

February 22, 2022

Consultations on the 2022 Schedule of Contributions

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Recycling and Schedule of Contributions

A few words from Marie Julie Bégin

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2022 Schedule of Contributions Consultation Meeting Objectives

- Present the background influencing net costs and the Schedule of Contributions
- Submit the 2022 Schedule of Contributions for consultation, including new eco-modulation measures
- Get feedback from businesses and organizations

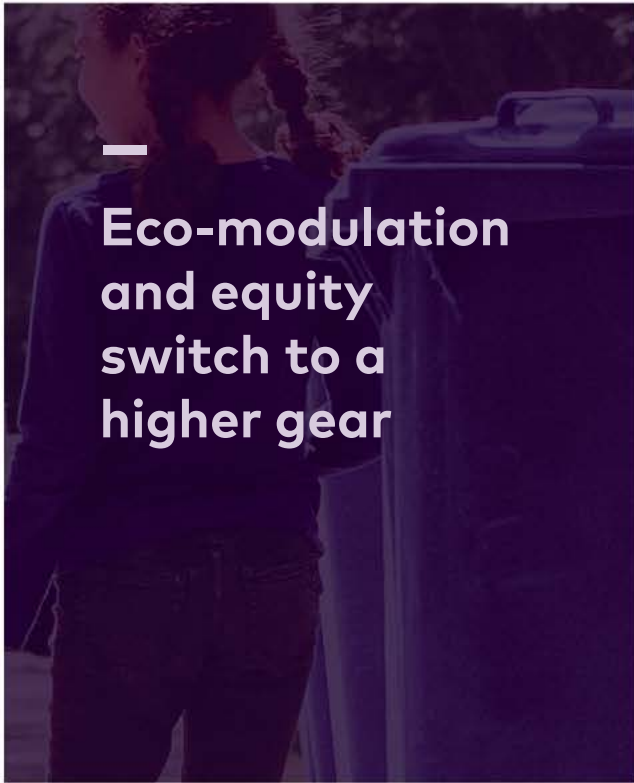
Game Plan



—
**Curbside
Recycling in
Turmoil**



—
**Changes to the
Fee Schedule**



—
**Eco-modulation
and equity
switch to a
higher gear**



—
**Discussion
Period**

A photograph of a family—a man and two young girls—sorting through recycling items on a sidewalk. They are standing next to a row of blue recycling bins. The man is leaning over one of the bins, and the girls are also looking into it. In the background, there are residential houses, trees, and parked cars. A large, light green diagonal graphic element is in the top right corner. The text "Curbside Recycling in Turmoil" is overlaid in white on the left side of the image.

Curbside Recycling in Turmoil

Pandemic-related changes in consumer habits

Example: Home deliveries

Consequences:

- Change of materials marketed by companies
- Change of materials received in materials recovery facilities and costs to sort these materials


A large, dense pile of discarded newspapers and paper waste, including various headlines and advertisements, filling the background. The text is overlaid on this image.

**We are still paying for the
[consequences of the 2018 export
market crisis (China and India)]**

Recyclers' greater requirements have put pressure on MRFs to get better quality materials

Consequently:

- Materials recovery facilities modernized their equipment
- Materials recovery facilities assigned more sorters to the material quality control line



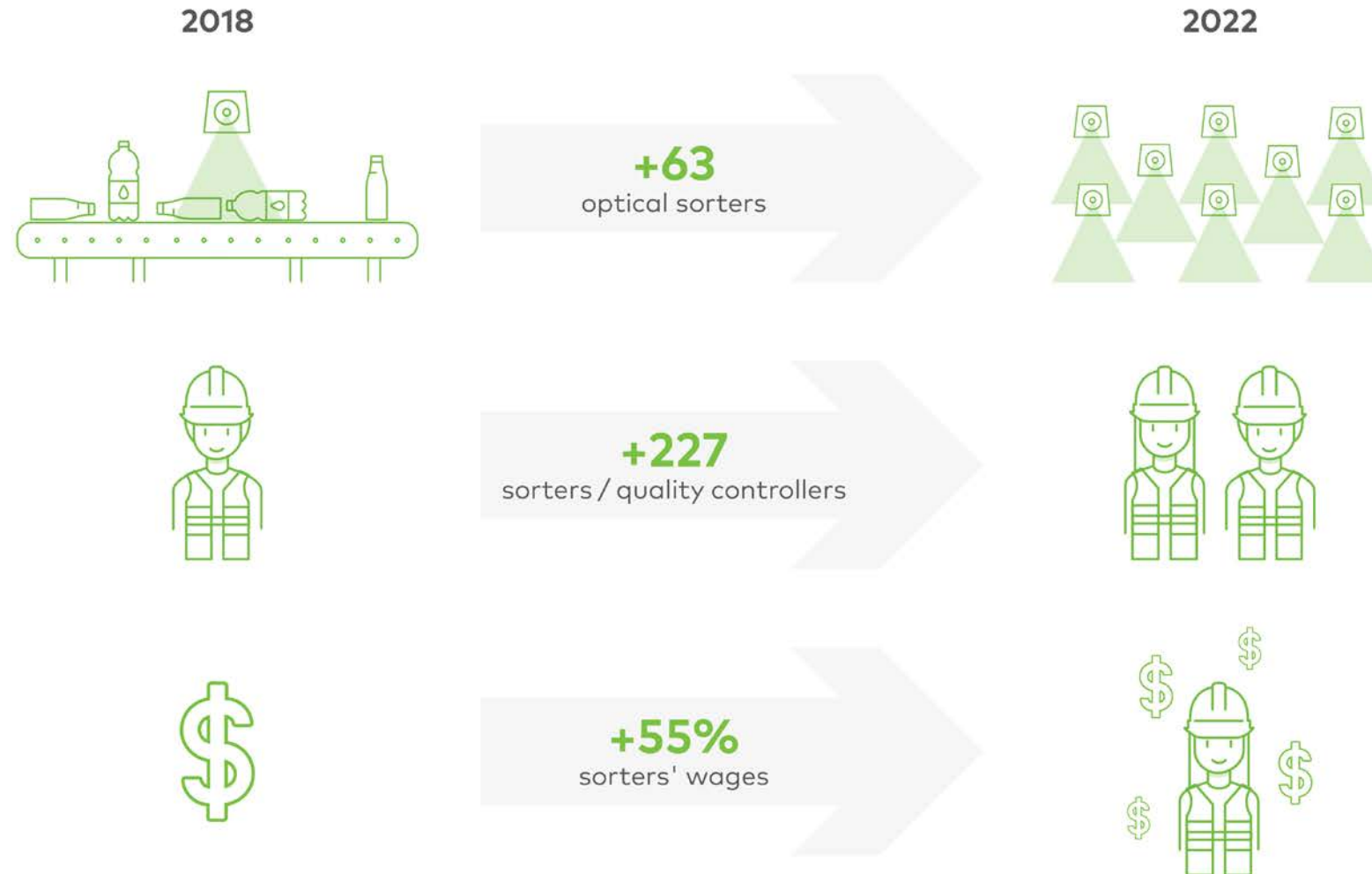
**Labour shortages and an increase
[of personnel assigned to quality
control have led to skyrocketing
salaries]**

A woman with long brown hair, wearing a dark blue t-shirt, is smiling and pointing her right index finger towards a whiteboard. She is holding a small white card with a purple hexagon and the text "BUDGET PROBLEMS" in her left hand. In the foreground, the back of a man's head and shoulders are visible, looking towards the whiteboard. The whiteboard has some faint blue diagrams and text on it.

