

**1:30 p.m.** Welcome and opening remarks from the President and Chief Executive Officer

### Special Consultation on the 2020 Schedule of Contributions

**1:50 p.m.** Consultation Meeting Objectives

**2:00 p.m.** Curbside recycling in times of crisis

**2:10 p.m.** 2020 SoC: Updated parameters

**2:30 p.m.** 2020 SoC: Contribution table and Application rules

**2:50 p.m.** ÉEQ Services to benefit companies

**2:55 p.m.** Question period

**3:25 p.m.** Closing remarks

# Message from the President and Chief Executive Officer



Éco  
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# Consultation on the 2020 Schedule of Contributions

October 23, 2019

## Meeting objectives for the 2020 Schedule of Contributions Consultation meeting

- Present the background that influences net costs and the Schedule of Contributions
- Submit the draft 2020 Schedule of Contributions for consultation
- Gather comments from companies and organizations



# Overview of the year

- Recycling crisis
- Updating knowledge

## Curbside recycling in times of crisis:

Impacts felt throughout the curbside recycling value chain (still relevant as presented last year)

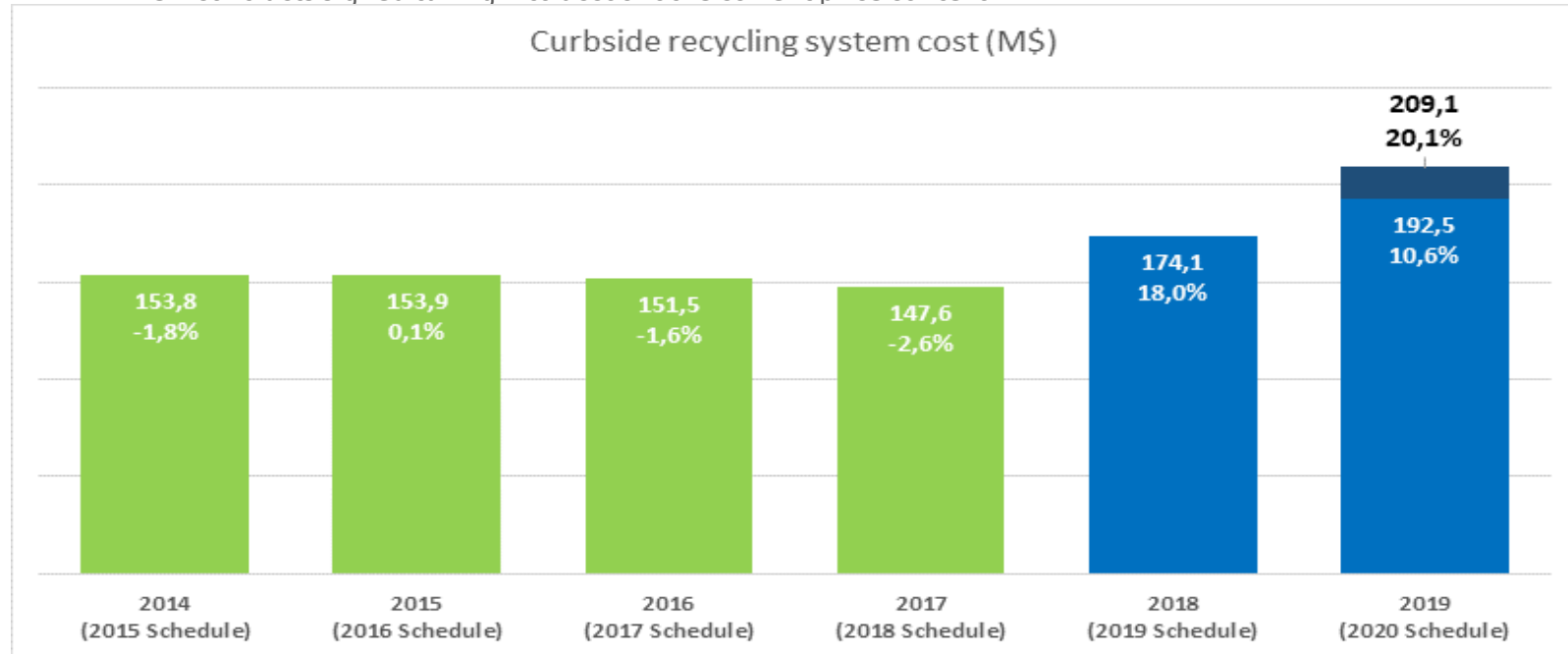
**The following impacts were presented at the consultation on the 2019 Schedule:**

- Collapse of materials sales prices (mixed fibers and plastics)
- Accumulating materials due to lack of markets
- Temporary or permanent closures of sorting centers
- Media coverage of operational and financial difficulties in sorting centers across Quebec
- Loss of the population's trust in the ability to recycled recovered materials
- Requests to reopen sorting center contracts with municipal organizations

# A cost increase that had been announced last year (from the presentation for the 2019 SoC Consultation)

Full impact of the crisis felt in 2019

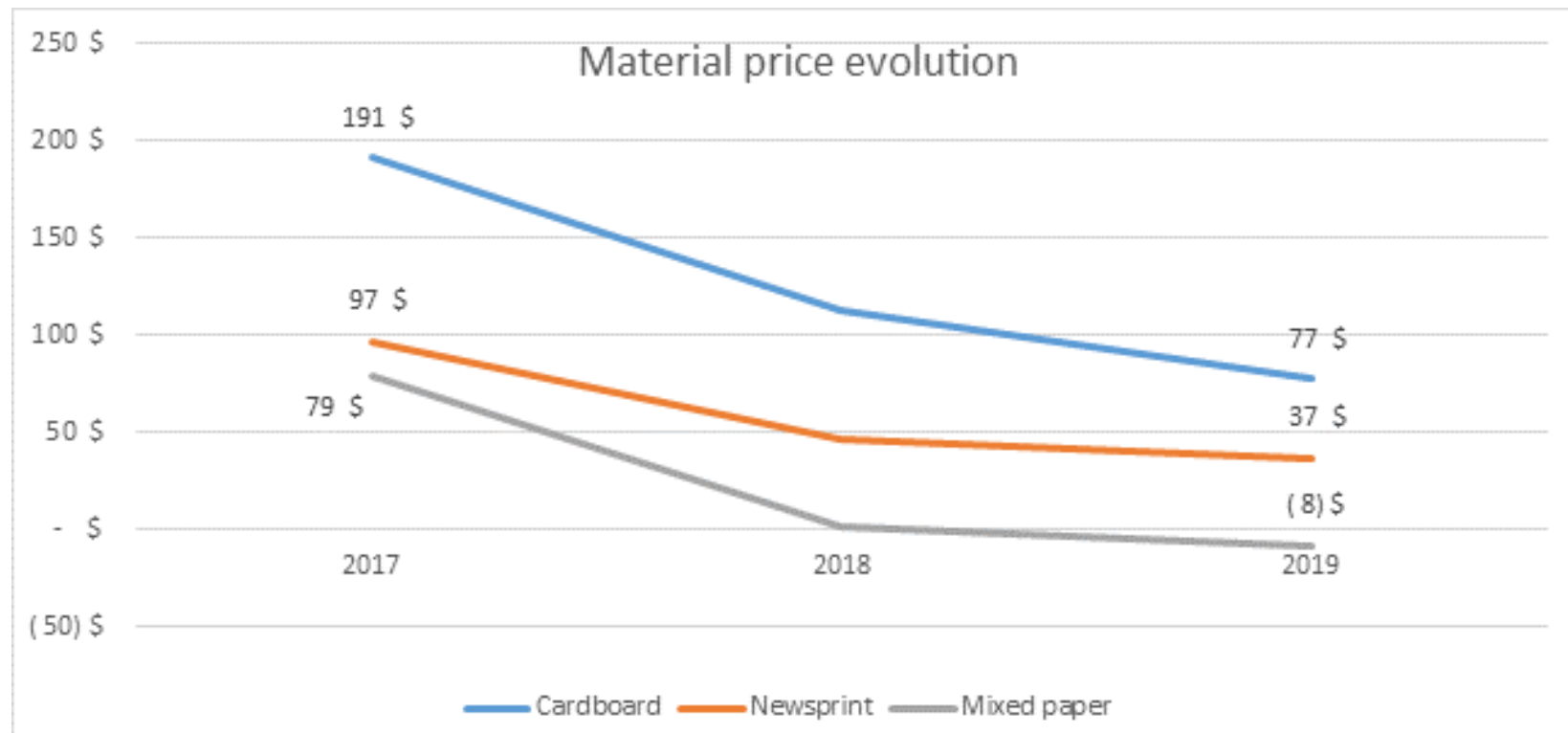
- Reopening of contracts with effects over an entire year
- New contracts signed taking into account the current price context





