Box Funding Review Committee  
Stewardship Ontario  
26 Wellington Street East, Suite 601  
Toronto, ON M5E 1S2

**Re: OI comments to Stewardship Ontario Blue Box Funding Review Committee**

Dear Committee members:

OI Canada is Canada's premier glass packaging manufacturer, with significant investments in two Ontario manufacturing facilities in Brampton and South Etobicoke. In 2005 these plants produced 1.123 billion glass packaging units, generated \$203 million in sales, employed 692 employees and supplied a vast array of Ontario beverage and food producers, including Vincor International Ltd., Andres Wines, E.D. Smith, Bacardi, Nestle, Hiram Walker, Saxco, Diageo, Labatt, Molson, Sleeman, and Lassande.

OI Canada is Ontario's only "bottle-to-bottle" end market for recycled glass whereby glass packaging is manufactured using recovered glass. In 2005 OI Canada purchased over 115,000 tonnes of recycled glass ("cullet") for use in the production of new glass packaging.

Not surprisingly, OI Canada is a major supporter of glass recycling. As we discuss below, bottle-to-bottle glass recycling is not only good for Ontario's environment it is also good for the economics of glass manufacturing and the Ontario economy in general.

But, glass recycling in Ontario is failing and failing badly. "Single-stream" blue box collection of recyclables means that more glass is being sent to landfill today than just a year ago. Ironically, as Ontario ships millions of tonnes of garbage to Michigan each year for disposal, OI Canada is importing cullet derived from Michigan's deposit-refund based recovery system to manufacture glass packaging in Ontario. Rather than address the problem of low glass recycling rates, the Liquor Control Board of Ontario (LCBO) – the single largest source of waste glass in the province – is coercing its suppliers to switch to Tetra Pak cartons that are recovered at a rates of only 12.7% (or one-fifth the rate at which glass is recovered by the blue box today). While low weight packaging with a low recovery rate certainly offers the LCBO lower applicable stewardship fees, it comes at a tremendous cost to Ontario's environment and economy.

In the following sections we provide our observations on these and other concerns regarding the environmental and economic effects of the current practice of blue box recovery of glass and the formula by which the blue box is funded.

## Glass recycling in Ontario – the downward spiral

Glass “recycling” in Ontario is failing - of the 115,000 tonnes of recycled glass (“cullet”) utilized by OI Canada in 2005 only 46% was sourced from Ontario (down from 80% in 2004). Of the Ontario sourced cullet, the overwhelming proportion was derived from packaging recovered through the Beer Store deposit-refund system with the remainder imported from Quebec and Michigan (both of which are deposit-refund jurisdictions). Cullet derived from Ontario’s Blue Box program continues to dwindle at an ever increasing rate.

The Blue Box is yielding less and less recyclable glass because of the shift toward “single stream” curb-side collection of recyclable materials. Driven by collection cost savings this practice has the effect of mixing all recyclables together at the point of collection which results in breaking and color commingling of recyclable glass and cross contamination between glass and other recyclable materials. The net effect is to reduce the highly recyclable clear (flint), amber and green glass dutifully put by homeowners into the Blue Box into an un-recyclable waste. Once subjected to single-stream collection, glass is largely “down-cycled” – i.e. used as aggregate replacement, landfill cover and other low end uses or is just sent to landfill. Once subjected to single-stream collection subsequent processing for recycling into glass packaging is prohibitively expensive.

Consider that the single largest source of glass in Ontario is wine and spirits containers originating from the LCBO. This source offers a potential recyclable yield of 61,509 tonnes of green cullet and 44,125 tonnes of clear cullet. In 2004 about 67% of LCBO residential packaging was recovered with the remaining 33% sent to landfill in Ontario or the U.S. Of the 71,481 tonnes of LCBO glass recovered in the blue box only 20,611 tonnes was recycled bottle-to-bottle with rest sent to landfill or “down-cycled”. In other words, of every 100 LCBO bottles sold only 20 are recycled bottle-to-bottle with the remaining 80 sent to landfill or effectively rendered un-recyclable.

