



OTS Collector Consultation Session

January 22nd, 2013
OTS offices

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2009 – Launch of OTS

OTS is the not-for-profit industry-funded organization (not government) responsible for developing, implementing and operating Ontario's Used Tires Program

The Used Tires Program Goals include:

- Eliminate the approximately **1.4 million** stockpiled tires in dumpsites across Ontario,
- Ensure that the approximately 12 million plus scrap tires generated annually are diverted from burning and land filling to other uses
- ***To divert 90% of On-Road Tires, and 50% of Off-Road Tires in 5 years***

OTS strategic Objective:

**Develop domestic markets to consume
100% of Ontario TDP's and products**



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Where is OTS Now?

Program can be divided roughly into 3 "Deliverable" Segments:

1. Short-term

- Ensure 100% of Ontario's "divert-able" tires are diverted (i.e. not sent for fuel or landfilling)

2. Medium-term

- Work with the scrap-tire recycling industry to develop Ontario processing capacity to be able to manage 100% of the province's scrap tires

3. Long-term

- Work to develop economically and environmentally sustainable markets to be able to "consume" 100% of the tire-derived products produced by the Ontario tire recycling industry



We are here

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Program Accomplishments To-date

Diversion Rates

- Passenger and Light Truck tires exceed 95%
- Medium Truck tires exceed 95%
- Off-the-Road tires exceed 95%

To date, OTS has cleaned-up over 500,000 tires in piles across the province



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Program Accomplishments To-date

Ontario Processing capacity has developed since program launch so capacity now exceeds supply of On-Road Tires

Capacity Increases & Investment in Ontario

- 90+ new Haulers have entered the market since program launch
- 4 Ontario Processors have added 2.5 million tires of capacity
- 4 new Processors in place adding approx. 7.5 million tires of capacity
- 2 existing Rubber Product Manufacturers (RPM) adding capacity
- 2 new RPMs have established operations in Ontario
- **Combined investment to date \$20-30 million, estimated investment in 2012 \$5-\$10 million**
- **Estimated new job creation to date = 200+**

To date OTS has not sent **any** tires to landfill either in or out of province.



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OTS Program Design

The Ontario Used Tires Program is based on eliminating the financial barriers to the recycling of used tires and introducing a system of financial incentives that reward the movement of tires up-stream through the recycling system.

OTS Program has eliminated:

- Disposal fees for tire users and consumers
- Tire disposal costs for retailers
- Tip fees at Processors
- The option to dispose of used tires through landfilling, burning or stockpiling / baling

At launch, the program introduced a manifest system that begins at the retailer/collector and ends with the sale of a manufactured product to an end consumer (includes tires sold for reuse / retreading).

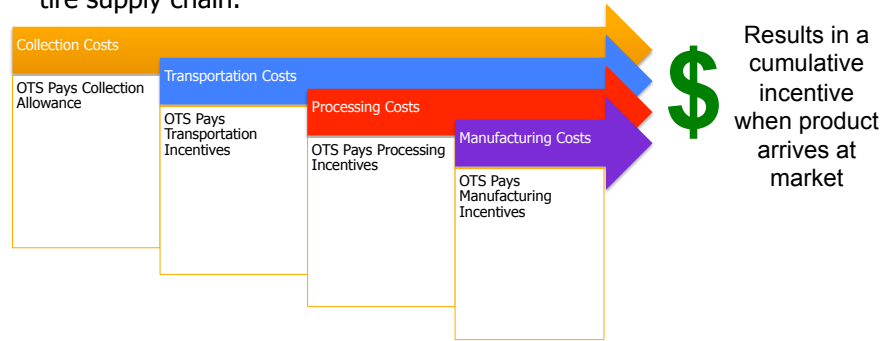
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OTS Incentive Program Design

