



# Consultation on the 2019 Schedule of Contributions

## Summary

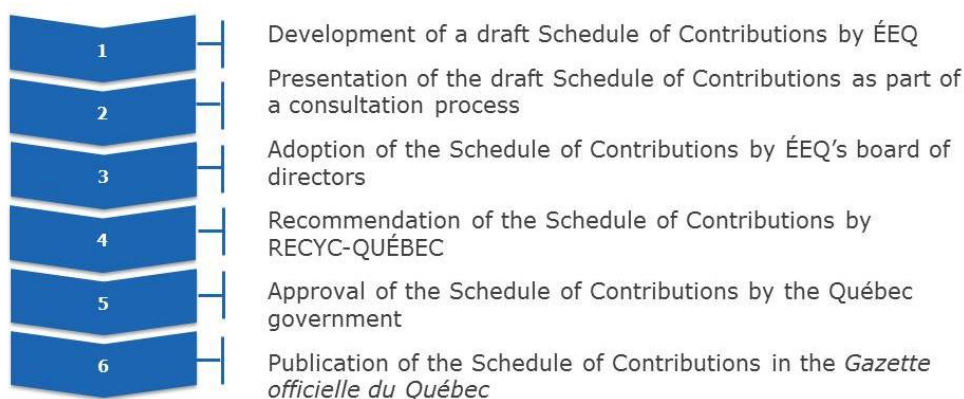


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## Development of the Schedule of Contributions and company consultations: a formal legal process

Under the *Environment Quality Act* (the Act), the Schedule that regulates the contributions by companies is subject to a special consultation with targeted companies and organizations. The consultation led by Éco Entreprises Québec (ÉEQ) therefore addresses the rules that govern the fees, as well as the contribution table set out for each materials class and aims to inform as many targeted companies and organizations as possible in order to obtain their comments.



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 received and releases a report on the conclusions drawn. The Schedule of Contributions and report are then approved (with or without changes) by the Board of directors and submitted to RECYC-QUÉBEC (RQ), 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*.

To determine the contribution they are required to pay, targeted companies and organizations must file 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.

This summary provides an overview of the main changes to the contribution table and implementation rules (Schedule of Contributions) for the 2019 reporting year, as well as the table itself. The draft Schedule of Contributions is presented to the companies and organizations subject to the compensation plan at the consultation meetings on October 23 and 25, 2018.

Before introducing the Schedule, the following section will focus on the impacts of the global recycling crisis on Québec's curbside recycling system, as well as on the municipal curbside collection programs.

## Impacts of the global recycling crisis on Québec's municipal curbside recycling system

The 2019 Schedule of Contributions compensates the efficient and effective net costs of municipal curbside recycling programs of 2018. It is important to fully grasp the impacts of the global recycling crisis on the province's curbside recycling system in order to better understand the variations in the costs to be compensated.

### *Dependence on the Chinese market that led to repercussions*

As you surely know, in July 2017, China addressed the World Trade Organization to announce it would be tightening its quality criteria for the import of 24 recyclable materials, including plastics and mixed paper. In practice, these restrictions have the effect of a virtual ban. Shockwaves quickly spread around the world, and Canada and Québec certainly felt the effects of the decision.

While Québec's recycling industry is quite dynamic in certain markets, it remains highly dependent on export. Indeed, 2016\* data released by RQ indicate that the province mainly exports fibres that total 88% of the material tonnage sold for recycling purposes. Thus, the impacts are significant.

The very strong dependence on the Chinese market is the result of a business model adopted by a number of sorting centres based on mixed fibre and plastic baling—an option that was simple, cost-effective and in high demand by the Chinese. Indeed, there has always been a great need for raw materials in China due to the country's vast manufacturing sector and labour costs which, at one time, made removing contaminants from the bales an economically viable option. As a result, it imported bales of different types of materials, some of which are challenging to recycle, and household waste.

### *A collective challenge for the recycling industry*

The crisis that had been anticipated was actually felt in 2018. The quality of the bales of mixed plastics and fibres that were warehoused was altered. The average sale prices of the materials plummeted and sorting centres increasingly sought support from municipalities. ÉEQ quickly and clearly expressed its position: under no circumstances would companies compensate the costs to landfill the materials.