We understand that \$2 million in stewardship monies have been directed to a Glass Market Development Fund in order to capitalize a glass “benefaction” facility. We remain guarded in our optimism regarding the outcome of this initiative given Stewardship Ontario’s definition of “Markets” for “beneficiated” glass:

*“Market(s)” or “End Market(s)” means corporations, organizations or partnerships willing to purchase or accept in exchange for a fee beneficiated mixed broken glass products produced by the Facility, but does not include any landfill applications, including roadways, berms, cover, etc.;<sup>1</sup>*

That Stewardship Ontario would hope that “beneficiation” will result in a commodity that could command some price (but which recognizes that it may have to be disposed of at a cost) raises concern about the quality of what may be produced as a result of “beneficiation.” This concern is particularly so given that OI Canada currently pays a premium for the import of clean, color separated cullet from deposit-refund jurisdictions outside of Ontario.

Moreover, we would question the economic and environmental efficacy of rendering glass un-recyclable through single-stream collection and then expending an additional \$2 million for its “beneficiation” – an approach that seems even more convoluted and expensive in contrast to the simple and effective recovery and recycling of non-refillable glass beer bottles by The Beer Store deposit-refund system.

## The Environmental benefits of increasing glass recycling

Given that the purpose of having a recycling program is to derive environmental benefit, we feel it important to point out the clear environmental benefits of increasing bottle-to-bottle glass recycling. These benefits extend well beyond diversion from landfill to reducing energy use and green house gas (GHG) emissions associated with glass production. Simply put, the more cullet used in a glass furnace the greater the reduction in energy use and GHG. For every 10% increase in cullet used the following energy use, GHG and common pollutant reductions are realized:

- A 6 Celsius reduction in furnace operating temperature with a resulting reduction in particular matter of about 7% and a significant extension of furnace operating life;
- A 3% reduction in fossil fuel requirements which directly translates into a 3% reduction in CO<sub>2</sub> emissions;
- A 6% reduction in Nitrogen Oxides emission resulting from lower operating temperature and fossil fuel use;

<sup>1</sup> Stewardship Ontario. March 2005. *Glass Market Development Fund: Request for Proposals (RFP) Provision of Processing Capacity for Mixed Broken Glass*

- A 17% reduction in CO<sub>2</sub> associated with the conversion of raw materials into glass

As a tangible example, if the two furnaces operating in the South Etobicoke plant could increase cullet usage from 25% and 35% respectively to 75%, 8,428 tonnes of CO<sub>2</sub> emissions could be avoided.

***OI Canada is committed to using every kilogram of clean, color separated cullet that can be derived from the Ontario market in the manufacture of glass packaging. That approximately 80,000 tonnes of recyclable glass generated by the LCBO goes either un-recovered or is rendered un-recyclable is unacceptable and is something that must be addressed.***

We now turn our attention to issues arising from the formula by which the blue box is funded.

### **The blue box funding formula and the LCBO’s “Environmental Strategy”**

On November 14<sup>th</sup> 2005 the LCBO publicly launched its “Environmental Strategy”, the centerpiece of which is the promotion of beverage alcohol products packaged in Tetra Pak cartons. In a press release<sup>2</sup> on that date the LCBO stated that its launch of a new import wine in Tetra Pak cartons, “...was the first of several innovative, attractive, versatile and convenient packaging alternatives in the beverage alcohol industry that will help protect Ontario's natural environment. The LCBO and its suppliers are continuing to introduce more products in Tetra Pak cartons.”

What is not mentioned in the release is that in 2004 the Ontario blue box residential recovery rate for Tetra Pak cartons was only 12.7%<sup>3</sup>. Also not mentioned in the LCBO press release is that only provincial and state jurisdictions with deposit-refund systems experience Tetra Pak recovery rates that even approach 50% and that any significant improvement in the recovery of Tetra Pak cartons in Ontario is unlikely to happen in the absence of such an economic incentive.

Further to the low Tetra Pak recovery rate it seems clear that the Tetra Pak component of the LCBO’s “Environmental Strategy” has little to do with environmental considerations and much more to do with its changing obligations to Ontario municipalities as it moves from “voluntary” stewardship payments to Ontario’s blue box program to the same system of blue box levies enjoyed by other packaging stewards.

The LCBO’s blue box fee obligations will be funded out of its general “profits”. These fees will neither be charged back to suppliers nor attached to the price of products and passed on to consumers. As a result, the LCBO has a strong financial motivation to seek opportunities to lower its Blue Box fees and thus maximize its “profits”<sup>4</sup>.