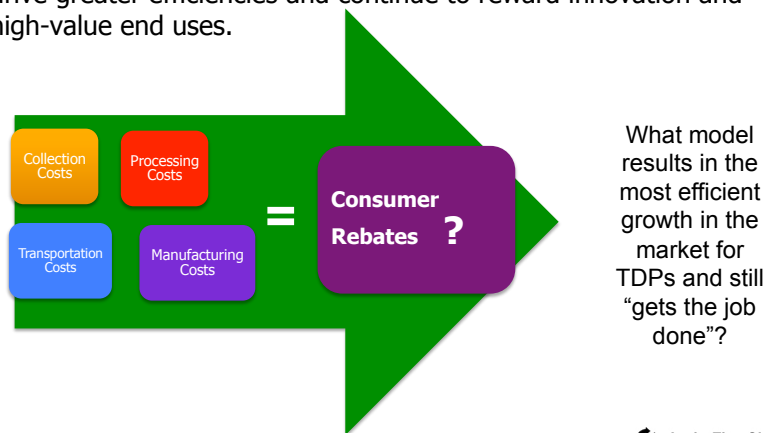
When designed, the Ontario Used Tires Program adopted an approach that resulted in OTS becoming the "payor" at all stages of the used tire supply chain.



This approach most closely reflected the existing market conditions and resulted in the least market disruption.

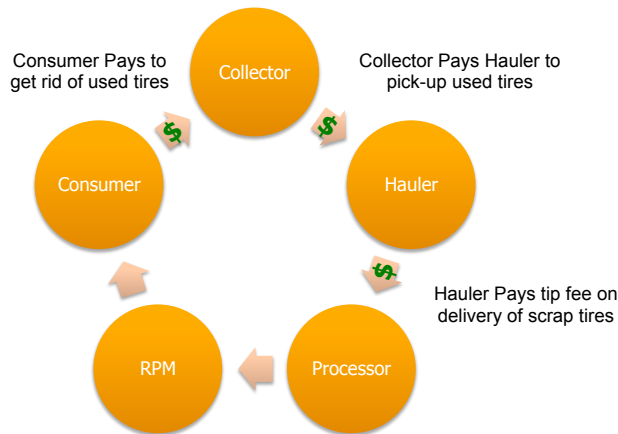
OTS Incentive Program Design

As the Ontario market has evolved, OTS is revisiting the overall incentive program structure to assess whether there are opportunities to redesign the incentives to reflect market condition, drive greater efficiencies and continue to reward innovation and high-value end uses.



OTS Collection Allowance

- Pre-Program used tire economics



This system creates an incentive to move scrap tires to the lowest cost (and generally value) disposal option.

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OTS Collection Allowance

- In looking at best practices in other jurisdictions, it was evident that the Used Tires Program (UTP) needed to remove the economic barriers to the high-value recycling of scrap tires and the incentives to dispose of tires at the lowest possible cost.
- The Minister's Program Request letter specifically directed that collectors participating in the program not charge an additional fee to consumers for the management of tires following the removal from a vehicle.
- To achieve this, OTS proposed to introduce a Transportation Incentive Model that would eliminate the costs to collectors of having used tires picked-up, and a Processing Incentive that would eliminate Tip Fees charged to Haulers.
- OTS took the position that this should be sufficient to achieve the goal of removing the rationale for collectors to charge a disposal fee to consumers, and that it represented a significant benefit to collectors in the form of avoided cost.

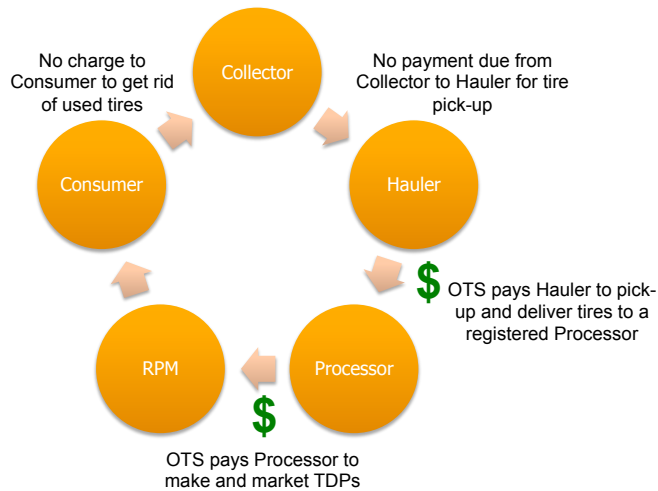
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OTS Collection Allowance

