

# CAA Consultation Session 9: Eco-Modulation

September 12, 2024

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- Pricing strategies, methods, trends, plans, or timing of price changes;
- Salaries, costs, and other factors that affect pricing; the hiring or recruitment of other members' employees;
- Allocation of markets or customers or division of territories; topics that may lead participants to not deal
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- Reductions of output; bid-rigging;
- Or any other anti-competitive topics or actions.

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### Meeting Agenda

- 1. Housekeeping
- 2. Introductions
- 3. Context
  - EPR Overview
  - CAA Overview
  - EPR in Colorado
- 4. Program Plan Development
  - Base dues modulation
  - Producer level modulation
- 5. Questions and Feedback



## **Team Introductions**



Juri Freeman
CO Executive Director



Alex Chan CO Advisor



Jessica Lally HDR Moderator





#### **Welcome - Important Reminders**

- The presentation will not be recorded, but briefing notes and presentations will be available on CAA's Colorado webpage – <a href="https://circularactionalliance.org/co-consultation">https://circularactionalliance.org/co-consultation</a>
- Notes will be taken on all comments and questions and will be summarized within the submitted proposed Program Plan.
- A survey will be available after each session, which we ask to be completed within 30 days.
- Please place all questions and comments in the Q&A box. We will work through as many as we can.
- In order to get through all of the presentation content and as many questions as possible, all
  participants will remain muted throughout the session.
- CAA will be discussing the Program Plan development at the Advisory Board meetings, which
  anyone can register for and attend: <a href="https://cdphe.colorado.gov/hm/epr-advisory-board">https://cdphe.colorado.gov/hm/epr-advisory-board</a>
- Contact CAA to provide additional feedback or ask questions: <u>coplanconsultation@circularaction.org</u>



#### **Session Topics and Groups**

#### **Consultation Session Topics**

| 7/30            | Minimum Recyclables List, Minimum Collection Targets, |  |  |  |
|-----------------|---|--|--|--|
|                 | and Recycling Rates                                   |  |  |  |
| <del>8/1</del>  | Education and outreach program                        |  |  |  |
| <del>8/6</del>  | Producer responsibility dues                          |  |  |  |
| <del>8/13</del> | Compostables  |  |  |  |
| <del>8/20</del> | Reimbursement 1 (haulers, municipalities, counties)   |  |  |  |
| <del>8/27</del> | Reimbursement 2 (processors)                          |  |  |  |
| 9/5             | Post-consumer recycled content                        |  |  |  |
| <del>9/10</del> | Responsible end markets                               |  |  |  |
| 9/12            | Eco-Modulation  |  |  |  |
| 9/17            | Building circularity, Reuse and refill                |  |  |  |
|                 |   |  |  |  |

#### Stakeholder Groups

**Producers** 

Haulers

Material Recovery Facility Operators

End Markets and Suppliers

Local Governments and Tribes

Compost Facility Operators

Non-residential Covered Entities

General Public / Non-Governmental Organizations

- All meetings will be virtual.
- Meetings will be followed by surveys to solicit input.
- Individuals can register at <a href="https://circularactionalliance.org/co-consultation">https://circularactionalliance.org/co-consultation</a>



## **EPR** and CAA Overview





#### What is EPR?

- Extended Producer Responsibility (EPR) is a policy approach that shifts financial responsibility for the recycling/end-of-life management of a product from local governments and taxpayers to the producer.
- EPR laws for paper and packaging require producers (i.e., brand owners, retailers, restaurants, first importers) to either partially or fully fund the collection, sortation, and processing of the paper, packaging, and packaging-like items that they supply into these states.
- Since producers are made responsible for the costs to manage their product/packaging at end-of-life, EPR fees typically incentivize design choices that improve recyclability, minimize waste, and improve environmental outcomes.





#### What is a PRO?

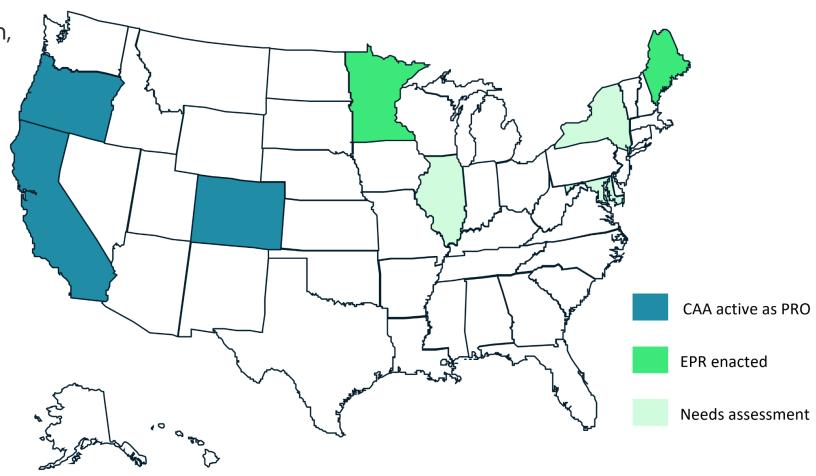
- A Producer Responsibility Organization (PRO)
  is a producer-led, nonprofit organization that
  provides producers with compliance services
  to help them meet their obligations under EPR
  laws.
- A PRO is responsible for developing a
   Program Plan for managing covered products.
   That plan is reviewed by a state-appointed advisory board and approved by the state regulatory agency. The Program Plan outlines program operation and the collection and management of producer fees.





