

Consultation on the 2018 Schedule of Contributions

Summary



Table of Contents

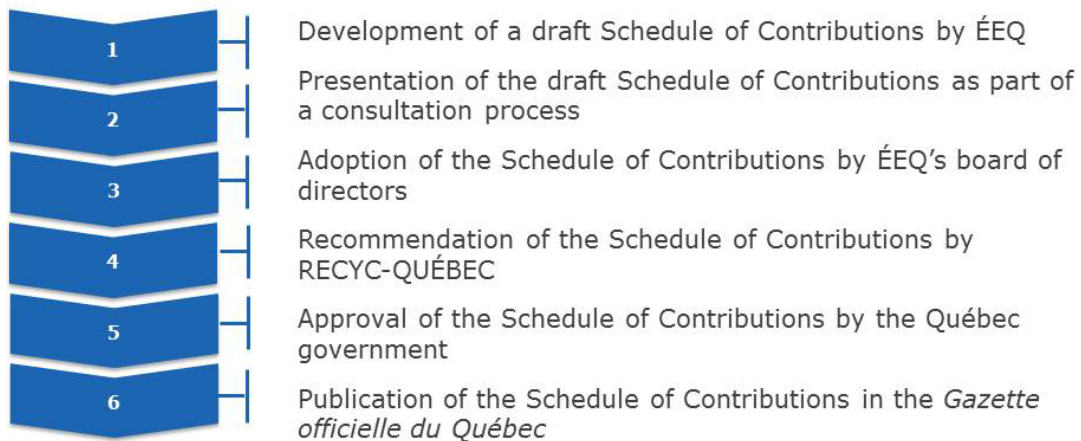
Context.....	3
Year in review	4
Municipal curbside recycling in Québec	4
Study updates.....	5
Continuation of the reporting optimization initiative	6
Key changes to the Schedule of Contributions.....	6
Lower total costs.....	9
Limited rate increase.....	9
Use of the printed matted fund.....	9
Expected reported quantities	10
Lower average rate	11
Flat fee	11
Contributions table	12
Explanation of the rate variations.....	13
Rules.....	14

Context

Éco Entreprises Québec (ÉEQ) is a private non-profit organization that represents over 3 400 companies and organizations that market containers, packaging and printed matter in Québec as part of their responsibility to finance the net costs of effective and efficient municipal curbside recycling services.

As a sector expert, ÉEQ contributes to the optimization of the value chain of curbside recycling and the implementation of innovative approaches from a circular economy perspective.

Under the *Environment Quality Act (EQA)*, the Schedule that governs the contributions is subject to a special consultation with regulated companies and organizations. The consultation led by ÉEQ is focused on the rules for the application of the Schedule of Contributions, as well as on the contribution table set out for each material category. This official process aims to inform and consult as many companies and organizations subject to the Schedule of Contributions as possible in the steps leading to the adoption and entry into force of the Schedule of Contributions for a given reporting year.



For each Schedule of Contributions, the board of directors of ÉEQ adopts a draft Schedule of Contributions that is presented to companies and organizations as part of a three-week consultation process. Following the consultation activities, ÉEQ assesses the comments it receives and releases a report on the conclusions drawn. The Schedule of Contributions and report are then approved by the Board of directors and submitted to RECYC-QUÉBEC, which evaluates process and stakeholder compliance and makes its recommendation to the government of Québec. Finally, once it is approved by the provincial government, the Schedule of Contributions is published in the *Gazette officielle du Québec*.

This summary provides an overview of the main changes to the contribution table and implementation rules (Schedule of Contributions) for the 2018 reporting year, as well as the table itself. The draft Schedule of Contributions is presented to the organizations subject to the compensation plan at the consultation meetings on October 24 and 26, 2017.

To determine the contribution they are required to pay, targeted companies and organizations must produce a report on the materials they put on the market in Québec and submit it to ÉEQ. The amount of the contribution is determined by multiplying the quantity of each material (in kilograms) by the applicable material rate, as indicated in the contribution table for the reporting year, and then adding these amounts.

Year in review

Municipal curbside recycling in Québec

In 2016, over 772 000 tonnes of materials were recovered through municipal curbside recycling in Québec—a slight decrease of 4 000 tonnes (0.5%) since 2015. This reduction is mainly due to the lower weights of containers and packaging, as well as to the lower quantities of certain printed materials and newspapers due to online migration.