ABC Update

In order to ensure that the 2022 Schedule of Contributions matches the current situation, ÉEQ has updated its Activity-Based Costing (ABC) study, which provides a reliable and verifiable metric of net costs for each material in the curbside recycling system.

ABC Update



The market has generally been more favourable to buyers the past few years

At the lowest point, the average rate for materials dropped by half, lowering the price of materials sold by materials recovery facilities.

Changes to the Fee Schedule





Disaggregation of polypropylene (PP) and other plastics, polymers and polyurethane



Range of designated containers and packaging expanded: wood and cork

Evolution of the fee formula for 2022



The 3 historical classes of materials



**Containers
and packaging**



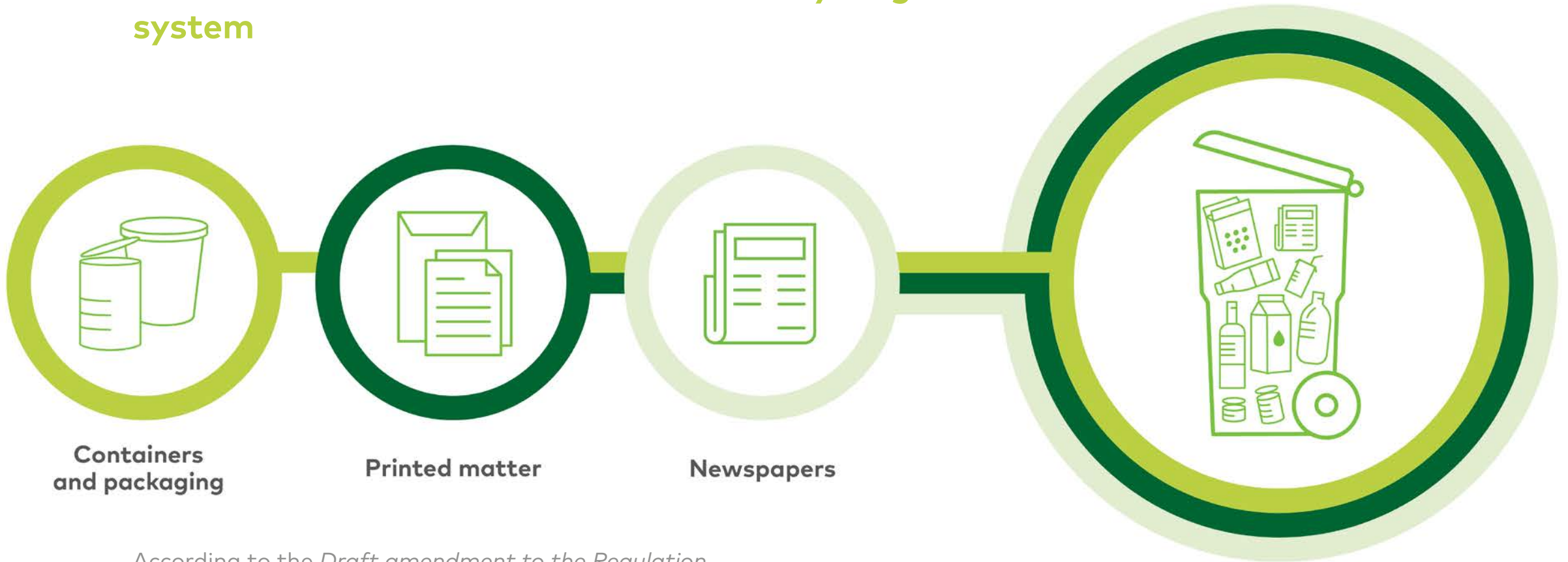
Printed matter



Newspapers

Proposed regulatory amendment

To better reflect the current curbside recycling system



According to the *Draft amendment to the Regulation respecting compensation for municipal services provided to recover and reclaim residual materials*



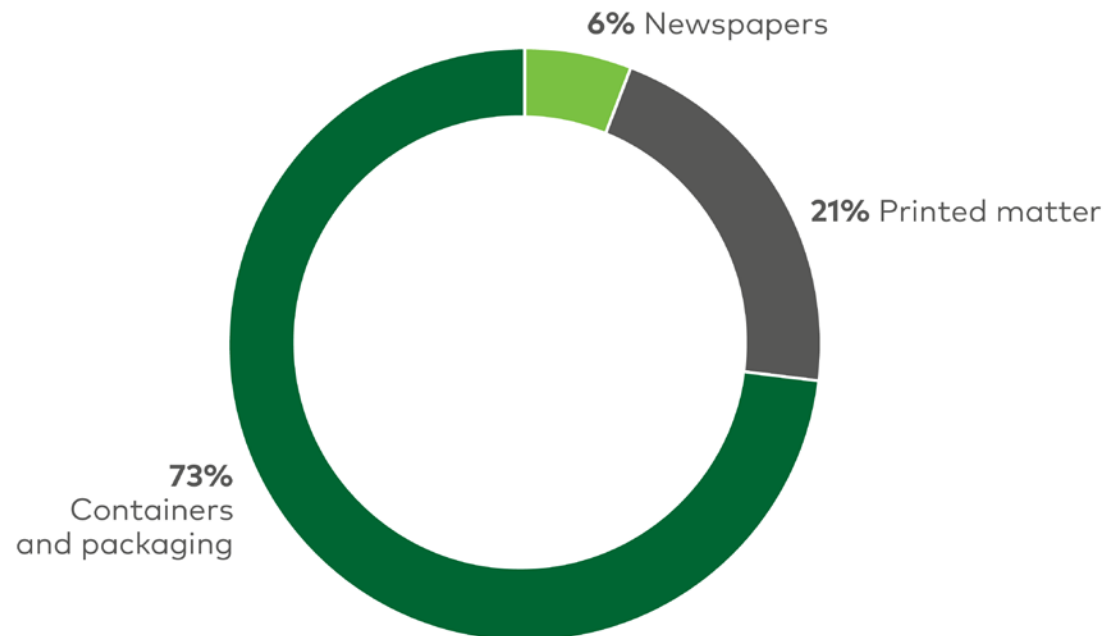
***The cost allocation by materials class
upstream of the formula is abolished.***

In short, the approach is simplified!