One year later...

Curbside recycling is still going through a crisis:  
Collapse of the selling price for fibers



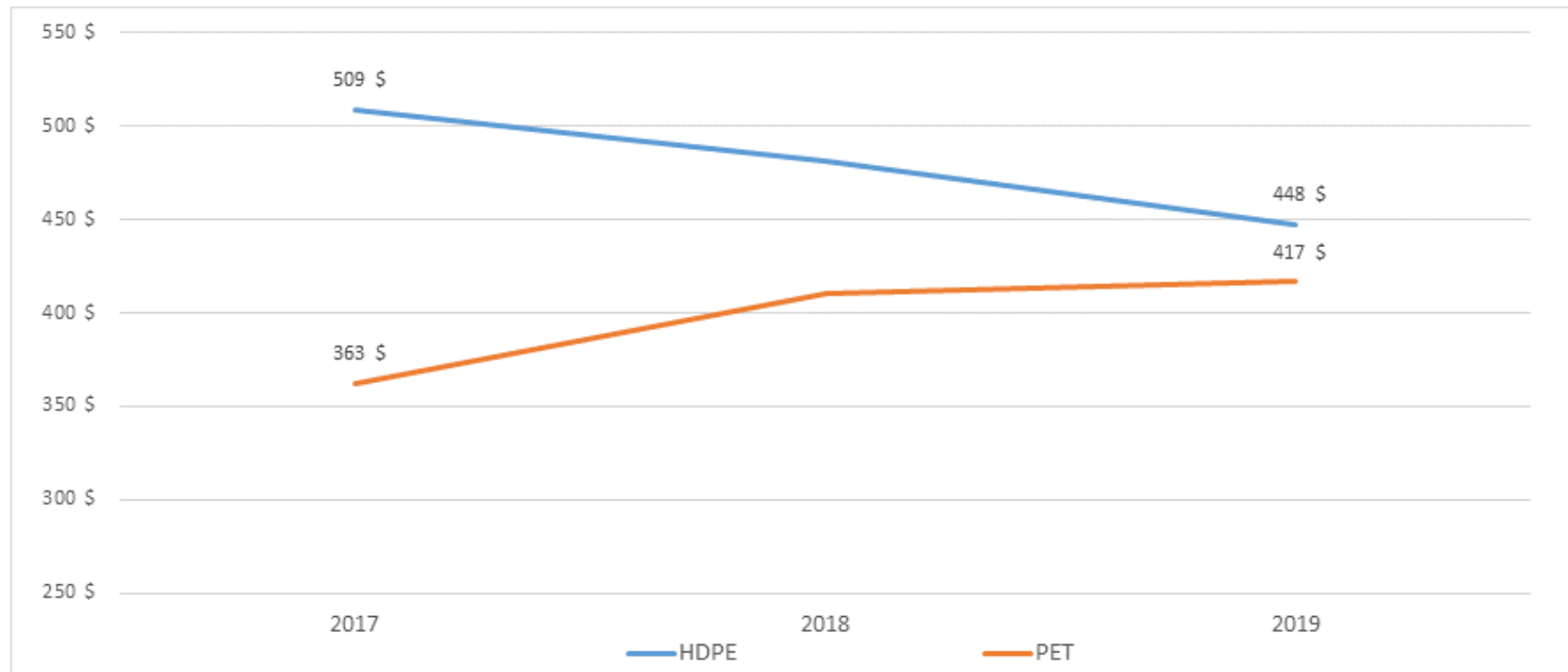


# One year later...

## Curbside recycling is still going through a crisis:

### A plastic market in two stages

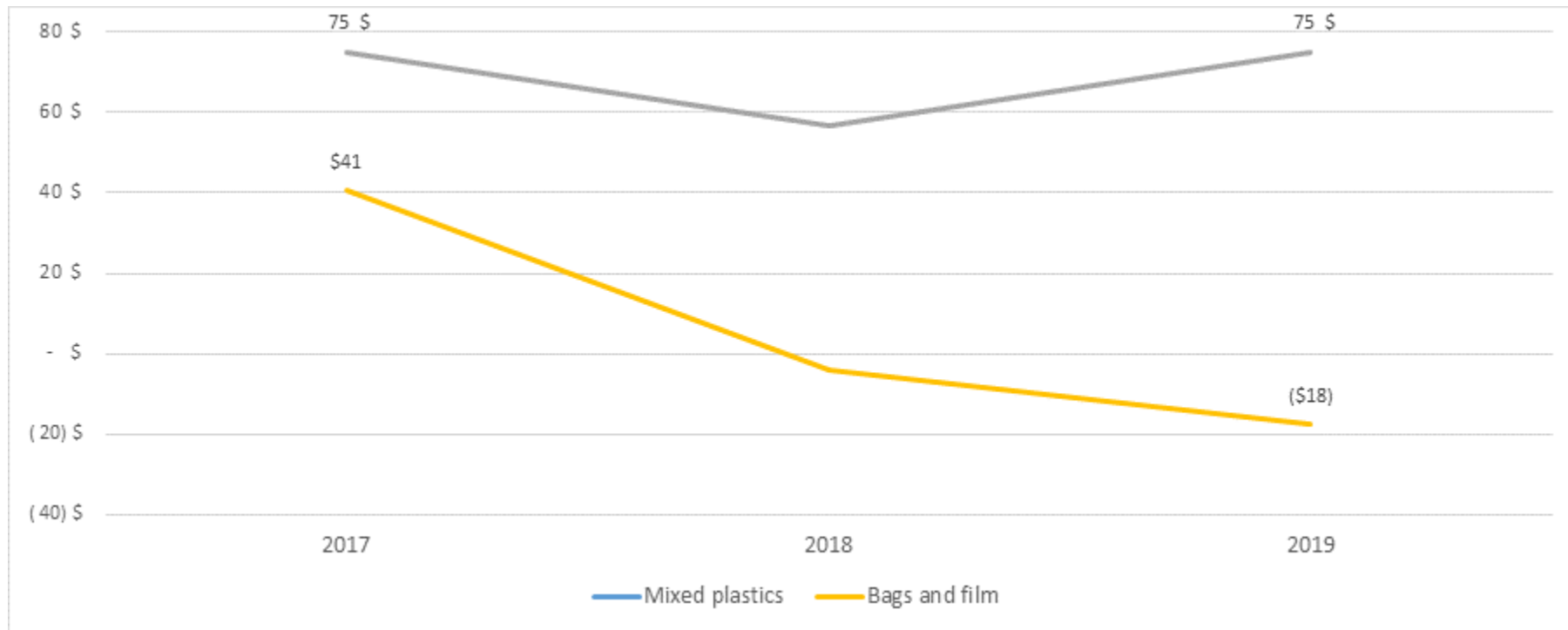
Value-added plastics (PET and HDPE) with opposite trends



