Ms. Lisa Mychajluk
Senior Policy Advisor
Ministry of the Environment
Integrated Environmental Planning Division
Waste Management Policy Branch
135 St Clair Avenue West, Floor 7
Toronto Ontario
M4V 1P5

Via Fax: (416) 325-4437

08 May 2008

Dear Ms. Mychajluk:

Please accept this as a submission from the Canadian Taxpayers Federation (CTF) regarding the**: First phase of the Waste Electrical and Electronic Equipment (WEEE) program plan from Waste Diversion Ontario (WDO).**

About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF has over 68,000 supporters nation-wide with 20% in Ontario.

Introduction

Wanting a cleaner environment is a laudable goal. It should not, however, be an excuse to increase taxes on goods to create new government agencies. The new Waste Electrical and Electronics Equipment (WEEE) tax would do so. This submission outlines the CTF opposition to the plan in principle and in practice.

1. The plan is unnecessary as the market is already achieving the programs goals without government intervention.
2. Phase 1, alone, of the Four-Phase program, at inception, is projected to impose new taxes in Ontario totaling between $105 and $210 million from consumers. In its first year the new plan will increase the cost of:

   - computers by anywhere between $23 and $45;
   - monitors by anywhere between $20 and $40; and,

- TVs by anywhere between \$17 and \$34.

3. The program takes taxing power out of the hands of elected officials and invests it in an unelected and unaccountable body.

Importantly, the program notes there already exists a thriving recycling and reuse industry in Ontario with a capacity of 170,000 tonnes per year; almost double the required program capacity of 90,000 tonnes per year.

It is also important to note that the calculated tax impact addresses neither the growth of Phase 1 costs, nor the economic impacts of Phases 2, 3, and 4 which would encompass copiers; Personal Digital Assistants (PDAs); scanners; telephones; cell phones; and all other audio equipment including stereos, speakers, MP3 players, IPods, DVD players, etc.

Phase 1 of the program will have substantial negative economic impact despite it applying only to computers and peripherals, printers, televisions and fax machines. Further, the plan, itself, only projects an increase of waste diversion between 10% and 30%.

Broken Promise

While campaigning last June in advance of the last fall's provincial election, Premier Dalton McGuinty unambiguously promised not to raise the taxes of Ontarions. Phase 1 of the WEEE Program Plan breaks that promise with the imposition of a new tax on electronics under the guise of a recycling program.

It is a recent and new trend of governments to refer to new taxes as fees or premiums, as Premier Dalton McGuinty did when he imposed the Health Tax. A similar trend is to dress up tax grabs and to grow the size of government in the name of protecting the environment. However, you can dress up a pig in lipstick and tights, but it is still a pig. Similarly, one may dress up a new tax in the language of 'fees' but it is still a tax. And any new tax is a broken promise.

Rebate Program

Assuming the government will not scrap this tax it should look to reducing its impact. Instead of creating a monopoly in the e-waste business as it would, the government simply could regulate competition and provide registration and accreditation for organizations involved in the e-waste program. This would allow the 16 firms who responded to OES surveys all to remain in the business and not to have to compete for government 'tenders' on recycling contracts.

As well, a rebate program would be implemented creating an economic incentive for consumers to return used materials. It is this economic incentive which has proven to be the greatest motivator in recycling programs such as those run by the LCBO.

Designed to Fail

It is alarming and noteworthy of the current program design, that owners of a growing business segment in the consumer electronics waste industry oppose its current design. A letter signed by executive of eight companies points to the success of the California program and suggest meaningful changes to this program's design. These eight firms represent half of firms who responded to the survey regarding this program and who are involved in reuse – 26 firms responded and 16 of these are involved in 'reuse'.

They detail express concern that the final plan design has ignored their early submitted concerns and constructive recommendations.

They point out that the program costs as fees are applied NOT at the point of sale and are NOT transparent. These fees or taxes will be marked up and passed on the consumer. This approach provides absolutely no meaningful incentive in the program to drive the consumer to eliminate the waste. They further note that a registration program (or Bounty) program as run in California reduces government costs and increases competition. This recommendation is rejected ironically, in part, as the report states on page 50, because "WEEE processors compete on lowest price to attract supplies of WEEE rather than highest recycling performance". Lowest price does not preclude quality performance. This implies a false corollary that highest price attracts highest performance. Simply put, the framers of this plan should be mindful of an adage of the competitive marketplace that 'bad quality is bad business' and not be so dismissive of competition-inspired cost reductions.

Cost to the Consumer

The program report buries on page 136 the projection that the tax will be marked up and passed on the consumer. It is written that "Typically, therefore, when a fee is imposed on a market, it will be shifted forward as higher consumer prices or shifted back to bear on producers."

The new WEEE tax structure amounts to a new cost of goods sold for business. This cost will be marked up and passed down the market value chain for consumers to bear. The new tax will increase the price of consumer electronics at the point of sale. Under its current structured plan, the new electronics tax will not achieve its goal of cleaning up the environment or reducing end-product electronic waste in landfills, as research into and audits of such programs in other jurisdictions prove. Alberta's program has not hit its objectives, for example.

The CTF has provided sensitivity analysis of three scenarios of the potential for new costs to the consumer for this proposed new tax. To ensure cost impacts remain conservative, these scenarios do NOT include the tremendous burden to business of having to comply with a new regulatory regime. Concerns over this type of cost are specifically identified in the a European Union report evaluating its WEEE programs, entitled *The producer responsibility principle of Directive 2002/96/EC on waste electrical and electronic equipment (WEEE).*

Scenario 1: Not Realistic - $62.1 million

This is the $62.1 million cost of the program and represents its fees as outlined in the program plan on Table 7.7 on page 125. As the quotation above shows confirmed both by stakeholder executives' submissions and economic theory, these fees will be marked up and passed along to consumers. As a result the tax impact to the consumer will be marked up above $62.1 million showing this scenario to be unrealistically low.