In 2016, the net municipal costs decreased by 1.3% as compared to the previous year. **This is the second consecutive year in which a decrease in cost has been observed.** ÉEQ therefore helps optimize the curbside recycling system to ensure a better cost per tonne of recovered materials ratio through several programs and initiatives, including the Best Practices Initiative for effective curbside recycling to facilitate exchanges between municipal waste managers in a same region and share their success stories and methods to optimize curbside recycling management and calls for bids.

Québec	2015	2016	Variation
Tonnes recovered	776 000	772 000	-0.5%
Net costs excluding taxes	\$147M	\$145M	-1.3%
Population with access to curbside recycling	8 180 000	8 260 000	1.0%
Kg per capita	94	93	-1.5%
Net cost per capita	\$17.80	\$17.80	-2.6%
\$/tonne recovered	\$189/tonne	\$188/tonne	-0.8%

Study updates

In the past year, the municipal waste characterization study was updated. The recovery rates per material drawn from the study, which was jointly conducted by ÉEQ and RECYC-QUÉBEC, are used to calculate the Schedule of Contributions. The results for 2016 were combined with those for 2012-2015 to determine the average recovery rates for 2012-2016. This new moving average approach fosters a certain degree of stability for the rates in ÉEQ's Schedule of Contributions by curbing recovery rate variations. It is important to note that, all materials considered, the average recovery rate is relatively stable at 63.6%, as compared to 62.1% for 2012-2015.

The cost allocation per activity (ACA) study was updated in 2017. It provides two results used in the Schedule of Contributions: the share of net costs for the three materials categories and the net cost for the 30 materials included in the Schedule of Contributions. The share of costs allocated to the three materials categories confirmed by the Québec government in an amendment to the *Regulation respecting compensation for municipal services provided to recover and reclaim residual materials* is distributed as follows.

Categories	2017 SoC	2018 SoC
Newspaper	8.7%	8.3%
Printed matter	19.4%	20.9%
Containers and packaging	71.9%	70.8%
Total share ÉEQ	91.3%	91.7%

We note that ÉEQ's total share rises from 91.3% to 91.7% where the share of printed matter increases, while that of containers and packaging decreases.

Continuation of the reporting optimization initiative

Launched in 2015, the reporting optimization initiative continued in 2017 with the rollout of several tools. At the request of contributing companies, the preliminary report was available as of March 1, 2017. The options to automatically receive an invoice when the Schedule of Contributions is published or make instalment payments are currently under study.

Personalized support was provided to a number of reporting organizations.

Key changes to the Schedule of Contributions

Net municipal costs

To establish the Schedule of Contributions, ÉEQ must first estimate the net municipal costs to be compensated for the year 2017. For the 2018 Schedule of Contributions, based on the average increase over the past three years, ÉEQ estimates that municipal costs (excluding taxes) will total approximately \$146.5M. This estimate has been validated by KPMG-SECOR.

The deduction for non-designated materials is still 6.6% for the 2018 Schedule of Contributions, as set out in the Regulation on the compensation plan on December 30, 2015. The deduction represents over \$10M for the Schedule of Contributions.

In addition, the share of the costs attributed to the categories represented by ÉEQ has changed to 20.9% for printed matter and 70.8% for containers and packaging.

Finally, the deduction stemming from the application of the Performance and Efficiency (P&E) factor is estimated at 4.5% based on the trends of previous years, leading to lower costs in the amount of approximately \$6.4M.

ÉEQ's share of costs eligible for compensation is therefore estimated at \$136.3M: a decrease of 3.4% for the 2018 Schedule of Contributions as compared to 2017.

Cost	2017 SoC	2018 SoC
Net municipal costs	\$151.6M	\$146.5M
OST	\$7.2M	\$7.0M
Reported net municipal costs	\$158.8M	\$153.5M
Non-targeted materials deduction	\$(10.5)M	\$(10.1)M
P&E factor deduction	\$(5.9)M	\$(6.4)\$
Municipal management costs (8.55%)	\$12.2M	\$11.7M
Newspaper deduction (8.3%)	\$(13.4)M	\$(12.3)M
ÉEQ municipal compensation	\$141.1M	\$136.3M
Variation	-1.4%	-3.4%

ÉEQ fees and other provisions

Other fees are added to the compensation costs to determine the total contribution paid by companies.

