

Ontario Tire Stewardship 2012 Consultation Report

November 5th, 2012

Final

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BACKGROUND

On February 9th 2012 the Minister wrote to Waste Diversion Ontario (WDO) directing them to work with Ontario Tire Stewardship to implement a costs recovery model and approach to manage any accumulated program debt / surplus. The potential implications of this direction, and inevitable comparisons with the direction the Minister provided in the Regulation applying to the Municipal Hazardous and Special Waste (MHSW) program, caused Stewards to express serious reservations regarding the implications of this direction on the Used Tires Program.

Following a subsequent letter from the Minister on March 7, 2012 inviting Stewards/OTS to make further submissions on alternative approaches to achieving the objectives of full cost recovery and elimination of the deficit stewards and other stakeholders have worked to formulate an industry consensus that could achieve the Minister's objectives in a way that minimized market disruptions, protected the financial integrity of OTS and kept the Ontario tire program as one of the most successful diversion programs in Canada. In this letter the Minister expressly acknowledged that the Government was prepared to listen to alternate solutions on how to address accumulated surpluses and deficits, and could provide flexibility on the length of time required to pay off the deficit.

Stewards have a vested interest in seeing a reasonable solution to the current issues within the Ontario Used Tires Program. Stewards are looking for a balanced, sustainable program with predictable and manageable costs going forward and in doing so, are willing and able to take full accountability for solving the problems of the past, without prejudice and without acknowledgement of any financial obligation of past program deficits.

Stewards are opposed to retrospective¹ billing as regulated in the MHSW program as it does not provide the level of certainty that they require in their businesses. That said, Stewards have a genuine interest to find solutions that can work for all stakeholders because they feel it is important to demonstrate the industry can work together to solve its own problems, which is the true mark of industry stewardship.

The surplus on on-road tires can and must be reduced and will result in a reduction in Passenger & Light Truck tire stewardship fees. Similarly, the structural deficit in OTR needs to be curtailed by increases in the rates applicable to these products.

The Stewards do not support a Quarterly billing approach as it is too bureaucratic, complex and inefficient. That said, stewards can support an annual reconciliation that would effectively achieve the same objective of full cost recovery but would be less disruptive to the market.

FULL COST RECOVERY PROPOSAL

¹ A retrospective law is one that is to take effect, in point of time, before it was passed. It is the Stewards' position that the creation of a liability for Stewards associated to the accumulated debt that applies to tires they supplied in previous years and that was not contemplated in the Rules for Stewards in effect at the time the supply was made is retrospective.

Stewards could support, on a go forward basis, a full cost recovery funding model that includes monthly per unit fees to Stewards for the calendar year based on their supply into the market. In addition, Stewards could accept an annual reconciliation at the end of the fiscal year to address any variance between the amount paid by Stewards and the actual program costs. The reconciliation would be debited to the Steward's account, proportionately based on market share, calculated using actual supply during the period.

This proposal gives Stewards cost certainty after the annual reconciliation and therefore does bring an element of risk to Stewards, but it is deemed a manageable risk and a reasonable compromise. This full cost recovery model respects the Minister's desire to ensure cost recovery and will eliminate the prospect of future deficits and surpluses.

Based on the discussion OTS would annually calculate Tire Stewardship Fees (TSFs) based on prior year actual costs and prior year actual reported supply. Stewards would remit the appropriate TSFs monthly, based on units supplied into the market (as is the current practice). At the end of the year OTS would undertake a reconciliation of actual costs compared to remittances by Stewards and any Deficits / Surplus would be recovered / returned from Stewards through an invoice or refund payment.

This model also assumes the elimination of the tire category "silos" in the Used Tire Program, resulting in a more equitable cost calculation model based entirely on cost per PTE (Passenger Tire Equivalent), meaning the TSF is entirely a function of the tire's weight, and not whether it is an on-road or off-road tire. Note, this does not imply the elimination of the tire group categories for the purposes of reporting and remitting the TSF.

STARTING PRINCIPLES

In developing the Cost-Recovery Revenue and Debt Abatement Methodologies OTS followed a series of principles that it believes are central to the success of any proposal:

1. Respects the Policy Direction of the Government of Ontario

The Minister of the Environment has issued direction that all Industry Funding Organizations (IFOs) are to implement a cost-recovery revenue model and a process for managing accumulated surpluses and or debts. It is our understanding that the Minister seeks to ensure the financial sustainability of the programs and believes this approach to be an effective way of achieving this objective.

2. Treats all Stewards fairly and is consistent with the principles of Extended Producer Responsibility (EPR)

In order for any revised revenue or debt recovery approach to be successful it must not "pick" winners and losers by virtue of its design. The methodology and its implementation must not create inequities among Stewards that can lead to an unequal sharing of the costs of delivering the program. Any

Methodology must also be developed in consultation with the Stewards, and must consider their business imperatives.

3. Provides Transparency and predictability for Stewards

Stewards have consistently advocated for a program funding model that provides transparency and predictability of costs and funding. The Stewards accept their responsibility under the principles of EPR and the Waste Diversion Act to ensure appropriate end-of-life management of used tires, however in accepting this responsibility they have stated that they need to be able to forecast and understand how the program costs may develop and change over time, as they do with any costs to their business.

4. Affects the market in a fair manner and does not cause perverse impacts

Any revenue and debt methodology must ensure that its design and implementation does not cause undue market disruption, or create perverse impacts which may lead to Stewards bearing unequal burdens for funding the program, or to fund the obligations of free-riders or non-compliant organizations.

5. Provides financial sustainability for the Ontario Used Tires Program

Stewards share the commitment of the Minister to the continuation of the program, and recognize that this requires that a sound financial foundation be established from which to go forward. This includes not only the creation of a revenue methodology that provides a sustainable funding source but also the resolution of the accumulated Off-Road Tire program debt. Only by resolving these two issues in unison, and respecting the other 4 principles, will the sustainability of the program be ensured.

ENHANCED CONSULTATION

Engagement with Stewards regarding potential changes to the revenue model, and the development and implementation of a debt repayment approach, has been a long-standing imperative of OTS, and a requirement of the Waste Diversion Act. This existing commitment to a robust consultation process was enhanced by adding a consultation track targeting tire end-users, in particular end users of Off-Road tires given the implications of the move to full cost recovery and debt repayment.

This “Enhanced Consultation” (so-called due to the inclusion of the tire end-users, who historically had not been directly engaged in program funding consultations) was undertaken due to the recognition of all parties that the existing commercial relationships between Stewards and their customers were such that TSFs would likely continue to be passed along, either visibly or invisibly and therefore there would be a potential for impact on these stakeholders that needed to be captured as part of the consultation process.

Furthermore it was determined that the tire end-users did not in general have sufficient information about the nature of the Ontario Used Tires Program to fully participate in the diversion process, and so

engaging them in the consultation process was essential to garnering their support for the objectives of the Ministry in requiring the program be implemented, and OTS in operating the program. A complementary objective was to educate the tire end-users about the benefits the program could offer their organizations: no-cost management of on-going used tires flows; clean-up support for legacy used tires; and certainty surrounding the final disposition of their used tire waste stream.

On August 9th 2012 OTS held a full-day of consultations with a variety of stakeholders. In the morning session OTS presented an in-depth review of the proposed Cost-Recovery and Debt-Repayment approaches to Stewards and in the afternoon OTR tire end-users were presented a similar, though more high-level, review as well as an overview of the waste diversion policy approach of the Government of Ontario, the legislative and regulatory frameworks and obligations of Stewards and OTS, and a discussion of how the Ontario approach differs from that in other jurisdictions.

CONSULTATION FEEDBACK

A full list of the questions asked at the consultation session and the written submissions received by OTS following the session, along with the OTS responses, is included in the Appendices to this document. The following section outlines the high-level themes of the queries received from each stakeholder group.

Stewards

Stewards main concerns can be grouped into three main categories:

1. What is OTS doing to control costs?
2. How is OTS ensuring a level playing-field in Ontario?
3. Is the Revenue and Debt approach consistent with the principles of the Act especially regarding the prohibition against cross-subsidization?

In both the consultation presentation and in follow-up communications OTS addressed the first two concerns of Stewards in detail, outlining the measures already undertaken to reduce administrative costs (office space, staff costs and vendor / system changes) and has indicated that the organization is already looking to the future and is undertaking a strategic review of the incentives paid under the program to identify how the incentive structure may be revised to ensure continued achievement of the program objectives while reducing overall costs per tonne diverted.

In the consultation OTS has also outlined its engagement with the Ministry around investigation and enforcement support from the Government (required given the absence of these powers within the organization). Stewards have continued to express their frustration at the seeming growth in the occasions of free-riders being able to operate with impunity, and OTS has identified this as an area requiring more focus and support from the Ministry. While a past pilot project generated positive

results, progress since then has been unsatisfactory and OTS is pushing for significantly more support from the Government going forward.

OTS did note that this issue was increasingly important given the proposed TSF rate increases and that it would be redoubling its efforts to secure the requisite investigative support from the Government to ensure compliant Stewards are not adversely impacted by free-riders.

The last area of concern regarding the issue of cross subsidization is one that has generated significant on-going discussion. Section 32(2) outlines for what purposes OTS may use funds paid by Stewards including :

1. *To pay the costs of developing, implementing and operating the waste diversion program.*

Stewards inquired whether the proposal to gradually repay the accumulated surplus On-Road tire Stewards in the form of reduced TSFs at the same rate as Off-Road tire Stewards were repaying the accumulated debt (the surplus being used to bridge the debt until such time as it is repaid) was in effect cross-subsidization. It is the position of OTS that as the surplus will be returned to the Stewards who paid into it (albeit in the form of reduced TSFs and over time) that the organization is maintaining true to the spirit of the Act and is acting in the best interests of the program overall, and therefore all Stewards, by managing the surplus reduction in a prudent manner that will not impact the sustainability of the program.

There were certain categories of Stewards seeking a refund of surplus amounts from OTS, however this approach implies certain risks including a negative impact on the on-going operation of the program (as this would require the OTR tire program debt to be repaid in one year, resulting in a significant financial impact on these Stewards and the sector) and a potential negative reputational impact as consumers could interpret this as being a windfall for companies for which they paid the fees at the end of the supply chain.

Overall Stewards seemed to approve of the approach with the caveat that OTS must be mindful of any potential market impacts as it is implemented.

OTR Tire End-Users

During the Consultation session and in subsequent submissions from OTR tire end-users the following themes came up as the primary areas of concern:

1. The overall level of engagement and involvement of OTR tire end-users in program development and operation.
2. Consideration of the implications and costs of the Government's policy direction regarding the diversion of used tires.

3. The viability of the OTR tire diversion program given the current financial situation.

OTS noted that at the time the program was developed the direction from Government was that the Industry Finding Organizations (IFO's) should not engage in direct discussion with end-consumers as the program fees were the responsibility of the Steward and how they managed these costs through their supply chain was outside the purview of the IFO's.

Since that time there has been a significant evolution in the thinking regarding the role of the consumer (be they individual, institutional or commercial) and the extent to which the IFO's should be engaging them in discussion regarding the diversion programs. In the case of the Ontario Used Tires Program this latest round of consultations are the first since this new direction regarding "consumer" engagement was embraced by the Government and WDO.

The governance of the program is determined in Regulation and is structured such that the various major Steward sectors (tire manufacturers, tire retailers and equipment manufacturers) appoint members to the Board. OTS does include many non-Steward stakeholders in various formal and informal committees, and constantly seeks to understand the impact of the program and the program costs on the entire supply chain.

The question of the policy direction to divert used tires to the highest value-added end uses, and the resultant program cost impact, were the subject of concern from OTR tire end-users. The general sentiment was that if the Government wished to provide policy direction that mandated the diversion of used tires to other than the lowest cost options these incremental costs should not be borne by the program or the end-users, but instead funded by the Government itself.

OTS noted this concern, but also pointed out that it was charged with developing and operating a program that complied with the parameters set-out by the Government. The restrictions on sending used tires to landfill or to be used as a fuel are in the Waste Diversion Act (Section 25(2)) and in the Minister's Program Request Letter of August 2008:

The program should place a priority on the diversion of used tires into higher end uses whenever possible, based on the principle of the 3Rs [reduction, reuse (i.e. retreading where feasible) and recycling]. Landfilling, the use of used tires as daily cover at landfills, or incineration, shall not be part of the program unless the 3R options are not available or not technically feasible.

The program should also seek to foster the development of green technology and a green economy in its efforts to develop and promote an Ontario-based market for recycling and recycled products that can be made from scrap tires.

- Ontario Minister of the Environment – Program Request Letter to the Chair of Waste Diversion Ontario, August 2008

Any change in this policy direction would have to come from the Minister as requesting such a change is not within the mandate of OTS, but could be brought forward by the Stewards directly to the Government.

This discussion also led the OTR end-users to inquire whether OTS had undertaken any broader socio-economic impact analysis of the implementation of the program and revised OTR tire TSFs on end-user sector businesses / employment. OTS has advised that such an impact analysis is beyond the mandate or resources of OTS. The market impact analysis undertaken by the organization is limited to the impact of the TSF on the market for new tires, and the impacts of the incentives paid by OTS into the used tires market.

OTS did however undertake an investigation of how the revised OTR tire TSF's compared to the pre-program disposal fees paid by end-users (these having been eliminated by the introduction of the program) and concluded that overall the TSF rates were comparable to these disposal fees, suggesting the marginal impact of the TSF rate changes are manageable by the affected industries.

Given the significant increases in TSFs being proposed by OTS several Stewards commented that there should be a review of whether a diversion program for OTR tires was in fact economically viable. While acknowledging that the OTR TSF rate increases are significant OTS again returned to the analysis of pre-program disposal fees, for comparison. Given the comparability of these costs (Disposal fee vs. TSF rate) even when including a factor for a reasonable debt repayment schedule OTS does not consider the possibility that the TSF rates will lead to severe market dislocation as being a significant risk.