Scenario 2: Conservative Impact Analysis - $105.0 million

The middle scenario assumes only two modest margin increases in the market value chain, each of only 30%; the first a markup to the original tax cost and the second compounded after the first, as is the practice in standard product cost models. For example an assembler/manufacturer adds the tax to its cost of goods sold (COGS) and marks up COGS passing it on directly to a retailer who marks it up at point of sale.

Scenario 3: Expensive Impact Analysis - $209.7 million

The highest scenario assumes three margin increases in the market value chain each of 50%; the first a markup of the original tax cost, the second compounded on the first and the third compounded on the second, as is the practice in standard product cost models. . For example an assembler/manufacturer adds the tax to its cost of goods sold (COGS) and marks up COGS passing it on to a distributor which marks up its COGS and then passes it to a retailer who marks it up at point of sale.

Tax Impact to Ontario Consumers		
Sensitivity Analysis ($ millions)		
Low Scenario	Middle Scenario	High Scenario
62.1	105.0	209.7

What follows is a product-specific impact analysis of Scenarios 2 and 3.

Product Level Scenario 2: Conservative Impact Analysis

	WEEE Tax on Importer/ Manufacturer	Manufacturer/ Assembler Margin 30%	Retailer Cost	Retail Margin 30%	Increased Consumer Cost
Desktop Computers	$ 13.44	$ 4.03	$ 17.47	$ 5.24	$ 22.71
Portable Computers	$ 2.14	$ 0.64	$ 2.78	$ 0.83	$ 3.62
Computer Peripherals	$ 0.32	$ 0.10	$ 0.42	$ 0.12	$ 0.54
Monitors	$ 12.03	$ 3.61	$ 15.64	$ 4.69	$ 20.33
Televisions	$ 10.07	$ 3.02	$ 13.09	$ 3.93	$ 17.02
Printing Devices	$ 5.05	$ 1.52	$ 6.57	$ 1.97	$ 8.53

Product Level Scenario 3: Expensive Impact Analysis

	WEEE Tax on Importer/ Manufacturer	Manufacturer/ Assembler Margin 50%	Distributor Cost	Distributor Margin 50%	Retailer Cost	Retail Margin 50%	Increased Consumer Cost
Desktop Computers	$ 13.44	$ 6.72	$ 20.16	$ 10.08	$ 30.24	$ 15.12	$ 45.36
Portable Computers	$ 2.14	$ 1.07	$ 3.21	$ 1.61	$ 4.82	$ 2.41	$ 7.22
Computer Peripherals	$ 0.32	$ 0.16	$ 0.48	$ 0.24	$ 0.72	$ 0.36	$ 1.08
Monitors	$ 12.03	$ 6.02	$ 18.05	$ 9.02	$ 27.07	$ 13.53	$ 40.60
Televisions	$ 10.07	$ 5.04	$ 15.11	$ 7.55	$ 22.66	$ 11.33	$ 33.99
Printing Devices	$ 5.05	$ 2.53	$ 7.58	$ 3.79	$ 11.36	$ 5.68	$ 17.04

As well, while the initial fees will generate $62.1 million to the governing body, after these fees are marked up and passed on the consumer profits of between $38 and $147 million will be made by the firms.

Communications and Research and Development Scope Creep

Promotion, education, research, and development costs in the program amount to $3.5 million for the first year ($950,000 for research and development; and $2.6 million for polling, planning, promotions, pamphlets, annual reports and more).

There is no provision to ensure these costs don't creep up, which raises a fundamental problem with this program. By moving the establishment of these tax rates into the control of the Ontario Electronics Stewardship, they have been moved out of the reach of elected officials and the budgetary cycle. This means those setting the rates are not accountable to the electorate and the means and timing of disclosure for these taxes is unclear. If it was in the purview of the Legislature it would be more accountable and more transparent.

The OES Board will set fees as they see fit based on program budgets from year to year. This board is comprised of electronics retailers and manufactures with no representation by any consumer group.

An audit of a similar program in Alberta (the tire recycling tax) reveals that the revenue generated increasingly was being used for 'education and promotion' of 'green programs'. As a result, such budgets are open to abuse and merely seen as a tax grab for political pet causes.

Conclusion

The electronics tax, as it is proposed, will drain between $105 and $209 million from taxpayers in its first year alone. This tax drain will only increase as the program grows and phases 2, 3 and 4 are executed. It will distort the current market damaging a growing industry; an already existing e-recycling industry. Finally, it moves taxing power out of the hands of politicians where it correctly ought to remain and hides it in the hands of unelected and unaccountable parties whose interests are those of their owners and shareholders and not those of taxpayers or voters in Ontario. Importantly, the construct of the program at best, will only increase waste diversion by between 10% and 30%. The e-waste diversion industry is already seeing such growth without the burden of such government intervention.

Sincerely,

Kevin Gaudet
Ontario Director
Canadian Taxpayers Federation
Suite 1140 – 2255 B Queen Street East
Toronto, ON, M4E 1G3
Telephone: 416-203-0030
Facsimile: 416-203-6030
E-mail: kgaudet@taxpayer.com
Website: www.taxpayer.com