#### Packaging EPR in the U.S.

- California, Colorado, Maine, Oregon, and Minnesota have passed laws that establish EPR programs for paper and packaging.
- CAA is active as the PRO or prospective PRO in California, Colorado, and Oregon.
- Other states are conducting statewide recycling needs assessments that could set the stage for future EPR programs (Illinois, Maryland, New York).
- Maryland also has an Advisory Council that will make recommendations for future EPR legislation.





#### The U.S. PRO - Circular Action Alliance

- Circular Action Alliance (CAA) is a 501(c)(3) nonprofit PRO dedicated to implementing effective EPR laws for paper and packaging in the U.S.
- CAA was founded by 20 companies from the food, beverage, consumer goods, and retail industries.
- CAA has been approved to be the single PRO in California and Colorado. CAA is the only PRO that has submitted a Program Plan in Oregon.









































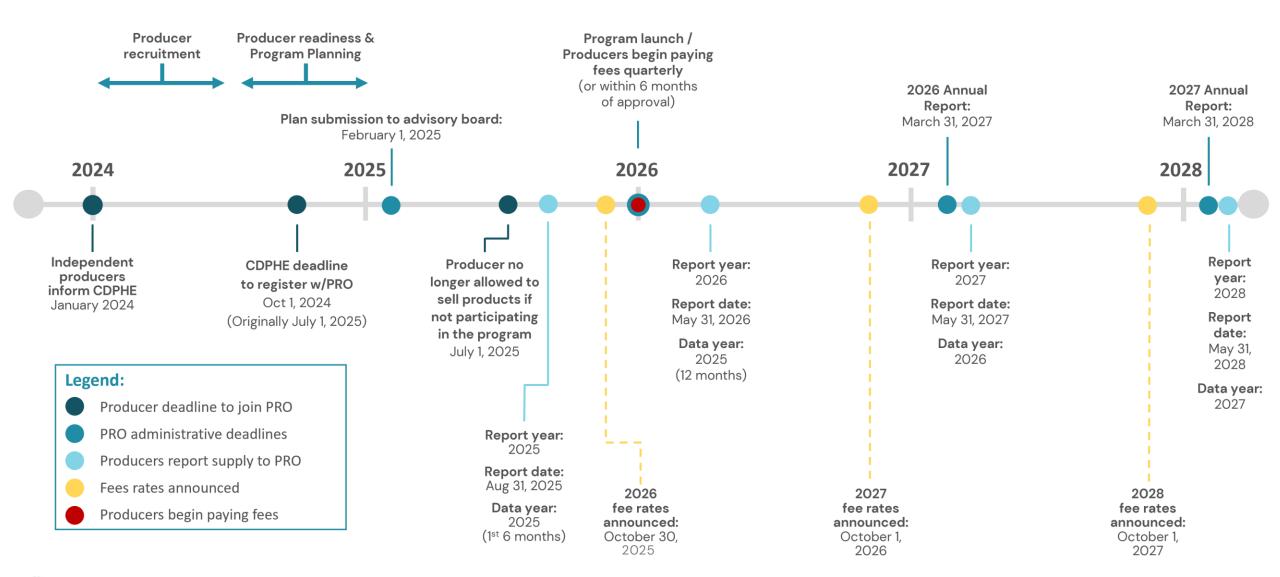


## **EPR** in Colorado





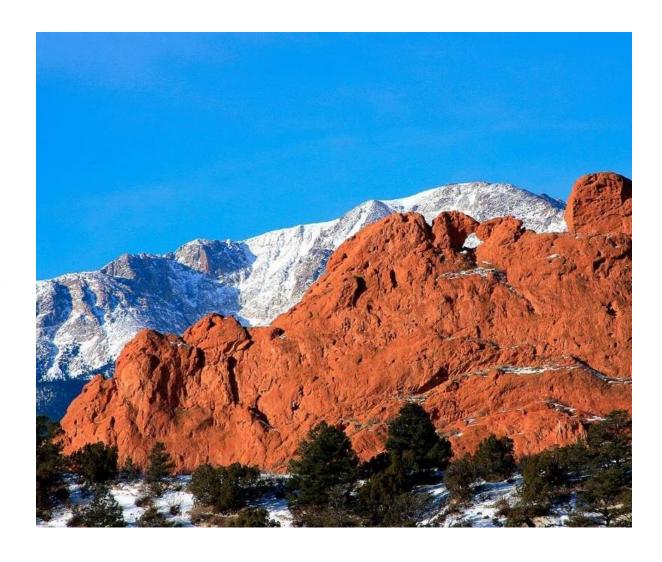
#### Reporting and Fees Timeline in Colorado





#### **CAA Progress to Date**

- Since being selected as Colorado's PRO in May 2023, CAA has:
  - Completed a statewide needs assessment and prepared a recycling scenario, which were approved by the General Assembly's Joint Budget Committee.
  - Presented at almost 30 Advisory Board
     Meetings and three technical working sessions.
  - Completed a successful, initial producer registration process.
  - Hired its Colorado executive director.
- This consultation process will support development of the proposed Program Plan.
   The Program Plan establishes how the EPR program will be implemented in Colorado.