# One year later...

## Curbside recycling is still going through a crisis: Unstable plastic markets

Bags and films in the negative (170% decrease between 2017 and 2019)



## Investments by sorting centers and government financial aid to improve the quality of materials and support the recycling sector

- Close to \$10 million from the government to improve the value chain
  - Financing of 12 projects to optimize materials sorting or processing activities (\$6.0 M) (2018)
  - Financing of projects targeting outlets for fibers from curbside recycling (\$3.5 M) (to be presented in the fall of 2019)
- Investments by sorting centers in sorting equipment
- Direct assistance for government sorting centers
  - Financial support program for curbside recycling sorting centers (\$4.6 M) (July 2018 to January 2020)
    - Increased in the summer of 2019 due to the constant drop in prices

## Curbside recycling in times of crisis: ÉEQ involvement to understand and improve the system

### Knowledge of the system

- Realization of a characterization study of outgoing materials from sorting centers (May 2018 to January 2020) in order to gather information on the quality of bales sold by all the sorting centers in Quebec, in partnership with RECYC-QUÉBEC

### Modernization of the system

- Action committee for the modernization of recovery and recycling, set up in May 2019 by the Minister of the Environment and the Fight Against Climate Change

## Updated net costs of the three classes of materials

### Activity based costing (ABC) model




- Allocation of municipal net costs to three classes of materials has been updated
- Should be published by the Government of Quebec by the end of the year

Classes	2019 Schedule	2020 Schedule
Newspapers	8.3%	6.5%
Printed matter	20.9%	20.7%
Containers and packaging	70.8%	72.8%
ÉEQ's total share	91.7%	93.5%

# 2020 Schedule Parameters

## Basic reminder of the impacts of inputs on the development of the Schedule of Contributions

- Basic formula: 
$$\frac{\text{Estimated municipal costs}}{\text{Expected quantity}} = \text{Average rate}$$
- Two inputs with significant impacts

Municipal net costs	Expected quantities	Rate
		

- An increase in net costs impacts the rates of all materials in the same way
- A reduction in quantities impacts the rate of the material itself, as well as the rates of those in its category (direct link)



## Development of the 2020 Schedule of Contributions

Updated input	
Parameters	
1. Estimated municipal net costs for 2019	X
2. Other costs: ÉEQ costs and other provisions, indemnity to RECYC-QUÉBEC	X
3. Cost allocation between the three classes of materials	X
4. Expected quantities reported by companies	X
5. Recovery rate (characterization study)	
6. Net costs of materials (ABC study)	X

## 1. Municipal net costs

### Mobilization to reduce risks

- The 2020 Schedule of Contributions compensates the net costs of efficient and effective municipal curbside recycling programs for calendar year 2019.

#### **Estimating the share of costs eligible for compensation from ÉEQ in a period of volatility**

- Monitoring municipal contracts carried out by ÉEQ municipal services team
- Collaboration with RECYC-QUÉBEC to be informed of the most updated data on the opening of municipal contracts
- Approach or analysis of contracts from the 20 largest municipal organizations
- Approach or analysis of the 22 sorting centres to integrate new contracts or cost increases

# 1. Municipal net costs

## Detailed method to take in account large municipalities' specific variations

Since a municipality's compensation is calculated based on its performance compared to that of its group, this approach enabled us to take into account anticipated costs for each municipality in order to calculate total net costs compensated.

- Sorting and processing costs analyzed separately from collection and transportation costs
- Each renewal or reopening of contract taken into account
- Efficiency or performance factors calculated automatically based on the group of municipalities

# Exceptional increase of net costs

Net costs = collection, transportation and sorting **expenses** – **income** from materials sales

## 1. Sorting centre revenues going down:

- > Collapse of sales prices for fibers
- > Price volatility for plastics

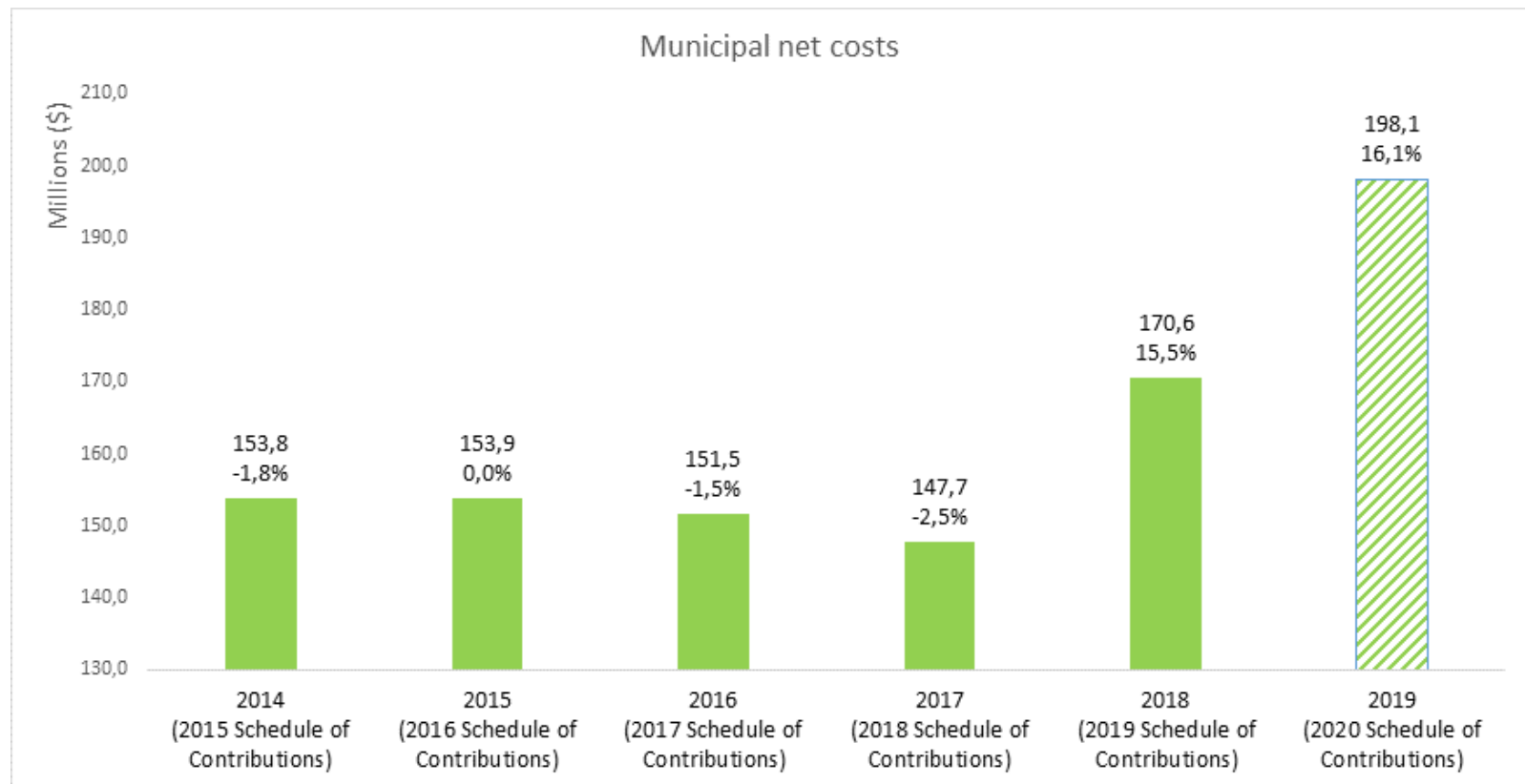
## 2. Municipalities' expenses going up (total increase estimated at \$27 million for 2019)