Faced with the absence of traditional Asian buyers and falling prices, some sorting centers:

- Stored bales of materials;
- Had to find new buyers because the materials had become difficult to sell;
- Closed or threatened to do so;
- Sought to reopen their municipal contracts to obtain additional financial support to cover their operating costs.

In addition to these impacts, the alarmist tone of many media reports eroded citizens' confidence in the recycling system. The situation clearly illustrates the degree to which the activity sector must still mature from an economic perspective.

To further develop the recycling industry and make it a true driver of the circular economy, every link in the chain has a responsibility and role to play. And there is much to learn from the recent past. Indeed, nearly four years ago, ÉEQ set out levers to optimize curbside recycling at its *En mode solutions* forum. The aim was to enhance the quality and sorting of recyclables through investments in sorting centre technologies and the expansion of local markets. This approach led to the experimental pilot projects launched under the Innovative Glass Works plan in response to the glass recycling challenge.

Municipalities were called upon to discuss options with their respective sorting centres. It is critical to avoid short-sighted solutions that could have a negative impact on citizens' confidence in the system. It is also

likely that there will be new opportunities for our local recyclers, who are an integral part of the process to lessen our dependence on export systems.

The announcement of the closure of the Chinese markets pushes us to continue to innovate in recyclables management in Québec. Already, industry stakeholders are mobilizing to adapt to this new reality.

### *Circular economy: a window of opportunity in response to a global crisis*

As early as November 2017, ÉEQ and RQ launched proactive actions to support stakeholders in the curbside collection value chain with regard to the quality of the sorted materials and needs of local recyclers. Since then, networking meetings have been held. A number of sorting centres also accelerated their investments to upgrade their equipment, and those that have developed solutions are quick to share them. In winter 2018, RQ announced a series of programs totalling over \$14M, including the emergency fund for sorting centres requested by ÉEQ, to support sorting centres and initiatives that will increase the quality and quantity of recovered materials and foster coordination with recyclers.

ÉEQ has also multiplied meetings and representations with a multitude of instances. It also joined a crisis management committee mandated by the former environment minister to provide a better framework for the industry and standardize and implement best practices to give the companies that fund Québec's curbside recycling system a voice.

To transform the challenge arising out of the market closures into a true opportunity, it is important to implement measures that foster the development of Québec's circular economy. We are therefore of the opinion that we must build on the quality of the materials and implement measures to provide them with a second life locally.

There are many challenges to fostering the development of the recycling industry, and companies are part of the solution. ÉEQ intends to meet with the new government to ensure that structuring actions are implemented in collaboration with municipal organizations, sorting centres and conditioners, whether they are related to further investment in research and development or the expansion of key areas of expertise, including marketing strategies and access to rigorous business intelligence.

### *Establishing the Schedule of Contributions in a context of crisis*

In the current context, the process to set out the Schedule of Contributions is complex, since the municipal net costs have never been so difficult to predict. The municipal services team is working in close collaboration with the compensation plan team to provide support, closely monitor the situation and consider the changes in the amounts allocated to municipalities. The *Municipal net costs* section provides an overview of the approach.

## Curbside recycling in Québec: by the numbers

In 2017, over 778 067 tonnes of materials were recovered through municipal curbside recycling programs in Québec: a slight increase of nearly 5 700 tonnes (0.7%) as compared to 2016. More specifically, this increase in quantity is due to the broadening of collection services to institutional, commercial and industrial (ICI) organizations, which generate materials similar to those generated by households, despite the decreases in the weights of containers and packaging and the quantities of certain types of printed matter and newspapers as readers switch to online publications.

Also, in 2017, municipal net costs fell by 2.6% (\$147.6M versus \$151.5M) as compared to the previous year. Indeed, in 2016 and 2017, the recyclables resale markets were strong, leading to greater sorting centre revenue sharing with municipalities (based on contract provisions). ÉEQ's efforts to optimize collection and transport through programs and initiatives including the Best Practices initiative for more effective curbside recycling also proved effective. Once the transport costs had stabilized, we still had to assess options to enhance the quality of the materials that were collected and sorted.