#### Colorado Program Plan - Requirements

#### Program Plan Requirements in HB 22-1355

**Producer Compliance** - Describe how the organization will track compliance among producers and will collaborate with the Executive Director to bring producers into compliance.

Minimum Recyclables List - Include a Minimum Recyclables List (i.e., a list of materials that must be collected in a manner that is as convenient as the collection of solid waste).

**Propose a Due Schedule & Budget** – Describe the organization's approach to due setting, including eco-modulation of dues.

Education & Outreach - Propose an approach for education and outreach.

**Reimbursement** – Include reimbursement rates for 100% of the net recycling services costs of the recycling service providers.

Collection & Recycling Rates - Set 2030 and 2035 collection and recycling rates.

**Post-Consumer Recycled Content** - Set targets for minimum post-consumer recycled content rates for certain types of covered materials, including paper, glass, metal, and plastic, that the state will strive to meet by January 1, 2030, and January 1, 2035.

**Reuse & Refill** – Propose an approach to measure and report on the use of reusable and refillable covered materials and establish goals and strategies for increasing the use of reusable and refillable covered materials.

**Responsible End Markets** - Ensure any covered materials collected for recycling will be transferred to a Responsible End Market.

- CAA's Program Plan will be due February 1, 2025.
- CAA is working to:
  - Harmonize with other states while recognizing local requirements/conditions.
  - Use the Needs Assessment results as a starting point where possible.
  - Use work already undertaken in other jurisdictions where possible.



#### Registration with CAA



Registration deadline in Colorado is October 1, 2024.



Early producer registration will help:

- Reduce free riders in the system (i.e., non-compliant obligated producers);
- Provide CAA with more precise producer data to inform accurate and fair fee schedules.



Registration consists of filling out CAA's registration form, available through the link, QR code, and our website. To ease producer compliance, CAA worked to register all producers in Colorado, California, and Oregon by July 1, 2024, and registration is still open today.

Scan the QR code or click the link to complete CAA's covered producer registration form.

This is the first step in the producer registration process.





#### **Registration FAQs**

#### How do I know if I need to register?

• Companies must review the producer definition under each state's packaging EPR law and determine whether they are an obligated producer in California, Colorado, and/or Oregon (<u>Learn more at circularactionalliance.org/producer-resource-center#definitions</u>).

## Do I need to register in each state separately, or does one registration cover all the states?

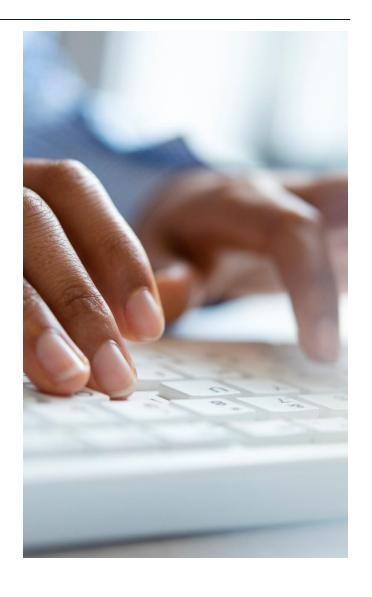
• There is only one registration form for all states. CAA's registration form allows producers to select the states where the company expects to be considered a covered producer within a single form.

#### Will CAA contact us to tell us we need to register?

 CAA has several ongoing producer recruiting efforts, but ultimately producers are responsible for registering with CAA to meet their producer registration requirements.

#### How can I check to make sure I am registered?

Producers who complete CAA's registration, will be considered registered with CAA. The primary contact
listed will receive a confirmation email upon completing the registration form. Please save this email for
your records. For any additional questions or concerns, producers can email info@circularaction.org





#### **Registration FAQs**

#### When will I know what data I need to report?

CAA is developing detailed guidance materials to provide reporting instructions to producers.
Producers can expect guidance materials to be released by Fall 2024. CAA is working on the
development of the producer reporting portal. Once finalized, state reporting categories will be added
to the portal. CAA is projecting that the producer reporting portal will be ready to receive producers'
data in Q1 2025.

#### Who do I contact if I have questions about registration?

• For any additional questions or concerns, producers can email info@circularaction.org

## Where can I learn more about producer registration and compliance?

CAA has a <u>Producer Resource Center (circularactionalliance.org/producer-resource-center</u>) on its
website that details producer definitions, registration, and offerings such as the Producer Working
Group and Onboarding Sessions.

## When do you anticipate being able to share more information on the anticipated Colorado producer dues (fees)?

Since producers will not have reported the amount of covered materials they supply into CO by
February 2025 when the Program Plan is due, only the fee methodology and broad fee estimates will be
provided in the Program Plan, not the full detailed list of by material category. More detailed fee
estimates are expected to be provided in November 2025, once supply data has been reported.