- > Collection and transportation: Increase of \$7 million tied to 4.3% increase of transportation CPI
- > Sorting: Increase of \$20 million from the higher reopening or renewal of contracts tied to the drop in prices

## 3. Municipal net costs globally going up, which affects **the calculation of the performance and efficiency factor** comparing municipalities

- > Lower deduction of the P&E factor, from \$16 million in 2018 to \$11 million in 2019

## Increase in municipal net costs anticipated



## A situation to watch closely for the year 2020 (2021 SoC)

- Sorted materials market price
  - Fibers : low revenues expected due to an offer greater than the demand
  - Plastics: variable revenues by material type- no embellishments for films and mixed plastics
- Contracts between municipalities and sorting centers
  - Increased renewal or reopening of sorting contracts for municipalities that have not been affected in 2019
- **Consequences: other increases to be expected in 2020**

# 1. Municipal net costs (collection, transportation, sorting and processing) to be considered in the calculation of the SoC

- A larger share for ÉEQ for the 2020 Schedule over the 2019 Schedule: 93.5% vs 91.7%

Costs used for comparison of 2019 and 2020 Schedules are rate-based, so estimative

	2019 Schedule	2020 Schedule
<b>Estimated municipal net costs</b>	<b>\$173.2 M</b>	<b>\$198.1 M</b>
Deduction - Non-designated materials	(\$11.4 M)	(\$12.8 M)
Deduction for P&E factor	(\$16.6 M)	(\$11.0 M)
Municipal management costs (8.55%)	\$12.4 M	\$16.0 M
Deduction - Newspapers (6.5% from the ABC)	(\$13.1 M)	(\$12.4 M)
<b>ÉEQ's efficient and effective eligible costs</b>	<b>\$144.4 M</b>	<b>\$177.9 M</b>
<i>Variation</i>	<i>+6.4%</i>	<i>+23.2%</i>



## 2. Other costs (ÉEQ expenses and other provisions)

### Target the stability of other costs during increase period

	2019 SoC	2020 SoC
ÉEQ expenses	\$5.5 M	\$6.0 M
Provision for bad debt	\$3.1 M	\$3.6 M
Innovative Glass Works Plan	\$1.2 M	\$0.6 M
Provision for recycled content credit	\$0.5 M	\$0.3 M
Anticipated reports from low-volume producers	(\$1.6 M)	(\$1.8 M)
RQ allowance	\$2.8 M	\$2.8 M
<b>Other total costs</b>	<b>\$11.5 M</b>	<b>\$11.6 M</b>
<i>Variation</i>	<i>+ 13.2%</i>	<i>0.9%</i>

## Total costs to be taken into account in the Schedule calculation

- Increase in total costs related to increase in net costs
- Addition of \$2.8 million to the risk fund to mitigate the risk of discrepancy between the estimated costs (used in the Schedule of Contributions) and the compensated costs (reported by municipalities)

	2019 Schedule	2020 Schedule
ÉEQ's efficient and effective eligible costs	\$144.4 M	\$177.9 M
<i>Variation</i>	+6.4%	+23.2%
Other expenses (ÉEQ management costs, provision for bad debts, RQ allowance)	\$11.5 M	\$11.6 M
Risk fund	\$0 M	\$2.8 M
ÉEQ's total contribution	\$155.9 M	\$192.3 M
<i>Variation</i>	+6.9%	+23.3%

## 2. Use of funds to limit impacts of the increase for companies

### A decision of the Board: Use available funds to mitigate the increase

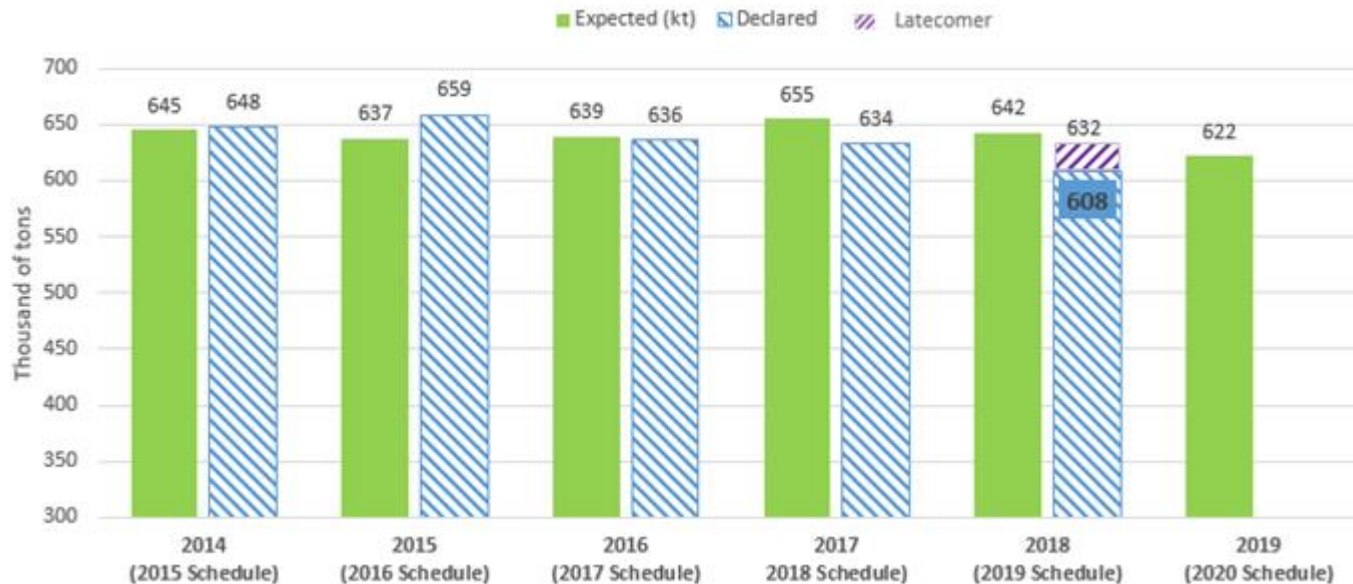
	Amounts allocated 2019 SoC	Amounts allocated 2020 SoC
Risk funds	\$0 M	\$2.8 M
Rate stabilization fund	\$0 M	\$1.7 M
Printed matter fund	\$2.0 M	\$0 M
Containers and packaging fund	\$2.0 M	\$7.8 M
Total allocated funds	\$4.0 M	\$12.3 M

