

2024 Schedule of Contributions – Summary Consultations document

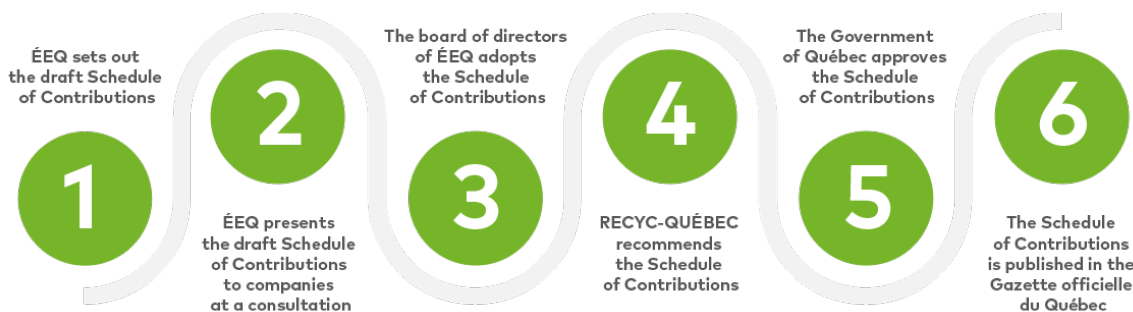
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Development of the Schedule of Contributions and Consultation with Companies: A legally governed process

The fee development process follows a well-established sequence under the Environment Quality Act and its Regulation on the compensation plan. Indeed, ÉEQ is required to submit a draft Schedule of Contributions by December 31 of each year, applying all preliminary steps ahead of final approval by its Board of Directors.

The draft Schedule of Contributions is submitted to targeted companies and organizations as part of a consultation process. The process covers various mechanisms and pertains to application rules as well as to the methodology for developing the contribution table for each class of materials. It also aims to engage with as many targeted companies and organizations as possible. The process starting for the 2024 Schedule of Contributions is the sixteenth implemented by ÉEQ.



For each Schedule of Contributions, ÉEQ's Board of Directors adopts a draft Schedule that is presented to companies and organizations as part of a consultation process. Following consultation activities, ÉEQ analyzes the comments received and writes a report on conclusions drawn during the process. The Schedule of Contributions and the report are then approved by the Board, with or without amendment, before being submitted to RECYC-QUÉBEC (RQ), which assesses compliance with the process in order to recommend the Schedule of contributions to the Québec government. The government of Québec then approves the Schedule and publishes it in the *Gazette officielle du Québec*.

All targeted companies and organizations must produce and submit to ÉEQ their report on the materials they place on Quebec's market in order to determine the contribution they must pay.

The amount of the contribution is calculated by multiplying the quantity of each material in a given class by the applicable rate indicated in the contribution table for the obligation year concerned, and then adding up those amounts.

This document presents the main changes made to the contribution table and application rules for obligation year 2024. The consultation period runs from October 24 to November 14, 2023, and includes two virtual consultation meetings on October 31, 2023 (one in French, the other in English).

The 2024 Schedule of Contributions in a context of transition and inflation

The development of the 2024 Schedule of Contributions is taking place against the background of the transition towards modernization of curbside recycling and extended producer responsibility (ERP), and the Quebec curbside recycling system is also subject to the socio-economic context that impacts costs for municipal organizations. Inflation, as well as the labour and equipment shortages, are factors that drive up the costs to be offset, both regarding collection and sorting costs.

In spite of the fact that the compensation plan is coming to an end in 2025, improvements have been submitted in order to update inputs that populate the fee formula, and to ensure the evolution of eco-modulation measures.

The fee schedule was therefore developed following discussions with municipal organizations, in order to estimate the costs to be compensated while taking into account the quantities of materials reported by companies subject to the 2023 Schedule and to monitor market trends. Although we did not initially anticipate any major fluctuations in quantities reported, declines were detected for containers and packaging, and these can be explained in particular by the waning of certain consumption habits created by the pandemic.

Following the publication of the *Regulation to amend the Regulation respecting compensation for municipal services provided to recover and reclaim residual materials* on August 30th, the Schedule rules have been updated to reflect certain regulatory changes. However, it is important to note that these changes have a limited impact on producers' obligations in practical terms; rather, they are intended to provide details and/or are to be considered more linguistic in nature. The rules have also been adjusted to reflect some of the changes introduced in the new policies; they were developed in connection with the producer membership contract, allowing for much greater fluidity towards EPR, and in order to modify one of the eligibility criteria for exemptions or flat fees to increase company accountability regarding materials they market.