## **Program Plan Development**



#### Colorado Statute Requirements for Due Modulation

HB 22–1355 requires that **producer dues**:

"must vary by the type of covered material, whether or not the material is readily recyclable, and be based on the net recycling services costs for each covered material in the state."

- All producers pay the same dues for the same packaging material.
- The law also requires the PRO to develop **5 eco-modulation incentives and 3 maluses** to adjust producer dues to incentivize or penalize producers for their packaging choices and actions.
- The PRO must use eco-modulation factors to:
  - Lower producer responsibility dues to incentivize certain practices
  - Increase producer responsibility dues to deter certain practices
- Starting in 2026, the CDPHE Executive Director will annually publish an eco-modulation bonus schedule to reduce the dues of producers.



#### **Eco-Modulation Criteria in Colorado - Details**

#### HB 22-1355 Section 25-17-705 4(i)(IV) Requirements

|   | Incentives (decrease dues)   |     | Maluses (increase dues)   |
|---|--|-----|---|
| • | Reductions in the amount of packaging materials used for products                              | re  | ecycling, reusing or composting covered                                       |
| • | Innovations and practices to enhance the recyclability or commodity value of covered materials | • D | naterials Designs and practices that disrupt the recycling of other materials |
| • | High levels of PCR material use  | • F | or producers using covered materials that are not                             |
| • | Designs for the reuse and refill of covered materials  | 0   | on the minimum recycling list.  |
| • | High recycling and refill rates of covered materials.  |     |   |

#### Additional Producer Level Dues Adjustment

PRO must reduce dues for producers that fund or operate a collection program that covers a specific type of covered material that is not processed by MRFs; and has recycling rates that meet or exceed the minimum recycling target.

Q: Which factors are most important, which ones are less important?



#### **Eco-Modulation Harmonization**

#### Ideal Eco-Modulation Approach

ISSUE: EPR programs outside the US have traditionally waited several years for program operations and data reporting to stabilize, before introducing producer-level eco-modulation in a limited way.

POTENTIAL APPROACH: CAA is recommending that CO incorporate learnings from other EPR programs and consider a phased approach to eco-modulation implementation.

ISSUE: Colorado's statute requires CAA to modulate base dues by specific factors but does allow for some flexibility.

POTENTIAL APPROACH: CAA proposes an approach that would provide flexibility, where possible, to allow the PRO to determine the most effective, fair and optimal approach to generate the necessary revenue (including from maluses) to provide bonuses.

ISSUE: Legislative variation across states with EPR laws makes harmonizing eco-modulation across existing states difficult.

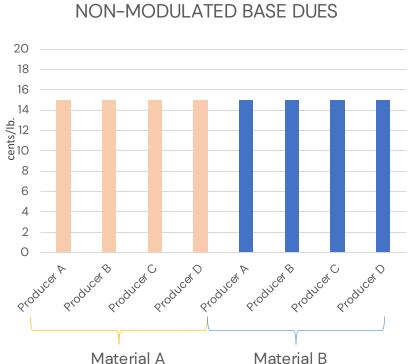
POTENTIAL APPROACH: To the greatest extent possible, CAA is considering methods to limit variation across states with existing EPR and work with trade associations to ensure new EPR laws provide the PRO with the necessary flexibility to develop harmonized eco-modulation approaches.

#### Background - Base Dues vs. Eco-Modulation

- Base dues vary by packaging type they reflect the recycling costs, revenues, and performance of each packaging type. The base dues are universal: <u>all producers</u> who supply packaging using a specific material type, will pay the same due rates.
- **Eco-Modulation** is a dues adjustment issued by the PRO to <u>individual producers</u> based on their actions (or inactions) to improve the environmental performance of their packaging.
- This approach is also described in Consumer Goods Forum's latest paper on EPR dues: <u>Guiding-Principles-for-the-Ecomodulation-of-EPR-dues-February-2022.pdf</u>.

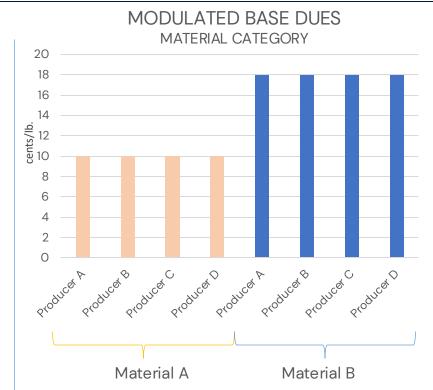


#### Non-Modulated Dues vs Modulated Base Dues vs Producer Level Eco-Modulated Dues



All producers in all material categories pay the same dues

Example for Illustrative Purposes Only

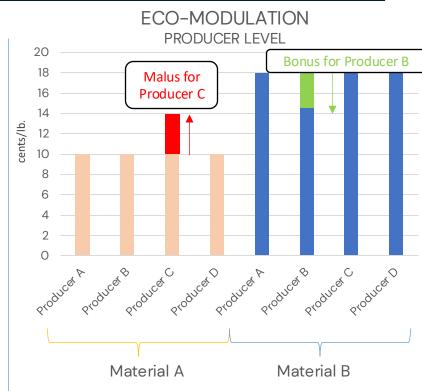


Material A is easier to recycle than Material B.