OTS August 2012 Consultation Session Questions & OTS Responses

Stewards Consultation session

1. What mechanisms are in place to minimize cost? (to not pass cost on persons as per third slide)

OTS has undertaken a number of actions to reduce operational costs that have resulted in significant savings to the program. Additionally OTS is undertaking a review of the overall incentive model and rates and intends to develop a multi-year plan to gradually adjust the incentive program to reduce overall “incentive \$ / tonne of diversion” program cost. OTS anticipates commencing consultations on the proposed changes in early 2013.

2. Does the diversion calculation include tires not sold in Ontario?

OTS only calculates diversion using information on tires supplied into Ontario, and on Ontario tires diverted through the program. While there is a possibility that small quantities of used tires from neighboring jurisdictions are entering the province and the program the overall “mass-balance” (tires supplied = tires diverted) does not indicate any substantive activity of this type.

3. What is cost per tonne supply? What does this term mean? How did you come to these numbers? How are tires handled that are brought back into Ontario?

This figure is the program cost divided by the tonnes of tires supplied into the province (and therefore is an expression of how OTS calculates the Tire Stewardship Fee).

Tires from outside the province are not to be captured in the program, either when supplied or when diverted.

4. Has there ever, or currently, a tonnes processed greater than the one supplied?

In the first year of the program OTS diverted more tones of both Medium Truck and Off-Road tires than were supplied into the province. This was expected as prior to the program launch Collectors were known to be holding onto tires in order to avail themselves of the no-charge pick-up offered by the program.

5. If the assumption originally was 80,000 for OTR, how close was that number to actual and what was the number not changed earlier?

Actual supply in 2010 was approximately 14,800 tonnes, in 2011 was approximately 20,800 tonnes and for 2012 is currently forecast to be approximately 25,400.

OTS recognized in mid-2010 that the OTR tire supply number assumed in the approved Plan was significantly overstated. Discussions in 2012 and again in 2011 to adjust the supply number used for TSF-setting to reflect actual supply were unsuccessful due to concerns regarding the implications of the TSF increase that would result.

Going forward each year OTS will use actual reported supply of used tires in both the Tire Stewardship Fee calculation and in the annual reconciliation.

6. Why is OTS incorporating a windup scenario?

As with any organization OTS has undertaken a review of its potential liabilities under a variety of scenarios. In examining the implications of program wind-up (essentially the termination of OTS's authority to collect TSF revenues) it is clear that under the terms of the current operating agreements OTS would continue to incur between 3-4 months of operating expenses (outstanding Claims, salaries, Consultant contracts, lease expenses, etc...) and that in the event OTS was unable to meet these obligations Stewards would be liable for the expenses.

OTS commissioned a study by its Auditors (KPMG) to determine what a sufficient reserve would be to meet all OTS's obligations in the event of program termination. KPMG analyzed the contracts and obligations of OTS and determined that (approximately) 4 months of average operating expenses would be sufficient.

7. If OTS was to go down the quarterly billing which involved non-reporting of billing, how would this have been handled?

OTS recognizes that having complete data on the supply of new tires is especially important in a cost-recovery scenario where "market share" is used to assess the funding obligations of a Steward. The cumbersome nature of the quarterly-billing system, coupled with the on-going efforts to ensure full and timely Steward reporting compliance were in part what OTS was addressing in proposing an annual cost-recovery revenue model as opposed to a quarterly one.

OTS continues to work with the Investigations & Enforcement Branch (IEB) of the Ministry of the Environment (MoE) to pursue free-riders on the program and to ensure a level playing-field in Ontario.

8. What does PTE stand for?

"Passenger Tire Equivalent", a standardized unit of measure equal to 10 kilograms.

9. Since the estimate (80,000) was higher than the actual, why haven't the actual cost come down?

In developing the program Plan OTS had assumed an annual supply of 80,000 tonnes, but an annual generation of used tires of approximately 15,000 tonnes which would drive costs for the program. The program estimates of costs and tonnes diverted were much closer to actual than supply. As the TSF calculation is $\$ \text{Costs} / \text{Supply}$ the reduced supply meant that the TSF assessed on the OTR tires was lower than it should have been and therefore revenues were insufficient to meet the OTR tire program costs.

10. Should there not be an additional revenue stream into the program?

OTS provides incentives to companies that collect, transport and recycled used tires. We do not recycle them ourselves nor do we generate revenues from the sale of the products from this recycling. Our incentives are intended to be a stimulus to the tire recycling industry in Ontario to develop the additional capacity needed to manage 100% of Ontario's used tires.

11. Why does the greenest part of the industry (MT's) not get a benefit from being the most green (due to retread etc.)?

While retreading does not receive a direct incentive from OTS the program design provides a net incentive to retreading by not applying the TSF to retreaded and/or reused tires. This affords a reused or retreaded tire an effective incentive of between \$293 and \$584 / tonne.

12. Where is the incentive to be green if we are equally distributing the cost across the industry?

The Used Tires Stewardship program, while a progressive and innovative approach to driving higher-value added recycling of used tires, is by design an initiative that does not pick "winners and losers" and continues to allow free market economics to shape the used tires market. OTS provides incentives based on positive outcomes, but it remains up to the industry players on both the new tire and recycling sides of the equation to innovate in their own businesses to maximize the benefit they receive by being more efficient, more cost-effective and better performing.

13. What does the \$27 million dollar actually consist of? What is the reserve amount? Is the \$27 million net? Is the \$27 million reduced after the reserve has been taken into account?

The surplus that OTS is forecasting to have at the end of 2012 on the on-road tire portion of the program is held in part in cash (approximately \$8 million at the end of 2012) while the rest is an "accounting surplus" attributable to the on-road tire portion of the program (i.e. it is the amount of the excess of the revenues over expenses accumulated since program launch), but does not represent an overall surplus of Used Tire Program revenues over expenses.

At the end of 2012 OTS is forecasting to have deposited approximately \$20 million in the Operational reserve.

14. Where does the Minister have the authority, or does he, to impose the debt proposal?

Under Section 7 of the Waste Diversion Act the Minister may establish policies applicable to Waste Diversion Ontario (and by extension the Industry Finding Organization) under Section 7 of the Act. For

further interpretation of this section please contact either Waste Diversion Ontario or the Minister of the Environment.

15. Why are there no end-users on the board as the end-user takes the brunt of the fees?

The Governance model for the Used Tire Program Board is spelled out in Ontario Regulation 84/03 under the Waste Diversion Act. The Board is comprised of members appointed by organizations representing the major Steward groups (Original Equipment Manufacturers, Brand Owners and First Importers of tires) as these are the parties identified in the Program Plan and the Rules for Stewards as having the most direct commercial connection to the supply of new tires and as being obligated to report on their supply of new tires and remit the appropriate Tire Stewardship Fees. In the event that a Steward does not comply with the Rules they may be subject to penalties and or enforcement action by the Ministry of the Environment.

16. Has there been any enforcement implemented by OTS and has it worked?

OTS has undertaken a pilot project with the Investigations & Enforcement Branch which looked at a selected group of organizations OTS believed to be Stewards. The pilot was successful, several were found to be Stewards and came into compliance (including the payment of all outstanding Tire Stewardship Fees and applicable penalties) with the program Rules, a number of others were found not to be Stewards and so were stricken from the list of potential Stewards.

17. Where can the annual report be found?

The OTS Annual Report can be found on both the OTS and WDO websites.

18. Can additional reports be requested (ex. Broken up by tire types) – You mentioned you’d look into what we can disclose.

Under the new cost-recovery methodology OTS will provide additional reporting to Stewards on specific program areas on a quarterly basis so Stewards may assess progress being made by OTS on overall program expenditures as well as on addressing historic surpluses and deficits. OTS is prepared to work closely with Stewards to determine whether additional reporting may be of interest/benefit to Stewards.

OTR Tire End-Users

1. In regards to fees, is OTS legally mandated to provide a subsidy of downstream to the processors, or did OTS elect to do so?

OTS is required by the Waste Diversion Act and the Minister of the Environment’s Program Request Letter to develop, implement and operate a Used Tires Program that drives the higher-value added diversion of used tires and *“...sees(s) to foster the development of green technology and a green economy in its efforts to develop and promote an Ontario-based market for recycling and recycled*

products that can be made from scrap tires.” (Ontario Minister of the Environment Program Request Letter to the Chair of Waste Diversion Ontario, August 14, 2008)

2. Does OTS mandate if the fee is passed down to the end-user?

OTS does not mandate, nor does it have any authority to dictate, the management of the program costs by the Steward once they have complied with their obligation to report and remit to OTS on their supply of new tires into Ontario.

3. The subsidy for the industry that does not exist at the will of the government is being forced upon their sectors. If the government wants to subsidize these downstream processors/manufacturers, why doesn't the government pay for it?

The Government of Ontario has embraced a policy approach called “Extended Producer Responsibility” in which the party with the closest commercial connection to the creation of a product is made to bear the responsibility for ensuring that the product is managed appropriately at its end of life. In the case of the Ontario Used Tires Program the Stewards are the party designated as being responsible, however how they in turn manage the costs imposed on their business (by passing along a fee, or a price increase, or absorbing it as a “overhead” cost) is entirely their decision.

In the Ontario Waste Diversion Act (Section 25(2)) there is a prohibition against disposing of a designated waste, and this is revisited in the Ministers Program Request letter (*Landfilling, the use of used tires as daily cover at landfills, or incineration, shall not be part of the program unless the 3R options are not available or not technically feasible*).

Questions regarding the funding obligations of government in support of its policy objectives should be directed to the Minister of the Environment.

4. In other provinces, for off-road, are they running at a deficit?

In the Used Tires Program operating in other jurisdictions revenues from on-road tires are used to subsidize the costs of recycling off-road tires to ensure sustainable funding for the recycling programs. In addition other programs do not have the same prohibition on sending recycled tires to low-cost end-uses such as landfill cover and/or fuel.

5. Given the challenges of diverting off-road tires in other provinces , why would Ontario decide to go ahead with taking on the OTR tires as well?

The Minister in his 2008 Program Request Letter directed OTS to launch the program and include OTR tires, input from OTS was not factored into the timing.

6. Is there information available that would provide the administration costs vs. collection/transportation subsidies to processor/manufacturers?

These costs are broken out in the OTS Audited Financial Statements in the Annual Report.

7. Could the cost structure (i.e. audit financials) be more transparent in detailing the cost of the off-road category?

Under the new cost-recovery methodology OTS will provide additional reporting to Stewards on specific program areas on a quarterly basis so Stewards may assess progress being made by OTS on overall program expenditures as well as on addressing historic surpluses and deficits. OTS is prepared to work closely with Stewards to determine whether additional reporting may be of interest/benefit to Stewards.

8. What was the thinking behind needing to incent the increase of capacity for recycling within Ontario?

The Minister's direction in the Program Request Letter was specific on the need for the focus on Ontario-centric recycling and development. At the time the program was introduced Ontario's recycling capacity was sufficient to process approximately 50% of the annual scrap tire generation. The OTS incentive programs were designed to stimulate the development of incremental recycling capacity to be able to recycle 100% of Ontario's scrap tires.

9. Was there any socio-economic assessment done to see how many green jobs were created compared to those lost in Ontario because of high cost change?

OTS's market analysis was limited to the impact on the tire recycling industry, and on the market for new tires. An analysis of impacts on end-user sectors (forestry, mining, construction) is beyond the mandate and scope of OTS.

However the analysis of pre-program costs borne by these end-users in having their used tire managed through the free-market system indicates that there is not a substantial variance between the costs of such a free market management approach and the overall program costs.

10. Can you provide a link to the financials?

The OTS Annual Reports for 2010 and 2011 can be found on the OTS website under the "resources" section, <https://www.ontariots.ca/?q=Resources#regis> .

11. OTS has included the off-road segment in the program, during the onset of the program, full details were not available for estimates. Now that there is a financial debt for OTR's, is there, or would there be an option for OTS to not move forward with the OTR program?

The direction from the Minister was that OTR tires must be included in the Used Tires Program. It is beyond the mandate of OTS to terminate its management of OTR tires, and even if OTS were to take such a decision the obligation for WDO to ensure that there continues to be a stewardship program for OTR tires that meets all the same performance and policy objectives as current would remain.

12. How were the end-users reached out to for this session?

In addition to outreach to the industry associations OTS had identified as representing impacted end-user sectors OTS also engaged a number of top OTR tire Stewards and requested contact information for key customers to invite to this session. E-mail, personal phone calls and meeting invitations were sent to a number of these end-users.

13. The Minister's letter to the Chair of WDO (dated Feb 9) references a review of the incentive programs. On this issue, I am wondering if:

- a. Consultation with stewards and end-users was ever conducted?

No, the incentive review undertaken by WDO (though a contract with KPMG) as requested by the Minister was intended to assess the impact the incentives were having on the used tires market, not on the impact they were having on the end-users who may have the program costs passed down to them by a Steward. Consultations were held with Stewards, Collectors, Haulers, Processors and Recycled Product Manufacturers.

- b. Could you send the recommendations provided to the Minister from WDO?

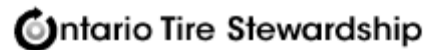
The KPMG Report on the Used Tires Program Incentives has not yet been released. Once it is it will be available on the WDO and OTS websites.

- c. Have any decisions been made on this issue?

No decision regarding changes to the incentive programs have yet been made.