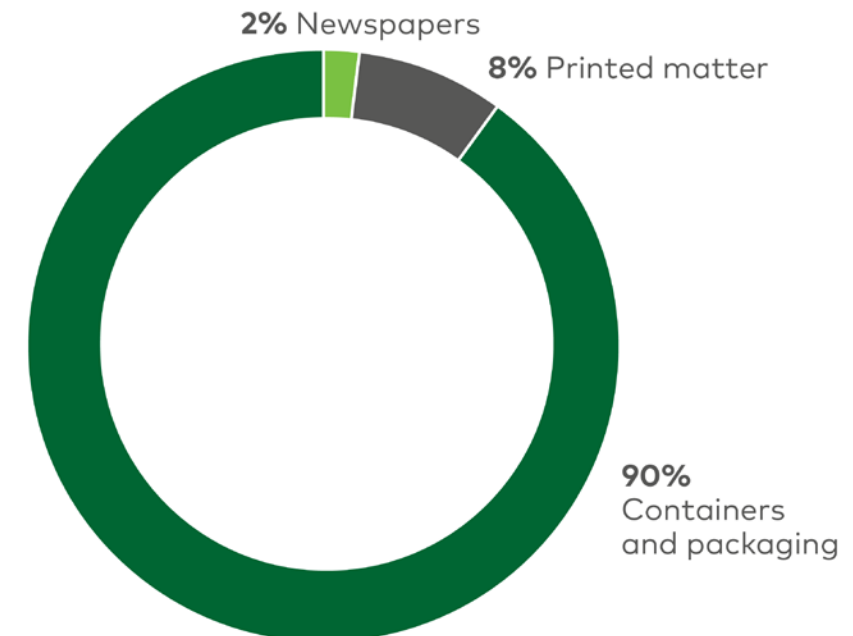
Proposed regulatory amendment

Going forward, the Schedule of Contributions will calculate the share of costs allocated to each material directly

Share of costs per class based on the allocation provided for in the Regulation for 2018-2021 Schedules



Share of costs per class after the abolition of the allocation upstream by the draft Regulation for the 2022 Schedule



A man with a beard, wearing a blue button-down shirt and a headset with a microphone, is seated at a desk. He is looking down at a laptop in front of him, with his hands near the keyboard. To his right is a large computer monitor. On the desk, there are some papers and a small container with colorful sticky notes. The background is slightly blurred, showing an office environment. The text "Reminder on the Schedule of Contributions formula" is overlaid in white, bold font on the left side of the image, with a horizontal line under the word "Contributions".

Reminder on the Schedule of Contributions formula

3 main drivers of rates per material



Impact of the main drivers of per-material rates



Proposed measures to mitigate increases

- The update of inputs for the Schedule has a significant impact on rates for certain materials, especially for HDPE bottles
- Two measures are applied to mitigate these impacts
 - The use of \$5 million from the C&P permanent fund
 - The rate increases capped at 50%

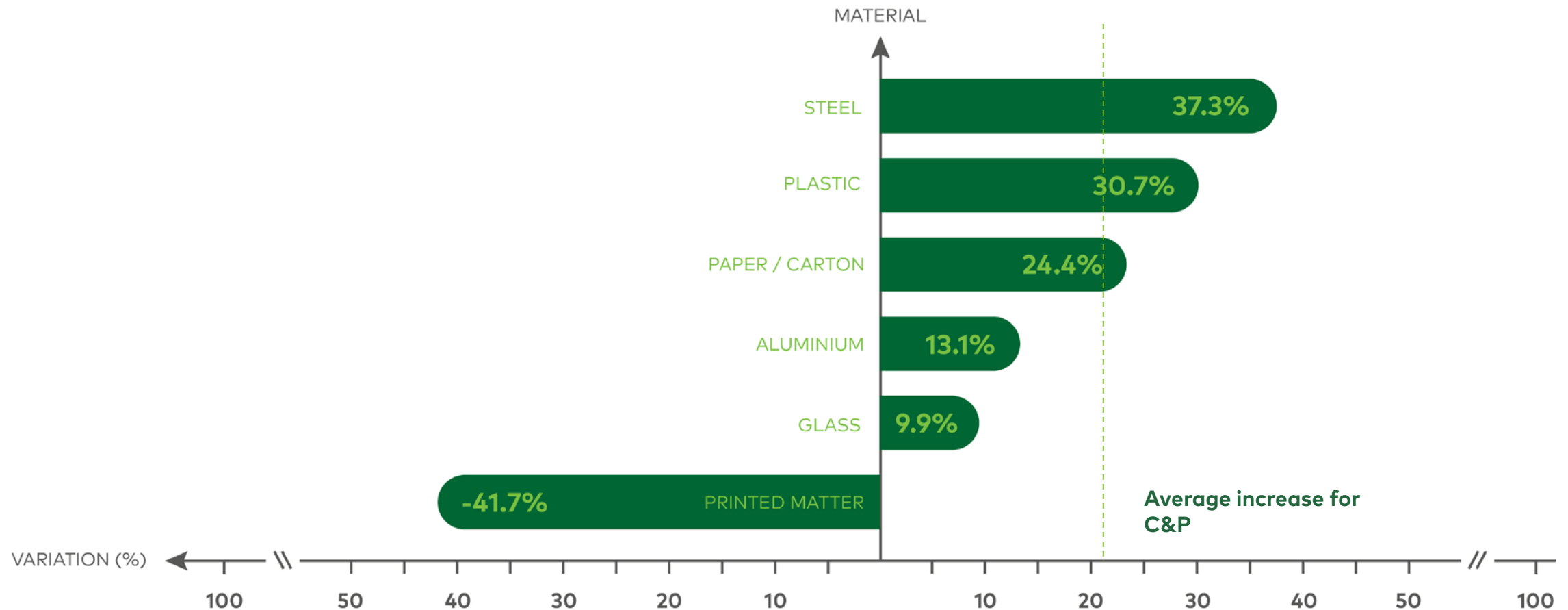
[The effects of all
parameters combined:
a 10.1% increase in average rate]



Rates per material and explanation of variations



Combined effects of all factors on the Schedule of Contributions: Important variations based on the material



Explanation of variations

**Abolition of cost
distribution per class of
materials**

**Modernization of MRF
equipment, increase in
labour costs**

**Relative low value of
materials**

	Rates 2022	Rates 2021	
HDPE bottles	272,33*	185.79	⋈ 46.6%
Rigid PS, expanded food-grade PS or protective PS, PVC, PLA and other degradable plastics	1,359.67	987.15	⋈ 37.7%
Steel aerosol containers, Other steel containers	267.04	194.51	⋈ 37.3%
PET bottles, PET containers	458.39	340.65	⋈ 34.6%
	(\$/t)	(\$/t)	

*Without the application of capping rules, the 2022 rate would have been \$358.78/t.