Thus, base dues for Material A are lower than Material B.

Creates incentive for producers to consider their packaging options by material category.

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Producer C of Material A packaging is harder to recycle than other producers of Material A, mauls is applied.

Producer B of Material B adds more PCR to their packaging, bonus is applied.

Creates incentive for individual producers to consider their packaging options in a material category.



#### **Eco-Modulation Challenges in Colorado**

| ISSUE  | IMPLICATION  |  |  |  |
|--|--|--|--|--|
| Producer data is unknown                                   | Appropriately setting incentives and maluses is not possible without producer data, multiple years of data preferred.                            |  |  |  |
| Operating budget has not been stabilized                   | CAA has not yet built reserves, maluses and incentives may result in budget deficits.  |  |  |  |
| Reporting requirements will be new and yet to be developed | Many producers have yet to develop systems to accurately track and report data at a state or SKU level.  |  |  |  |
| Producer resources vary                                    | Creates inequity, potentially places more cost burden on smaller, local, producers.  |  |  |  |
| System change takes time                                   | Producers need lead time to evaluate the implications of some eco-<br>modulation factors and make changes to their designs and supply<br>chains. |  |  |  |



#### Proposed Colorado Approach - Summary

CAA proposes using a phased approach to eco-modulation in Colorado.

<u>Phase 1:</u> Use base due modulation to address all required maluses and majority of bonuses at the material category level starting in program year 1.

Phase 2: Implement additional producer level eco-modulation factors in future program years.



#### Proposed Colorado Approach - Details

To meet the requirements of the Act, CAA is proposing the following approach:

#### Phase 1: Base Dues modulation

- **Utilize factors in the base dues setting methodology** that result in the modulation of base dues for 6 of the 8 Colorado eco-modulation factors at the material category level. This includes all 3 maluses and 3 of the bonuses.
  - CAA proposes starting with base dues modulation in 2026 (the first year of the program) to meet CO requirements.

#### Phase 2: Additional producer level eco-modulation

CAA proposes the following steps to implement producer level Eco-Modulation in phase 2.

- 1. Solid and Hazardous Waste Commission promulgates rules for eco-modulation bonus benchmarks and schedule by the end of 2025.
- 2. CAA to develop a roadmap to introduce producer level eco-modulation with the goal of establishing:
  - A. Develop and publish reporting guidance for producers
  - B. Producer data gathering (min 1 year of data)
  - C. Producer data reporting Q2 of the following year
  - D. Use data to enact phased-in eco-modulation at the individual producer the next program year
- 3. Continuously identify opportunities for harmonization of eco-modulation approach and factors at the national level.



### Phase 1 – Base Due Modulation



#### Initial Proposal to Modulate Using Base Dues – Years 1 and 2

|          | INCENTIVES*  |  |  |  |  |
|----------|--|--|--|--|--|
| CRITERIA |  | APPROACH   |  |  |  |
| 1        | Reductions in the amount of packaging materials used for products                              | Use base dues to modulate. Producers supplying packaging with less packaging by material type pays less dues.  |  |  |  |
| 2        | Innovations and practices to enhance the recyclability or commodity value of covered materials | Use base dues to modulate.  Producers supplying packaging with high recyclability offer the opportunity to expand end markets thereby maximizing commodity values, which will help them pay lower dues.  |  |  |  |
| 5        | High recycling covered materials   | Use base dues to modulate. Producers supplying packaging with high recyclability will generate higher commodity values and pay less dues.  RR% needs to be measured at the program/material level; it is not practical to measure individual producer/brand level RR%. |  |  |  |