Appendix B

OTR TIRE END-USER CONSULTATION SESSION AGENDA



Ontario Tire Stewardship OTR Tire End-User Consultation Session
Thursday, August 9th, 2012
14:00 – 17:00

Toronto Airport Marriott Hotel
901 Dixon Ave., Toronto, Ontario M9W 1J5

Webinar Link <https://www.themeadow.com/join/ontariostewardship/otr-tire-stewardship-consultation-aug-9-2012?code=0804>

Meeting ID : **Steward Consultation Aug 9 2012**

Call-in Numbers 416-343-2285 or 877-969-8433, Conference ID 4467765

For issues in joining the meeting via webinar e-mail info@ontariots.ca

Agenda

1. Introductions
2. The Ontario Waste Diversion Policy Framework
3. Who is OTS and What is its mandate
4. How is the Ontario approach different from those in other provinces
5. Purpose of this session
6. Tires explained
7. Ontario Used Tires Program Status Update
8. Minister's February 9th, 2012 Direction to WDO
9. OTS revised revenue and debt repayment proposal & Fees
10. Program efficiency
11. Stewardship options
12. Next steps
13. Questions
14. Adjourn

Appendix C

STEWARD CONSULTATION SESSION PRESENTATION

OTS 2012 Used Tires Program Consultation Steward Session

August 9th, 2012

For issues in joining the meeting via webinar e-mail
info@ontariots.ca

Agenda

- The Ontario Waste Diversion Policy Framework
- Who is OTS and What is it's mandate
- Ontario Used Tires Program Status Update – Diversion & Finances
- Minister's February 9th, 2012 Direction to WDO
- OTS Revised revenue & debt repayment proposal
- New tire definitions & weights
- Steward compliance
- Steward reporting
- Program efficiency
- Next steps
- Questions

Introduction

- The Waste Diversion Act (WDA)
 - Waste Diversion Ontario's role
 - Industry Funding Organizations' role
 - Ministry of the Environment's role



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Waste Diversion Act, 2002

The *Waste Diversion Act*, 2002 (Ontario)

- WDA creates Waste Diversion Ontario and provides authority with respect to waste diversion programs
- WDO operates within the context of the WDA and the Operating Agreement between WDO and the Province of Ontario, represented by the Minister of the Environment
- WDO is a corporation without share capital composed of the members of its Board of Directors



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Waste Diversion Act, 2002

- WDA sets out the respective responsibilities of the Minister, WDO and industry funding organizations (IFO's) in waste diversion
- WDA grants power to IFO's to make rules, e.g. with respect to fees, and power to the Minister to make regulations



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Waste Diversion Ontario's Role

- WDO has the following principal responsibilities:
 - develop and operate waste diversion programs/monitor the effectiveness and efficiency of the programs
 - ensure that waste diversion programs “affect Ontario’s marketplace in a fair manner”
 - conduct public consultations on any matter referred to WDO by the Minister
 - Advise or report to the Minister on any matter referred to WDO by the Minister



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Waste Diversion Ontario's Role

- WDO is required to develop waste diversion programs “in cooperation with” an IFO
- WDO also has responsibility for approval of industry stewardship plans, i.e. alternative to waste diversion programs and IFO structure
- WDO attempts to mediate complaints by stakeholders, e.g. processors/collectors, against IFO's concerning unfair market impacts



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Role of the Industry Funding Organization (IFO)

- IFO's run the programs development in cooperation with WDO
- IFO's recover costs from Stewards, i.e. brand owners and first importers of a designated waste
- IFO's are required to recover costs to defray all costs of the IFO, WDO and MOE related to waste diversion programs
- IFO's operate in the context of the WDA and a Program Agreement between the IFO and WDO



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Who is OTS and What is it's mandate

Ontario Tire Stewardship (OTS) is the not-for-profit corporation created by Ontario Tire Stewards to develop, implement and operate the Used Tires Stewardship Program.

The requirement for the program came from the Minister of the Environment, and the obligation for Stewards is also regulatory, but OTS is not a government body.

OTS is governed by a Board comprised of Members appointed by organization representing the major Steward groups.



Ontario Tire Stewardship

The Used Tire Regulation sets out governance:

9 Directors (voting) appointed as follows:

3 members from RAC

2 members from Ontario Tire Dealers Assoc.

2 members from Retail Council of Canada

1 member* from Cdn. Vehicle Mfr. Assoc.

1 member* from Assoc. of Int'l. Auto Mfr. of Canada

— Observer (non-voting)

- Representative, Waste Diversion Ontario

* Has not formally accepted to join the OTS Board



Minister's Direction 1...

- Program Request Letter (PRL)
 - Received by WDO on August 14, 2008
 - Directed WDO to develop program with existing IFO or incorporate new IFO
 - *Stipulated that brand owners & first importers be Stewards*

Minister's Direction 2...

- All motor vehicle tires, incl OTR, Farm, Ind.
- Priority on diversion
 - Higher end uses whenever possible
 - Promote Ontario-based market for recycling & recycled products i.e. green technology
- Disposal not part of program unless 3Rs options not available or technically feasible
 - Landfilling including use as daily cover
 - Incineration including use as fuel

Tires

The Minister's Program Request Letter gave direction to OTS to *"address the diversion of all motor vehicle tires including "off the road" OTR tires, industry and farm vehicle tires that are supplied into the Ontario Market."*

Some exclusions: tires on or for toys, bicycles, personal mobility devices and commercial aircraft.

Minister's Direction 3...

Program to include all aspects associated with management of used tires once removed from vehicles including

- Handling
- Storage (temporary or otherwise)
- Collection
- Transportation
- Reuse
- Processing
- Recycling
- Disposal

Minister's Direction 4...

- Program should be
 - Consumer-focused & user-friendly
 - Available across the province
 - Accessible to all Ontarians
- Retailers participating in program
 - Shall not charge consumers an additional fee for tire management following removal from vehicle
- Any Stockpiled tires must be abated

Ontario Used Tires Program Status Update

Diversion Performance

- Diversion Targets in Approved Plan
 - On-Road Tires – 90%
 - Off-Road Tires – 50%

(Tonnes)	2010				2011		
	PLT	MT	OTR		PLT	MT	OTR
Supply	100,458	33,186	14,325		98,958	37,559	20,831
Collected	93,598	36,982	17,483		92,771	34,042	29,183
Reuse	9,738	3,684	1,583		13,174	5,759	2,102
Diversion	96%	115%	150%		96%	93%	76%*

***NOTE:** 2011 OTR tire diversion performance likely higher than stated due to reporting timing and used tire weight discount impacts reducing stated diversion %

Ontario Used Tires Program Status Update

OTR Program Financial Position

Year	On-Road Tire Program Surplus/ (Debt)	OTR Program Surplus/(Debt)
2009	\$7,000,000	(\$2,617,409)
2010	\$14,000,000	(\$8,316,492)
2011	\$2,000,000	(\$7,685,601)
2012 (Forecast)	\$4,000,000	(\$7,866,454)
Total	\$27,000,000	(\$26,485,955)

OTS has been able to sustain the incurrence of this debt as a result of the On-Road Tire Program running a surplus sufficient to offset the debt. This has been on a cash-flow basis only, separate accounting has been maintained.



Ontario Used Tires Program Status Update

Off-Road Tire Supply Variance & Financial Impact

	2010 Assumed	2010 Actual	2011 Plan	2011 Actual	2012 Plan	2012 Actual (YTD Forecast)
Supply (Tonnes)	80,000	14,323	80,000	20,831	80,000	25,420
OTR Revenue	\$10,655,343	\$1,985,225	Unchanged	\$3,402,536	Unchanged	\$3,533,562
Program Cost (\$)	\$10,655,343	\$9,438,633	Unchanged	\$11,117,849	Unchanged	\$11,432,934
Cost per Tonne Supplied	\$133	\$659	\$133	\$534	\$133	\$450



Ontario Used Tires Program Status Update

On-Road Tire Program Surplus

In 2009-2011 On-Road Tire program revenues exceeded expenses due to:

- Lower than forecasted in-province tire processing (in-province processing drives higher costs than out-of-province processing, somewhat offset by costs of transport to out-of-province destinations)
- Less progress on stockpile abatements due to site access issues
- Lower than forecasted Manufacturing incentive costs (related to reduced processing capacity)

Additionally, due to the revenue shortfall on the OTR Tire program, OTS required the surplus cash flow to bridge the deficits until a sustainable revenue stream for the OTR program was secured.



The Minister's Direction of February 9th, 2012

...I am directing Waste Diversion Ontario, in accordance with Section 7 of the Act, to work with Ontario Tire Stewardship to develop plans to implement a similar (to the one regulated on Stewardship Ontario) **cost recovery and accumulated deficit / surplus recovery approach.**

The Honourable Jim Bradley, Minister of the Environment



The Minister's Direction of February 9th, 2012

Cost Recovery Approach directed by the Minister (in the Regulation applying to Stewardship Ontario):

- **Program costs invoiced to Stewards in arrears based on actual costs incurred and Steward's Market share**
 - Direction to Stewardship Ontario was for Quarterly billing

Invoice \$ Amount to Stewards	=	Program Costs	x	(Steward's Supply of Tires)
					Total Supply of Tires from all Stewards	

The Minister's Direction of February 9th, 2012

Debt Recovery Approach directed by the Minister (in the Regulation applying to Stewardship Ontario):

- **Accumulated debt invoiced out to Stewards based on their market share in the period in which the debt was accumulated**
 - Schedule for payment of debt invoice may be determined by OTS in cooperation with WDO

Debt Invoice \$ Amount to OTR Tire Steward	=	Accumulated OTR Program Debt	x	(Steward's Supply of OTR Tires 2009-2011)
					Total Supply of OTR Tires from all Stewards 2009- 2011	

OTS / Stewards' Response to Minister's Direction

After reviewing the Minister's direction, both OTS and individual Stewards raised significant concerns with the unintended consequences that would result from its implementation including:

- Loss of predictability and transparency for Steward billing of program costs;
- Seasonality of tire supply would result in significant variance in program costs on a per tire or per tonne of tires supplied, causing greater confusion in the market;
- Use of market share data to allocate program costs would result in Stewards bearing varying costs on a per tire basis, depending on the timing of their supply of tires into the market;
- Processing of adjustments to reported Steward supply would result in OTS having to recalculate and reassess Stewards' share of program costs;

OTS / Stewards Response to Minister's Direction (cont'd)

- Revenue and Operational expense timing issues would require OTS to develop a "float" of 6 months operations (approximately \$30 million)

In addition, several Stewards challenged the legislative basis for the imposition of a retrospective obligation, noting that the Waste Diversion Act does not appear to include this authority for the Minister.

Despite the significant concerns, OTS and the Stewards did in general acknowledge that a mechanism for ensuring sustainable program funding, and dealing with the accumulated OTR program debt, was urgently required.

OTS & Steward Revenue Proposal

TSF Calculation & Annual Reconciliation

To address the perceived challenges with forecasting the formula used to calculate the TSF rates will be based on the past year actual costs and past year actual tire supply.

$$\begin{array}{|c|c|c|} \hline \mathbf{2013} & & \mathbf{2012 \text{ Program Costs}} \\ \hline \mathbf{TSF / PTE} & \mathbf{=} & \mathbf{2012 \text{ tire supply in PTEs}} \\ \hline \end{array}$$

At the end of each year OTS will reconcile the revenue received with the actual program costs and will invoice/credit Stewards a portion of this balance based on their share of reported supply (by end of March of the following year)

$$\begin{array}{|c|c|c|c|c|} \hline \mathbf{2013} & & & & \mathbf{Steward 2013 reported} \\ \hline \mathbf{Steward} & & \mathbf{Program} & & \mathbf{Supply in PTEs} \\ \hline \mathbf{Invoice /} & \mathbf{=} & \mathbf{Surplus /} & \mathbf{\times} & \mathbf{Supply Reported by all} \\ \hline \mathbf{Credit} & & \mathbf{Deficit \$} & & \mathbf{Stewards in PTEs} \\ \hline \mathbf{Adjustment} & & & & \mathbf{)} \\ \hline \end{array}$$

 Ontario Tire Stewardship

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OTS & Steward Revenue Proposal

TSF Adjustments going forward 2014 and beyond

At the end of each year, OTS will assess the outstanding surplus / deficit and identify root causes. Based on the results of the analysis, OTS will determine what action(s) may be most appropriate. These may include:

- Increasing or reducing the TSF as indicated by the actual cost recovery methodology (Actual Previous Year Costs ÷ Actual Previous Year Supply);
- Potentially utilizing OTS reserves to stabilize rates in billings to Stewards;
- Exploring ways to adjust the OTS cost structure to curtail the creation of a deficit.

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Revised Debt Repayment Proposal

Debt Stabilization Loan

OTS and Stewards, while rejecting the debt recovery approach proposed by the Minister, acknowledge the necessity to address the accumulated OTR Tire program debt, and to do so in a way that does not create significant adverse effects for the Stewards.

OTS is proposing that the On-Road Tire program provide a no-interest loan to the Off-Road tire program to bridge the debt while it is being paid down over a period of 10 years.

The loan will be repaid by OTR Tire Stewards only, through a combination of additional revenue and savings from program efficiencies.

Revised Debt Repayment Proposal

Draft Loan Repayment Schedule

YEAR	Loan Repayment Target
2013	\$2,000,000
2014	\$2,000,000
2015	\$2,000,000
2016	\$2,500,000
2017	\$2,500,000
2018	\$2,500,000
2019	\$3,000,000
2020	\$3,000,000
2021	\$3,500,000
2022	\$3,500,000
TOTAL	\$26,500,000

Revised Debt Repayment Proposal

Loan Repayment Adjustment

In order to ensure repayment of the Debt Stabilization loan, OTS will annually assess the need to add a "Loan Repayment Adjustment" to the OTR Tire TSFs, over and above the TSF / PTE calculated using the cost recovery methodology (Actual Previous Year Costs ÷ Actual Previous Year Supply).