**Abolition of cost
distribution per class of
materials**

**Relative low value of
materials**

	Rates 2022	Rates 2021	
Gable-top containers	364.09	254.16	⋈ 43.3%
Aseptic containers	437.39	314.94	⋈ 38.9%
Boxboard and other paper packaging	351.17	269.45	⋈ 30.3%
	(\$/t)	(\$/t)	

**Abolition of cost
distribution per class of
materials**

**Relative low value of
materials**

(cont'd)

	Rates 2022	Rates 2021	
Polypropylene (PP)*	519.11	405.01	⋈ 28.2%
Other plastics	519.11	405.01	⋈ 28.2%
HDPE/LDPE plastic film	770.38	609.02	⋈ 26.5%
	(\$/t)	(\$/t)	

*Newly disaggregated material

Abolition of cost distribution per class of materials

	Rates 2022	Rates 2021	
Paper laminants	490.00	386.33	⋈ 26.8%
Plastic laminants	765.70	635.76	⋈ 20.4%
Corrugated carton and kraft paper	279.38	245.26	⋈ 13.9%
	(\$/t)	(\$/t)	

Abolition of cost distribution per class of materials (cont'd)

	Rates 2022	Rates 2021	
Aluminium	250.70	221.64	⋈ 13.1%
Coloured glass	260.50	235.79	⋈ 10.5%
Clear glass	257.27	234.47	⋈ 9.7%
	(\$/t)	(\$/t)	

Abolition of cost distribution per class of materials (cont'd)

	Rates 2022	Rates 2021	
Inserts and circulars	243.99	398.59	≡ -38.8%
Other printed matter	314.43	591.53	≡ -46.8%
	(\$/t)	(\$/t)	

New class of materials and rate adjustment

	Rates 2022	Rates 2021	
Wood and cork	597.85	N/A	
Ceramic	533.70	386.03	⋈ 38.3%
	(\$/t)	(\$/t)	

Flat Fees

2022 average rate, applied to the upper limit of the class

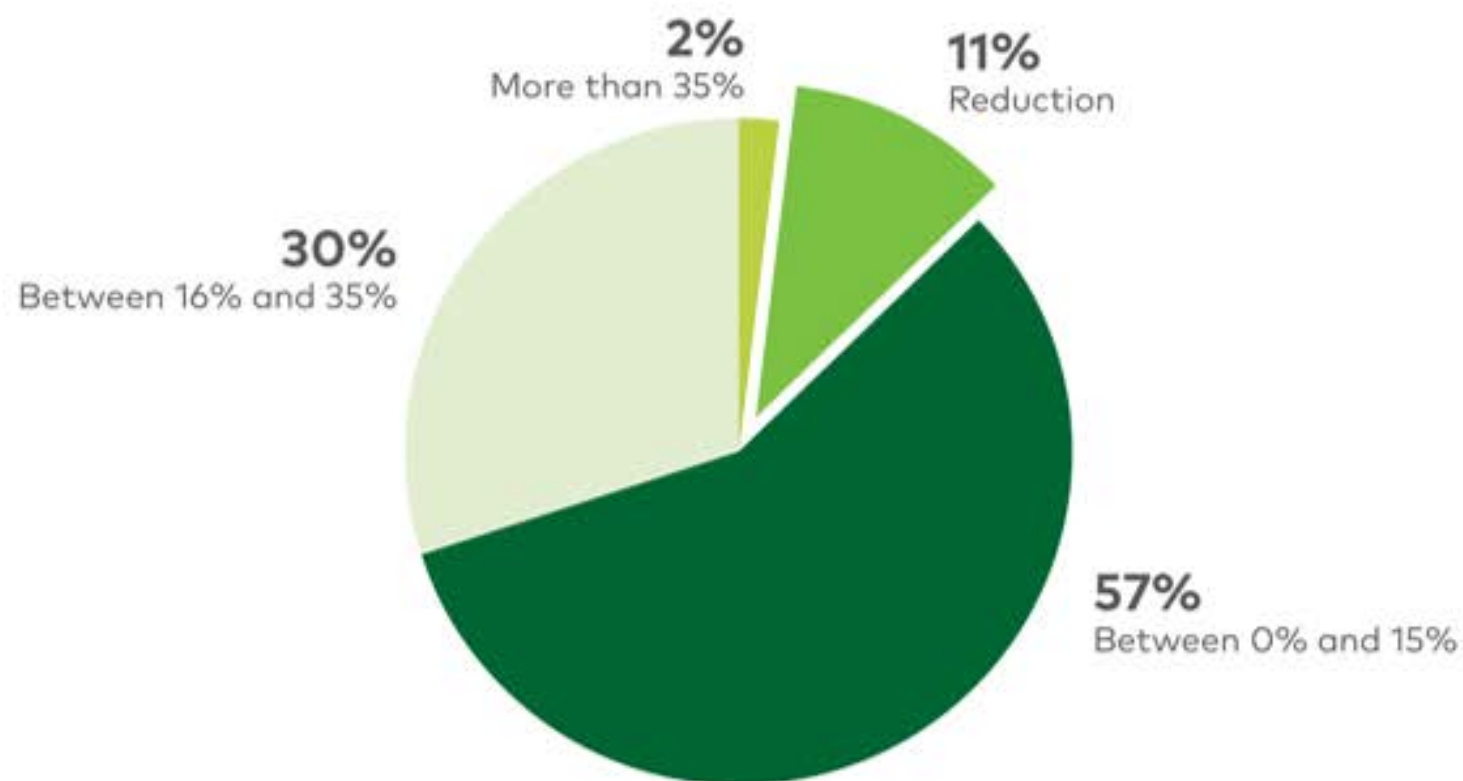
Eligibility criteria	2021 Schedule	2022 Schedule
> 1 MT and < 2.5 MT	\$830	\$920
> 2.5 MT and < 5 MT	\$1,660	\$1,845
> 5 MT and < 10 MT	\$3,320	\$3,685
> 10 MT and < 15 MT or between \$1M and \$2M	\$4,985	\$5,535