Eco-modulation of the ÉEQ Schedule of Contributions: An evolving tool

Following its roadmap towards eco-modulation of its Schedule of Contributions, ÉEQ continues to further the formula towards a fee structure that is increasingly linked to the impact of each material in the system. Although the fee structure has long taken into account eco-modulation principles, namely, by encouraging reduction at source and rewarding good practices, the performance of the curbside recycling system depends in part on better decisions regarding packaging design and the implementation of clear guidelines on practices to be avoided.

For the 2024 Schedule, the ÉEQ Board has approved the disaggregation of two materials, the introduction of a penalty for two further materials and the extension of previously introduced measures.

1. Disaggregation of alternate fibers and aluminium aerosol containers - *NEW*

First of all, alternate fibers have been disaggregated from "cardboard and other paper packaging" in order to enable a better assessment of the quantities put on the market, as studies are underway to better understand the compatibility of these materials with the paper-cardboard recycling stream. Alternate fibers include all annual plant fibers not derived from wood, such as bamboo, bagasse and wheat straw. For the 2024 Schedule, the rate will be the same as for cardboard, but it could change over the next few years, depending on the results of these studies.

Aluminium aerosol containers have been disaggregated from the "Other aluminium containers and packaging" material category. Although the rate in the 2024 Schedule also remains the same as that of the material with which they were aggregated, this measure is intended to promote better cost modeling of this material in the system, considering that the behavior of aerosol cans is different from that of other aluminum containers and packaging.

2. Penalty fee for polyvinyl chloride (PVC) and polylactic acid (PLA) and other degradable plastics - *NEW*

Announced since the consultation on the 2022 Schedule, the penalty fee for polyvinyl chloride (PVC) and polylactic acid (PLA) and other degradable plastics, is introduced with the 2024 Schedule. As materials have been disaggregated since that announcement, which allowed ÉEQ to collect data on quantities generated. Although the rate for these materials is already among the highest, the goal is to discourage their use. Indeed, the two materials were targeted in particular as there is no recycling stream for them and because their presence in the system contaminates other materials, thus reducing their quality.

The penalty applies to any container or packaging made mostly of one of these materials, regardless of whether it is rigid or flexible. Polyvinylidene chloride (PVDC), whose composition and issues are similar to those of PVC, and other degradable plastics such as oxodegradable plastics and polyhydroxyalkanoate (PHA) are therefore also targeted by the penalty.

It should be noted that the penalty rate will be progressive so that companies can make changes. The penalty for the 2024 Schedule will be 20% and applied automatically to the material's rate at the time of invoicing for any detailed report. This rate will be revised for the subsequent years.

The money collected will be deposited in a fund aims at supporting activities aimed at substituting these materials and other research and development activities, and our teams are working to implement additional resources to support companies in their efforts. A webinar on the topic is due to be available in the first quarter of 2024.

3. Extension of the ecodesign incentive bonus for a 4th year

We are pleased to announce that the ecodesign incentive bonus introduced as a pilot project during the 2021 Schedule will be extended for a fourth year. Since the 2022 Schedule, after simplifying the approach and increase in available amounts, Companies' interest in the bonus increases every year.

Reminder:

- The eligible bonus is 50% for materials covered by the incentive
- \$5,000 threshold amount, capped at the total contribution if under \$5,000.
- \$25,000 cap per request, up to \$60,000 by company.

The general eligibility criteria are the same and all details on the bonus are on our website, where you will also find ecodesign rewards given for various approaches since the program's inception.

4. Extension of the credit for recycled post-consumer content and other upcoming initiatives

The credit for post-consumer recycled content will be extended for the 2024 Schedule, with the addition of a requirement to submit a request form before the reporting deadline. A study has been launched in order to update the credit ahead of EPR.

ÉEQ carried out a midway assessment for its eco-modulation roadmap 2021-2025 and drew the portrait of various accomplishments. Our teams have also benchmarked the approach against other international eco-organizations and are currently working on updating the

roadmap to reflect various ongoing initiatives aimed at leading to a possible overhaul of the EPR fee formula. Over the coming months, we will share more information on this topic.