This will be calculated as follows:

\$ Loan Repayment Adjustment / PTE	=	Prescribed Loan Repayment amount for the Year (\$)
		OTR Supply Reported by all Stewards in PTEs

Tire Stewardship Fees

2012 TSFs Calculated using 2011 Actuals

2012 TSF by Tire by Type			
Tire Type	PTEs / Tire	TSF / Tire	Actual 2012 TSF
PLT	1	\$ 5.30	\$ 5.84
MT	5	\$ 14.65	\$ 14.65
Ag Drive	7	\$ 37.36	\$ 15.29
Small Industrial	2	\$ 10.67	\$ 12.51
Medium Industrial	6	\$ 32.02	\$ 12.51
Large Industrial	12	\$ 64.05	\$ 12.51
Small OTR	19	\$ 101.41	\$ 22.24
Medium OTR	87	\$ 464.33	\$ 97.30
Large OTR	93	\$ 496.36	\$ 104.25
Giant OTR	223	\$1,190.19	\$ 250.20

NOTE: The Industrial Category breakdown presented here is for discussion purposes only and neither the Categories nor the PTE allocations should be considered final

Tire Stewardship Fees

2012 TSFs Calculated using 2011 Actuals and Including a Loan
Repayment of \$2,000,000 (\$0.96 / PTE)

2012 TSF by Tire by Type			
Tire Type	PTEs / Tire	TSF / Tire	Actual 2012 TSF
PLT	1	\$ 5.30	\$ 5.84
MT	5	\$ 14.65	\$ 14.65
Ag Drive	7	\$ 44.08	\$ 15.29
Small Industrial	2	\$ 12.59	\$ 12.51
Medium Industrial	6	\$ 37.78	\$ 12.51
Large Industrial	12	\$ 75.57	\$ 12.51
Small OTR	19	\$ 119.65	\$ 22.24
Medium OTR	87	\$ 547.86	\$ 97.30
Large OTR	93	\$ 585.65	\$ 104.25
Giant OTR	223	\$ 1,404.29	\$ 250.20

NOTE: The Industrial Category breakdown presented here is for discussion purposes only and neither the Categories nor the PTE allocations should be considered final

Ontario Tire Stewardship

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Tire Stewardship Fees

TSF per Tire by Type as compared to pre-program Disposal Fees for Used Tires & New Tire Prices					
	Pre-Program Disposal Fee / Tire*	2009-2011 TSF	2012 TSF based on 2011 Actual Supply and Costs	New Tire Price (Low-Avg-High)	2012 TSF as % of Avg Tire Price
Passenger & Light Truck Tires	\$3 - \$5	\$5.84	\$5.30	\$45 - \$150 - \$300	3.5%
Medium Truck Tires	\$10-\$12	\$14.65	\$14.65	\$300 - \$500 - \$800	2.9%
Agricultural Drive Tires	\$36 - \$72	\$15.29	\$44.08	\$300 - \$1,100 - \$7,700	4.0%
Small / Medium / Large Industrial**	\$18 - \$48	\$12.51	\$10.62 - \$63.71	\$200 - \$350 - \$2,500	2.5% - 5.3%
Small Off The Road Tires	\$46 - \$60	\$22.24	\$119.65	\$700 - \$2,700 - \$6,700	4.4%
Medium Off The Road Tires	\$192 - \$408	\$97.30	\$547.86	\$3,000 - \$6,800 - \$21,000	8.1%
Large Off The Road Tires	\$468 - \$750	\$104.25	\$585.65	\$5,700 - \$13,000 - \$30,000	4.5%
Giant Off The Road Tires	\$750 - \$3,000	\$250.20	\$1,404.29	\$15,000 - \$43,000 - \$100,000+	3.3%

*NOTE: Disposal fees quoted do not include the costs of transportation from a collector or generator site and do not assume comparable diversion outcomes to those mandated for the Ontario Used Tires Stewardship program.

** NOTE: OTS is proposing to separate the Industrial Tire category into Small, Medium and Large for 2013

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Tire Stewardship Fees

GST / HST

In the absence of a Ruling on the taxable status of the TSF, OTS is treating the HST payable on the CA and TI as an expense and is not claiming any Input Tax Credits. This effectively increases annual program expenses by the amount of the tax owing going forward:

For 2012, these costs are forecast to be:

- On-Road Tires : \$3.7 million
- OTR : \$700,000

OTS is continuing to engage the Ontario Government for support to receive a favourable ruling from CRA on the taxable status of the TSF.

Tire Stewardship Fees - Estimated Tire Weights

Through 2010 and 2011, OTS undertook several studies to assess the actual average estimated weights based on New and Used Tires in the Ontario market (New and Used tires average estimated tire weights used in the Plan were based on National average estimates).

As a result OTS identified variances between the average estimated weights used in the Plan and what the data from the field was showing:

- New tire weights were in some cases different
- Used tire weights in some categories had significant discount factors, while in others very little
- Rate of return of Used Tires vs. New supply varied depending on tire type and application

As a result of these investigations, OTS has revised the PTE/tire category assumptions used in the calculation of the TSFs

Tire Stewardship Fees – Current Tire Weights

Tire	2011 PTEs
Passenger/LT	1
Medium Truck	5
Agricultural	11
Small & L Ind.	9
SOTR	16
MOTR	70
LOTR	75
GOTR	180

Tire Definitions

OTS will be issuing revised guidance to Stewards regarding categories and criteria to be used when reporting on supply of new tires into Ontario.

This guidance will only be in effect going forward, and will not be applied retroactively.

Tire Definitions methodology moving away from classification based on tire use or rim diameter and to classification based on tire weight. This results in tires being reported on in program categories that more closely align with operational costs incurred by the stewardship activities associated with that tire.

Additionally, OTS is proposing to introduce 2 exemptions for new tires from the obligation to report and remit.

Tire Definitions

Tire	2009 - 2011
Passenger/ LT	Passenger Tires, Small RV Tires, ST Trailer tires and Light Truck Tires and Temporary Spares, Motorcycle, Golf Cart and All-Terrain Vehicle Tires, Free Rolling Farm Tires, Forklift, Small utility, Bobcat/Skid Steer tires <16" rim diameter
Medium Truck	Medium Truck Tires
Agricultural	Agricultural Drive and Logger Skidder Tires
Small & L Ind.	Forklift, Skid Steer Tires measuring 16.5" and over
SOTR	Small Off the Road Tires: 1300R24 to 23.5R25
MOTR	Medium Off the Road Tires: >23.5R25 to 33"
LOTR	Large Off the Road Tires: >33" and up to 39"
GOTR	Giant Off the Road Tires: > 39"
Industrial	Solid Industrial Tires

Tire Definitions - 2013

On-Road	New Tire Description	PTE(s)
PLT	Passenger Tires, Small RV Tires, ST Trailer tires and Light Truck Tires and Temporary Spares, Motorcycle, Golf Cart and All-Terrain Vehicle Tires, Free Rolling Farm Tires, Forklift, Small utility tires	1
MT	Medium truck tires	5

Tire Definitions - 2013

Off-Road (Pneumatic only)	New Tire Description (Kilograms)	PTE(s)
	0 – 15	1
	16 – 30	2
	31 – 700	5
	71 – 120	8
	121 – 250	11
	251 – 375	19
	376 – 700	87
	701 – 1200	93
	> or = 1201	223

Tire Definitions - 2013

Off-Road (Solid & Resilient only)	New Tire Description (Kilograms)	PTE(s)
	0 – 30	2
	31 – 60	4
	60 – 250	10
	> Or = 251	See pneumatic categories

Tire Stewardship Fees - Tire Definitions

New Tire Exemptions

For the 2012 Rules, OTS is proposing to enact exemptions from the obligation to report and remit on two categories of tires:

1. Tires under 7" overall diameter
2. Tires where the rubber component contains greater than 50% post-consumer content by weight

Tire Stewardship Fees - Tire Definitions

New Tire Exemptions

1. Tires under 7" overall diameter

While these tires are present in the marketplace, research indicates that the quantity of material and costs that they represent in the Used Tire Program are immaterial. In addition, the application of the PLT rate TSF to these tires/wheels is disproportionate to both the costs incurred by the Program to manage them, and the price point at which they are supplied into the market (< \$15). As a result, OTS is proposing to exempt these classes of tires from the obligation to report and remit.

Tire Stewardship Fees - Tire Definitions

New Tire Exemptions

2. Tires where the rubber component contains >50% recycled rubber from Used Tires

The intent of the OTS program is to stimulate higher value-added processing and manufacturing activity using recycled tire materials, the introduction of this exemption will provide a market signal to manufacturers of new tires that incents the use of recycled tire materials in new tire manufacturing. At this time, OTS is not aware of any manufacturer supplying tires that would meet this standard, however OTS will continue to monitor the tire market and assess the impact of the exemption on other Stewards and reserves the right to make modifications to / repeal this exemption as necessary to meet its other obligations with respect to the operation of the Used Tire Program under the Waste Diversion Act and the operating agreement with WDO.

Tire Stewardship Fees – Compliance Enforcement

OTS understands the potential impact of increased OTR TSFs on Ontario Stewards and Retailers and so will be stepping-up enforcement and audit activities in 2012 to ensure a level playing-field for the industry.

OTS will be seeking support from MoE Enforcement to pursue investigations regarding potential free-riders who are not registered program participants.

The tire industry is our best source of information regarding potential free-riders, however OTS has heard concerns about potentially having to provide information on customers. How can OTS facilitate the flow of information from industry while providing assurances regarding confidentiality?

Tire Stewardship Fees – Reporting

OTS has heard from Stewards that the ability to file TSF Remittance Reports and make remittances electronically would significantly reduce the administrative burden of the program.

In June 2011, OTS introduced the ability for Stewards to file their Remittance Reports on-line.

In Q3 of 2012, OTS will introduce electronic payment for Stewards in a phased roll-out.

In 2013, OTS is proposing to require all remittance reports and payments to be made electronically.

Program Efficiency

OTS is undertaking a number of measures to reduce program costs in all areas including:

- Administration
 - Staffing – OTS has undertaken a staffing internalization that has increased productivity and reduced overall headcount by 15%
 - Overhead – Recent move from “managed services” arrangement to OTS leased premises has reduced office costs by 10%
 - Systems – Selection of new IT provider has reduced system costs by approximately 20%
- Incentives
 - HST – OTS continues to work with the Ontario Government to achieve a favorable ruling on the program taxable status

Program Efficiency (continued)

OTS is undertaking a number of measures to reduce program costs in all areas including:

- Incentives
 - Compliance / Auditing – OTS has increased Audit resources by 50% to improve compliance monitoring on both revenue and costs. Continue to work with MoE to receive appropriate Enforcement support
 - Rate Review – OTS is undertaking a review of the incentives rates and overall model to determine how to best continue to deliver high rates of diversion, while reducing cost per tonne supplied

- Oversight

As program performance has exceeded targets since inception, OTS will be seeking to reduce the cost burden of oversight by WDO going forward.

Program Efficiency (continued)

OTS is undertaking a number of measures to reduce program costs in all areas including:

- Collaboration
 - OTS is working closely with other Ontario IFO's as well as tire programs nationally to identify and leverage opportunities for cost sharing and efficiencies

OTS Next Steps

- **August 9th 2012** - Steward Consultations
- **August 24th 2012** – Steward Comments to be submitted to OTS
 - Email: Steward@ontariots.ca
 - Mail: **OTS, 300 The East Mall, #100, Toronto, Ontario, M9B 6B7**
- **September 3rd 2012** – Steward Consultation report released (To Be Confirmed)
- **September 25th 2012** – OTS brings 2013 TSFs, consultation report, recommendations on the Cost Recovery approach, Rules for Stewards to WDO Board for Consideration
- **Q4 2012** – MoE & WDO render decision on how to implement revised revenue model
- **February 1st 2013** – New TSFs and Rules implemented

Summary

The proposed changes to the OTR TSF rate structure are long overdue and required in order to ensure program sustainability going forward.

While the TSF rate increases are substantial, an analysis of the impact of the increased rate shows that overall the TSF is a reasonable fraction of the average price of the tire to which it is applied, and significantly less than the price increases that have been applied in the OTR tire business over the last several years.

OTS remains committed to ensuring that the program is evolving to a lower cost per tonne model that will continue to deliver the successful high-value diversion while reducing Stewards' program costs, and to maintaining a level playing-field for Ontario Stewards and tire industry stakeholders.

Summary

Questions?

Comments?

Concerns?

Steward@ontariots.ca

Andrew Horsman
Executive Director
416-626-9185
ahorsman@ontariots.ca



Appendix D

OTR TIRE END-USER CONSULTATION SESSION PRESENTATION

OTS 2012 Used Tires Program Consultation

OTR Tire End User Consultation Session

August 9th, 2012

For issues in joining the meeting via webinar e-mail
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Agenda

- The Ontario Waste Diversion Policy Framework
- Who is OTS and What is it's mandate
- How is the Ontario approach different from those in other provinces
- Purpose of this session
- Tires explained
- Ontario Used Tires Program Status Update
- Minister's February 9th, 2012 Direction to WDO
- OTS revised revenue and debt repayment proposal & Fees
- Program efficiency
- Stewardship options
- Next steps
- Questions

Introduction

- The Waste Diversion Act (WDA)
 - Waste Diversion Ontario's role
 - Industry Funding Organizations' role
 - Ministry of the Environment's role



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 - 2 members from Retail Council of Canada
 - 1 member* from Cdn. Vehicle Mfr. Assoc.
 - 1 member* from Assoc. of Int'l. Auto Mfr. of Canada
- Observer (non-voting)
 - Representative, Waste Diversion Ontario

* Has not formally accepted to join the OTS Board



Minister's Direction 1...

- Program Request Letter (PRL)
 - Received by WDO on August 14, 2008
 - Directed WDO to develop program with existing IFO or incorporate new IFO
 - *Stipulated that brand owners & first importers be Stewards*

Minister's Direction 2...

- All motor vehicle tires, incl. OTR, Farm, Ind.
- Priority on diversion
 - Higher end uses whenever possible
 - Promote Ontario-based market for recycling & recycled products i.e. green technology
- Disposal not part of program unless 3Rs options not available or technically feasible
 - Landfilling including use as daily cover
 - Incineration including use as fuel

Tires

The Minister's Program Request Letter gave direction to OTS to *"address the diversion of all motor vehicle tires including "off the road" OTR tires, industry and farm vehicle tires that are supplied into the Ontario Market."*

Some exclusions: tires on or for toys, bicycles, personal mobility devices and commercial aircraft.

Minister's Direction 3...

Program to include all aspects associated with management of used tires once removed from vehicles including

- Handling
- Storage (temporary or otherwise)
- Collection
- Transportation
- Reuse
- Processing
- Recycling
- Disposal

Minister's Direction 4...

- Program should be
 - Consumer-focused & user-friendly
 - Available across the province
 - Accessible to all Ontarians
- Retailers participating in program
 - Shall not charge consumers an additional fee for tire management following removal from vehicle
- Any Stockpiled tires must be abated

Ontario Used Off-Road Tires Program

How is Ontario's approach to Used OTR Tires different than that in other provinces?