### 3. Summary of costs

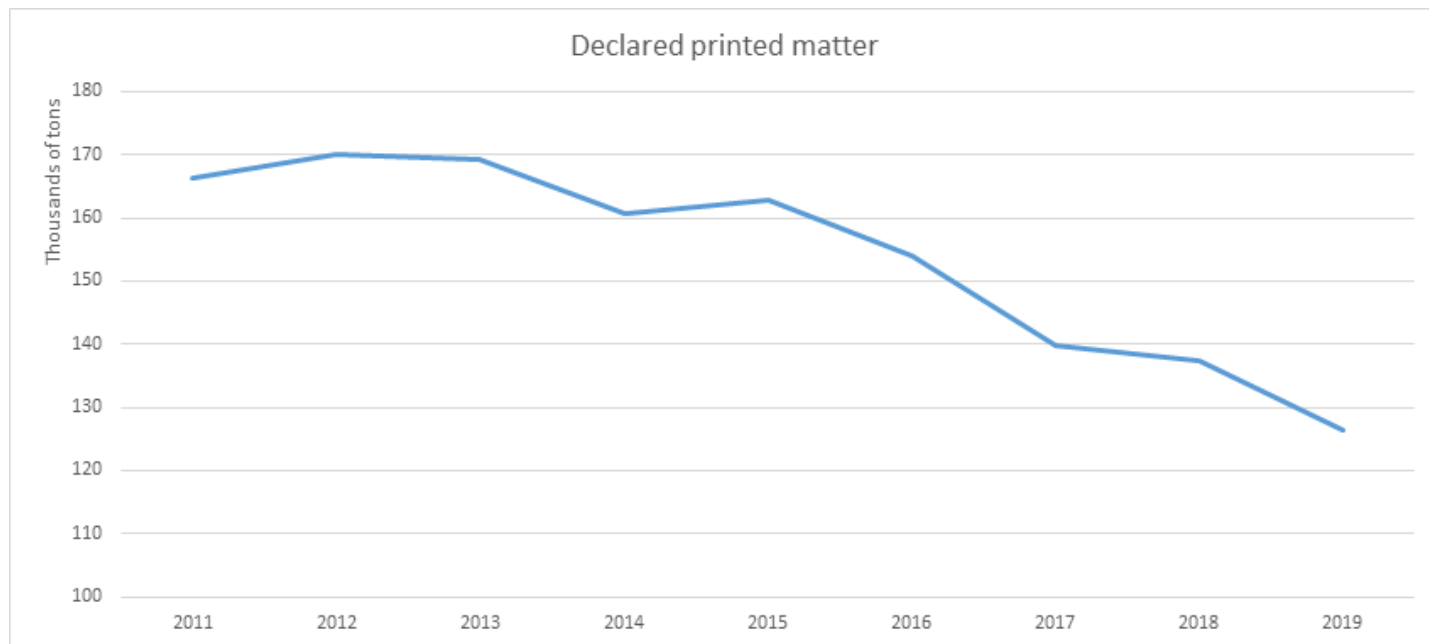
Cost increase partially offset thanks to injection of funds		
	2019 Schedule	2020 Schedule
Total net costs eligible for compensation	\$157.5 M	\$190.3 M
ÉEQ's share (set by decree)	91.7%	93.5%
Municipal net costs - ÉEQ's share	\$144.4 M	\$177.9 M
Other cost	\$11.5 M	\$11.6 M
Risk fund	\$0 M	\$2.8 M
Amount allocated to mitigate increases	\$(4.0) M	\$(12.3) M
Total costs considered for calculating companies contributions	\$151.9 M	<b>\$180.0 M</b>
<i>Variation</i>	+ 3.4%	+18.6%

## 4. Expected quantities from companies

- Quantities expected to be reported for the 2020 Schedule of Contributions are those put on the Quebec market in 2019
- In decline overall as compared to the 2019 Schedule



## 4. Significant decline of printed matter that impacts the quantities expected as compared to the 2019 Schedule



## 5. Residential recovery rate

### 2015-2017 Results

- Same data as for the 2019 Schedule
  - Overall average rate of 63.6%
- *Detailed results by material are annexed to the 2020 Schedule of Contributions Summary and on ÉEQ's website*





## 6. Updated material processing cost for all 30 materials in the Schedule of Contributions

- Each material is affected differently according to updates applied:
  - Updated quantities collected by municipalities
  - 2015-2017 Recovery Rates used
  - Three-year average of material revenues (2016-2018) used
    - Impacts of the drop in sales prices for recyclable materials for 2018 taken into account



A close-up photograph of two hands. The top hand is tilted, pouring a stream of small, translucent, and colored plastic fragments (microplastics) into the palm of the bottom hand. The background is a soft, out-of-focus grey.

**Rates**

## Overall average rate

### 2020 Schedule of Contributions calculated considering the funds allocated to mitigate the costs increase

	2019 Schedule	2020 Schedule
ÉEQ total contribution taking into account the injection of funds and provisions	\$151.8 M	<b>\$180.0 M</b>
<i>Variation</i>	+3.4%	+18.6%
Estimated quantities reported	642 kt	622 kt
<i>Variation</i>	+ 2.0%	-3.1%
Average rate	\$236/t + 5.5%	<b>\$290/t</b> +22.5%

## Understanding how the recycling crisis impacts company contributions

Fall 2017



China bans the import of recyclable materials.



Materials prices collapse



The supply of recyclable materials exceeds demand.