In this regard a move to lightweight packaging with low recovery rates and low stewardship fees reduces the LCBO’s blue box funding obligation.

Consider Stewardship Ontario’s 2005 fee schedule for glass and Tetra Pak packaging:

Green 750 ml Bottle:	2.12 cents/unit
Flint 750 ml Bottle:	1.26 cents/unit
Tetra Pak:	0.32 cents/unit

The low fee for Tetra Pak results from the peculiarities of the blue box cost allocation model. Specifically, Stewardship Ontario’s cost calculations allocate Tetra Pak cartons a net system cost of \$746/tonne. One would expect that under the 50% steward / 50% municipal formula that the LCBO would pick up half that cost and the applicable Tetra Pak fee would amount to \$373/tonne. Yet what precipitates out of the Stewardship Ontario blue box funding model is a Tetra Pak fee of \$79/tonne as Tetra Pak cartons are lumped in with (and cross subsidized by) other paper based packaging that have far lower system costs.

<sup>2</sup> November 14<sup>th</sup> 2005. *Saved by a Hare: LCBO unites with French rabbit winemaker Boisset and Wildlife Preservation Canada to help save threatened songbird.* Press release. Liquor Control Board of Ontario.

<sup>3</sup>Source: Stewardship Ontario

<sup>4</sup> For private interests the profit motive is an objective unto itself. In the case of the LCBO profit maximization is critical to sustaining a rationale against privatization.

***For every 10% increase in Tetra Pak market share the LCBO realizes almost \$500,000 in avoided blue box stewardship fees. Even were the paper / Tetra Pak cross subsidy to be addressed, under the Stewardship Ontario funding formula the low weight and low recovery rates for Tetra Pak cartons would ensure reduced blue box funding commitments for the LCBO.***

We now turn to discussing how the pursuit of just \$500,000 in avoided blue box stewardship fees will, conservatively by our estimate, incur at least a twenty-fold economic impact in other sectors of the economy.

### **Economic effects of the LCBO's "Environmental Strategy" on OI and its customers**

The LCBO is the largest beverage alcohol buyer in the world. The LCBO has a wine and spirits importation and wholesale monopoly, a retail monopoly on the sale of distilled spirits products and it accounts for an overwhelming proportion of retail wine sales. To state that the LCBO can exert tremendous influence on producers wishing to sell in the LCBO is to state the obvious.

As a real world example, and in the context of our discussion regarding LCBO blue box cost avoidance, consider the economic impacts associated with the LCBO's "one-for-one" wine listing policy.

Under the "one-for-one" policy a vintner that wishes to list a new product with the LCBO has to remove one of its existing products from the LCBO's shelves. This policy provides an exemption that allows incremental listings where a vintner "chooses" to package the new product in Tetra Pak cartons. In effect, the LCBO's "one-for-one" policy puts a cap on the growth of the Ontario wine industry which can only be raised in the event that the growth occurs in Tetra Pak cartons. Moreover, foreign producers that already produce in Tetra Pak cartons for consumption in their domestic markets now find themselves with ready access to the Ontario market to the detriment of Ontario producers that continue to use glass bottles.

This policy has a most pernicious effect on the most prestigious segment of the Ontario wine industry – wines that are produced in accordance with the Vintners Quality Alliance Act, 1999 ("VQA Act"). The VQA Act (similar to legislation in other jurisdictions that produce premium wines) exists in order to ensure that consumers can immediately recognize wines produced under a strictly specified quality appellation<sup>5</sup>.

Consider that S.5 1. of O. Reg. 406/00 under the VQA stipulates that,

*5. A manufacturer of wine shall ensure that an approved wine is bottled in accordance with the following rules:*

*1. The wine shall be in glass bottles<sup>6</sup> and packaged for final sale to the consumer.*

Juxtaposed against the VQA packaging regulation the LCBO's "one-for-one" policy effectively blocks new listings of VQA appellation wines with the LCBO – a crushing blow to Ontario wine producers.

Of course OI Canada loses sales as our winery customers are pressured by the LCBO away from glass packaging. Almost 18% of OI Canada's Ontario glass production is dedicated to Ontario wine producers.