Who is Responsible

- Under the WDA, Stewards (Original Equipment Manufacturers, Brand Owners and First Importers) are responsible for funding the program, this approach is called "Extended Producer Responsibility" (EPR) – other provinces include a retail funding model
 - The Tire Stewardship Fee (TSF) is not a Tax; none of the revenues collected go to the Government
 - This revenue model creates additional administrative challenges for compliance and auditing and drives extra program costs

What's included

- Ontario includes the full spectrum of Off-Road Tires including solid and resilient industrial tires;

Ontario Used Off-Road Tires Program

How is Ontario's approach to Used OTR Tires different than that in other provinces?

How are Fees set

- Under the Waste Diversion Act, each category of tire must "carry its own weight" financially under the funding formula - other provincial programs may and do cross-subsidize OTR tire recycling with revenues from Passenger & Light Truck tires

What End-Uses are Allowed

- The Minister's direction specifically directs OTS to focus on developing Ontario recycling capacity – this requires higher up-front incentives and program costs
- Under the Waste Diversion Act recycling used tires for fuel is prohibited – this eliminates a low-cost destination for used OTR tires

Ontario Used Off-Road Tires Program

How is Ontario's approach to Used OTR Tires different than that in other provinces?

Oversight Body

- Under the WDA, OTS must fund a portion of the activities of Waste Diversion Ontario
 - Current forecast for 2012 WDO billings is \$500,000 - \$550,000

Tax

- The Canada Revenue Agency's (CRA) interpretation of the WDA has led them to potentially issue a Ruling that the TSF is not taxable when paid by the Steward
- CRA has issued a Ruling that a portion of the incentives paid by OTS are taxable
 - These two issues result in OTS realizing a net tax expense on the program

Ontario Used Off-Road Tires Program

OTR TSF Rates in Other Provinces

	BC	AB	SK	MB	NB
Ag drive	\$15 - \$35	NA	\$15 - \$35	\$30 - \$60	\$40 - \$175
Industrial	\$5 - \$15	\$40 - \$200	NA	NA	NA
SOTR	NA	\$40	\$35	\$60	\$40 - \$125
MOTR	NA	\$100	\$75	\$135	\$125 - \$240
LOTR	NA	\$200	\$75	\$135	\$240 - \$560
GOTR	NA	NA	NA	NA	\$400 - \$1,400

NOTE: In certain cases, OTR tires may attract the same TSF as is applied to the PLT and Medium Truck Tires

Ontario Used Off-Road Tires Program

Consistent with the principles of the WDA, and with the February 9th, 2012 direction from the Minister regarding cost recovery, OTS is proposing to revise the OTR rates charged to Stewards. This will result in significant increases over the rates currently in place.

Through this consultation, OTS is seeking to engage OTR tire end-users to:

- Provide information on the program and clarity on the legislation and roles of the various obligated stakeholders;
- Review the program operations and financial history, and explain the interaction between program costs and TSF rate setting;
- Highlight program benefits for OTR tire end-users;
- Engage OTR tire end-users to solicit feedback on the program and in discussions on potential alternative operational models

Ontario Used Off-Road Tires Program

How does the program benefit OTR tire end-users?:

- Through the program, used tires can be sent for recycling for no charge;
- OTS provides support to clean-up existing tire piles;
- End-users recycling tires through the program can have confidence that all the used tires will be recycled responsibly and in compliance with all applicable legislation.

Tire Definitions

Tire	2009 - 2011
Passenger/ LT	Passenger Tires, Small RV Tires, ST Trailer tires and Light Truck Tires and Temporary Spares, Motorcycle, Golf Cart and All-Terrain Vehicle Tires, Free Rolling Farm Tires, Forklift, Small utility, Bobcat/Skid Steer tires <16" rim diameter
Medium Truck	Medium Truck Tires
Agricultural	Agricultural Drive and Logger Skidder Tires
Small & L Ind.	Forklift, Skid Steer Tires measuring 16.5" and over
SOTR	Small Off the Road Tires: 1300R24 to 23.5R25
MOTR	Medium Off the Road Tires: >23.5R25 to 33"
LOTR	Large Off the Road Tires: >33" and up to 39"
GOTR	Giant Off the Road Tires: > 39"
Industrial	Solid Industrial Tires

Tire Definitions

Passenger & Light Truck Tire



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Tire Definitions

Medium Truck Tire



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Tire Definitions

Agricultural Tire



Tire Definitions

Industrial Tire



Tire Definitions

Small OTR Tire : 1300R24 to 23.5R25



Ontario Tire Stewardship

Tire Definitions

Medium OTR Tire : >23.5R25 to 33"



Ontario Tire Stewardship

Tire Definitions

Large OTR Tire : >33" and up to 39"



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Tire Definitions

Giant OTR Tire : : > 39"



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Tire Stewardship Fees - Estimated Tire Weights

Tire	2011 PTEs
Passenger/LT	1
Medium Truck	5
Agricultural	11
Small & L Ind.	9
SOTR	16
MOTR	70
LOTR	75
GOTR	180

OTS is continuing to study supply rates, scrap rate and Used Tire weight discount factors to refine the PTEs/Tire category going forward.



Ontario Used Tires Program Status Update

Diversion Performance

- Diversion Targets in Approved Plan
 - On-Road Tires – 90%
 - Off-Road Tires – 50%

(Tonnes)	2010				2011		
	PLT	MT	OTR		PLT	MT	OTR
Supply	100,458	33,186	14,325		98,958	37,559	20,831
Collected	93,598	36,982	17,483		92,771	34,042	29,183
Reuse	9,738	3,684	1,583		13,174	5,759	2,102
Diversion	96%	115%	150%		96%	93%	76%*

***NOTE:** 2011 OTR tire diversion performance likely higher than stated due to reporting timing and used tire weight discount impacts reducing stated diversion %



Ontario Used Tires Program Status Update

Off-Road Tire Supply Variance & Financial Impact

During the Used Tire Program development in 2007-2008, OTS undertook a number of market studies to assess the quantity of new tires being supplied into the market.

While the markets for On-Road tires were well understood, the markets for Off-Road tires were not, and the diversity (Forestry, Logistics, Waste Management, Mining, Agriculture, Manufacturing, Construction, etc.) posed a challenge to determining the actual quantity of OTR tires being supplied.

Accurate quantification of Tire supply is critical, as it is used to set the TSF rates:

$$\text{TSF Rate \$} = \left(\text{Program Budget \$} \div \text{New Tires Supplied} \right)$$

Ontario Tire Stewardship

Ontario Used Tires Program Status Update

Off-Road Tire Supply Variance & Financial Impact

By Q2 2010, OTS recognized that the supply of OTR tires estimated during Plan development (80,000 tonnes) was far higher than actual supply (14,323 tonnes). This was due to:

- The impacts of the global economic slowdown;
- Insufficient discounting of the tonnes of tires shipped into Ontario to account for the onward-shipping of these tires to destinations outside of the province.

The effect of this Supply imbalance was that OTS was receiving only a fraction of the projected revenue, and so accumulated a deficit in 2010 in the OTR program.

This continued in 2011.

Ontario Tire Stewardship

Ontario Used Tires Program Status Update

b) Off-Road Tire Supply Variance & Financial Impact

	2010 Assumed	2010 Actual	2011 Plan	2011 Actual	2012 Plan	2012 Actual (YTD Forecast)
Supply (Tonnes)	80,000	14,323	80,000	20,831	80,000	25,420
OTR Revenue	\$10,655,343	\$1,985,225	Unchanged	\$3,402,536	Unchanged	\$3,533,562
Program Cost (\$)	\$10,655,343	\$9,438,633	Unchanged	\$11,117,849	Unchanged	\$11,432,934
Cost per Tonne Supplied	\$133	\$659	\$133	\$534	\$133	\$450

Ontario Used Off-Road Tires Program

c) OTR Program Financial Position

Year	On-Road Tire Program Surplus/ (Debt)	OTR Program Surplus/(Debt)
2009	\$7,000,000	(\$2,617,409)
2010	\$14,000,000	(\$8,316,492)
2011	\$2,000,000	(\$7,685,601)
2012 (Forecast)	\$4,000,000	(\$7,866,454)
Total	\$27,000,000	(\$26,485,955)

OTS has been able to sustain the incurrence of this debt as a result of the On-Road Tire Program running a surplus sufficient to offset the debt. This has been on a cash-flow basis only, separate accounting has been maintained.

The Minister's Direction of February 9th, 2012

...I am directing Waste Diversion Ontario, in accordance with Section 7 of the Act, to work with Ontario Tire Stewardship to develop plans to implement a similar (to the one regulated on Stewardship Ontario) **cost recovery and accumulated deficit / surplus recovery approach.**

The Honourable Jim Bradley, Minister of the Environment

The Minister's Direction of February 9th, 2012

Cost Recovery Approach directed by the Minister (in the Regulation applying to Stewardship Ontario):

- **Program costs invoiced to Stewards in arrears based on actual costs incurred and Steward's Market share**
 - Direction to Stewardship Ontario was for Quarterly billing

$$\begin{array}{|c|c|c|c|c|} \hline \text{Invoice \$} & & & & \text{Steward's Supply of Tires} \\ \hline \text{Amount to} & = & \text{Program} & \times & \\ \hline \text{Stewards} & & \text{Costs} & & \left(\begin{array}{|c|} \hline \text{Total Supply of Tires from} \\ \hline \text{all Stewards} \end{array} \right) \\ \hline \end{array}$$

The Minister's Direction of February 9th, 2012

Debt Recovery Approach directed by the Minister (in the Regulation applying to Stewardship Ontario):

- **Accumulated debt invoiced out to Stewards based on their market share in the period in which the debt was accumulated**
 - Schedule for payment of debt invoice may be determined by OTS in cooperation with WDO

Debt Invoice \$ Amount to OTR Tire Steward	=	Accumulated OTR Program Debt	x	Steward's Supply of OTR Tires 2009-2011 Total Supply of OTR Tires from all Stewards 2009- 2011
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OTS / Stewards' Response to Minister's Direction

After reviewing the Minister's direction, OTS raised significant concerns with the unintended consequences that would result from its implementation including:

- Loss of predictability and transparency of program costs;
- Seasonality of tire supply would result in significant variance in program costs on a per tire or per tonne of tires supplied, causing greater confusion in the market;
- Revenue and Operational expense timing issues would require OTS to develop a "float" of 6 months operations (approximately \$30 million);

OTS & Steward Revenue Proposal

TSF Calculation & Annual Reconciliation

To address the perceived challenges with forecasting, the formula used to calculate the TSF rates will be based on the past year actual costs and past year actual tire supply.

$$\begin{array}{|c|c|c|} \hline \text{2013} & & \text{2012 Program Costs} \\ \hline \text{TSF / PTE} & = & \text{2012 tire supply in PTEs} \\ \hline \end{array}$$

At the end of each year OTS will reconcile the revenue received with the actual program costs and will invoice/credit Stewards a portion of this balance based on their share of reported supply (by end of March of the following year)

$$\begin{array}{|c|c|c|c|c|} \hline \text{2013} & & & & \text{Steward 2013 reported} \\ \text{Steward} & & \text{Program} & & \text{Supply in PTEs} \\ \text{Invoice /} & = & \text{Surplus /} & \times & \text{Supply Reported by all} \\ \text{Credit} & & \text{Deficit \$} & & \text{Stewards in PTEs} \\ \text{Adjustment} & & & & \\ \hline \end{array}$$

OTS & Steward Revenue Proposal

TSF Adjustments going forward 2014 and beyond

At the end of each year, OTS will assess the outstanding surplus / deficit and identify root causes. Based on the results of the analysis, OTS will determine what action may be most appropriate. These may include:

- Increasing or reducing the TSF as indicated by the actual cost recovery methodology (Actual Previous Year Costs ÷ Actual Previous Year Supply);
- Potentially utilizing OTS reserves to stabilize rates in billings to Stewards;
- Exploring ways to adjust the OTS cost structure to curtail the creation of a deficit.

Revised Debt Repayment Proposal

Debt Stabilization Loan

To address the accumulated OTR Tire program debt in a way that does not create significant adverse effects in the marketplace, OTS is proposing that the On-Road Tire program provide a no-interest loan to the Off-Road tire program to bridge the debt while it is being paid down over a period of 10 years.

The loan will be repaid by OTR Tire Stewards only, through a combination of additional revenue and savings from program efficiencies.

Tire Stewardship Fees

2012 TSFs Calculated using 2011 Actuals and Including a Loan Repayment of \$2,000,000 (\$0.96 / PTE)

2012 TSF by Tire by Type			Actual 2012
Tire Type	PTEs / Tire	TSF / Tire	TSF
PLT	1	\$ 5.30	\$ 5.84
MT	5	\$ 14.65	\$ 14.65
Ag Drive	7	\$ 44.08	\$ 15.29
Small Industrial	2	\$ 12.59	\$ 12.51
Medium Industrial	6	\$ 37.78	\$ 12.51
Large Industrial	12	\$ 75.57	\$ 12.51
Small OTR	19	\$ 119.65	\$ 22.24
Medium OTR	87	\$ 547.86	\$ 97.30
Large OTR	93	\$ 585.65	\$ 104.25
Giant OTR	223	\$ 1,404.29	\$ 250.20

NOTE: The Industrial Category breakdown presented here is for discussion purposes only and neither the Categories nor the PTE allocations should be considered final

Tire Stewardship Fees

TSF per Tire by Type as compared to pre-program Disposal Fees for Used Tires & New Tire Prices					
	Pre-Program Disposal Fee / Tire*	2009-2011 TSF	2012 TSF based on 2011 Actual Supply and Costs	New Tire Price (Low-Avg-High)	2012 TSF as % of Avg Tire Price
Passenger & Light Truck Tires	\$3 - \$5	\$5.84	\$5.30	\$45 - \$150 - \$300	3.5%
Medium Truck Tires	\$10-\$12	\$14.65	\$14.65	\$300 - \$500 - \$800	2.9%
Agricultural Drive Tires	\$36 - \$72	\$15.29	\$44.08	\$300 - \$1,100 - \$7,700	4.0%
Small / Medium / Large Industrial**	\$18 - \$48	\$12.51	\$10.62 - \$63.71	\$200 - \$350 - \$2,500	2.5% - 5.3%
Small Off The Road Tires	\$46 - \$60	\$22.24	\$119.65	\$700 - \$2,700 - \$6,700	4.4%
Medium Off The Road Tires	\$192 - \$408	\$97.30	\$547.86	\$3,000 - \$6,800 - \$21,000	8.1%
Large Off The Road Tires	\$468 - \$750	\$104.25	\$585.65	\$5,700 - \$13,000 - \$30,000	4.5%
Giant Off The Road Tires	\$750 - \$3,000	\$250.20	\$1,404.29	\$15,000 - \$43,000 - \$100,000+	3.3%

*NOTE: Disposal fees quoted do not include the costs of transportation from a collector or generator site and do not assume comparable diversion outcomes to those mandated for the Ontario Used Tires Stewardship program.