Update of input figures to prepare the 2024 Schedule

The development of a Schedule of Contributions includes several inputs that are obtained either via studies (rate of recovery, net costs per material), or via estimates (municipal net costs, quantities expected to be reported by companies) or known data (ÉEQ fees).

1. Increase in net costs reported for 2023

The estimated increase in collection and transportation costs considers contract renewals, as well as the increase in the consumer price index for transportation. For sorting and packaging costs, the estimate is based on contract renewals between municipalities and MRFs, as well as on average increases by category of municipalities. A series of interviews were conducted with the most populous municipal agencies to learn more about their cost projections for the year 2023. Because a municipality's compensation is calculated based on its performance compared to that of its group, this approach has been preferred for several years in order to monitor not only cost variances for a municipality, but also for other municipalities in its group.

Performance Efficiency factor (PE)

The calculation of the PE factor is defined in the regulation and reduces additional costs by comparing municipalities from six groups based on population and distance from the major centers of Montreal and Québec City.

After last year's slight drop, ÉEQ anticipates that net costs for 2023 that are reported by municipalities by the end of summer 2024 will see a significant increase. This increase is influenced, among other things, by the renewal of collection contracts for several municipal organizations in 2023. It is estimated that over 90 contracts will be up for renewal, including some for organizations in the top 10 most populous municipalities.

We also anticipate that the impact of labour and equipment shortages, as well as the rise in the Consumer Price Index, will be reflected in net municipal costs and will have an upward effect.

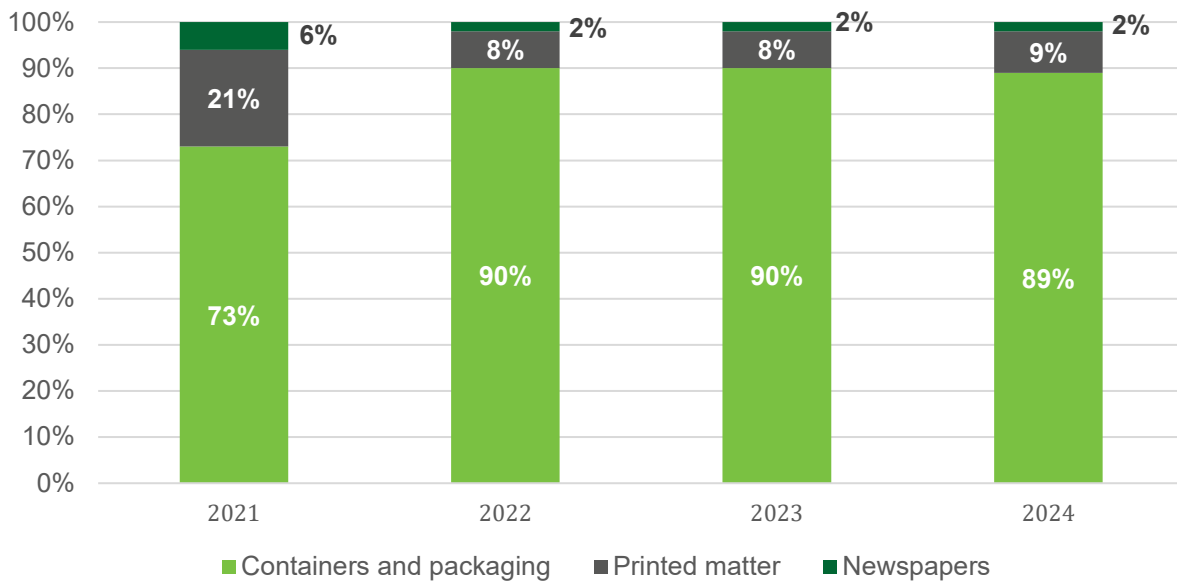
Thus, ÉEQ anticipates a net increase for eggs in 2023 net costs for the 2024 Schedule at \$236 million, an increase of 8.7% compared to the 2022 estimated net costs for the 2023 Schedule.

	2023 Schedule	2024 Schedule
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Estimated total municipal net costs	\$227.3M	\$259.5M
Deduction for non-designated materials (6.45%)	(\$14.7M)	(\$16.7M)
Deduction for PE factor	(\$12.6M)	(\$25.2M)
Municipal management costs (8.55%)	\$17.1M	\$18.6 M
Efficient and effective total eligible costs	\$217.2M	\$236.0M
<i>Variation</i>		8.7%

2. Allocation of costs for each material

Since 2022, following a regulatory change, the Schedule calculates the share of costs allocated to each material directly, regardless of materials classes. The relative weight of each materials class has barely varied this year.