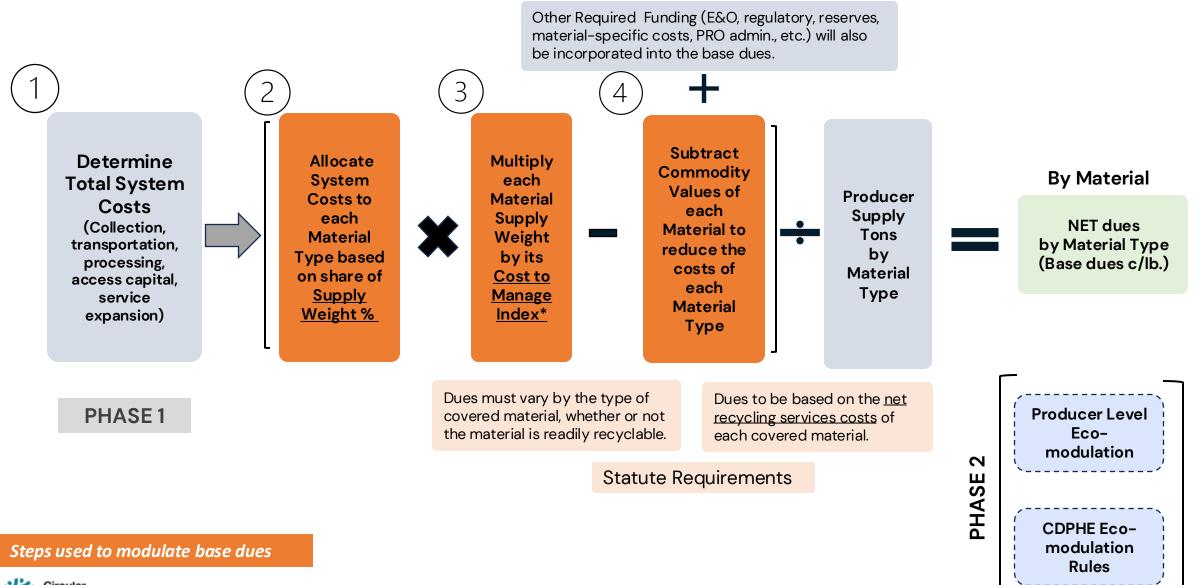
<sup>\*</sup>CAA is proposing an approach in which modulation factors 3 and 4 will be phased in after year 1. Initial thoughts on this approach is included later in the presentation.

#### Initial Proposal to Modulate Using Base dues – Years 1 and 2 (cont'd)

|   | MALUSES  |   |  |  |  |
|---|--|---|--|--|--|
|   | CRITERIA   | APPROACH  |  |  |  |
| 6 | Designs and practices that increase the costs of recycling, reusing, or composting covered materials | Use base dues to modulate.  Producers supplying packaging that is costly to manage will pay higher dues.  |  |  |  |
| 7 | Designs and practices that disrupt the recycling of other materials                                  | Use base dues to modulate. Producers supplying packaging with disruptive attributes will pay higher dues.   |  |  |  |
| 8 | For producers using covered materials that are not on the minimum recyclable list                    | Use base dues to modulate.  Producers supplying packaging that is not on the minimum recyclable list pay higher average dues as per the statute duesetting requirement. |  |  |  |



#### **Base Due Setting Methodology**





#### Steps 2, 3 and 4 of the Base Dues Methodology



Allocate
Recycling
Services System
Costs to each
Material Type
based on share of
Supply Weight %



Multiply each
Material Supply
Weight by its Cost
to Manage Index\*



Subtract
Commodity
Values of each
Material to reduce
the costs of each
Material Type

Once recycling services system costs are established, the material management costs are allocated to covered materials based on:

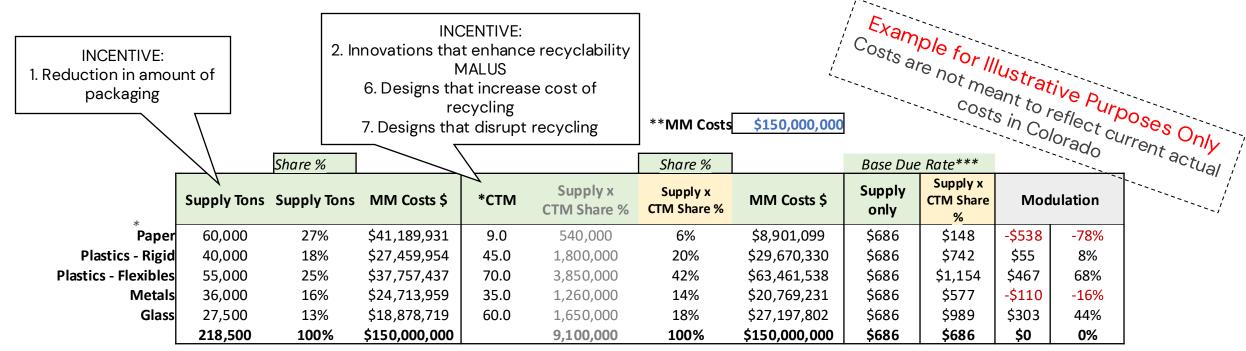
- Share of supply tons upholds the generally accepted 'polluter pays principle' in EPR literature where materials with large supply quantities pay for a large share of system costs.
- Cost to Manage index material cost variation exists by incorporating material-specific cost indices generated by an Activity-Based Costing model into the due allocations. The index, which is coined as CTM (Cost to Manage index) represents the varying costs that each material drives in the recycling system as it is being managed throughout the supply chain from collection to transfer stations for consolidation and transportation to processing facilities.
- Program **revenues are attributed to the materials** that earned those revenues to reduce their share of material management costs.

Application of steps 2, 3 and 4 of the method enable CAA to apply 6 of the 8 factors that would apply to the covered material type.

Additionally reuse and refill covered materials are not required to pay dues.