** NOTE: OTS is proposing to separate the Industrial Tire category into Small, Medium and Large for 2013

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Tire Stewardship Fees

Going forward OTS is evaluating moving to a New Tire classification system for OTR tires based on weight. This may include:

- Greater numbers of categories to recognize the wide range of tires supplied into the market
- Segmentation of Solid & Resilient tires to better classify them according to their unique characteristics
- Classification based solely on weight-based criteria, which is more reflective of the costs incurred in managing these tires through the program

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Program Efficiency

OTS is undertaking a number of measures to reduce program costs in all areas including:

- Administration
 - Staffing – OTS has undertaken a staffing internalization that has increased productivity and reduced overall headcount by 15%
 - Overhead – Recent move from “managed services” arrangement to OTS leased premises has reduced office costs by 10%
 - Systems – Selection of new IT provider has reduced system costs by approximately 20%
- Incentives
 - HST – OTS continues to work with the Ontario Government to achieve a favorable ruling on the program taxable status

Program Efficiency (continued)

OTS is undertaking a number of measures to reduce program costs in all areas including:

- Incentives
 - Compliance / Auditing – OTS has increased Audit resources by 50% to improve compliance monitoring on both revenue and costs. Continue to work with MoE to receive appropriate Enforcement support
 - Rate Review – OTS is undertaking a review of the incentives rates and overall model to determine how to best continue to deliver high rates of diversion while reducing cost per tonne supplied

- Oversight

As program performance has exceeded targets since inception, OTS will be seeking to reduce the cost burden of oversight by WDO going forward.

Program Efficiency (continued)

OTS is undertaking a number of measures to reduce program costs in all areas including:

- Collaboration
 - OTS is working closely with other Ontario IFOs as well as tire programs nationally to identify and leverage opportunities for cost sharing and efficiencies

Discussion

Under the current program model, OTR Tire TSFs must be increased to cover operational program costs. However it is useful to examine Stewardship options from other provinces:

- In Alberta, Oil Sands companies take responsibility for shipping their tires, at no cost to the program, to Processors and the program pays for processing.
- Stewards have the option of negotiating hauling and processing options directly and opting out of the program.
- Other?

OTS Next Steps

- **August 9th 2012** - Steward Consultations
- **August 24th 2012** – Steward Comments to be submitted to OTS
 - Email: Steward@ontariots.ca
 - Mail: **OTS, 300 The East Mall, #100, Toronto, Ontario, M9B 6B7**
- **September 3rd 2012** – Steward Consultation report released (To Be Confirmed)
- **September 25th 2012** – OTS brings 2013 TSFs, consultation report, recommendations on the Cost Recovery approach, Rules for Stewards to WDO Board for Consideration
- **Q4 2012** – MoE & WDO render decision on how to implement revised revenue model
- **February 1st 2013** – New TSFs and Rules implemented

Summary

The proposed changes to the OTR TSF rate structure are long overdue and required in order to ensure program sustainability going forward.

While the TSF rate increases are substantial, an analysis of the impact of the increased rate shows that overall the TSF is a reasonable fraction of the average price of the tire to which it is applied, and significantly less than the price increases that have been applied in the OTR tire business over the last several years.

OTS remains committed to ensuring that the program is evolving to a lower cost per tonne model that will continue to deliver the successful high-value diversion while reducing Stewards program costs, and to maintaining a level playing-field for Ontario Stewards and tire industry stakeholders.

Summary

Questions?

Comments?

Concerns?

Steward@ontariots.ca

Andrew Horsman
Executive Director
416-626-9185
ahorsman@ontariots.ca



Appendix E

STEWARD CONSULTATION SESSION ATTENDEE LIST

	Name	Company
<u>In-Person Attendees</u>		
	MATT GARCIA	KAL TIRE
	LEIGHTON WATKINS	BRIDGESTONE CANADA
	LIEN TA	BRIDGESTONE CANADA
	SELINA MOOLASSERIL	BRIDGESTONE CANADA
	ERIC TROIANI	BENSON GROUP
	JACKIE KWAN	HYUNDAI CANADA
	DEANNA LYTWYN	MINISTRY OF THE ENVIRONMENT
	MAURY SHNIER	SOLIDEAL CANADA
	TABATHA PEUKER	ROYAL DISTRIBUTING
	PAMELA HALLS	ROYAL DISTRIBUTING
	SCOTT JACKSON	OFIA
	KAREN HON	CUMA
	PERRY BLOCHER	WDO
	CARMELINA MACARIO	WDO
	ALE MERRIMAN	WDO
	PAOLO CICCOTELLI	NISSAN CANADA INC
	ANDY SOARES	DYNAMIC TIRE
	LOULIA KOUCHAJI	AIAMC
	ALEX CARDOW	AIAMC
	MMARY SACCHETTI	TOYOTA CANADA INC
	S DI FELICE	TOYOTA CANADA INC
<u>Webinar Attendees</u>		
	Christine McClay	Als Tire
	Catherine Lai	Mack Trucks Canada and Volvo Trucks Canada
	Pushap Goyal	Pirelli Tire Inc
	Angelo Donoso	Deeley Harley-Davidson Canada
	Shawn Whalen	Hercules Tire Company
	Perry Hromadka	Hercules Tire Company
	Roni Polack	The Tire Rack
	Eda Cross	Chrysler Canada Inc
	Douglas Jure	Chrysler Canada Inc
	Rachel Schraufnagel	CNH America, LLC
	Rick Van Exan	Toromont Cat

Thomas Polanic
Tim Gauthier
Carolyn Noble
Beverly Leavitt
June Dippel
Mickey Kovacs
Marilyn Morawetz
John Mollenhauer

Ontario Drive & Gear Limited
Ainsworth Engineered Canada LP
Farm-Fleet Inc.
Canada East Equipment Dealers' Association
Connect Equipment
Kucera Farm & Construction Supply
Evergreen Farm & Garden Ltd.
Michelin North America

Appendix F

OTR TIRE END-USER CONSULTATION SESSION ATTENDEE LIST

In-Person Attendees

Name	Company
MATT GARCIA	KAL TIRE
MIKE CROWLEY	KAL TIRE
LEIGHTON WATKINS	BRIDGESTONE CANADA
LIEN TA	BRIDGESTONE CANADA
SELINA MOOLASSERIL	BRIDGESTONE CANADA
ERIC TROIANI	BENSON GROUP
DEANNA LYTWYN	MINISTRY OF THE ENVIRONMENT
MAURY SHNIER	SOLIDEAL CANADA
SCOTT JACKSON	OFIA
CARMELINA MACARIO	WDO
DALE MERRIMAN	WDO
ANDY SOARES	DYNAMIC TIRE
LOULIA KOUCHAJI	AIAMC
ALEX CARDOW	AIAMC

Webinar Attendees

Bill Vanderwater	Fountain Tire
John Mollenhauer	Michelin North America, Inc
Catherine Lai	Mack Trucks Canada and Volvo Trucks Canada
Rick Van Exan	Toromont Cat
Thomas Polanic	Ontario Drive & Gear Limited
Ron Campbell	Ontario Agri Business Association
David Beard	Beard's Farm Supply Limited
Marlene Adams	Goldcorp - Red Lake Mine
June Dippel	Connect Equipment
Tina Schankula	Ontario Federation of Agriculture
Jamie Campbell	London Tire Sales
Linda Coletta	Jay Lor Fabricating Inc
Marilyn Morawetz	Evergreen Farm & Garden Ltd.
Mike Scott	none
Stan Plusa	none
Angelo Donoso	Deeley Harley-Davidson Canada
Stacey Weagant	Weagant Farm Supplies

August 9, 2012

Revenue / Debt Proposed Management Approach – Discussion Document

ISSUE

Ontario Tire Stewardship, Stewards, Waste Diversion Ontario and Ministry of the Environment officials have held meetings to discuss the implications on the tire program of the Minister's letter of February 9th and what changes might be made to the OTS program that would achieve full cost recovery going forward and would eliminate the existing OTR deficit, while at the same time achieving industry's objective of minimizing business disruption, ensuring transparency and offer a measure of cost certainty.

The added complication to finding acceptable solutions is that the OTR deficit continues to grow and without an immediate resolution will only exacerbate the ability to reach a reasonable settlement.

The purpose of this proposal is to outline the option arrived at through these discussions and to discuss the framework for a new revenue model and the management of the OTR debt in a manner which will meet the Minister's objectives and the needs of Stewards.

BACKGROUND

On March 7, 2012, the Minister wrote to OTS inviting Stewards to make further submissions on alternative approaches to achieving the objectives of full cost recovery and elimination of the deficit. The Minister expressly acknowledged that the MOE was prepared to listen to alternate solutions on how to address accumulated surpluses and deficits, and could provide flexibility on the length of time required to pay off the deficit.

Over the past number of weeks tire stewards and other stakeholders have worked to formulate an industry consensus that could achieve the Minister's objectives in a way that minimized market disruptions, protected the financial integrity of OTS and kept the Ontario tire program as one of the most successful diversion programs in Canada.

STEWARD CONSIDERATIONS

1. Tire stewards have a vested interest in seeing a reasonable solution to the current issues within the OTS program. Stewards are looking for a balanced, sustainable program with predictable and manageable costs going forward and in doing so, are willing and able to take full accountability for solving the problems of the past, without prejudice and without acknowledgement of any financial obligation of past program deficits.
2. Stewards are opposed to retrospective billing as inherently unfair and legally questionable. That said, Stewards have a genuine interest to find solutions that can work for all stakeholders because they

feel it is important to demonstrate the industry can work together to solve its own problems, which is the true mark of industry stewardship.

3. The accumulating financial surplus in the on-road tire portion of the program can and must be reduced and will result in a reduction in Passenger & Light Truck tire stewardship fees. Similarly, the structural deficit in OTR needs to be curtailed by increases in the rates applicable to these products.
4. Stewards do not support a Quarterly billing approach as it is too bureaucratic, complex and inefficient. That said, Stewards could support a revenue approach that would include an annual reconciliation that would effectively achieve the same objective of full cost recovery but would be less disruptive to the market.

MOE CONSIDERATIONS

1. The MoE is seeking the development and implementation of a revenue model which does not rely on forecasts or estimates. In its estimation the use of these in the development of program “fees” is at the root of the financial and political issues encountered by the programs. While not expressly stated the concept of “approved fees” calculated on industry estimates is clearly not a viable option going forward from the government’s perspective, and their desire is to see all billings be linked back to actual costs.
2. Steward communications regarding the imposition of retrospective obligations have encouraged the MoE to be open to alternative options for managing the accumulated debt. There is apparently a new willingness to consider allowing programs to manage the debt on a go-forward basis on even an extended timeline (5-10 years would seem to be an acceptable timeline for payment of the accumulated debt), albeit with a clear plan and targets for pay down of the debt going forward.
3. The mechanism for the implementation of this new model (i.e. through a Fee-Setting Methodology (FSM) change or through the passing of a regulation) is still up for discussion, though the government does seem to be leaning to the regulation route for expediency. However there does seem to be some flexibility on the form and content of the regulation, with the possibility that it may only include details on the revenue model, and leave the structure of the debt management plan up to OTS.

FULL COST RECOVERY PROPOSAL

Based on OTS outreach to Stewards a full cost recovery funding model that includes monthly per unit fees to Stewards for the calendar year based on their supply into the market could be accepted by the industry. In addition, Stewards could accept an annual reconciliation at the end of the fiscal year to address any variance between the amount paid by Stewards and the actual program costs. The reconciliation would be debited to the Steward’s account, proportionately based on market share, calculated using actual supply during the period.

This proposal only gives Stewards cost certainty after the annual reconciliation and therefore does bring an element of risk to Stewards, but it is deemed a manageable risk and a reasonable compromise. This full cost recovery model respects the Minister's desire to ensure cost recovery and will eliminate the prospect of future deficits and surpluses.

Based on the discussion OTS would annually calculate Tire Stewardship Fees (TSFs) based on prior year actual costs and prior year actual reported supply. Stewards would remit the appropriate TSFs monthly, based on units supplied into the market (as is the current practice). At the end of the year OTS would undertake a reconciliation of actual costs compared to remittances by Stewards and any Deficits / Surplus would be recovered / returned from Stewards through an invoice or refund payment.

This model also assumes the elimination of the tire category "silos" in the Used Tires Plan (UTP), blending the categories and resulting in a cost calculation model based entirely on weights units (Kgs, PTEs, or Tonnes). Note this does not imply the elimination of the tire group categories for the purposes of reporting and remitting the TSF.

TSF Calculation

$$\text{2013 Cost / PTE} = \frac{\text{2012 UTP Costs}}{\text{2012 UTP Actual Supply in PTEs}}$$

Annual Reconciliation Calculation

$$\begin{array}{l} \text{Steward's 2013} \\ \text{Reconciliation} \\ \text{Amount} \end{array} = \begin{array}{l} \text{2013 Actual} \\ \text{Costs} \end{array} - \begin{array}{l} \text{2013} \\ \text{Actual} \\ \text{Revenue} \end{array} \times \begin{array}{l} \text{Steward's 2013 Market Share} \\ \text{based on reported Supply} \end{array}$$

Note that while the MoE did not explicitly come out and acknowledge that this model would result in a "fee" being administered by the program, it did acknowledge that the OTR tires would have to carry a significantly larger quantum of cost, in proportion to the true costs of delivering this stewardship program.