Impacts on companies

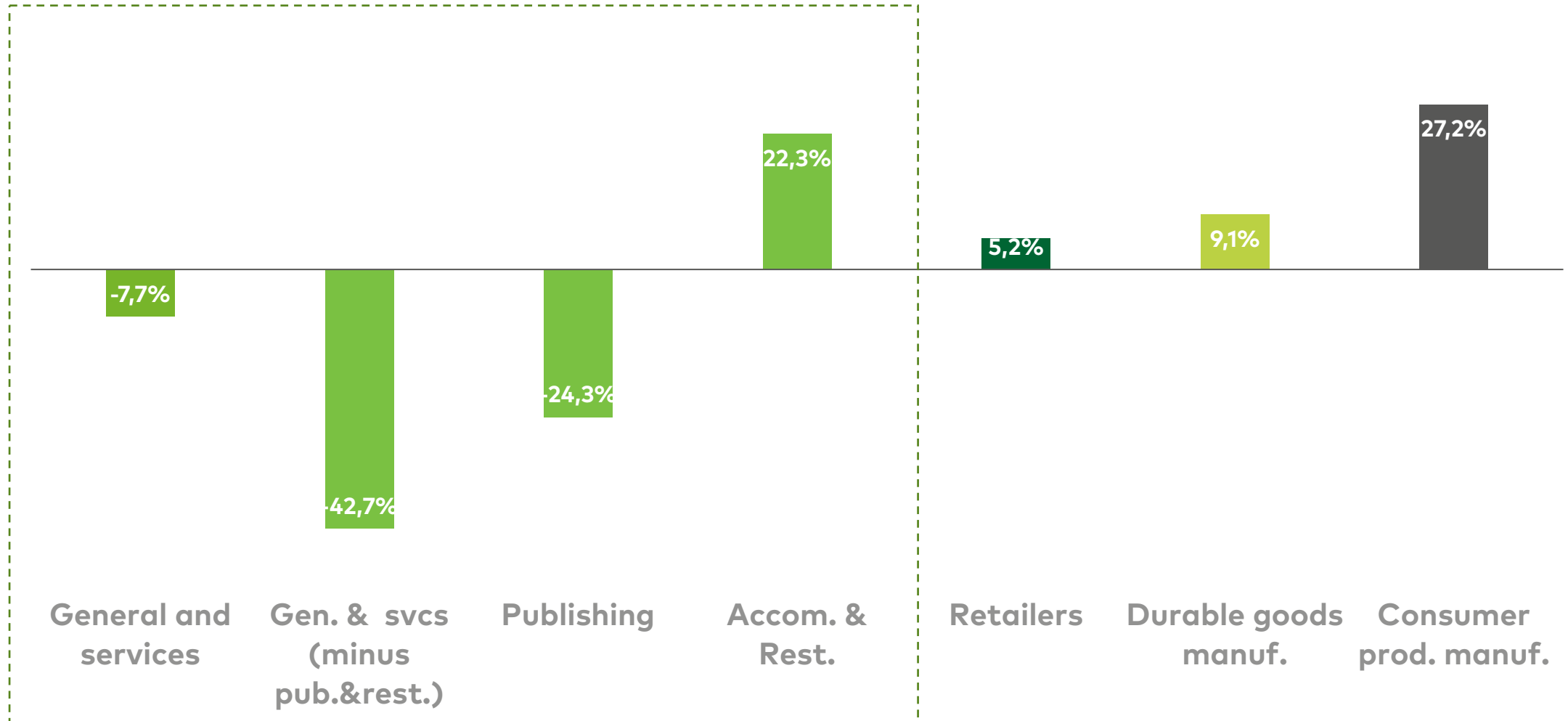
Overall impact at a glance

Distribution of companies based on the anticipated variation of their contribution*



* Including companies that pay a flat fee

Anticipated variance of contribution based on the 2022 Schedule of contributions vs. the 2021 Schedule, by major industry sectors

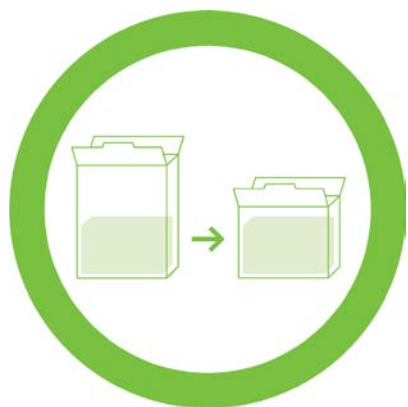


A low-angle, close-up shot of a person's legs and feet as they run on a reddish-brown athletic track. The runner is wearing dark grey sneakers with red accents. The background is a blurred indoor sports facility with high ceilings and structural beams. A large, light green triangular graphic element is positioned in the top right corner. Overlaid on the left side of the image is the text "Eco-modulation and equity switch to a higher gear" in a bold, white, sans-serif font.

**Eco-modulation and
equity switch to a higher
gear**

Several eco-modulation principles

Since
2006



**Generated
quantities**



**Variable costs per
material**



Many initiatives

Why do we need to push further?

- For curbside recycling to be efficient, it is fundamental that we work on ensuring **consistency between upstream** (design, marketing and consumption) **and downstream** (collection, sorting, processing and recycling)
- Companies are looking to improve their choices of C, P & PM and respond to expectations of consumers and the general population
- ÉEQ wants to provide exemplary leadership ahead of the modernization of curbside recycling

Eco-modulation in 3 key areas



**Evolution of the
fee formula**



**Credits and
bonuses in
recognition of good
practises**



**Penalty for
behaviour that
interferes with the
system**



Renewal of credits:

- The post-consumer recycled content credit will be extended

Renewal of credits:

- Enhancing the ecodesign incentive bonus pilot project

What's new with the bonus:

- Simplified approach
- Increased bonus percentage
- Increased maximum bonus amount per company
- Added minimum bonus per eligible company

Financing the bonus:

- Balance of the initial amount comes from the permanent Containers and Packaging Fund





Eco-modulation measures for subsequent Schedules

Effective date for penalty, as of the 2024 Schedule:

- Penalty on PVC
- Penalty on degradable plastics

Transition period:

- Support for change
- Consultation with companies

A person with brown hair, wearing a grey sweater and a headset, is seen from the side, working at a desk. In the background, there is a computer monitor displaying a webpage with a green and blue header. The overall scene is dimly lit, with a soft glow from the screen.

Communications Regarding Eco-modulation Measures

We will emphasise communications regarding new eco-modulation measures in the 2022 Schedule of Contributions

A group of people are sitting on a dark-colored couch in a relaxed setting. In the foreground, a person wearing a light blue and white striped shirt is seen from the back, with their hands clasped. To their right, another person in a dark blue dress is sitting with their hands clasped. Further right, a person in a black and white striped dress is also visible. In front of them is a small, round, white table with two clear glasses of water. The overall atmosphere is calm and conversational.

Proposed overhaul of Schedule of Contributions rules

A necessary overhaul of rules

Several elements have made overhauling the Schedule of Contributions rules necessary:

- Modifications made to the *Environment Quality Act* with Bill 65, which determines that a single Schedule of Contributions must be produced for containers, packaging, printed matter and newspapers
- The *Draft amendment to the Regulation respecting compensation for municipal services provided to recover and reclaim residual materials*, which makes adjustments pertaining to the transition period, on the one hand, and that integrates modifications following requests addressed by ÉEQ, on the other hand.
- Integration of eco-modulation measures into the rules rather than in an appendix to the contribution table

ÉEQ also suggests other changes to the Schedule of Contributions in order to improve the application of the Compensation plan.

Pricing rules - Major overhaul

Significant measures for greater fairness

4 major components



Legal and
regulatory
background

Requests
from
companies
and
associations

Eco-modulation

ÉEQ initiatives
and
administrative
measures

Legal and regulatory background

- **Single Schedule of Contributions with RecycleMédias**
 - Integration and reorganization of articles according to a logical order
 - Linking similar notions
 - Aggregation of definitions, if applicable
- **Abolition of cost allocation per class of materials ahead of the Schedule formula**
 - Impact on rates as of the 2022 Schedule of Contributions
 - Impact on rules in the calculation of adjustments
 - Under consideration

Requests from companies and business associations

E-commerce - An important gain!

- Add an article for products acquired outside Quebec:
 - Obligation of persons operating a transactional site through which the product was acquired, whether or not they have a place of business in Quebec (only for sales governed by Quebec laws).

Requests from companies and business associations

E-commerce - An important gain!