ÉEQ's 2018 budget process is still underway. In order to establish the Schedule of Contributions, ÉEQ's fees were set at \$6M to cover management fees and the costs related to curbside recycling value chain knowledge and optimization projects and studies and the resources that support the organization's activities. The final budget will be approved by the board of directors in December and will be taken into account in the final Schedule of Contributions.

In total, considering the indemnity paid to RECYC-QUÉBEC under the *Regulation* and the costs related to bad debt (deduction from the expected flat fees), a total amount of \$10.3M was used in the calculation of the Schedule of Contributions: an increase of 4.0%.

Cost	2017 SoC	2018 SoC
ÉEQ fees	\$5.5M	\$6.0M
RECYC-QUÉBEC indemnity	\$2.7M	\$2.7M
Bad debt provision	\$3.0M	\$3.0M
Flat fees deduction	\$(1.3M)	\$(1.3M)
Other fees	\$9.9M	\$10.3M
Variation	+0.2%	+4.0%
Innovative Glass Works plan	\$0M	\$2M*

* Applicable only to the glass category

In addition, a contribution of \$2M is specifically added to the glass category to finance the Innovative Glass Works plan.

Lower total costs

The total contribution considered in the formula to determine the Schedule of Contributions is \$147.7M, which represents an overall decrease of 2.6% as compared to 2017.

	2017 SoC	2018 SoC
ÉEQ municipal compensation	\$141.1M	\$136.3M
Other fees	\$9.9M	\$12.3M
Innovative Glass Works plan	---	\$2.0M
Provision for recycled content credit	\$0.6M	\$0.6M
Risk and rate stabilization fund	---	\$(1.5M)
ÉEQ total contribution	\$151.7M	\$147.7M
Variation	+0.8%	-2.6%

Limited rate increase

For the 2018 Schedule of Contributions, none of the rates increase more than 50% and therefore no rate increase limitation measures were applied. The rate variations are presented in the following pages.

Use of the Printed Matted fund

The funds' policy stipulates that the risk and rate stabilization fund shall be between 2.5 and 12.0% of the amount of ÉEQ's municipal compensation. Because the fund is currently within this range, there is no need to earmark an amount to this effect.

However, considering the important increase in certain rates in the printed matter category as a result of the increase in the cost share and the decrease of the generated quantities, the Board of directors of ÉEQ chose to allocate an amount of \$1.5M from the Printed matter fund to mitigate the rate increase.

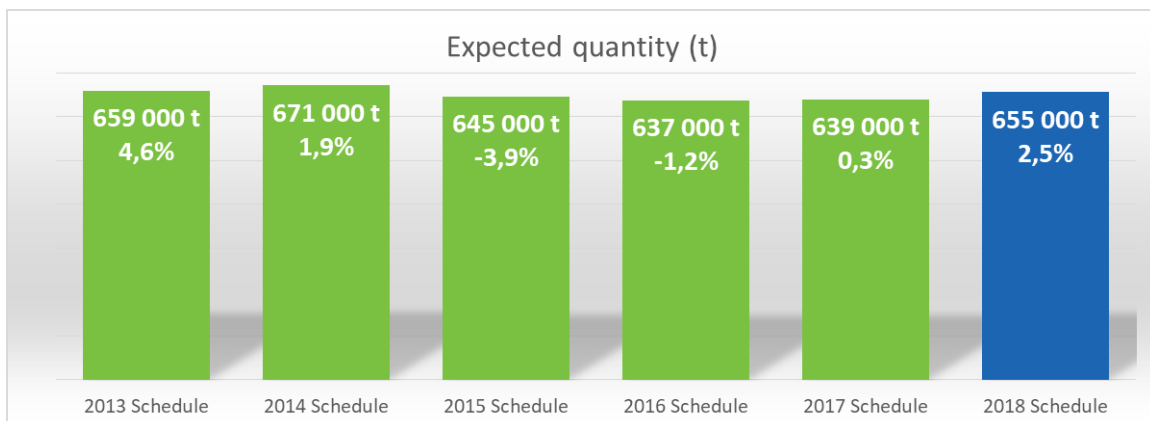
Expected reported quantities

For the 2018 Schedule of Contributions, the expected reported quantities total 655 000 tonnes, versus 639 000 tonnes for the 2017 Schedule of Contributions. For the printed matter category, the reported quantities appear to be declining, while there is an increase in the amounts of containers and packaging.