Shares of costs allocated to printed matter, newspapers and containers and packaging largely remain the same for the 2024 Schedule. ÉEQ's share is \$231.4M, up 8.6% from the 2023 Schedule estimate.

	2023 Schedule	2024 Schedule
Efficient and effective total eligible costs	\$217.2M	\$236.0M
Deduction - Newspapers	(\$4.1M)	(\$4.6M)
ÉEQ's efficient and effective eligible costs	\$213.1M	\$231.4M
<i>Variation</i>		8.6%

3. ÉEQ Management Costs and other provisions: increase of 2.8% increase in the share to be financed

ÉEQ's management costs and other provisions represent \$16.3M for the 2024 Schedule of Contributions, which represents \$2.1M more than the amount provided for in the 2023 Schedule. ÉEQ's management costs are \$8.6 million, or 3.4% of total expected contributions to the 2024 Schedule of Contributions. Moreover, ÉEQ will maintain the provision for bad debt at 2% of anticipated contributions to cover possible company bankruptcies as well as possible disputes. Finally, following through on financial commitments provided for in the Innovative Glass Works Plan, \$0.6 million is allocated to glass for costs incurred to support the participation of sorting centers, as per the Board's orientations from December 2017. Finally, note that the maximum allowance paid to RECYC-QUÉBEC remains unchanged at \$2.9M.

In agreement with the Board of Directors, the risk fund has been maintained at 3.0% of eligible costs. Considering the amount already available in the risk fund, this requires an additional \$1.4 M.

	2023 Schedule	2024 Schedule
ÉEQ Management Costs	\$8.2 M	\$8.6M
Provisions for bad debt	\$4.5M	\$4.9M
Participation support: <i>Innovative Glass Works Plan</i>	\$0.6M	\$0.6M
Provision for recycled content credit	\$0.4M	\$0.4M
Anticipated reports from low-volume producers	(\$2.4M)	(\$2.5M)
Allowance paid to RECYC-QUÉBEC	\$2.9M	\$2.9 M
	---	\$1.4M

Risk funds		
Total ÉEQ fees and other provisions	\$14.2M	\$16.3M
<i>Share of ÉEQ efficient and effective eligible costs</i>	6.7%	7.0%

Thus, total costs to be factored into the calculation of the 2024 Schedule are \$247.7M, an increase of 9.0% over the same costs for the previous Schedule.

	2023 Schedule	2024 Schedule
ÉEQ's efficient and effective eligible costs	\$213.1M	\$231.4 M
ÉEQ fees and other provisions	\$14.2M	\$14.9M
Risk fund relating to policy	---	\$1.4M
ÉEQ's total costs before assignments	\$227.3M	\$247.7 M
<i>Variation</i>		

4.