- Thanks to this addition, all businesses that generate materials from e-commerce are now obligated.
- ✔ Quebec address with buildings (already covered)
- ✔ Quebec address without buildings (already covered)
- ✔ Without address in Quebec (new)

Eco-modulation

A new section pertaining specifically to eco-modulation measures

- Extending the ecodesign incentive bonus pilot project
 - Adding details and clarification regarding terms and conditions
 - Adjustments following the enhancement of the measure
- Maintaining the credit for recycled content and integration into this section

ÉEQ initiatives and administrative measures

Clarifications in order to reduce the risk of circumventing obligations

- Broadened notion of business groups
- Notion of transportation packaging to adjust to electronic commerce
- Additions and clarifications of definitions

ÉEQ initiatives and administrative measures

Additional measures in order to foster compliance of companies and reinforce equity

- Voluntary contributors: removal of eligibility for the flat fee based on revenues
- Announcement of a penalty to be implemented for failure to register and report as of the 2023 Schedule of Contributions



Next steps

Timeline for the 2022 Schedule of Contributions special consultations

Activity	Date
Consultation meetings (via webinar)	February 22, 2022
Consultation period	2 weeks from the time documents are submitted online (February 15th to March 1st)
Board of Directors adopts the draft 2022 Schedule of Contributions and report on consultation with companies	March 18, 2022
Report on the Schedule of Contributions recommendation as provided under Article 11.1.1 of ÉEQ's certification agreement sent to RECYC-QUÉBEC	March 18, 2022



Thank you
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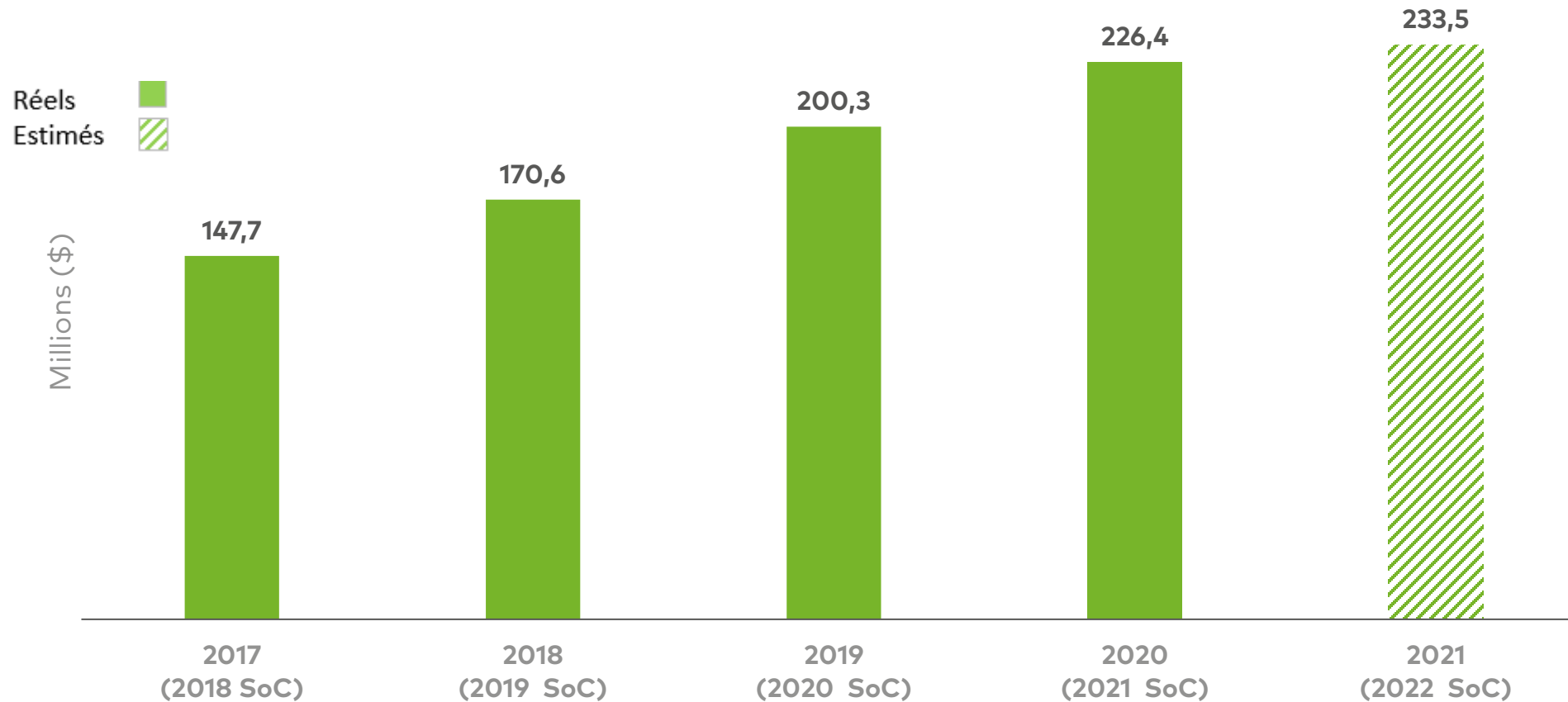
Appendix

Schedule inputs and parameters

Parameter	Update for the 2022 Schedule	Impact
1. Municipal net costs	Yes	Moderate increase
2. Cost allocation across three classes of materials	Removal	Important increases and decreases (per material)
3. ÉEQ expenses and other provisions	Yes	Moderate increase
4. Expected quantities reported	Yes	Low overall increase
5. Rate of recovery (Characterization)	Targeted	Across 2 designated materials
6. Net costs of materials (ABC)	Yes	Significant increases and decreases (per material)

1. Total municipal net costs for 2021 estimated at \$233.5M

3.1% increase of total net costs based on 2020 actual costs compared to a 13.0% increase between 2020 and 2019.



1. Total municipal net costs for 2021 estimated at \$233.5M

	2021 Schedule	2022 Schedule
Estimated total municipal net costs	\$231.7 M	\$233.5 M
Deduction for non-designated materials (6.45%)	(\$15.0 M)	(\$15.1 M)
Deduction for P&E factor	(\$22.6 M)	(\$11.8 M)
Municipal management costs (8.55%)	\$16.6 M	\$17.7 M
Efficient and effective total eligible costs	\$210.7 M	\$224.3 M
<i>Variation</i>	-	+6.5%

2. Allocation of costs across three classes of materials

Increase of ÉEQ's share of estimated costs is 11.5% over 2021SoC

	2021 Schedule	2022 Schedule
Efficient and effective total eligible costs	\$210.7 M	\$224.3 M
Deduction of the newsprint share (6.5% for the 2021 Schedule vs 2.0% for the 2022 Schedule)	(\$13.7M)	(\$4.5M)
ÉEQ's efficient and effective eligible costs	\$197.1M	\$219.8M
<i>Variation</i>	<i>+ 10.8%</i>	<i>+11.5%</i>

3. ÉEQ fees and other provisions

Increase of 18.8%

	2021 Schedule	2022 Schedule
ÉEQ fees	\$6.0M	\$7.0M
Provisions for bad debt	\$4.1M	\$4.6M
Participation support: Innovative Glass Works Plan	\$0.6M	\$0.7M
Provision for recycled content credit	\$0.5M	\$0.5M
Anticipated reports from low-volume producers	(\$2.9M)	(\$2.4M)
Allowance paid to RECYC-QUÉBEC	\$2.8M	\$2.9 M
Total ÉEQ fees and other provisions	\$11.2M	\$13.3M
<i>Variation</i>		<i>18.8%</i>

Risk fund (reminder)

Resolution adopted by the Board of Directors on October 1st, 2021 (136.4.2.1):

