

2022 Draft Schedule of Contributions

Executive summary

Although producing the Schedule of Contributions (SoC) is an annual activity, getting the 2022 Schedule together this year was somewhat particular. First, the change to the Environment Quality Act with Bill 65 in March 2021, included the obligation for ÉEQ (Containers, packaging and Printed matter) and RecycleMédias, (Newspapers), to produce a single Schedule of Contributions, which paved the way for a more comprehensive update of the Schedule Rules in the interest of harmonization.

Then, ahead of the *Draft amendment to the Regulation respecting compensation for municipal services provided to recover and reclaim residual materials*, the board of directors decided to postpone the contribution process until after the publication of the draft amendment, which occurred last December 8th. If adopted in its current form, the Regulation confirms the abolition of cost allocation by material class ahead of the formula, which has a significant impact on material rates.

Finally, the recent evolution of curbside recycling is reflected in the 2021 update of data from the study on activity-based costing allocation, which has also a significant impact on the calculation of rates per material.

An increasingly eco-modulated Schedule of Contributions

Ever since the Compensation plan was first implemented, ÉEQ has eco-modulated its Schedule of Contributions in several ways, including pioneering the first credit for recycled content in North America, in 2010. Since the 2021 Schedule of Contributions, ÉEQ has deployed measures from its eco-modulation roadmap, which results in new measures for the 2022 Schedule of Contributions:

1. Disaggregating polypropylene (PP), in order to have it assigned its own rate as of the 2023 Schedule of Contributions
2. Adding of wood and cork packaging as materials subject to a fee
3. Renewal of the ecodesign incentive bonus pilot project, with an increase of the amount per company and process simplification
4. Announcement of upcoming eco-modulation of rates for PVC and other degradable plastics, with application of penalty announced for the 2024 Schedule of Contributions.

An increase in total costs influenced by regulatory changes

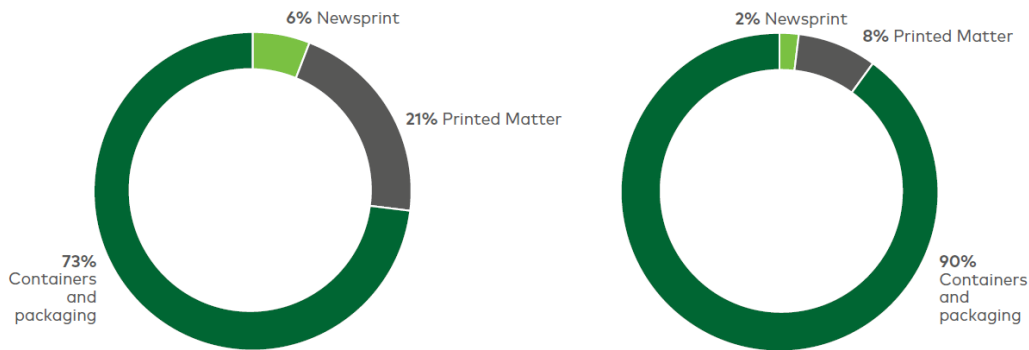
For the 2022 Schedule, the 6.5% anticipated increase for municipal net costs is lower than the increase in recent years. The abolition of cost allocation by material class ahead of the formula, however, increases the share of net costs assumed by ÉEQ, as the share of newsprint goes from 6.5% in the 2021 Schedule to 2.0% in the 2022 Schedule, which has an upward impact of \$9.2 million for ÉEQ. The addition of ÉEQ fees and other allocations (\$13.3 million, up \$2.1 million

from the 2021 Schedule) and the replenishment of the Risk Fund (\$6.2 million) increase the total costs before allocations to \$239.4 million, an increase of 15.0% over the previous year.

An evolution of rates by material that reflects the abolition of upstream cost allocation by class and the state of curbside recycling

As mentioned, the abolition of cost allocation by material class ahead of the formula not only increases the share assumed by ÉEQ, but also distributes costs per material differently. The immediate application of the Schedule formula to all materials has the effect of reducing the share of Printed matter and increasing the share of Containers and Packaging. Consequently, the rates for each material will be impacted.