Québec	2016	2017	Variation
Tonnes recovered	772 408	778 067	0.7%
Net costs	\$151.5M	\$147.6M	-2.6%
Population with access to curbside recycling	8 271 720	8 341 105	0.8%
Kg per capita	93.4	93.3	-0.1%
Net costs per capita	\$18.32	\$17.69	-3.4%
\$/tonne recovered	\$196/tonne	\$190/tonne	-3.3%

## Study updates

This past year, the municipal waste characterization study was updated. The recovery rates per material taken from the study, which was jointly conducted by ÉEQ and RQ, are used to calculate the Schedule of Contributions. The results for 2017 were combined with those for 2015 and 2016 to determine the average 2015–2017 recovery rates. This moving average approach favors a certain stability in ÉEQ's Schedule of Contributions rates, which makes it possible to reduce variations due to recovery rates.. All materials considered, the average recovery rate is stable at 63.6%.

The Activity-based costing (ABC) study was not updated this year. The shares of the net costs for the three materials classes and the net cost for the 30 materials in the Schedule of Contributions are therefore the same as last year. Note that the share of the costs allocated to the three classes of material was confirmed by the Québec government in the Regulation to amend the *Regulation respecting compensation for municipal services provided to recover and reclaim residual materials* (June 13, 2018) and is as follows:

Class	2018 SoC	2019 SoC
Newspaper	8.3%	8.3%
Printed matter	20.9%	20.9%
Containers and packaging	70.8%	70.8%
ÉEQ total share	91.7%	91.7%

## Key changes to the Schedule of Contributions

### Municipal net costs

To establish the Schedule of Contributions, ÉEQ must first estimate the municipal net costs to be compensated for the year 2018. For the 2019 Schedule of Contributions, ÉEQ rethought its approach to better assess the impacts of the recyclables crisis on the compensated net costs and reduce organizational risks. This approach is in line with the avenues for improvement suggested last year by KPMG-SECOR and validated by Daniel Denis, economist, who has worked with ÉEQ for over 12 years. The municipal net costs (taxes included) total an estimated \$174.1M.

To determine this figure, ÉEQ distinguished between the collection and transport (CT) costs and sorting and conditioning (SC) costs. It was therefore possible to determine that CT costs, which have historically hovered around 75% (85% in 2012 and 2017) of total costs, have shown relatively stable growth (0.3%) over time. With regard to SC costs, ÉEQ used a detailed methodology that considers the average increases per municipality class, used to calculate the performance and efficiency (P&E) factor, as stipulated in the Act, and all the renewed and renegotiated contracts to date. Seeing as a municipality's compensation is calculated based on its performance as compared to its group's, the approach was selected in order to be able to monitor the variations in costs for a specific municipality, as well as the other municipalities in its group. While the P&E factor remains perfectible since it does not consider the quality of materials that are collected or sorted, in the current context, it serves as a type of "insurance policy" for the net costs to be compensated by companies.

The deduction for non-designated materials is still 6.6% for the 2019 Schedule of Contributions, as set out in the Regulation on June 13. The deduction represents over \$11.5M for the Schedule of Contributions. Finally, the deduction stemming from the application of the P&E factor was estimated at 9.7%, leading to a cost reduction of \$17M.

ÉEQ's share of costs eligible for compensation is therefore estimated at \$145M: a 6.4% increase for the 2019 Schedule of Contributions as compared to 2018.