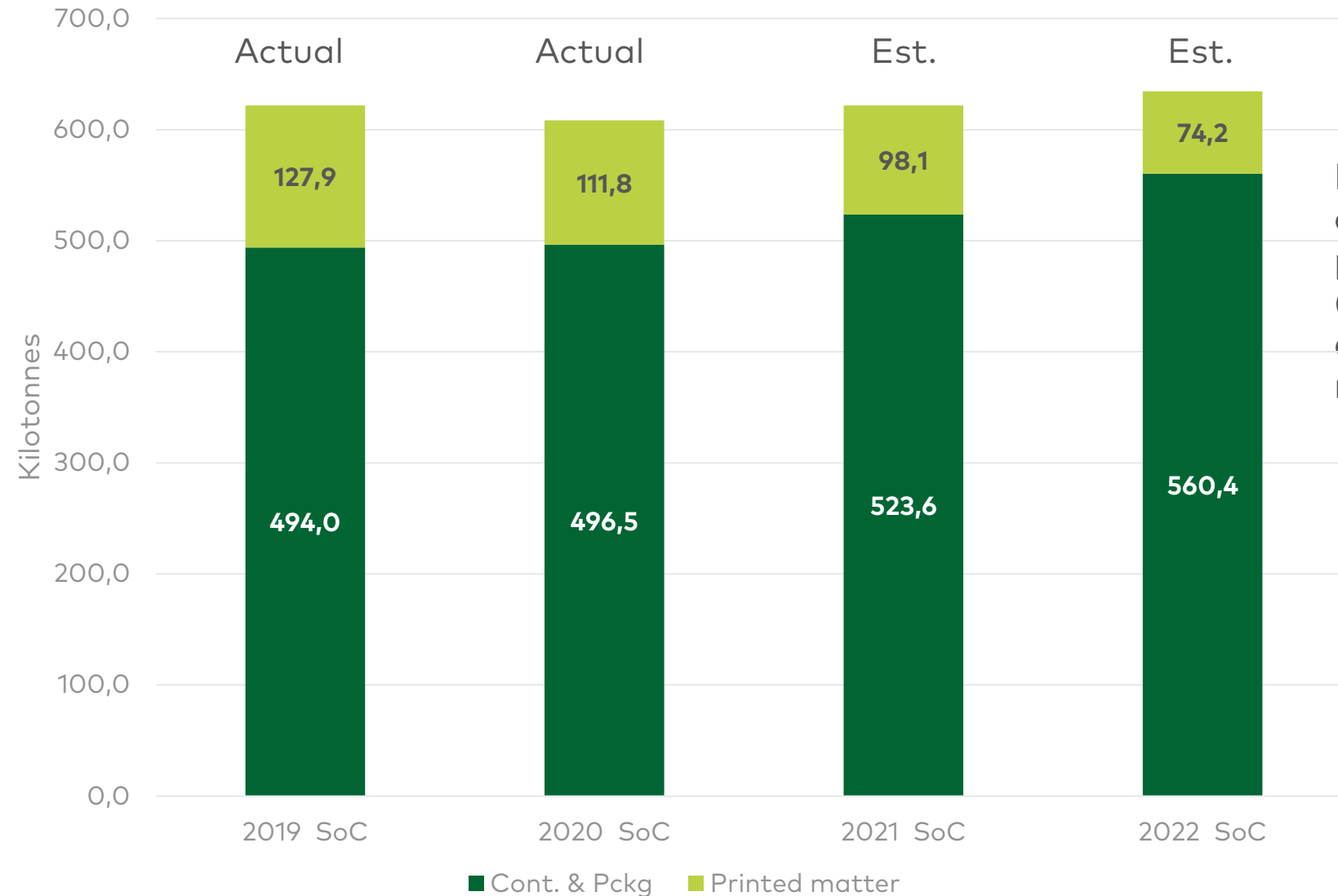
- Approve that the Risk fund represents 2.5% of net costs for the development of the 2022 Schedule of Contributions. This amount mitigates exposure to risks tied to additional billing to contributing companies, should the net municipal costs of the 2022 Schedule be underestimated.

**Total costs to be taken into account in the Schedule calculation,
including the \$6.2M provided for the Risk fund:**

\$239.4M (up 15.0%)

	2021 Schedule	2022 Schedule
ÉEQ's efficient and effective eligible costs	\$197.1M	\$219.8M
ÉEQ fees and other provisions	\$11.2M	\$13.3M
Risk Fund replenished according to policy	-----	\$6.2 M
ÉEQ's total costs before assignments	\$208.2M	\$239.4M
<i>Variation</i>		<i>+15.0%</i>

4. Expected quantities: relatively stable at nearly 635 kt



Printed Matter still on the decline and Containers and packaging increasing slightly (attributable namely to the e-commerce sector that is now obligated)

5. Recovery rate

- Characterization study was not updated ahead of the 2022 Schedule of Contributions
 - With some exceptions, recovery rates for each material in the Schedule remain the same for the 2022 Schedule.
- Only the recovery rate for two materials was adjusted to 0% in the Schedule formula, to reflect that they have no outlets for MRFs, namely
 - Ceramic
 - Wood and cork (new material)

6. Update of the Activity-based costing (ABC) study in 2021

- The update of the ABC study reflects:
 - The marked increase in investment and labour expenditures for certain materials since the start of the market crisis in 2018
 - The significant drop in the value of certain materials recovered in recent years (in spite of the rebound since the summer of 2021)
 - Changes in the composition of materials received by materials recovery facilities since the start of the pandemic
- The update of the ABC has a significant impact on the rate for several materials

Proposed measures to mitigate increases

A. Use of funds to mitigate rate increases for the 2022 Schedule

	Containers and packaging	Printed matter	Total
Costs before mitigation	\$219.4M	\$20.0M	\$239.4M
C&P permanent fund	(\$5.0M)	---	(\$5.0M)
Total costs	\$214.4M	\$20.0M	\$234.4M
<i>Variation compared to 2021SoC</i>			<i>+12.6%</i>

Average overall rate for the 2022 Schedule, with and without using the Containers and packaging fund

	2021 Schedule	2022 Schedule without the C&P fund	2022 Schedule with use of C&P fund
ÉEQ's total contribution	\$208.2M	\$239.4M + 15.0%	\$234.4M + 12.6%
Estimated quantities reported	621.7 kt	634.5 kt + 2.1%	634.5 kt + 2.1%
Average rate	\$335/t	\$377/t +12.6%	\$369/t +10.1%

Proposed measures to mitigate increases

B. Rate increases capped at 50%

- A measure to cap rate increase at 50% can be applied
 - Capping principle adopted by the Board for the 2015 Schedule
- Effect: limiting the rate increase for HDPE
 - No capping: \$358.78 /t (93.1% increase)
 - With capping: \$272.33 /t (46.6% increase)*

* Increase 50% lower than the cap thanks to the contribution from the C&P permanent fund