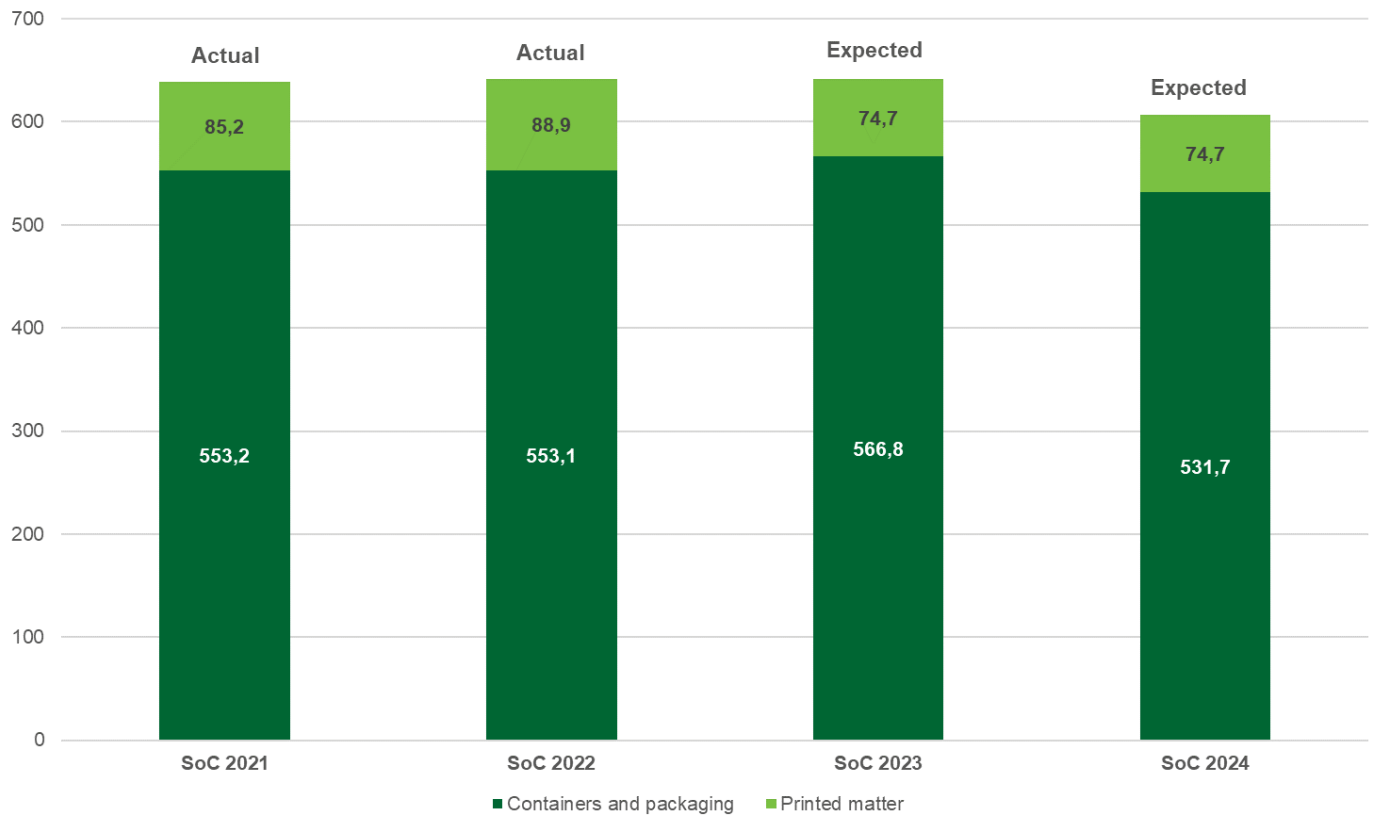
5. 9.0 Lower expected quantities

Although we had not initially anticipated important fluctuations regarding reported quantities, declines were detected after the 2023 Schedule reporting period.

For Containers and packaging, namely, we saw drops in the renovation, fast food and certain consumer goods sectors. Habits formed during the pandemic are waning, and a "return to normalcy" is anticipated in those sectors. Quantities expected to be reported have been estimated based on trends for the years prior to the pandemic.

For Printed matter, reported quantities anticipated for 2023 are stable.

Inflation will surely have an impact on Quebec consumer buying habits in this post-Covid period. Global supply chain issues will also influence consumer habits and packaging choices for contributing companies. It should be noted that the liability of e-commerce companies was also considered in assessing reported quantities.



6. Recovery rates adjusted for two problem materials

Recovery rates were updated this year. ÉEQ had started a new characterization study for residential residual materials in 2022. The last data were received on April 24th of this year. They made it possible to recalculate more recent recovery rates for the 2024 Schedule. Just as for last year, rates for the "wood and cork" and "ceramic and porcelain" categories were adjusted to zero.

7. Update of the activity-based cost (ABC) allocation study

Extensive work was carried out in 2021 to update the operational and financial parameters that comprise the Activity-Based Costing (ABC) model. In 2022 and 2023, several readily available inputs were updated in order to create more accurate system modelling.

The 2024 Schedule of Contributions is based on the model that was updated this year. Once again, some parameters have been upgraded to ensure net collection, transport, sorting and packaging costs for each material, from the ABC modeling. This year's upgrade considers investments in sorting centers, rising labor costs, the impact of inflation on fuel prices in particular, and changes in the selling price of fuel and recyclable materials.

Costs attributed to ÉEQ and rate variances

Taking all of these elements into account, the total costs for all materials to be considered in the fee structure formula are therefore \$247.7 M, an overall increase of 15.3% compared to 2023. Taking into account the anticipated reported quantities, the average rate for all materials is \$408.39/t.