To stabilize the rates and aim for greater fairness between companies and materials, as of the 2018 Schedule of Contributions, organizations must report the printed matter, containers and packaging sold as products, including:

- food bags and packaging film
- food containers
- disposable beverage containers
- birthday and celebration supplies
- stationary, etc.

This change leads to an increase in reported quantities of approximately 7 000 tonnes.



Lower average rate

The average rate of the 2018 Schedule of Contributions is \$226/tonne—a decrease of 5% as compared to the 2017 Schedule of Contributions.

	2017 SoC	2018 SoC
ÉEQ total contribution	\$151.7M	\$147.7M
Expected reported quantities	639 000 t	655 000 t
Average rate	\$237/t	\$226\$/t
Variation	+0.6%	-5.0%

Analyses of the impact on companies' individual contributions indicate that over 80% of companies will see a reduction in their 2018 contribution as compared to 2017.

Flat fee

The amounts of the contributions of companies eligible to pay a flat fee remain unchanged.

Flat fee eligibility criteria		2017 SoC	2018 SoC
Based on tonnage	1 to 2.5 tonnes	\$420	\$420
	2.5 to 5 tonnes	\$890	\$890
	5 to 10 tonnes	\$1 775	\$1 775
	10 to 15 tonnes	\$2 965	\$2 965
Based on revenues	\$1 to \$2M	\$2 965	\$2 965

CONTRIBUTIONS TABLE

Material	2018 SoC (¢/kg)	Variation vs. 2017 SoC
Printed matter		
Newsprint inserts and circulars	18.343	-0.9%
Catalogues and publications	26.826	4.5%
Magazines	26.826	4.5%
Telephone books	26.826	4.5%
Paper for general use	26.826	4.5%
Other printed matter	26.826	4.5%
Containers and packaging		
Paperboard		
Corrugated cardboard	17.546	-8.0%
Kraft paper shopping bags	17.546	-8.0%
Kraft wrapping paper	17.546	-8.0%
Boxboard and other paper packaging	19.296	-6.8%
Gable-top containers	18.643	-10.9%
Paper laminants	27.338	-5.6%
Aseptic containers	22.277	-6.3%
Plastic		
PET bottles	27.225	-1.7%
HDPE bottles	10.493	-35.3%
Plastic laminants	44.486	-10.7%
HDPE and LDPE film	44.486	-10.7%
HDPE and LDPE shopping bags and others	44.486	-10.7%
Expanded polystyrene - food packaging	73.369	3.6%
Expanded polystyrene - cushioning packaging	73.369	3.6%
Non-expanded polystyrene	73.369	3.6%
PET containers	27.225	-1.7%
Polylactic acid (PLA) and other degradable plastics	73.369	3.6%
Other plastics, polymers and polyurethane	27.545	-13.0%
Aluminium		
Aluminium containers for food and beverages	16.641	14.2%
Other aluminium containers and packaging	16.641	14.2%

Material	2018 SoC (¢/kg)	Variation vs. 2017 SoC
Containers and packaging		
Steel		
Aerosol containers	16.665	4.0%
Other steel containers	16.665	4.0%
Glass		
Clear glass	17.875	-5.1%
Coloured glass	17.877	-5.5%

Explanation of the rate variations

For the 2018 Schedule of Contributions, the rates vary between -35% and 14%.

Most of the rates are lower because the costs to be compensated are lower than they were in the 2017 Schedule of Contributions.

Rate variation	Number of materials
< 0%	17
0% to 4%	6
4% to 14%	7

Materials	Explanations of variations of over 2%
Catalogues and publications Magazines Telephone books Paper for general use Other printed matter	+4.5% Increase in printed matter Decrease in expected reported quantities
Expanded polystyrene - food packaging Expanded polystyrene - cushion packaging Non-expanded polystyrene PVC, Polylactic acid (PLA) and other degradable plastics	+3.5% Increase in net material costs Increase in reported quantities for the group's highest priced materials
Aluminium containers for food and beverages Other aluminium containers and packaging	+14.2% Increase in net material cost
Aerosol containers Other steel containers	+4.0% Increase in net material cost

RULES

The only changes to the 2018 Schedule of Contributions are those required to consider the new reference year.

Should the upcoming regulatory changes aiming to confirm the cost allocation for the materials categories introduce new changes, the rules will be amended accordingly.