OTR DEBT RECOVERY PROPOSAL

The proposal to address the accumulated debt is for OTS to establish a formal "loan process" between the existing On-Road Tire (ORT) and Off-Road Tire (OTR) programs, which would allow the existing debt to be carried by the program but for this debt to be gradually paid off by the OTR program.

OTS would establish a loan “account” within the program and allocate a sufficient portion of the ORT program surplus to this account to be able to fully cover the accumulated OTR program debt. Going forward the OTR cost allocation (fee) would include a dedicated cost for the purposes of repaying this loan. This amount would be added to the OTR TSFs following the calculation of the per PTE fees (as adding it to the “general program budget” in a blended model would result in all tires carrying a portion of this cost).

$$\begin{array}{rcccl} \text{2013 OTR Cost /} & & \text{2012 UTP Costs} & & \text{2013 Debt Repayment Amount} \\ \text{PTE =} & & & + & \\ & \text{2012 UTP Actual Supply in PTEs} & & & \text{2012 OTR Actual Supply in PTEs} \end{array}$$

The amount to be repaid each year, and this the timeline over which it would be repaid, would be set at the discretion of OTS based on an estimation of the impact on the TSF and the prior year’s financial performance of the program.

Appendix H

Submissions from the Ontario Forest Industry Association and OTS Response



ONTARIO FOREST INDUSTRIES ASSOCIATION
Home of CLA Grading and Inspection



Growing a stronger, greener Ontario

August 22, 2012

Mr. Andrew Horsman, Executive Director
Mr. Glenn Maidment, Chair
Ontario Tire Stewardship
300 The East Mall, Suite 100
Toronto, Ontario, M9B 6B7

**RE: Ontario Tire Stewardship (OTS) Consultation Process Flawed
– Maintain 2012 Tire Stewardship Fees**

Dear Glenn and Andrew,

Following the August 9, 2012 session held for stewards and end users on Ontario's Used Tire Program that was organized by the Ontario Tire Stewardship (OTS), the attached submission from the members of the Ontario Forest Industries Association (OFIA) outlines our comments and concerns regarding the OTS Program and the current/proposed approach to revising the program.

While our Association recognizes and supports the need for a practical, economical approach to address the environmental concerns surrounding the disposal of used tires, the proposed increase in Tire Stewardship fees and the OTS program in general represent an increased economic cost to consumers and end users like Ontario's sustainable forest sector which currently employs over 200,000 hard working Ontario families in over 260 communities across the province.

While we appreciate that government wishes to "foster the development of green technology and a green economy in its efforts to develop and promote an Ontario-based market for recycling and recycled products that can be made from scrap tires", we do not believe that this entirely new unproven sector should be financed by collecting additional taxes via stewardships from existing, well established sectors in this province.

Instead, we believe that any incentives/subsidies should be paid directly by the Government of Ontario, most likely through the Ministry of Economic Development and Innovation, which has the stated goal to "help grow a strong, innovative economy that provides jobs and prosperity for all Ontarians".

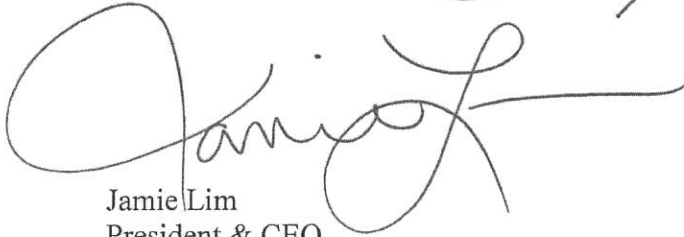
New jobs should not be created at the expense of existing green jobs.

Also, we do not believe that the limited scope of the current review will be sufficient to address the current \$27 million debt created by this program without additional impacts on end-users, nor do we believe that the current scope of the review is sufficient to address the fundamental shortcomings of the OTS program.

In closing, we ask you to maintain 2012 Tire Stewardship Fees until such time as a comprehensive socio-economic impact assessment on the used tire program is conducted and the results are used to inform broad consultation on the continuation of this program with key stakeholders including end-users.

Thanking you in advance for your positive consideration of OFIA's recommendations.

Warmest Regards,

A handwritten signature in black ink, appearing to read 'Jamie Lim', with a large, stylized initial 'J' and a horizontal line extending to the right.

Jamie Lim

President & CEO

Ontario Forest Industries Association

Home of CLA Grading and Inspection

cc Hon Michael Gravelle, Minister of Natural Resources
Hon Jim Bradley, Minister of Environment
OFIA Board of Directors
Chambers of Commerce
Municipal Stakeholders

Submission of the Ontario Forest Industries Association – Used Tire Program Sessions

Following the August 9, 2012 sessions held for stewards and end users on Ontario's Used Tire Program that was organized by Ontario Tire Stewardship (OTS), the members of the Ontario Forest Industries Association (OFIA) would like to forward the following comments and concerns regarding the OTS Program and the current/proposed approach to revising the program. Our comments and concerns (see below) address the following issues:

- The scope of the review is insufficient and does not address critical flaws in the OTS program
- There has been a lack of full disclosure of vital information to affected parties and a failure on the part of OTS/Ontario Waste Diversion to consult with all affected parties during the creation of the OTS program
- No comprehensive socio-economic impact assessment has been conducted to assess the potential negative impacts of the broader OTS program on end-users, including the impact on existing 'green sectors' and/or 'green jobs', including those related to Ontario's sustainable forest sector
- Economic development is a government responsibility – unfortunately, OTS is forcing private sector companies (any end-user in the province) to subsidize other private sector companies (those receiving funding from the OTS program)

As a premise to our positions below, **I would like to emphasize that at the August 9, 2012 sessions, it was fully acknowledged by Ontario Tire Stewardship and the stewards of the OTS program that any increase in cost associated with the program and the associated Tire Stewardship Fee (TSF) would be passed on to the end user (e.g. forest sector companies).**

As such, and despite the government's intention to allow the program to "recover from stewards its full costs" (emphasis added) related to the program (see Minister's letter to the Chair of Waste Diversion Ontario dated February 9, 2012), it is clear that **this program is in fact resulting in an increased economic cost to consumers and end users**, including Ontario's sustainable forest sector which currently employs over 200,000 hard working Ontarians in over 260 communities across the province.

Scope and Scale of the OTS Program

While it is recognized that OTS is soliciting input on some elements of its program, the members of the OFIA do not believe that the current review goes far enough, and that a review of the program in its entirety is required. It is our belief that a comprehensive review of the program is required which would include, at a minimum:

- The intended objectives of the OTS program
- The decision to provide incentives to unproven sectors that are still in development
- The decision to download responsibility to existing private sectors to subsidize new, unproven sectors

We do not believe that the limited scope of the current review will be sufficient to address the current \$27 million debt created by this program without additional impacts on end-users, nor do we believe that the current scope of the review is sufficient to address the fundamental shortcomings of the program.

Recommendation: Maintain 2012 Tire Stewardship Fees until such time as a comprehensive review of the program, including full consultation with end-users, has taken place.

Lack of Disclosure and Consultation

We have been informed with regards to the development of incentives for new, unproven sectors that consultations were generally limited to those stakeholders who stood to benefit directly from the development of such incentives – specifically collectors, haulers, processors and downstream manufacturers. It is our further understanding that issues discussed at these sessions included a review of economic impacts and alternate approaches to the current incentive structure.

At no time was the broader forest sector consulted on the establishment of incentives (and any decision related to who would ultimately pay for them) – in fact, it appears as if no end-user was consulted. **It is unacceptable that OTS would discuss issues related to economic impacts solely with those sectors that stood to benefit, while specifically excluding those that would be negatively impacted.**

Further, we have come to understand that much of the economic rationale for continuation of the OTS program is based largely on a KPMG report that has not been made widely available and we request that this report be shared with all stakeholders as soon as possible.

Recommendation: Maintain the current Tire Stewardship Fees (those paid in 2012) until such time as full consultation has taken place with the forest sector, and other end-users, to discuss the fundamentals of the OTS program in greater detail, including a revision of existing incentives for new, unproven sectors.

Existing Green Private Sectors are Being Forced to Subsidize the Establishment of New Private Sectors

In a letter dated August 14, 2008 to the Chair of Waste Diversion Ontario (Ms. Gemma Zecchini), the Minister of the Environment clearly states the government's desire to "foster the development of green technology and a green economy in its efforts to develop and promote an Ontario-based market for recycling and recycled products that can be made from scrap tires". Essentially the government is trying to create entirely new and unproven sectors from the ground up using a host of incentive programs (e.g. incentives for collection, transportation, processing and manufacturing).

While our members recognize the authority of the Government of Ontario to provide incentives in accordance with its own economic objectives, **we do not believe that these incentives should under any circumstance come at a cost to existing, well-established sectors in this province.** In doing so, the Government of Ontario is interfering with basic economic principles and is in essence picking winners and losers. Instead, we believe that any incentives should be paid directly by the Government of Ontario, most likely through the Ministry of Economic Development and Innovation, which has the stated goal to "help grow a strong, innovative economy that provides jobs and prosperity for all Ontarians".

As noted above, Ontario's forest sector employs over 200,000 hard-working Ontarians, in over 260 communities across the province. It is worth noting that the jobs created by our sector are in fact "green jobs" and that our sector has been supporting a "green economy" for over 150 years.

Forest products are renewable, reusable and recyclable. In fact, wood represents the only renewable building material. When you choose a forest product, you are supporting a sustainable, renewable, green sector.

Forest products, combined with sustainable forest management, also play a vital role in combating climate change, most notably through the sequestration of carbon in forest products. In fact, according to the Ministry of Natural Resources (MNR) *"the carbon stored in Ontario's forest products this century is 4 – 5 times greater than the carbon stored in our forests."*

"In the long term, a sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fibre or energy from the forest, will generate the largest sustained mitigation benefit."

International Panel on Climate Change (IPCC) (2007)

"Not only do Ontario's managed forests not contribute to global warming, they help to mitigate climate change by providing a steadily increasing carbon sink."

Michael Ter-Mikaelian, Stephen Colombo, Jiaxin Chen – Ontario Forest Research Institute (2008)

Recommendation: That the incentives paid to establish new sectors under the Ontario Tire Stewardship Program (OTS) be removed from the Tire Stewardship Fee, and that any incentives to be paid to develop new, unproven sectors be paid for directly by the Government of Ontario (e.g. Ministry of Economic Development and Innovation).

No Comprehensive Socio-Economic Impact Assessment

At the August 9, 2012 OTS session our Association specifically asked if a comprehensive socio-economic impact study was conducted to identify any anticipated negative impacts on existing and established sectors, including those that currently provide 'green jobs' within Ontario. We were explicitly told that no such assessment has been conducted with respect to OTS.

In recognition of the mandate provided by the Minister of the Environment to create 'green jobs' and green manufacturing' opportunities, it would seem intuitive that the creation of one new subsidized job (that may not survive if incentives are removed) at the potential expense of existing jobs would not contribute to the realization of the Minister's objective, and in fact, could be in direct conflict with this objective if an overall net loss of employment is realized across the province as a result of the OTS program.

With respect to any decision that has the potential to negatively impact jobs or the economic well-being of Ontario, we believe that there is an inherent requirement for the Government of Ontario, or any agency established by the Government of Ontario such as OTS, to undertake a comprehensive socio-economic impact before any new policy is put in place.

Recommendation: Maintain 2012 Tire Stewardship Fees until such time as a comprehensive socio-economic impact assessment on the used tire program is conducted, and the results are used to inform broad consultation on the continuation of this program with key stakeholders, including end-users.

October 15, 2012

Ms. Jamie Lim
President & CEO
Ontario Forest Industries Association
10 King Street East, Suite 300
Toronto, Ontario
M5C 1C3

Re: Submission on Proposed Cost Recovery and Debt abatement model

Dear Ms. Lim,

On behalf of Ontario Tire Stewardship (OTS) I would like to thank you and the Ontario Forest Industries Association (OFIA) staff for your participation in the consultations regarding the cost-recovery revenue model and the approach to addressing the accumulated Off-Road (OTR) Tire program debt, and for taking the time to prepare a formal submission on the proposals.

The development of the Ontario Used Tires Program (UTP) was requested by the Ontario Minister of the Environment on August 2008 under the Waste Diversion Act (WDA). In the Program Request Letter the Minister specified that the parties obligated to fund the program (the "Stewards") should be brand owners and first importers of new tires into Ontario. The Minister further requested that the program should include a number of different elements to encourage the diversion of used tires to value-added uses, consistent with the "3R" hierarchy (Reduce, Reuse and Recycle), and further that the program *"...should see to foster the development of green technology and a green economy in its efforts to develop and promote an Ontario-based market for recycling and recycled products that can be made from scrap tires"* (August 14th 2008 Program Request Letter from the Ontario Minister of the Environment to the Chair of Waste Diversion Ontario).

Following the receipt of this letter from the Minister Waste Diversion Ontario (WDO) convened a group of Stewards to develop a program that would achieve the outcomes requested by the Minister. This led to the establishment of Ontario Tire Stewardship by the Stewards, and subsequently the development of the UTP.

In developing the program OTS looked to other Canadian jurisdictions for best practices on tire stewardship and models for recycled tire industry and market development. OTS sought to implement a program model that would reward efficiency and innovation while eliminating the existing financial barriers to having Ontario's used tires flow into "3R's" end-uses (for example by eliminating disposal fees typically paid by tire users for removal of used tires). A properly conceived incentive-based model was determined to present the optimal conditions for meeting the requirements set-out by the Minister, and for delivering real growth in the markets for recycled tire products and in the industry in Ontario. The Used Tires Program Plan was delivered to WDO in late 2008, and was approved by the Minister in April of 2009.

During program development and implementation OTS worked closely with Stewards, who were obligated to fund the program, and with the tire recycling industry to ensure that the model implemented by OTS would achieve the desired outcome, and would not result in perverse market impacts. The market assessments undertaken by OTS were focused on the markets for new and used

tires, not on impacts further down the supply chain as such an analysis was beyond the scope, mandate or capabilities of the organization. While it was recognized that Stewards may pass along the TSF, controlling this is outside the scope of OTS or WDO, and could be managed between the Steward and their customers as with any other price increase. OTS was prohibited at that time from engaging in discussion which could prejudice these commercial relationships.