	2023 Schedule	2024 Schedule
ÉEQ's total contribution	\$227.3M	\$247.7 M + 9.0%
Estimated quantities reported	641.5 kt	606.5 kt -5.5%
Average rate	\$354.29/t	\$408.39/t + 15.3%

However, as previously indicated, the impact varies according to materials and materials classes. In general, the overestimation of quantities expected in the previous Schedule and the increase in costs to be offset explain the average variation of 29.5% for printed matter and 14.2% for containers and packaging.

Printed matter		
	2023 Schedule	2024 Schedule
Total costs for printed matter share	\$18.4M	\$23.8M
Provision for recycled content credit	\$0.1M	\$0.1M
Printed matter Fund	\$0.0M	\$0.0M
Total contribution	\$18.5 M	\$23.9M 29.5%
Expected quantities reported	74.7 kt	74.7 kt 0%
Average rate	\$247/t	\$320/t 29.5%

Containers and packaging (C&P)		
	2023 Schedule	2024 Schedule
Total costs for C&P share	\$208.5M	\$223.5M
Provision for recycled content credit	\$0.3M	\$0.3M
C&P Fund	\$0 M	\$0 M
Total contribution	\$208.8M	\$223.8 M 7.2%
Expected quantities reported	566.8 kt	531.7 kt -6.2%
Average rate	\$368/t	\$421/t 14.

2% Flat fees

For flat fees, rates are established based on the average rate variation for materials between the 2023 Schedule and the 2024 Schedule. Then, the amounts are rounded.

Flat fees		
Eligibility criteria	2023 Schedule	2024 Schedule
> 1 t and < 2.5 t	\$880	\$1,010
> 2.5 t and < 5 t	\$1,770	\$2,040
> 5 t and < 10 t	\$3,530	\$4,070
> 10 t and < 15 t	\$5,310	\$6,120

2024 Contribution table

1. Draft Contribution table for the 2024 Schedule

Material	2024 Schedule \$/t	Variation %
Printed matter	320.01	29.5
Newsprint inserts and circulars	276.44	25.1
Catalogues and publications	390.75	35.0
Magazines	390.75	35.0
Telephone books	390.75	35.0
General use paper	390.75	35.0
Other printed matter	390.75	35.0
Containers and packaging	420.80	14.2
<u>Paper and cardboard</u>	365.33	16.1
Corrugated cardboard	282.02	9.4
Kraft paper shopping bags	282.02	9.4
Kraft paper packaging	282.02	9.4
Boxboard and other paper packaging	371.71	12.9
Gable-top containers	425.83	19.3
Laminated paper	595.35	28.7
Aseptic containers	508.38	20.3
Wood and cork	777.51	30.1
Alternate fibers	371.71	---
<u>Plastics</u>	649.74	13.5
PET bottles and containers	436.73	-1.3
HDPE bottles and containers < 5L	271.19	12.4
Plastic laminates	874.15	19.1
HDPE/LDPE plastic film	914.32	22.5
HDPE/LDPE film shopping bags	914.32	22.5
Expanded polystyrene - food	1,446.85	13.5
Expanded polystyrene - protection	1,446.85	13.5
Non-expanded polystyrene	1,446.85	13.5
Polyvinyl chloride (PVC)	1,446.85	13.5
PLA and other degradable plastics	1,446.85	13.5
Polypropylene (PP)	451.06	7.3
Other plastics, polymers and polyurethane	580.47	21.6
<u>Aluminium</u>	65.11	-68.5
Aluminium food and beverage containers	65.11	-68.5
Other aluminium containers and packaging	65.11	-68.5
Aluminium aerosol containers	65.11	---

Material	2024 Schedule \$/t	Variation %
<u>Steel</u>	287.69	19.5
Steel aerosol containers	287.69	19.5
Other steel containers	287.69	19.5
<u>Glass</u>	323.17	24.6
Clear (flint) glass	322.55	25.6
Coloured glass	323.06	23.7
Ceramic and porcelain	719.19	34.8

2. Explaining rate variations

For the 2024 Schedule, rates vary from -68.5% to 35.0%.