#### Illustrative Example of Base Due Modulation (Supply & Cost to Manage Index)



<sup>\*</sup>Cost to Manage (CTM) index, generated by Activity-Based Costing model



<sup>\*\*</sup> Material Management (MM)

<sup>\*\*\*</sup>CAA expects to modulate base dues for over 50 packaging types

#### Illustrative Example of Base Due Modulation (Supply Share, CTM & Commodity Revenues)

#### **INCENTIVE:**

2. Innovations that enhance commodity values 5. High recycling covered materials

\*\*MM. Costs \$150,000,000

Share % Share % Recycling Recycled Supply x Supply x MM Costs \$ Supply Tons Supply Tons MM Costs \$ \*CTM Price Index Revenues Net MM Costs \$ CTM Share % CTM Share % Rate % Tons 60% 60,000 \$41,189,931 9.0 540,000 \$8,901,099 36,000 \$ 45.0 \$ 1,620,000 \$7,281,099 **Paper** 27% 6% Plastics - Rigid 40,000 \$27,459,954 1,800,000 \$29,670,330 50% 20,000 \$ 200.0 \$ 4,000,000 \$25,670,330 18% 45.0 Plastics - Flexibles 55,000 \$37,757,437 3,850,000 \$63,461,538 1,100 \$ 15.0 \$ 16,500 \$63,445,038 25% 70.0 42% 2% 23,400 \$ Metals 36,000 \$24,713,959 1,260,000 \$20,769,231 65% 250.0 \$ 5,850,000 \$14,919,231 16% 35.0 14% 27,500 \$18,878,719 4,125 \$ Glass 13% 60.0 1,650,000 18% \$27,197,802 15% \$27,197,802 218,500 \$150,000,000 9,100,000 \$150,000,000 84,625 \$ 11,486,500 \$ 138,513,500 100% 100%

#### **Example for Illustrative Purposes Only**

Costs are not meant to reflect current actual costs in Colorado

|                      | Base Due Rate*** |                         |         |        |        |
|----------------------|------------------|-------------------------|---------|--------|--------|
|                      | Supply only      | Supply x<br>CTM Share % | Net MM  | Modu   | lation |
| Paper                | \$686            | \$148                   | \$121   | -\$565 | -82%   |
| Plastics - Rigid     | \$686            | \$742                   | \$642   | -\$45  | -7%    |
| Plastics - Flexibles | \$686            | \$1,154                 | \$1,154 | \$467  | 68%    |
| Metals               | \$686            | \$577                   | \$414   | -\$272 | -40%   |
| Glass                | \$686            | \$989                   | \$989   | \$303  | 44%    |
|                      | \$686            | \$686                   | \$634   | -\$53  | -8%    |



MALUS: 8. Material not on MRL Base dues are modulated as a result of different factors

<sup>\*</sup>Cost to Manage (CTM) index, generated by Activity-Based Costing model

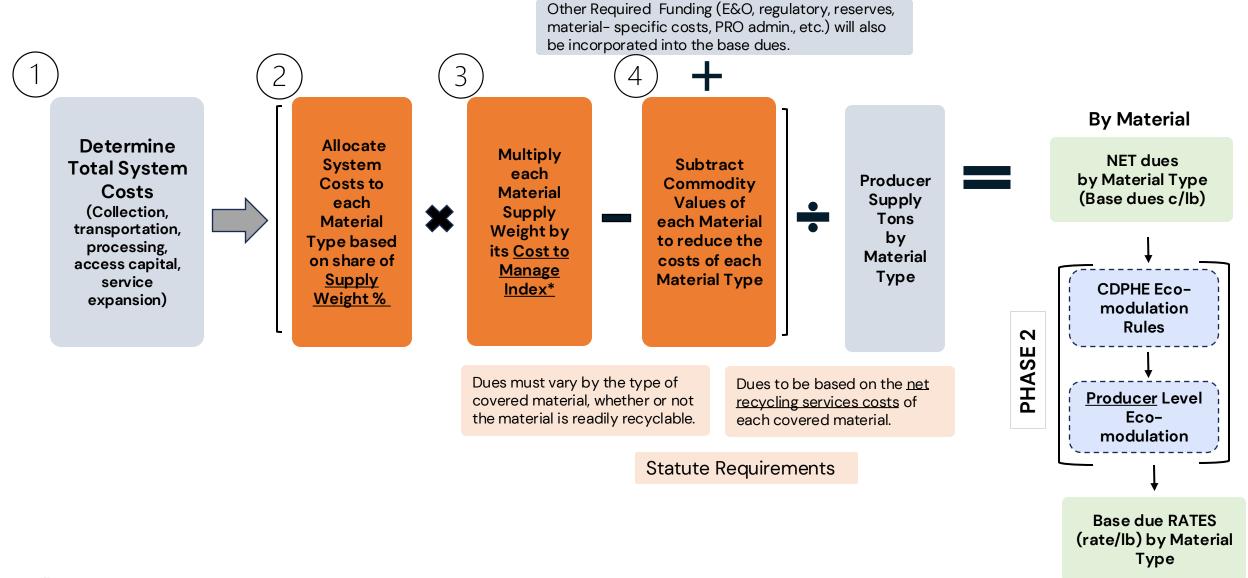
<sup>\*\*</sup> Material Management (MM)