Cost	2018 SoC	2019 SoC
<b>Municipal net costs</b>	\$146.5M	\$165.9M
<b>QST</b>	\$7.0M	\$8.3M
<b>Estimated municipal net costs</b>	<b>\$153.5M</b>	<b>\$174.1M</b>
<b>Estimated non-targeted materials deduction</b>	\$(10.1)M	\$(11.5)M
<b>Estimated P&amp;E factor deduction</b>	\$(6.4)M	\$(17.0)M
<b>Municipal management costs (8.55%)</b>	\$11.7M	\$12.5M
<b>Total eligible net costs</b>	<b>\$148.7M</b>	<b>\$158.1M</b>



ÉEQ share	91.7%	91.7%
ÉEQ municipal compensation	<b>\$136.3M</b>	<b>\$145.0M</b>
Variation	-3.4%	+6.4%

## ÉEQ fees and other provisions

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

ÉEQ's 2019 budget process is still underway. In order to establish the Schedule of Contributions, ÉEQ's fees were set at \$5.5M to cover management costs 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 taken into account in the final Schedule of Contributions. The amount represents 3.5% of the total contributions.

In total, considering the indemnity paid to RQ under the Regulation, the costs related to bad debt and the deduction from the expected flat fees\* (\$1.6M), an overall amount of \$12.0M is integrated into the calculation of the Schedule of Contributions as compared to \$10.6M in 2018: an increase of 13.2%.

Fulfilling the financial commitments under the Innovative Glass Works, an amount of \$1.8M was integrated into the fees, including \$1.3M to fund equipment for the sorting centre in Montréal apportioned to all containers and packaging and 0.5M allocated to glass to develop markets for the material. This cost breakdown is in line with the directions adopted by the Board of directors in December 2017. The amounts will be confirmed in fall with the approval of the budget estimates.

Cost	2018 SoC	2019 SoC
ÉEQ fees	\$5.5M	\$5.5M
RQ indemnity	\$2.7M	\$2.8M
Bad debt provision	\$2.9M	\$3.0M
Provision for recycled content credit	\$0.6M	\$0.5M
Printed matter fund	\$(1.5)M	\$0.0M
Flat fee deduction	\$(1.4)M	\$(1.6)M
Innovative Glass Works plan	\$1.8M*	\$1.8M*
<b>Other fees</b>	<b>\$10.6M</b>	<b>\$12.0M</b>
Variation	0.0%	+13.2%



## Increase in total costs

The total contribution considered in the formula to determine the Schedule of Contributions is \$157.0M, which represents an overall increase of 6.9% as compared to 2018.

	2018 SoC	2019 SoC
<b>ÉEQ municipal compensation</b>	\$136.3M	\$145.0M
<b>Other fees</b>	\$10.6M	\$12.0M
<b>ÉEQ total contribution</b>	<b>\$146.9M</b>	<b>\$157.0M</b>
<b>Variation</b>	-1.7%	+6.9%

## 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.

## Expected reported quantities

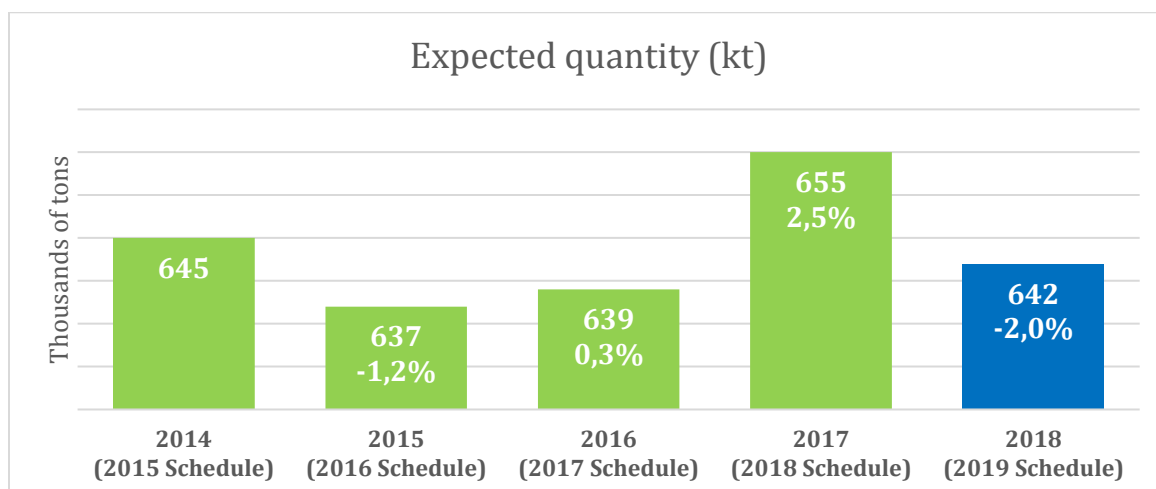
For the 2019 Schedule of Contributions, the expected reported quantities total 642 270 tonnes, versus 654 902 tonnes for the 2018 Schedule of Contributions. For the printed matter class, the reported quantities are declining, largely due to the digitization of print, while the amounts of containers and packaging are relatively stable.