Average rate variation	Number of materials
Decrease	4
Between 0% and 10%	4
Between 10% and 20%	11
Higher than 20%	15

There are considerable variations based on materials:

Sub-classes of materials	Average variation	Explanations
Printed matter	29.5%	Increase due to higher gross costs (decline of the stream due to the new characterization).
Paper, cardboard and other fibres	16.1%	Increase due to higher gross costs and lower quantities of expected materials, but close to the average increase.
Plastics	13.5%	Rates relatively stable for PET and HDPE due to sales prices and recovery rates. Increase close to the average for other plastics.
Aluminium	-68.5%	Significant decrease due to the price of materials on the market remaining high and an above-average increase in reported quantities.
Steel	19.5%	Increase due to inflation and gross costs, but relatively close to the average increase.
Glass	24.6%	Increase of gross costs due to negative revenues and increase of gross costs.

Application rules

The application rules were significantly revised to consider the publication of the regulation amending the regulation respecting the compensation plan. However, it is important to note that these changes mainly provide details and/or are to be considered more linguistic in nature.

The application rules have also been adjusted to reflect some of the changes introduced in the new policies developed in connection with the producer membership contract. These changes will help ensure a more fluid transition to EPR. Indeed, certain terms and conditions related to the annual report have been added, namely:

- Details on information to be included in the report and provided for verification purposes (detailed methodology, studies carried out to justify deduction and the deduction reason, etc.).
- A deadline extension to submit requests for modifications (2 years instead of 1 year), but a shorter number of days (30 instead of 60) to produce documents regarding such requests or for report analyses.

Removal of the notion of revenues related to eligibility for payment exemption or a flat fee

The new regulatory framework on EPR aims to increase producers' accountability regarding the materials they market. With this in mind, ÉEQ is removing the notion of revenues related to eligibility for payment exemption or a flat fee, so that companies pay according to the full quantities of materials they place on the market.

Initially intended to lighten the administrative burden on small businesses, the notion of revenue was limited to products or services marketed in Quebec, and certain large companies benefited from exemptions or flat fees based on this formality.

Tools will be developed to help companies estimate the quantities they put on the market, and meetings will be held with sector associations representing smaller companies to assist them where necessary.

It should be noted that the exemption for retailers that have a single point of sale outlets of less than 929 m² remains in place.

Eco-modulation

In addition to the eco-design incentive bonus being maintained, it should be noted that the 20% credit on post-consumer recycled content is also maintained. We have also added a section on penalties for Polyvinyl Chloride (PVC) and Polylactic Acid (PLA) and other degradable plastics.

Finally, in order to reflect all changes presented, modifications have also been made to the contribution table in Appendix A of the draft Schedule:

- Added "Alternate fibers" and "Aluminium aerosol containers"

Appendix I – Rates of recovery and net costs of materials featured in the 2024 Schedule of Contributions

Recovery rates are from the residential Characterization study for 2022 performed for ÉEQ. Material net costs are from the update of the Activity-based costing (ABC) model for 2023 carried out by ÉEQ.

Material	Recovery rate 2022	Net cost 2023 ABC (\$/t)
Newsprint inserts and circulars	86.3%	259.27
Catalogues and publications	84.5%	259.75
Magazines	88.4%	250.87
Telephone books	80.0%	255.49
General use paper	53.0%	276.67
Other printed matter	60.1%	275.67
Corrugated cardboard	86.4%	246.45
Kraft paper bags	58.2%	246.45
Kraft paper packaging	58.2%	246.45
Boxboard and other paper packaging	72.9%	308.97
Gable-top containers	78.3%	421.00
Laminated paper	35.5%	377.01
Aseptic containers	61.5%	427.27
PET bottles	77.2%	367.49
HDPE bottles	71.5%	135.33
Plastic laminates	28.7%	731.89
HDPE/LDPE plastic film	24.4%	765.74
HDPE/LDPE film shopping bags	24.0%	765.74
Expanded polystyrene - food	19.3%	2,651.85
Expanded polystyrene - protection	19.3%	2,651.85
Non-expanded polystyrene	36.6%	618.62
PET containers	64.1%	378.88
Polyvinyl chloride (PVC)	52.2%	441.34
Polylactic acid (PLA) and other degradable plastics	36.4%	494.30
Polypropylene (PP)	50.4%	244.39
Other plastics, polymers and polyurethane	44.2%	391.94
Aluminium food and beverage containers	59.7%	(966.32)
Other aluminium containers and packaging	19.8%	56.81
Steel aerosol containers	27.3%	88.67
Other steel containers	66.0%	100.70
Clear (flint) glass	83.1%	313.74
Coloured glass	83.1%	314.44

Ceramic and porcelain	0.0%*	312.62
Wood and cork	0.0%*	401.84

*The recovery rate set for these materials is 0%.