

**NEPSI FINANCING SUBGROUP  
TELECONFERENCE**

April 5, 2002

The Financing Subgroup met on April 5<sup>th</sup> via teleconference from 1:00 to 2:30 p.m EST. Raoul Clarke, the subgroup chair, led the meeting. The list of participants is attached. The following is an account of the discussions.

The notes documenting the Subgroup meeting in Washington, D.C. on March 11, 2002 and the notes documenting the teleconference on March 22, 2002 were approved.

Buddy Graham reported that work is continuing on the PAZ model to help refine the information collected by the Cost subgroup on collection, transportation, and recycling. They have collected more data and will identify the data gaps that still exist. They will share information with the people at Georgia Tech who are currently building a model examining some of the same issues for the Georgia Department of Natural Resources.

The group discussed holding a working group meeting in Chicago on May 20<sup>th</sup>. This date was tentatively set pending confirmation from a few stakeholders.

The subgroup discussed the revised chart summarizing the pros and cons of the two front-end financed options discussed during the last teleconference. (The latest version of this chart is attached.) The industry and the government groups articulated their overarching comments on the two options:

- Industry – The industry group is open to exploring both options 1 and 2. Regarding the current draft of Option 2, industry perceives it as placing all the responsibility on the producer since over time, in a competitive market, the fee will end up being internalized. The industry group would like to see modifications to Option 2 explored to include more shared responsibility.
- Government – The government group prefers Option 2, but is open to exploring Option 1. The government group understands industry concerns, but feels there are shared aspects under both options.

A stakeholder proposed that the finance subgroup continue to explore both options and negotiate solutions to the key questions for each. Through this process a preferable option will likely emerge.

There is still a need to solicit input from retailers. Jacque Johnson has given a few retailers some NEPSI-related documents, which they are reviewing at this time. She will report any feedback she receives and will continue to try to get retailers to join the NEPSI dialogue.

It was clear that several critical issues need further investigation. To resolve them may require consultation with specific experts outside the NEPSI process:

### **Administrability and Enforceability**

Industry stakeholders feel that Option 1 is easier administratively, logistically and to enforce because retailers already account for sales tax and therefore have the necessary systems in place. Under Option 1, retailers could collect, track, and transmit the ARF using the same systems they now use for sales tax. They are also used to being audited, so enforcement would be easier. Industry stakeholders believe that under Option 2, producers, distributors, and importers would have to implement new accounting systems to track products sold for the retail market. This would be very costly to implement and administer. Also, to gain competitive advantage, some producers may choose not pass on the full costs of the recycling/reuse program. Over time, this would lead to industry fully financing the program. In addition, many importers do not have a physical presence in the U.S. and therefore it would be harder to guard against free riders under Option 2, requiring domestic producers to absorb these costs.

Government stakeholders feel that Option 1 is more difficult to administer and enforce because of the large number and diversity of retailers, as opposed to Option 2, which would involve a smaller number of producers, distributors, and importers. The governing body would have to monitor and audit a much larger number of parties under Option 1 than under Option 2. In addition, although the administrative structure needed for an ARF at the retail point-of-sale could be similar to the systems retailers use to track sales tax, new elements would have to be added to existing accounting systems anyway, which could be costly to retailers. Retailers may view Option 1 as a significant administrative burden, for which they will receive no compensation. The government group feels that Option 1 would be more costly and difficult to administer.

### **Flexibility**

There is a need to explore how each option can allow flexibility in terms of adjusting fees as program costs fluctuate, adding products covered by the system, and allowing producers to recycle their own products.

Government stakeholders believe that Option 2 would allow more flexibility in terms of adjusting fees and adding products. They feel it would be easier to implement a fee adjustment or incorporate a new product into the reuse/recycling system with a smaller number of producers/distributors/importers.

Industry stakeholders believe that allowing producers to recycle their own products or “opt out” should be addressed as an implementation issue rather than as an issue that drives the design of the finance system. Producers recycling their own equipment could provide an incentive for design improvements, however, the rules for opting out must guard against producers having “paper” programs that do not meet the goals of the program. If the fee applies to all products, then the financing is assured and the implementation plan could allow producers to get reimbursed for those products that they choose to recycle themselves. The implementation plan for the financing system should allow the flexibility for opting out, but also should ensure that producers choosing to opt out still provide at least an equivalent level of service.

### **Cost Effectiveness**

Industry stakeholders believe that Option 2, as it is currently drafted, would lead to higher costs for the consumer. This is because, if Option 2 involves an invisible fee paid by the producer, this fee will get marked up as it moves down the distribution chain. Therefore, the consumer will pay more than the actual costs of the program.

Also, the group has acknowledged that there could be anti-trust issues with either option that could increase prices, but NEPSI has not explored this issue yet.

### **Incentives for Design**

Although there has been a call for incentives for improved design throughout the NEPSI process, specific proposals have not been developed. Industry stakeholders believe that variable ARFs that vary based on design characteristics would be too expensive and complicated to implement, and the costs of implementing such a system would outweigh the benefits. Industry stakeholders would like to have more detailed discussions about this issue to investigate the feasibility of incorporating design incentives into the fee structure. Government and NGO stakeholders would like to explore the options for incorporating design incentives into the fee structure of an ARF. They feel it would have to be structured by product type (e.g., TVs, personal computers)

Subgroup members agreed that it would be useful to have more discussions on this topic and a suggestion was made to seek the advice of product designers and engineers in the dialogue. The June meeting in Minnesota may offer the opportunity to hold another half-day design workshop. This workshop could explore whether a product stewardship system could provide design incentives through fees or other mechanisms.

### **Other Issues**

Industry stakeholders feel that requiring customers to pay more for a product is effectively an industry burden. Therefore, industry would like to recognize that they do have a large share of the responsibility in Option 1.

### **ACTION ITEMS**

Each stakeholder group will write down their ideas on how responsibilities could be shared under both Option 1 and Option 2. These documents will be circulated prior to the next teleconference on April 18<sup>th</sup>.

Jacque Johnson will contact the National Retail Federation to try to identify an expert to help address the issue of administrability and enforceability under Option 1.

Gary Davis will investigate whether the U.S. Customs system could be an enforcement mechanism for imported products.

Clare Lindsay, Ted Smith, Wayne Rifer, and Gary Davis will circulate documents regarding incentives for design.

**LIST OF PARTICIPANTS  
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<b>Subgroup Member</b>	<b>Affiliation</b>
Raoul Clarke	Florida DEP
Ed Boisson	Boisson and Associates
Maureen Hickman	Minnesota OEA
Bill Cass	NEWMOA
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Clare Lindsay	EPA
Jan Whitworth	Oregon DEQ
Wayne Rifer	WEPSI
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Gary Davis	University of Tennessee
Scott Cassel	Product Stewardship Institute
David Isaacs	Hewlett Packard
David Thompson	Panasonic
Frank Marella	Sharp
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Ted Smith	SVTC
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