In the past four years, it has become increasingly complex to estimate of the quantities in this particular period because the reporting deadline is very close and the vast majority of companies file at the last minute. A preliminary reporting process was implemented in 2016 but few companies choose the option. To avoid this situation, new rules will be introduced with the 2019 Schedule of Contributions to set earlier deadlines.

The lower expected quantities are due in part to:

- the overall reduction in print and circulars generation;
- retailers' demands for significant changes, which are currently being analyzed and audited to support the extent of the deductions that have been requested and may indeed be justified in certain cases;
- the choice of lighter packaging options (self-supporting laminated plastics) over heavier options (glass, steel) without consideration for the potential recycling of the materials;
- container and packaging optimization by reducing the average weight per product unit—an approach recommended by ÉEQ.

With regard to the materials that are more difficult to recycle, the findings of the impact assessment of materials on the value chain, which are expected to be released in early 2019, should serve to ensure that these options are considered in the development of the 2020 Schedule of Contributions.



## Higher average rate

The average rate of the 2019 Schedule of Contributions is \$244/tonne: an increase of 9.0% as compared to the 2018 Schedule of Contributions.

	2018 SoC	2019 SoC
<b>ÉEQ total contribution</b>	\$146.9M	\$157.0M
<b>Expected reported quantities</b>	654 902 t	642 207 t
<b>Average rate</b>	<b>\$224/t</b>	<b>\$244/t</b>
<b>Variation</b>	-5.5%	+9.0%

## Use of the permanent printed matter and containers and packaging funds

Considering the significant rise in the rates, the Board of directors of ÉEQ chose to allocate \$4M from the permanent printed matter and containers and packaging funds: \$2.0M to the printed matter class and \$2.0 to containers and packaging to offset the rise caused by the reductions in printed matter and container weights.

As a result, \$153.0M is considered in the calculation of the 2019 contribution.

Cost	2018 SoC	2019 SoC
ÉEQ total costs	\$146.9M	\$157.0M
Printed matter fund	\$(1.5)M	\$(2.0)M
Containers and packaging fund	\$(0.0)M	\$(2.0)M
Total costs in the SoC	\$146.9M	\$153.0M
Variation	-1.7%	+4.2%

With the injection of funds, the average rate of the 2019 Schedule of Contributions is \$238/tonne: an increase of 6.3% as compared to 2018. This increase is equivalent to the rise in anticipated municipal net costs for 2018.

	2018 SoC	2019 SoC
ÉEQ total contribution	\$146.9M	\$153.0 M
Expected reported quantities	654 902 t	642 207 t
Average rate	<b>\$224/t</b>	<b>\$238/t</b>
Variation	-5.5%	+6.3%

## Flat fees

The amounts of the contributions by companies eligible to pay a flat fee were increased based on the rise in the average rate (i.e. by 6.3%).