<sup>\*\*\*</sup>CAA expects to modulate base dues for over 50 packaging types

## Phase 2 – Producer Level Due Modulation

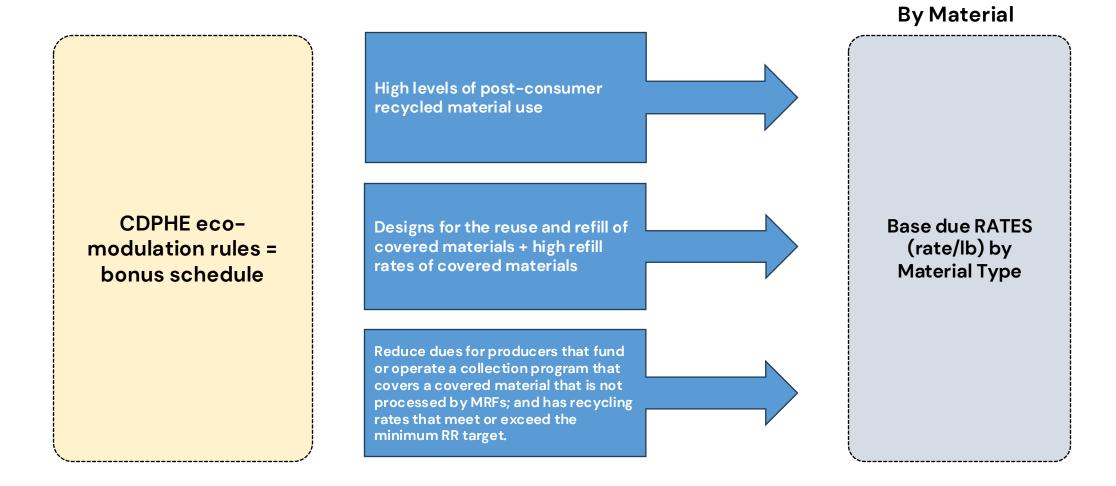


#### **Base Due Setting Methodology**





#### Producer-Level Eco Modulation - Phase 2 Details





#### Steps that Impact Timelines for **Producer-Level** Eco-Modulation

| Activity   | Background  |
|--|---|
| Supply data from producers are necessary to eco-modulate at producer level | <ul> <li>Producers report on the previous year's data</li> <li>They will typically provide this data annually in April/May</li> </ul>   |
| Guidance   | <ul> <li>In order to report on eco-modulation factors, they will need to know well in advance (i.e., at least a year in advance) to ensure they can collect the necessary data</li> <li>CAA will need to ensure they provide guidance to producers in advance of the year they report data</li> </ul> |
| Eco-modulation   | <ul> <li>CAA will apply eco-modulation factors to individual producers in the year<br/>following when supply data has been reported.</li> </ul>   |

CAA continues to consult with CDPHE, producers, and other stakeholders to evaluate operationally feasible implementation timelines for Phase 2.



#### Implementation of Producer-Level Eco-Modulation: Initial Thoughts

CAA will first focus on introducing the factors not addressed through the base dues.

|   | INCENTIVES  |   |  |  |  |
|---|---|---|--|--|--|
|   | CRITERIA  | APPROACH  |  |  |  |
| 3 | High levels of post-consumer recycled material use  | Data reporting (incl. product, SKU info, weights, PCR level for which component, certification, and chain of custody).  Additional data reporting from producers for CAA to track progress towards achieving program PCR targets in 2030. |  |  |  |
| 4 | Designs for the reuse and refill of covered materials + high refill rates of covered materials  | Apply using case studies (incl. product, SKU info, weights). Will need to show the action and outcomes using metrics.   |  |  |  |
|   | PRO must reduce dues for producers that fund or operate a collection program that covers a specific type of covered material that is not processed by MRFs; and has recycling rates that meet or exceed the minimum recycling target. | Apply using case studies (incl. product, SKU info. and weights). Will need to show the action and outcomes using metrics.  Excludes: materials on minimum recycling list and those generated from non-covered entities.                   |  |  |  |



#### Questions for Discussion and Survey

- Q: Do you have any concerns with the approach to modulate base dues by material type? If so, what are your concerns?
- Q: Do you support the proposed phased approach that starts with modulation at the base due level and moves toward additional eco-modulation at the individual producer level over time?
- Q: How can CAA implement an eco-modulation approach that is equitable to all producers regardless of size and resources?
- Q: How long will it take for producers to implement data systems to capture data related to potential bonuses (e.g., PCR, reuse / refill, reductions in packaging)?
- Q: Do you have any recommendations related to the potential timelines to implement ecomodulation at the producer level?



## Discussion/ Next Steps



#### **Providing Input on Eco-Modulation**

- Provide written feedback through the online survey: <a href="https://bit.ly/3z7jpd8">https://bit.ly/3z7jpd8</a>
- Survey will be open until 5 p.m. MT on Friday, October 11<sup>th</sup>.
- Participants of this session will also receive an email from Zoom with the survey link.
- If needed, the survey can be saved and completed later, ahead of the October 11<sup>th</sup> deadline.
- Questions about accessing the survey, as well as comments and questions for the project team, can be sent via email to coplanconsultation@circularaction.org.





Thank You



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