- Draft-Program used tire economics



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OTS Collection Allowance

- The Minister's Program Request letter also directed that the Used Tires Program include all aspects associated with the management of used tires once they are removed from a vehicle, including (...) collection...
- Collectors made the case that pre-program disposal fees charged to consumers provided a revenue stream that would be lost under the program (given the prohibition on Collectors charging disposal fees) and that OTS had to replace this lost revenue to address costs borne by collectors collecting used tires;
- The Ontario Tire Dealers association (OTDA) undertook a time and motion study that quantified the costs incurred by dealers in handling tires once removed from vehicles / rims, and subsequent to negotiations between the Dealers and OTS, it was agreed that OTS would pay registered Collectors \$0.88 for every tire collected < or = 1 PTE, and \$3.05 for every tire collected > 1 PTE.
- Ontario is the only Canadian Tire Stewardship program that pays collectors to collect tires.

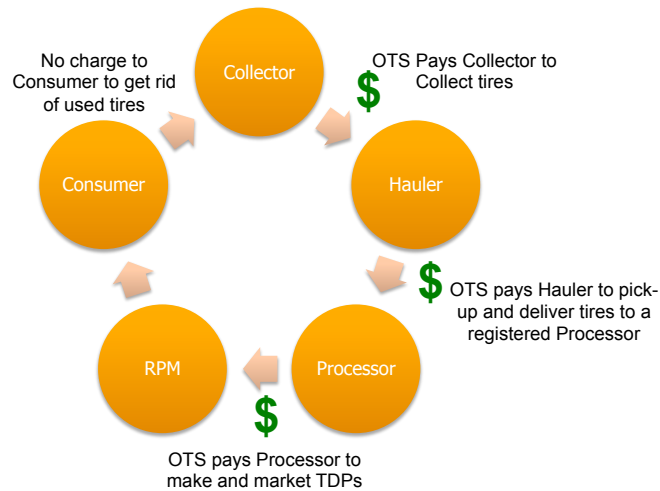
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OTS Collection Allowance

- Program used tire economics



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OTS Collection Allowance

The positive capacity developments in the Ontario market have resulted in a significantly changed used tire market in Ontario that has resulted in significant changes in the economics of used tire management:

- The number of Haulers serving the Ontario market has expanded by over 300%, increasing competition among Haulers for Collector accounts
- The rapid growth in Processing capacity (we have gone from approximately 60% capacity pre-program to well over 100% capacity in 2012) has resulted in a highly competitive market for scarp tires
- There is a growing incidence of Haulers (these payments estimated to be \$2-\$2.5 million in 2012) paying Collectors for tires in order to secure tire supply for Processor customers.

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OTS Collection Allowance

As a result of these market changes, which have resulted in Collectors being able to effectively "sell" their tires to the market, OTS is proposing to reduce Collection Allowance Rates by 10% effective July 1, 2013:

Tire Size	2012 CA Rates	CA Rates effective July 1, 2013
< or = 1 PTE	\$0.88 / tire	\$0.79 / tire
> 1 PTE	\$3.05 / tire	\$2.78 / tire

OTS Incentives – Policy & Procedure Update

As market conditions shift, OTS has identified reporting and compliance issues that have a material financial impact on the program. As a result, OTS will be introducing some changes to the Collector Agreements and Collection Allowance Claims procedures:

- Tire Quantity justification: All stakeholders have a responsibility to ensure reported tire quantities are accurate. OTS will be strengthening its audit program and enforcing the requirement that stakeholders be able to support quantities of tires being reported on OTS manifests
- Spot inspections: OTS will be beginning a program of spot inspections at Collectors, Hauler and Processor yards to validate quantities of tires being picked-up and delivered with information reported on manifests
 - In the event of significant differences, OTS may deny loads from being eligible for incentive payments
 - Repeat issues may lead to stakeholder suspension and/or termination

Timelines and Expectations

- Feedback on the consultation is very much appreciated
- February 6th, 2013 (17:00) – Deadline for comments and questions by Collectors on Proposed changes
- February 20th, 2013 – Stakeholder Consultation Report released
- July 1st, 2013 – New incentive rates implemented for the OTS program