OTS has since undertaken an assessment of the potential impacts of the TSF on a tire end-users by examining the TSF in comparison to the disposal fees that would have typically been paid by a tire user prior to the program's introduction, and in examining the TSF as a percentage of the new tire price and in comparison to recent price increases. In both cases the analysis indicated that the TSF was "reasonable" (in the case of the disposal fees the TSF was in some cases lower, and the TSF was generally between 3-5% of the price of the new tire, less than the average annual price increases that the industry had experienced over the past 3 years) and while recognizing that an increase is never welcome, this analysis would seem to indicate that the revisions to the TSFs were unlikely to result in significant negative impacts on the industry or tire end-users.

OTS understands the issues you raise regarding the implications of the policy direction from the Minister, and the resulting economic implications from OTS attempts to deliver a program that meets these objectives through the implementation of a program that introduces performance-based incentives into the Ontario tire recycling market. While this is an important discussion to have, your concerns are more properly directed to the Minister as OTS has neither the mandate nor the authority to overrule the Minister's direction regarding the program design. We see that you have included the Minister in your submission, and look forward to further discussion on this issue with you and the Minister's staff.

As was noted in our Consultation sessions WDO, at the direction of the Minister, recently undertook an assessment of the effectiveness and fairness of the incentive programs implemented by all the Stewardship organizations, including OTS. WDO has not yet released this report publicly, but we would expect it to be available shortly. For more information regarding this report I would suggest contacting WDO at info@wdo.ca.

Once again we would like to thank you for providing constructive and helpful feedback on the options presented by OTS, and we look forward to working with you and your members to improve the Ontario Used Tires Program going forward.

Regards,



Andrew Horsman
Executive Director

Appendix I

Submission from the Canadian Vehicle Manufacturers Association and OTS response



Canadian Vehicle
Manufacturers' Association
Association canadienne
des constructeurs de véhicules

August 24, 2012

Mr. Andrew Horsman
Executive Director
Ontario Tire Stewardship
300 The East Mall, Suite 100
Toronto, ON M9B 6B7

170 Attwell Drive
Suite 400
Toronto, Ontario
M9W 5Z5
Tel: 416-364-9333
1 800 758 7122
Fax: 416-367-3221
info@cvma.ca
www.cvma.ca

Subject: Ontario Tire Stewardship - 2012 Used Tires Program Consultation

Dear Mr. Horsman:

The Canadian Vehicle Manufacturers' Association (CVMA) appreciates the opportunity to comment on the material presented at the August 9, 2012 OTS consultation session held in Toronto. Our comments address the revised revenue and debt repayment proposal and some of the other proposed changes to the program.

CVMA offers general support for the OTS proposal. We recognize the proposal is to utilize the on-road tire program surpluses to address the off-road tire program deficit through an interest-free loan for a ten year period. Should the proposal move forward, we are of the view that the auto industry should not be subjected to an increase in the on-road tire related stewardship fee (TSF). Also, it is essential that the principle of not cross-subsidizing programs continues.

OTS should provide information to stewards on how the passenger tire TSF would be impacted by the repayment of the off-road tire loan. In particular, how the passenger TSF will be adjusted in 2014 based on expected loan payments in 2013. OTS also needs to provide information to stewards related to the ongoing costs to manage passenger vehicle tires. Namely, the current state of in-province processing incentives and any other factors likely to impact fees in the near term or over the term of the loan.

With regard to the other proposed changes to the program, the weight categorization modifications do not appear to impact our segment of the business, that is, light duty and medium duty on-road tires. The consultation materials did not elaborate on the potential impacts to administrative costs related to these changes and additional WDO oversight. It would be beneficial for OTS to provide this information to stewards.

We are encouraged that OTS will continue to publish fees and that there appears to be acceptance by the government of the proposed TSF. Continued certainty is needed by stewards both with regard to the fees and the timing of any program changes that would take place. This is necessary for appropriate business planning.

We trust that the comments provided will be given due consideration. Should you have any questions, please do not hesitate to contact me directly at 416-364-9333.

Yours sincerely,

Yasmin Tarmohamed

Yasmin Tarmohamed
Vice-President, Environment, Health and Safety

File: 54200YTHO_12 OTS 2012 Consultation

October 15, 2012

Ms. Yasmin Taramohamed
Vice-President, Environment, Health & Safety
Canadian Vehicle Manufacturers Association
170 Atwell Drive, Suite 400
Toronto, Ontario
M9W 5Z5

Re: Submission on Proposed Cost Recovery and Debt abatement model

Dear Ms. Taramohamed,

On behalf of Ontario Tire Stewardship (OTS) I would like to thank you and the Canadian Vehicle Manufacturers Association (CVMA) staff for your participation in the consultations regarding the cost-recovery revenue model and the approach to addressing the accumulated Off-Road (OTR) Tire program debt, and for taking the time to prepare a formal submission on the proposals.

The shift to a cost-recovery based methodology for determining the Tire Stewardship Fees (TSFs) to be remitted by Stewards on the supply of new tires and the introduction of an annual reconciliation between program revenues and costs is an important one as it will ensure that the program is financially sustainable year over year. OTS recognizes that this model does introduce a degree of uncertainty for Stewards through the inclusion of the annual reconciliation which may result in OTS issuing an invoice, or credit, to Stewards on an annual basis, and understands how important certainty around program costs and obligations is to Stewards.

OTS has gained valuable experience and greater understanding of the Ontario used tires industry over the past years and as a result expects to be able to forecast with a higher degree of accuracy the costs to be incurred in operating the program on an annual basis. While the TSF will be calculated based on the prior year's actual costs and supply, and may not fully reflect the true costs of operating the program in the coming year, OTS will continue to undertake a budgeting and forecasting process for the fiscal year and will establish a transparent process for communicating these forecasts, and the implications for the annual reconciliation, on a quarterly basis to Stewards so they may plan for any potential liability which may result.

As part of this new reporting to Stewards OTS will share aggregated supply information that will enable a Steward to validate OTS's market share calculations (when paired with a Steward's own data on its reported supply) in completing the annual reconciliation and assessment of the amount owing from or due to the Steward as a result of this process.

In addressing the accumulated surplus on the On-Road Tire (ORT) portion of the program OTS is proposing to adopt a responsibly-conservative approach that respects the prohibition against cross-subsidization between program categories. The approach outlined will refund the accumulated surplus to the ORT Stewards in the form of lower TSFs over a number of years, while still ensuring that the program remains financially stable. OTS will actively seek opportunities to accelerate the pace of surplus repayment to Stewards and anticipates being able to achieve the objective of full surplus abatement in a shorter period than the 10 years outlined in the consultation document.

OTS appreciates Stewards' concerns about the overall cost structure of the program, and the potential for costs to increase to unacceptable levels. As an organization OTS is committed to delivering the program as efficiently and effectively as possible, and to reducing costs through administrative and operational efficiencies, and by revising the incentive model and approach to stimulate greater efficiencies in the marketplace. OTS has already begun to implement measures that have reduced overall program costs and will continue these efforts going forward. We welcome the input and participation of all Stewards in this process, and specifically would seek to engage more closely with CVMA in the future.

Once again we would like to thank you for providing constructive and helpful feedback on the options presented by OTS, and we look forward to working with you and your members to improve the Ontario Used Tires Program going forward.

Regards,



Andrew Horsman
Executive Director

Appendix J

Submission from the Association of International Automobile Manufacturers of Canada and OTS response.



August 24th, 2012

Mr. Andrew Horsman
Executive Director
Ontario Tire Stewardship
300 The East Mall, Suite 100
Toronto, Ontario
M9B 6B7

Re: OTS 2012 Used Tires Program Consultation

Dear Mr. Horsman,

The Association of International Automobile Manufacturers of Canada (AIAMC) would like to provide comments and highlight concerns regarding the Ontario Tire Stewardship (OTS) Revenue Proposal and the Revised Debt Repayment Proposal presented on August 9th, 2012 during the steward consultation session.

The AIAMC is the national trade association that represents the Canadian interests of 15 international automobile manufacturers that manufacture, distribute and market vehicles in Canada. Our members directly and indirectly employ some 77,000 Canadians. In 2011, our members' share of the new light duty vehicle market in Canada was 52.8%. Additionally, as a collective over 54% of the AIAMC member company vehicle sales in 2011 were produced in the NAFTA region.

With respect to the issue at hand, our members have raised concerns about the OTS debt and surplus in its two programs. As stewards of the On-Road Tire program, our members have been paying stewardship fees that exceed the On-Road Tire program costs. At the same time, the Off-Road tire (OTR) program has not been raising sufficient funds to cover its program costs. As a result, the On-Road Tire program has accumulated a surplus of \$27 million, while the OTR program debt is estimated at \$26 million.

The AIAMC members understand that this debt and surplus amount have resulted from a stewardship fee setting formula based on a forecast tire supply that proved to be inaccurate. Attempts by Ontario Tire Stewardship to address OTR fee formulas to more accurately reflect actual supply of tires into the market were not accepted by the Ministry of the Environment and Waste Diversion Ontario in 2011 and 2012, which meant revenues were not balanced with each program's costs. The AIAMC members acknowledge that several factors have contributed to the current financial status, many of which were beyond the control of OTS program directors.

While they acknowledge the importance of program sustainability going forward, our members reject the Revised Debt Repayment Proposal presented to stewards on August 9, 2012. AIAMC members do not support the use of the on-road tire fee surplus to provide a no-interest loan to the OTR program in order to bridge the debt while it is being paid down over a period of 10

years. Our members believe that on-road tire stewards who have over-paid into the program are entitled to a refund or a credit of the program surplus.

Additionally, the OTS is proposing a full cost recovery model that calculates Tire Stewardship Fees (TSF) based on prior year actual costs and prior year actual supply. Our members acknowledge that the new TSF calculation methodology will help to address the issues and challenges linked to forecasting by using the actual tire supply from the previous year. However, concerns have been expressed regarding the fairness and the transparency of the reconciliation of revenue and program costs at the end of each year, which will see stewards receive an invoice or credit based on reported market share. As of now, there is no clear way for stewards to know that their market share is calculated accurately, or contest the invoice if there is any disagreement, owing to the fact that the veracity of the entire market size is neither known by a steward nor can it be substantiated for them.

Despite these concerns, the members of the Association support the use of a formula that will allow revenue from fees to completely cover the costs of each program, with no funds being shared between the two programs. Going forward, the AIAMC believes that it is essential that OTS is able to adjust fees as necessary to cover program costs, to avoid the accumulation of a debt or surplus. The proposed funding scenario does not, however, appear to impose any cost constraint or fiscal discipline into the cost model of the program, leading AIAMC members to believe that total program costs will only continue to rise, along with their proportionate share of those costs. Such an outcome is neither desirable nor practical from a business planning perspective.

The AIAMC is appreciative of the information that has been provided by Ontario Tire Stewardship during the consultation process, as well as the opportunity to provide these comments. If any further clarification to these comments is required, please do not hesitate to contact the undersigned.

Yours sincerely,



David Adams
President

October 15, 2012

Mr. David Adams
President
Association of International Automobile Manufacturers of Canada
2 Bloor Street West, Suite 1804
P.O. Box 5
Toronto, Ontario
M4W 3E2

Re: Submission on Proposed Cost Recovery and Debt abatement model

Dear Mr. Adams,

On behalf of Ontario Tire Stewardship (OTS) I would like to thank you and the Association of International Automobile Manufacturers of Canada (AIAMC) staff for your participation in the consultations regarding the cost-recovery revenue model and the approach to addressing the accumulated Off-Road (OTR) Tire program debt, and for taking the time to prepare a formal submission on the proposals.

The shift to a cost-recovery based methodology for determining the Tire Stewardship Fees (TSFs) to be remitted by Stewards on the supply of new tires and the introduction of an annual reconciliation between program revenues and costs is an important one as it will ensure that the program is financially sustainable year over year. OTS recognizes that this model does introduce a degree of uncertainty for Stewards through the inclusion of the annual reconciliation which may result in OTS issuing an invoice, or credit, to Stewards on an annual basis, and understands how important certainty around program costs and obligations is to Stewards.

OTS has gained valuable experience and greater understanding of the Ontario used tires industry over the past years and as a result expects to be able to forecast with a higher degree of accuracy the costs to be incurred in operating the program on an annual basis. While the TSF will be calculated based on the prior year's actual costs and supply, and may not fully reflect the true costs of operating the program in the coming year, OTS will continue to undertake a budgeting and forecasting process for the fiscal year and will establish a transparent process for communicating these forecasts, and the implications for the annual reconciliation, on a quarterly basis to Stewards so they may plan for any potential liability which may result.

As part of this new reporting to Stewards OTS will share aggregated supply information that will enable a Steward to validate OTS's market share calculations (when paired with a Steward's own data on its reported supply) in completing the annual reconciliation and assessment of the amount owing from or due to the Steward as a result of this process.

In addressing the accumulated surplus on the On-Road Tire (ORT) portion of the program OTS is proposing to adopt a responsibly-conservative approach that respects the prohibition against cross-subsidization between program categories. The approach outlined will refund the accumulated surplus to the ORT Stewards in the form of lower TSFs over a number of years, while still ensuring that the program remains financially stable. OTS will actively seek opportunities to accelerate the pace of surplus

repayment to Stewards and anticipates being able to achieve the objective of full surplus abatement in a shorter period than the 10 years outlined in the consultation document.

OTS appreciates Stewards' concerns about the overall cost structure of the program, and the potential for costs to increase to unacceptable levels. As an organization OTS is committed to delivering the program as efficiently and effectively as possible, and to reducing costs through administrative and operational efficiencies, and by revising the incentive model and approach to stimulate greater efficiencies in the marketplace. OTS has already begun to implement measures that have reduced overall program costs and will continue these efforts going forward. We welcome the input and participation of all Stewards in this process, and specifically would seek to engage more closely with AIAMC in the future.

Once again we would like to thank you for providing constructive and helpful feedback on the options presented by OTS, and we look forward to working with you and your members to improve the Ontario Used Tires Program going forward.

Regards,



Andrew Horsman
Executive Director