Flat fee eligibility criteria		2018 SoC	2019 SoC
Based on tonnage	1 to 2.5 tonnes	\$420	<b>\$450</b>
	2.5 to 5 tonnes	\$890	<b>\$945</b>
	5 to 10 tonnes	\$1 775	<b>\$1 885</b>
	10 to 15 tonnes	\$2 965	<b>\$3 150</b>
Based on revenue	\$1 to \$2M	\$2 965	<b>\$3 150</b>

## Contribution table

Material	2019 SoC (¢/kg)	Variation/2018 SoC
<b>Printed matter</b>		
Newsprint inserts and circulars	20.46	11.1%
Catalogues and publications	29.49	9.7%
Magazines	29.49	9.7%
Telephone books	29.49	9.7%
Paper for general use	29.49	9.7%
Other printed matter	29.49	9.7%
<b>Containers and packaging</b>		
<b>Paper/cardboard</b>		
Corrugated cardboard	18.39	4.2%
Kraft paper bags	18.39	4.2%
Kraft wrapping paper	18.39	4.2%
Boxboard and other paper packaging	20.15	3.9%
Gable-top containers	19.17	2.3%
Laminated paper	28.83	5.1%
Aseptic containers	23.51	5.1%
<b>Plastic</b>		
PET bottles	28.54	4.0%
HDPE bottles	10.98	2.5%
Laminated plastics	47.43	6.2%
HDPE and LDPE film	47.43	6.2%
HDPE and LDPE shopping bags	47.43	6.2%
Expanded polystyrene for food products	79.34	7.9%
Protective expanded polystyrene	79.34	7.9%
Non-expanded polystyrene	79.34	7.9%
PET containers	28.54	4.0%
PVC, polylactic acid (PLA) and other degradable plastics	79.34	7.9%
Other plastics, polymers and polyurethane	28.54	3.9%
<b>Aluminum</b>		
Aluminum food and beverage containers	18.14	7.6%
Other aluminum containers	18.14	7.6%
<b>Steel</b>		
Aerosol containers	17.32	2.6%
Other steel containers	17.32	2.6%
<b>Glass</b>		
Clear glass	17.52	4.1%
Coloured glass	17.52	4.1%

## Explanation of the rate variations

For the 2019 Schedule of Contributions, the rates vary between 2.5 and 11%.

The increase is chiefly motivated by the rise in municipal net costs. The 6.3% increase impacts all materials equally, while the variations in the estimated quantities of materials specifically affect the material themselves and, indirectly, the materials in their class.

Rate variation	Number of materials
< 6.3%	18
> 6.3%	12

Material	Explanation of the major variations
<b>Catalogues et publications</b> <b>Magazines</b> <b>Telephone books</b> <b>Paper for general use</b> <b>Other printed matter</b>	+9.7%  Decreased in expected reported quantities
<b>Newsprint inserts and circulars</b>	+11.1%  Decrease in expected reported quantities  Less variation in the recovery rate as compared to other printed matter
<b>HDPE bottles</b>	2.5%  Increase in expected quantities (rate decrease)  Greater variation in the recovery rate as compared to the class
<b>Expanded polystyrene for food products</b> <b>Protective expanded polystyrene</b> <b>Non-expanded polystyrene</b> <b>PVC, polylactic acid (PLA) and other degradable plastics</b>	+7.9%  Decrease in expected reported quantities  Less variation in the recovery rate as compared to the class
<b>Aluminum food and beverage containers</b> <b>Other aluminum containers</b>	+7.6%  Less variation in the recovery rate as compared to the class

## Rules

With regard to the changes to the rules of application of the Schedule of Contributions, seeing that companies wait until the deadlines to file their reports and pay their contributions—thus increasing organizational risks pertaining to the development of the Schedule of Contributions and payment of the compensation to RQ—it was decided that the deadlines would be moved up.

Companies now have 60 days to file their report and 90 days to pay the first instalment (80% of the contribution for detailed reports and 100% for companies that pay a flat fee). Previously, the deadlines were 90 and 120 days, respectively.

The second instalment (for detailed reports) is now expected 150 days following the publication of the Schedule of Contributions. Previously, the deadline was 180 days.

Finally, the reporting portal will launch on March 1, giving companies over six months to enter their reporting data.

The Schedule of Contributions will be amended to enable voluntary contributors to report the quantities they market in Québec, up to the amounts generated. In earlier Schedules of Contributions, companies located outside Québec could not make a voluntary contribution if they did not meet the payment exemption criteria. The change therefore simplifies the process to become a voluntary contributor for companies outside Québec that want to make a voluntary contribution on behalf of their customers in Québec.