Insufficient local and neighbouring markets



Difficulty in finding materials buyers



Reopened contracts between municipalities and sorting centres



Increase



Compensated municipal net costs



Decrease



Reported quantities, particularly printed matter



Average increase in contributions of

**22.5%**

Without the allocation of funds, the average increase in contributions would have been more than 31%

## Average rate - Printed matter class

A considerable decrease in quantities of printed matter affects rates		
	2019 Schedule	2020 Schedule
Total Costs for Printed matter	\$34.5 M	<b>\$40.7 M</b>
Provision for recycled content credit	\$0.4 M	\$0.2 M
Printed matter fund	(\$2.0 M)	\$0 M
Total contribution	\$32.9 M	<b>\$40.9 M</b>
	+ 5.0%	23.9%
Expected quantities reported	140 kt	<b>122 kt</b>
	- 6.7%	-13.0%
Average rate	\$234/t + 10.4%	<b>\$335/t</b> +43.2%

## Average rate - Containers and packaging class

Average increase mitigated by the injection of funds		
	2019 Schedule	2020 Schedule
Total Costs for Containers and packaging (CP) share	\$120.8 M	<b>\$146.7 M</b>
Provision for recycled content credit	\$0.2 M	\$0.1 M
Containers and Packaging fund	(\$2.0 M)	(\$7.8 M)
Total contribution	<b>\$119.0 M</b>	<b>\$139.0 M</b>
	+ 3.5%	+ 15.8%
Expected quantities reported	502 kt	<b>499 kt</b>
	- 0.6%	-0.6%
Average rate	<b>\$237/t</b>	<b>\$278/t</b>
	+ 4.0%	+17.3%

## Rates - Printed matter

### Rate increase due to higher costs and lower expected quantities

	2019 Schedule \$/t	2020 Schedule \$/t	Δ 2020 \$/t
Printed matter - Average rate	234	335	43.2%

Newsprint inserts and circulars	204	292	43.4%
Catalogues and publications			
Magazines			
Telephone books	294	426	45.0%
General use paper			
Other printed matter			



## Rates - Paper / Cardboard

### Rate increase in the average for all fibers

	2019 Schedule \$/t	2020 Schedule \$/t	Δ 2020 \$/t
<b>Paper / Cardboard - Average rate</b>	201	239	19%
Corrugated cardboard	183	218	19%
Kraft paper bags and packaging	183	218	18%
Boxboard and other paper packaging	200	239	20%
Gable-top containers	191	225	18%
Laminated paper	287	341	19%
Aseptic containers	234	279	19%

## Rates – Plastics

Increases influenced by variable incomes			
	2019 Schedule \$/t	2020 Schedule \$/t	Δ 2020 \$/t
<b>Plastics - Average rate</b>	357	409	15%
PET bottles and containers	283	300	6%
HDPE bottles	108	163	50%
Plastic laminates			
Film shopping bags	471	543	15%
HDPE and LDPE			
Expanded food polystyrene, and expanded and non-expanded protective polystyrene)	789	942	19%
PVC, polylactic acid (PLA) and other degradable plastics			
Other plastics, polymers and polyurethane	286	359	26%

## Rates – Aluminium and steel

**Increase lower than average due to higher expected quantity**

	2019 Schedule \$/t	2020 Schedule \$/t	Δ 2020 \$/t
Aluminium - Average rate	180	205	14%

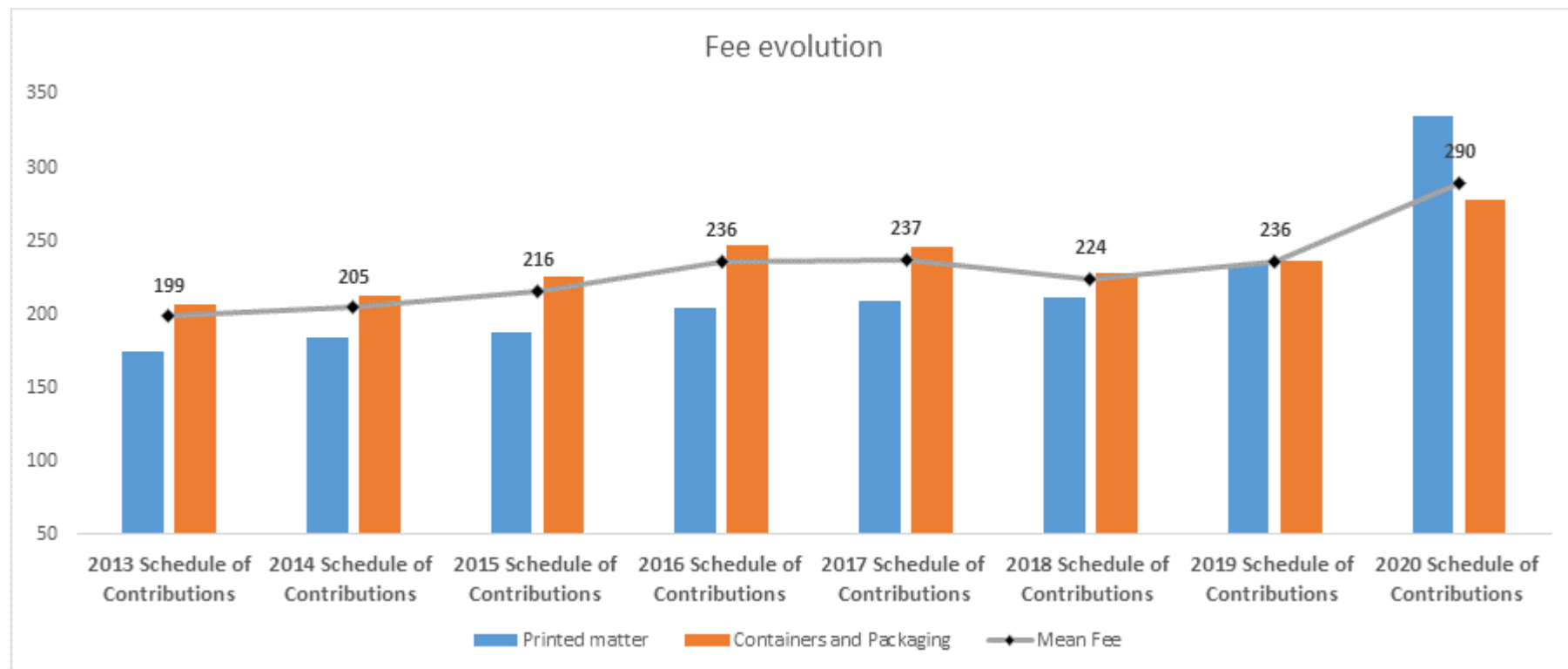
**Lower increase due to good processing costs and higher expected quantity**

	2019 Schedule \$/t	2020 Schedule \$/t	Δ 2020 \$/t
Steel - Average rate	172	176	2%

## Rates – Glass

**Increase higher than the average of containers and packaging due to processing costs, reduction in excepting quantities and the Innovative Glass Works**

	2019 Schedule \$/t	2020 Schedule \$/t	Δ 2020 \$/t
<b>Glass - Average rate</b>	<b>172</b>	<b>209</b>	<b>22%</b>
Clear glass	172	210	22%
Coloured glass	172	208	21%




## Scenario to assess the recyclability of HDPE containers

- Take into account the performance for HDPE containers < 5 l. related to the installation of optical sorting equipment for plastics in nearly all sorting centres
- Impact of less than 0.15 % on the rate for other containers and packaging