Average rate per class of materials - Printed matter

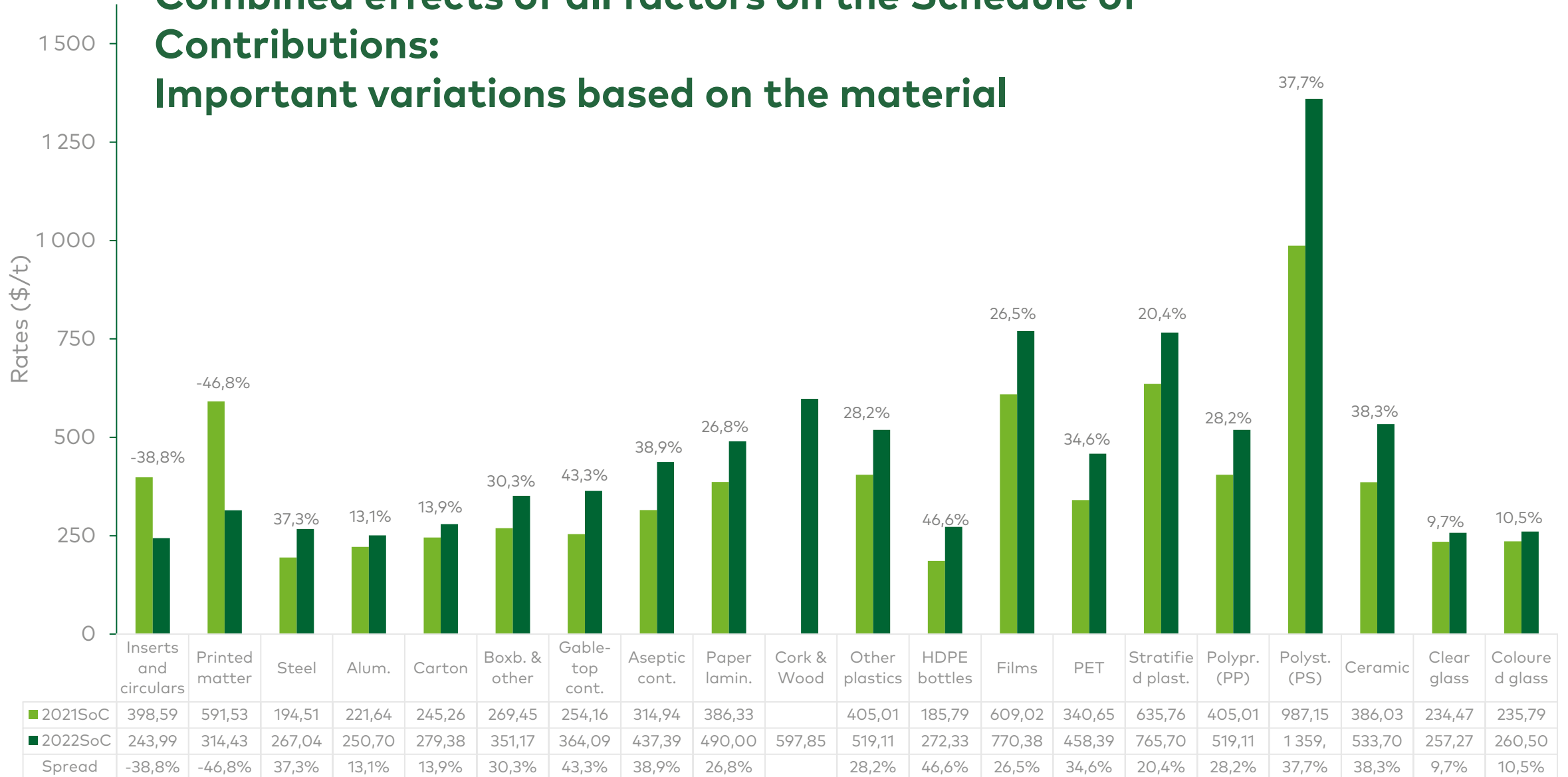
A marked decline for the regulatory change abolishing the allocation of costs to each class of materials		
	2021 Schedule	2022 Schedule
Total costs, printed matter share	\$45.2M	\$19.9M
Provision for recycled content credit	\$0.2M	\$0.1M
Printed matter fund	\$0.0M	\$0.0M
Total contribution	\$45.4M	\$20.0M - 55.9%
Expected quantities reported	98.1 kt	74.2 kt -24.4%
Average rate	\$463/t	\$270/t -41.7%

Average rate per class – Containers and Packaging

A marked increase for the regulatory change abolishing the allocation of costs to each class of materials		
	2021 Schedule	2022 Schedule
Total costs for C&P share	\$162.4 M	\$219.0M
Provision for recycled content credit	\$0.3M	\$0.4M
C&P* fund	\$0.0M	(\$5.0M)
Total contribution	\$162.7M	\$214.4M <i>+ 31.8%</i>
Expected reported quantities	523.6 kt	560.4 kt <i>+ 7.0%</i>
Average rate	\$311/t	\$383/t <i>+ 23.2%</i>

* Without participation from the permanent fund to mitigate the rate increase, the average rate would be \$391/t, i.e. +25,7% of the estimated average rate for C&P compared to the 2021 Schedule.

Combined effects of all factors on the Schedule of Contributions: Important variations based on the material



Rates - Printed matter

Decline marked by regulatory changes and downward trend for quantities of materials continues.

	2021 Schedule \$/t	2022 Schedule \$/t	Δ 2022 %
Printed matter - Average rate	463	270	- 41.7%
Newsprint inserts and circulars	399	244	- 38.8%
Catalogues and publications Magazines Telephone books General use paper Other printed matter	592	314	- 46.8%

Rates – Paper, cardboard et other fibres

Increase mainly influenced by the price of certain materials on the market and regulatory changes.

	2021 Schedule \$/t	2022 Schedule \$/t	Δ 2022 %
Paper, cardboard et other fibres - Average rate	270	336	24.4
Corrugated cardboard	245	279	13.9
Kraft paper bags and packaging	245	279	13.9
Boxboard and other paper packaging	269	351	30.3
Gable-top containers	254	364	43.3
Paper laminants	386	490	26.8
Aseptic containers	315	437	38.9
Cork, containers and packaging made of wood	---	598	---

Rates – Plastics

Increases influenced by investments in MRFs, labour costs and materials prices.

	2021 Schedule \$/t	2022 Schedule \$/t	Δ 2022 %
Plastics – Average rate	458	599	30.7
PET bottles, PET containers	341	458	34.6
HDPE bottles and containers <5l	186	272	46.6
Plastic laminants	636	766	20.4
Shopping bags, films (HDPE and LDPE)	609	770	26.5
Polystyrene (rigid, expanded food-grade, protection), PVC, PLA and other biodegradable plastics	987	1,360	37.7
Polypropylene (PP)	406	519	28.2
Other plastics, polymers and polyurethanes	406	519	28.2

Rates – Aluminium and steel

Increase lower than average for C&P attributable to higher price of materials on the market.

	2021 Schedule \$/t	2022 Schedule \$/t	Δ 2022 %
Aluminium (containers, other containers)	222	251	13.1

Increases influenced by investments in MRFs and labour costs.

	2021 Schedule \$/t	2022 Schedule \$/t	Δ 2022 %
Steel (aerosol containers, other containers)	195	267	37.3

Rates – Glass et ceramic

Increase is within average overall

	2021 Schedule \$/t	2022 Schedule \$/t	Δ 2022
Glass – Average rate	236	259	9.9
Clear (flint) glass	234	257	9.7
Coloured glass	236	261	10.5
Ceramic	386	534	38.3