Of note, Section 5 (c) under the Waste Diversion Act 2002 ("WDA") holds Waste Diversion Ontario responsible for ensuring that, "...that waste diversion programs developed under this Act affect Ontario's marketplace in a fair manner". While no one can expect the drafters of the WDA to have been able to foresee every eventuality arising from the development of waste diversion programs it is clear that they meant the WDO to endeavor to do so. In this regard serious market-based questions arise from the LCBO's behavior in responding to its stewardship responsibilities. We contend that the broader economic and environmental dislocations resulting from the LCBO's behavior warrant some testing against the WDA requirement that waste diversion programs, "...affect Ontario's marketplace in a fair manner."

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<sup>5</sup> Section 1 of the VQA Act 1999: "*The purpose of this Act is to establish and maintain an appellation of origin system for Vintners Quality Alliance wine that will allow consumers to identify such wines on the basis of the areas where the grapes are grown and the methods used in making the wine*"

<sup>6</sup> Glass is chemically inert, plastic is not. Wine cannot be aged in plastic containers or containers lined with plastic (i.e. Tetra Pak cartons) as the packages are neither impermeable to air nor are they chemically inert (i.e. alcohol tends to denature plastics). As a result wines in Tetra Pak cartons cannot be aged and have a reduced shelf life.

We summarize the most readily discernable environmental and economic implications of the approach that the LCBO has chosen to address its stewardship obligations in the next section.

## **Summary of economic and environmental outcomes associated with the current approach to the recovery of glass in Ontario**

The current approach to recovering glass in Ontario and the method by which the blue box is funded is having the following environmental and economic effects:

- Degradation of 80,000 tonnes of LCBO derived glass with a net value of well over \$4 million into a worthless residual sent to landfill or "down-cycled" in applications that are little better or no better than landfill;
- The expenditure of \$2 million for the "beneficiation" of glass that is broken and colour mixed during blue box collection;
- Low blue box recovery rates for LCBO packaging (67% - of which a significant portion is in turn sent to landfill) with continued disposal costs for the remaining 33% at a municipal cost of well over \$2 million / year;
- Lost environmental opportunities to reduce energy use and emissions and extend the operating life of the glass furnace by increasing bottle-to-bottle glass recycling of locally recovered LCBO glass packaging;
- Increased glass manufacturing costs as Ontario receipts of recyclable cullet fall and OI has to source cullet from Michigan and Quebec at a premium;
- Increased cost and market dislocations to Ontario wine producers as they suffer from LCBO listing policies that either see them lose shelf space to foreign producers listing products in Tetra Pak cartons or facing the costs of reconfiguring their operations to include Tetra Pak filling stations and purchasing Tetra Pak packaging from out-of-province;
- A curtailment of growth of the Ontario VQA premium wine segment as a result of LCBO quotas that discriminate against glass packaging;
- Lost glass packaging sales by OI Canada which amount to over \$2 million in gross sales for every 1% loss of glass packaging market share in the Ontario wine market.

## **Remedies**

While we realize that neither is it within Stewardship Ontario's nor Waste Diversion Ontario's jurisdiction (nor in their interests) to consider alternative recovery systems to ones they have developed, we nevertheless feel that it worth restating the Association of Municipalities of Ontario's December 2005 recommendation for an LCBO deposit-refund system,

*"The Province has an opportunity through the beverage industry, including the Liquor Control Board of Ontario (LCBO), to introduce a deposit-return system utilizing the environment fee that is already imposed on the sale of each container..."*

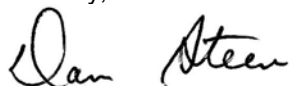
Association of Municipalities of Ontario. December 2005. *AMO's Proposal for a Provincial Integrated Waste Strategy*. AMO, Toronto, Ontario, Canada

It only stands to reason that if after twenty years of operation Ontario's blue box cannot cost-effectively produce glass that can actually be recycled to good environmental effect that another approach is warranted – an approach something other than moving to even less recyclable packaging.

Glass will always hold a significant share of the total beverage and food market. Recovering glass for true "bottle-to-bottle" recycling is good for Ontario's environment and economy. Moreover it is what Ontarians expect when they make the effort to recycle.

If you have any questions or comments please do not hesitate to give me a call at 1(416) 232-3000 Ext. 3206.

Sincerely,



Dan Steen  
O-I Vice President, Government Affairs