**Remove HDPE containers from the “other plastics” category and move them to the “ HDPE bottles” category**

	2020 Schedule	2020 Schedule Scenario	Variation
HDPE bottles	162.66	162.66	0,0%
<b>HDPE containers &lt; 5 l.</b>	<b>359.08</b>	<b>162.66</b>	<b>- 54.7%</b>
Other plastics	359.08	359.48	0.1%



**Low-volume  
producers**

## Implementation of a Working Group Why and How?

- Identify issues specific to low-volume producers in order to be receptive to concerns and proactive regarding fee structure
  - > Contributors whose generated quantities or revenues slightly exceed the thresholds pay significantly more than lump sums.
- 2 meetings in May 2019
  - > 4 associations involved
  - > Several ideas for possible solutions
  - > 2 recommendations considered by the Board



## Recommendation chosen by the Board: Adjust the calculation method to improve fairness

- Calculate flat fees amounts based on the upper limit of the bracket rather than the midpoint, by spreading the increase over 2 years in order to avoid increases higher than 50%
  - > So that small companies not eligible for flat fees have a fair contribution
  - > To ensure better linearity between levels

Limits	2019 Schedule	Adjustment over 1 year		Adjustment over 2 years	
> 1 MT and < 2.5 MT	\$450	\$725	61%	<b>\$640</b>	42%
> 2.5 MT and < 5 MT	\$945	\$1,450	53%	<b>\$1,310</b>	39%
> 5 MT and < 10tm MT	\$1,885	\$2,895	54%	<b>\$2,610</b>	38%
> 10 MT and < 15 MT or between \$1M and \$2M	\$3,150	\$4,345	38%	<b>\$4,170</b>	32%

## Recommendation considered by the Board: Progressively integrate environmental criteria

- To increase the accountability of companies who benefit from a lump sum as to the materials they market
- To get data so that we can align rate orientations and follow trends

### **For the 2020 Schedule:**

- Introduction of a menu in the report for low-volume producers in order to specify the 2 most generated materials (in terms of quality)

### **For future Schedules:**

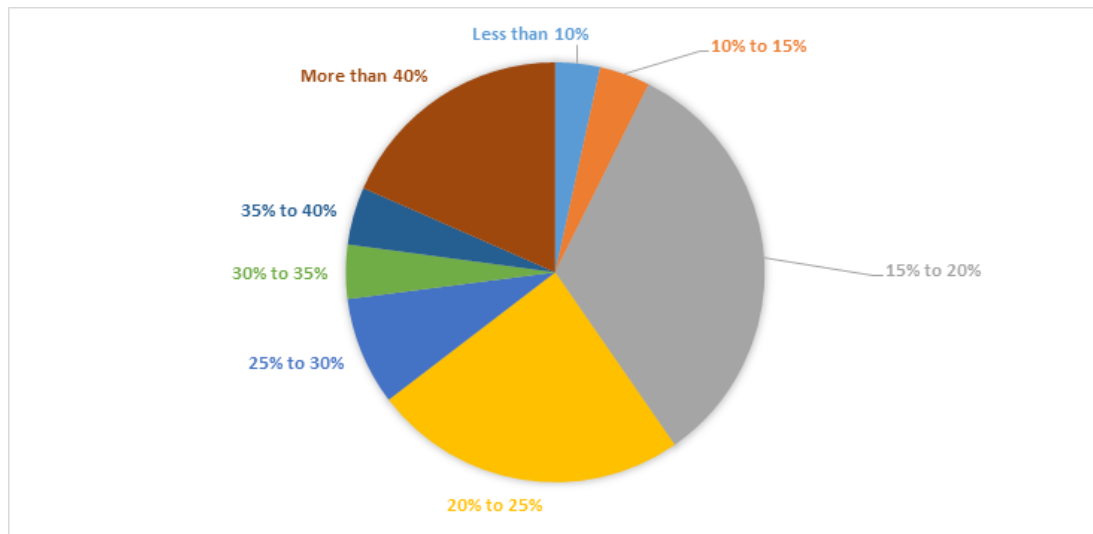
- If eco-modulation criteria are introduced, flat fees will also be impacted

# Impact analysis for companies

## Global impact on companies

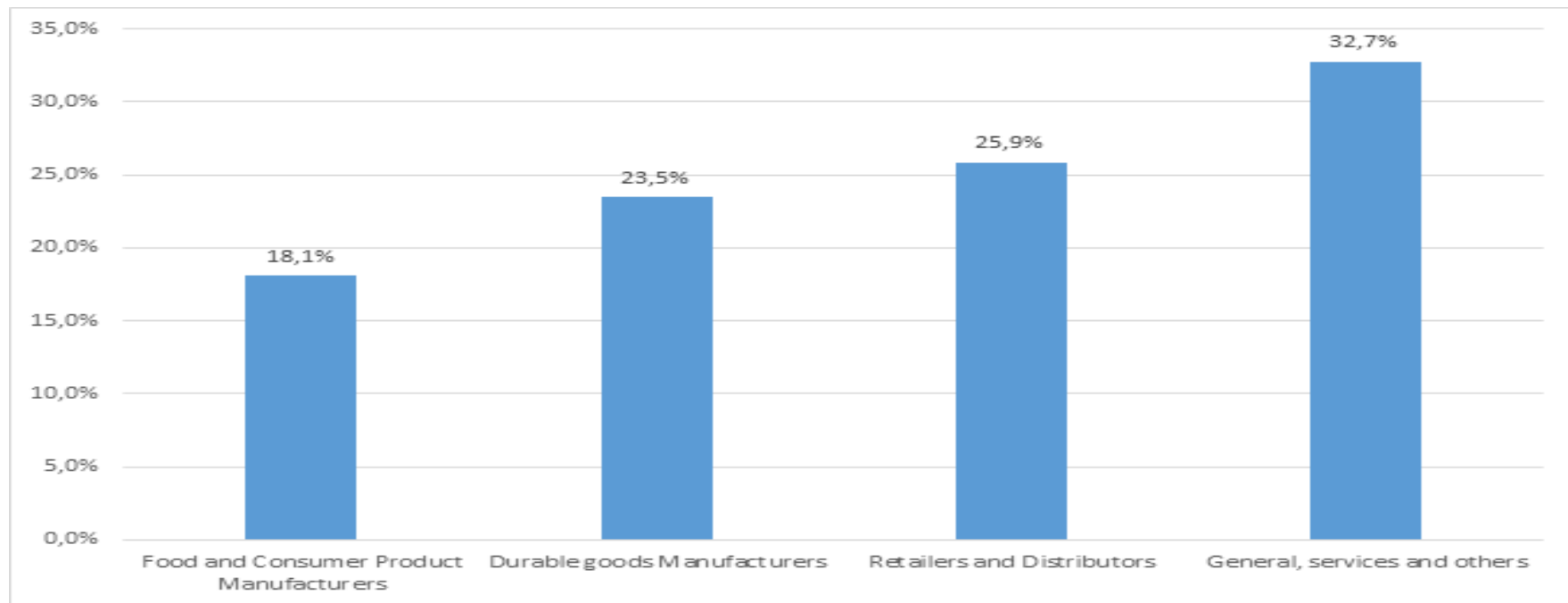
### Average increase of 22,5%

- 57% of companies would have a lower-than-average increase
- 43% of companies would have a higher-than-average increase
- 35% of companies would have an increase under 25%



## Impact on companies by activity sector

- Impacts vary according to activity sector



## Some sectors particularly affected by the increase for printed matter

Among reporting companies, one hundred or so report printed matter only

- Half are in more stable or lucrative sectors (finance, insurance, telecoms, public institutions, etc.)
- The other half are in more “fragile” sectors (editing, NPOs and foundations, arts and entertainment)

# Schedule Application Rules

## Limited Update of Schedule Application Rules

- Update
  - > Reference years
  - > Lump sums for low-volume producers
  
- Modification to article 7.1.1. related to the adjustment of contributions for overpayment of a specific rate
  - > Allow ÉEQ to returned, all or part of the surplus of the expected amount for a class of materials to mitigate further rate increases for this category.