Figure 1: Share of costs per class for the 2018-2021 Schedules compared to the share of cost in the 2022 Schedule



In addition, curbside recycling has been disrupted these past few years by the partial closure of export markets for recyclable materials. On one hand, average sale prices in recent years have fallen by half compared to the pre-crisis situation. On the other hand, recyclable materials buyers have taken advantage of the crisis to raise quality requirements for materials produced by sorting centers, leading to the hiring of more sorters and quality controllers as well as massive equipment investments by sorting centers. Finally, the labour shortage has forced several collection companies and material recovery facilities to raise salaries. These financial impacts are reflected in the 2021 update of the Activity-based cost allocation and have an upward impact on the rate of several materials, including plastic containers, fiber containers and steel containers.

Application of two measures to mitigate increases

The update of parameters in the Schedule formula results in a marked increase for Containers and Packaging, especially for HDPE containers and packaging, which saw their rate increase by 97%. Therefore, ÉEQ proposes two measures to mitigate increases:

- Capping the rate increase at 50% (the principle of this measure was adopted by the Board of Directors for the 2015 SoC)
- Use of \$5M from the permanent Containers and Packaging fund, in order to mitigate the increase for all related rates.

Applying these two measures reduces the average increase for containers and packaging rates by 2.5% and limiting the increase for HDPE to 46.6%.

Harmonized and improved Schedule of Contributions Rules

The Schedule of Contributions Rules have been adjusted according to four key areas:

1. Adjustment in accordance with the legal and regulatory context
 - Integration of RecycleMédias' rules for the production of a single Schedule
2. Gain following ÉEQ and its partners' demands
 - All e-commerce packaging becomes designated, even for companies without a Quebec address.
3. Revision of articles pertaining to eco-modulation
4. Initiatives and administrative measures
 - Broadened notion of business groups
 - Voluntary contributors: removal of eligibility for the flat fee based on revenues

The designation of all packaging from e-commerce is a significant gain, considering the growing share of online purchases from companies, some of which do not have an address in Quebec.

ÉEQ will consider the implementation of a penalty for failure to register and report as of the 2023 Schedule of Contributions.

Continuation of the consultation process

The 2022 Schedule of Contributions Consultation Process runs until March 1st. Virtual consultation meetings will be held in French and in English on February 22nd, 2022. These meetings are part of a process leading to the approval of the Schedule of Contributions, with or without amendment, by ÉEQ's Board of Directors, and to its submission to the Government of Québec for publication.

ANNEX: Draft Contribution table for the 2022 Schedule

Material	2022 SoC \$/t	Variation %
Printed matter	269.85	-41.7
Newsprint inserts and circulars	243.99	-38.8
Catalogues and publications	314.43	-46.8
Magazines	314.43	-46.8
Telephone books	314.43	-46.8
General use paper	314.43	-46.8
Other printed matter	314.43	-46.8
Containers and packaging	382.54	23.2
Corrugated cardboard	279.38	13.9
Kraft paper shopping bags	279.38	13.9
Kraft paper packaging	279.38	13.9
Boxboard and other paper packaging	351.17	30.3
Gable-top containers	364.09	43.3
Laminated paper	490.00	26.8
Aseptic containers	437.39	38.9
Cork, containers and packaging made of wood	597.85	N/A
PET bottles and containers	458.39	34.6
HDPE bottles and containers < 5 l.	272.33	46.6
Plastic laminates	765.70	20.4
HDPE/LDPE plastic film	770.38	26.5
HDPE/LDPE film shopping bags	770.38	26.5
Expanded polystyrene - food	1,359.67	37.7
Expanded polystyrene - protection	1,359.67	37.7
Non-expanded polystyrene	1,359.67	37.7
Polyvinyl chloride (PVC)	1,359.67	37.7
PLA and other degradable plastics	1,359.67	37.7
Polypropylene (PP)	519.11	28.2
Other plastics, polymers and polyurethane	519.11	28.2
Aluminium food and beverage containers	250.70	13.1
Other aluminium containers and packaging	250.70	13.1
Steel aerosol containers	267.04	37.3
Other steel containers	267.04	37.3
Clear glass	257.27	9.7
Coloured glass	260.50	10.5
Ceramic	533.70	38.3
Average rate	369.37	10.4