Next steps

## A well-defined process



Activities	Date
Adoption of the draft 2020 Schedule of Contributions and consultation program	October 4, 2019
Consultation meetings (via webinar)	October 23, 2019
Consultation period	October 23 to November 15, 2019
Adoption of the draft 2020 Schedule of Contributions and consultation report to be submitted to RQ	December 6, 2019
Draft Schedule of Contributions and consultation report forwarded submitted	By December 31, 2019
RQ recommends the draft Schedule of Contributions to the Government of Quebec	January 2020?
Adoption of the 2020 Schedule of Contributions and publication in the <i>Gazette officielle du Québec</i>	?

# Compensation Plan

## Important Dates

	2019 Schedule
Reporting deadline	August 24, 2019
1 <sup>st</sup> installment	September 17, 2019 80%
2 <sup>nd</sup> installment	November 16, 2019 20%
Supporting documentation to be submitted with a request for credit for recycled content	September 17, 2019
Deadline to submit a change request	August 24, 2020

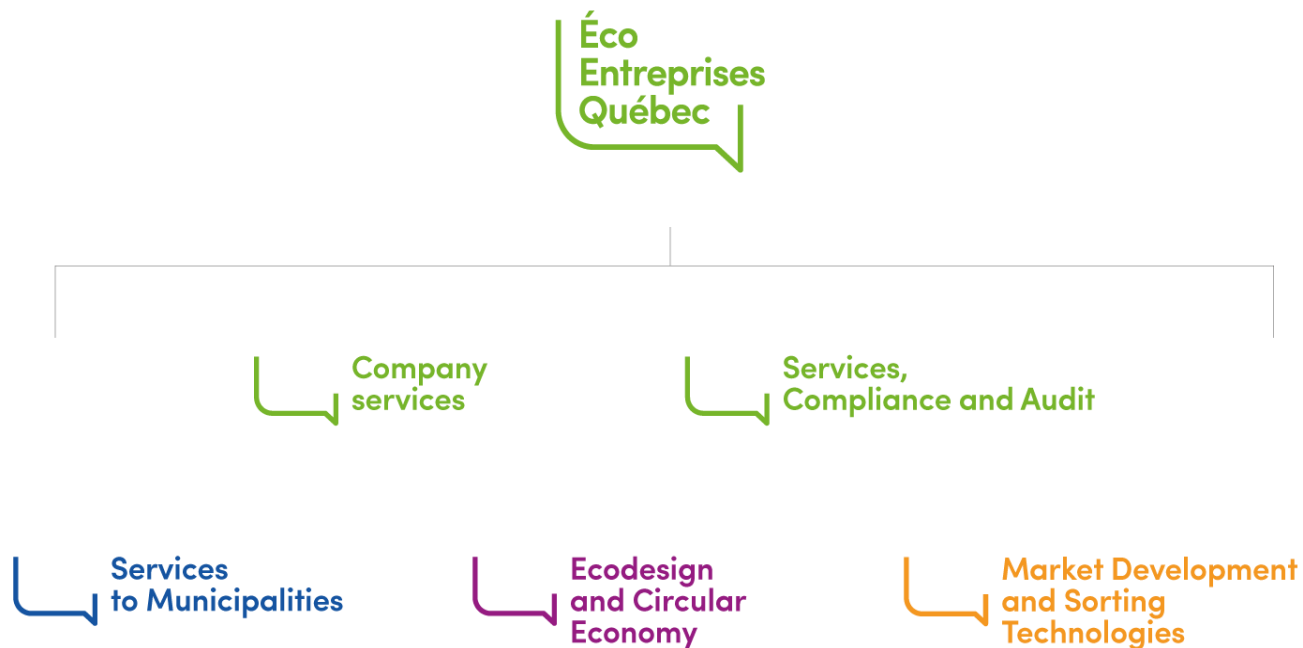
# Compensation plan

## Reminder of important dates - Other Schedules

### Upcoming credits related to the return of overpayments from the 2016 and 2017 Schedules of Contributions for containers and packaging (as per the Application Rules)

- Adjustments to the overpayment of the 2016 Schedule of Contributions
  - Fall 2019
  - Credits of approximately \$2 M will be issued directly to companies that have reported containers and packaging
- Adjustments to the overpayment of the 2017 Schedule of Contributions
  - Summer 2020
  - Credits of approximately \$ 2 M will also be issued directly to companies that have reported containers and packaging

## ÉEQ services to companies



Question  
period

Thank you for participating!

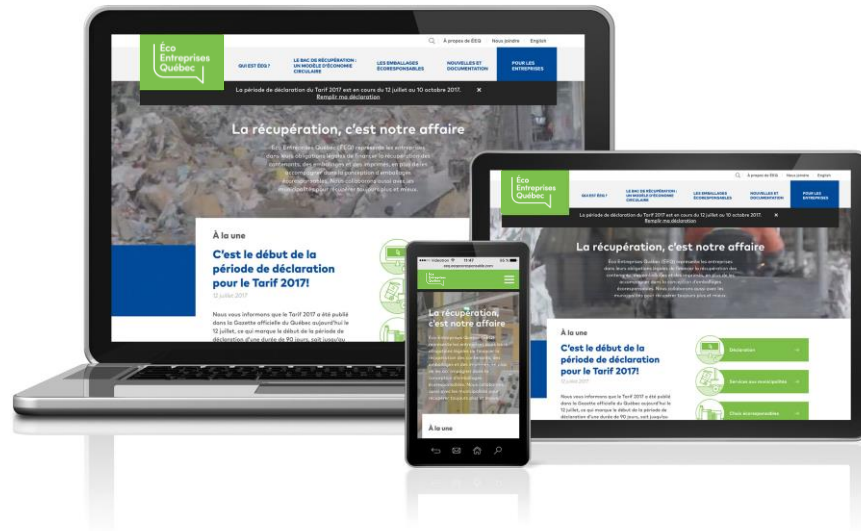


# For more information

Visit [EEQ.ca](http://EEQ.ca) starting on October 25, 2019

Complete presentation of meetings  
Meetings webcast

Draft 2020 Schedule of Contributions, including the Contribution Table  
Summary on the development of the Schedule of Contributions





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