



OTS 2012 Used Tires Program

Budget, TSFs, Rules and OTR Tire definitions

November 7th, 2011

Agenda

- Ontario Used Tires Program Status Update
- OTS Financial situation at end of 2011
- Impact of HST
- 2012 Budget Assumptions
 - Supply & Scrap rate assumptions
 - Incentive payments
 - Administration, Stockpile abatement, Contingencies, P&E, R&D
 - Debt / Surplus adjustments
- TSFs
- Tire Definitions
- OTS Next Steps & Timelines

Ontario Used Tires Program Status Update

(Tonnes)	2010			2011 (YTD+ Forecast)		
	PLT	MT	OTR	PLT	MT	OTR
Supply	100,458	33,186	14,325	101,983	35,135	17,507
Collected	93,598	36,982	17,483	88,105	34,301	28,278
Deliveries to Ontario Processors	51,210	13,686	4,779	74,050*	28,359*	16,369*
Deliveries to other Processors	26,303	15,764	11,122			
Reuse	9,738	3,684	1,583	TBD	TBD	TBD
Diversion	96%	115%	150%	TBD	TBD	TBD

*Note: 2011 Deliveries include both Ontario and non-Ontario destinations

OTS Financial situation at end of 2011

At the end of 2011 OTS is forecasting to have a net program surplus of approximately \$4.85 million (down from just over \$10 million at end of 2010)

Year	On-Road Tires	Off-Road Tires
2010	\$15.1 million	(\$7.45 million)
2011	\$5 million	(\$7.8 million)
Net	\$20.1 million	(\$15.25 million)
Net Program	\$4.85 million	

OTS has continued to refine our understanding of the marketplace dynamics (most significantly developments in Ontario Processing capacity) that have resulted in lower than expected operational costs for On-Road tires, and the new OTR tire supply issues that have negatively affected program revenues in this category.

OTS Financial situation at end of 2011 – GST/HST

Since 2009 OTS has been pursuing a GST/HST Ruling from CRA regarding the taxable status of the Ontario Used Tires Program. While no ruling has yet been issued CRA seems to be leaning towards ruling OTS to be an Exempt supply, and to ruling that the incentives offered under the program should in fact be taxed.

While this position contradicts Rulings that CRA has issued in other Canadian jurisdictions OTS has been acting conservatively maintaining a reserve for GST/HST expense (established from surplus revenue vs. program expenses) of approximately \$4.8 million, at end of 2011 this will be approximately \$12.6 million

- PLT : \$8.18 million
- MT : \$2.53 million
- OTR : \$1.91 million

OTS is continuing to pursue a more favorable ruling from CRA

OTS Financial situation at end of 2011

PLT Tires

- 2011 TSF Revenue forecast to be lower than budget

Surplus resulting from cost savings realized primarily as a result of higher-than-expected out of province shipments of PLT tires:

- Transportation Incentive costs higher than budget
- Processing and Manufacturing Incentive costs lower than budget
- Stockpile abatement costs lower than budget
 - OTS working with MoE to access stockpile sites and manage potential liabilities
- R&D costs lower than budget
- Administration (salaries, consultants, IT Development, office space, etc.) lower than budget
- GST/HST Accrual costs unbudgeted

OTS Financial situation at end of 2011

MT Tires

- 2011 TSF Revenue now forecast to be flat to budget

Shortfall resulting from incremental costs associated with higher-than-expected out of province shipments of MT tires:

- Transportation Incentive costs higher than budget
- Processing and Manufacturing Incentive costs higher than budget
- Stockpile abatement costs lower than budget
 - OTS working with MoE to access stockpile sites and manage potential liabilities
- R&D costs lower than budget
- Administration (salaries, consultants, IT Development, office space, etc.) lower than budget
- GST/HST Accrual costs unbudgeted

OTS Financial situation at end of 2011

OTR Tires

- TSF Revenue significantly less than forecast due to OTR tire supply being approximately 20% of forecast during plan development

Operational expenses generally less than forecast :

- Transportation Incentive slightly higher than budget
- Processing and Manufacturing Incentive costs lower than budget
- Stockpile abatement costs lower than budget
 - OTS working with MoE to access stockpile sites and manage potential liabilities
- R&D costs lower than budget
- Administration (salaries, consultants, IT Development, office space, etc.) lower than budget
- GST/HST Accrual costs unbudgeted

2012 Program Budget

Coming Program Year Budget includes overall upward pressure on Operational costs:

- Need to include HST costs in program budget
- Ontario Processing and Manufacturing capacity increasing, driving increase in Processing and Manufacturing Incentive costs
- OTS undertaking Stockpile abatement projects in conjunction with MoE
- R&D Grant Program development generating a stream of approved projects that require funding

2012 Program Budget

Supply assumptions & Scrap rate assumptions

- Assumed 98% remittance rate for all Tire types tires (vs. 95% in 2010-2011)
- PLT
 - Assumed 2% increase in 2012 supply vs. 2011
 - Assumed 95% used tire generation vs. supply (vs. 100% in 2010-2011)
 - Reduced average TI to \$150/tonne (vs. \$160/tonne in 2011)
- MT
 - Assumed 2% increase in 2012 supply vs 2011
 - Reduced average TI to \$150/tonne (vs. \$160/tonne in 2011)
- OTR
 - Assumed 22,000 tonnes of supply (vs. 80,000 tonnes in 2010-2011) – **this reflects the actual expected supply**
 - Assumed 90% used tire generation vs. supply (vs. 100% in 2010-2011)

2012 Program Budget

Incentive Rates

- PLT
 - Average TI to \$150/tonne (vs. \$160/tonne in 2011) as a result of transportation cost efficiencies resulting from development of Ontario Processing capacity
- MT
 - Average TI to \$150/tonne (vs. \$160/tonne in 2011) as a result of transportation cost efficiencies resulting from development of Ontario Processing capacity
 - Assumed 80% of tires attract CA (vs 100% in 2010-2011)
- OTR
 - Average TI to \$200/tonne (vs. \$212/tonne in 2011) as a result of transportation cost efficiencies resulting from development of Ontario Processing capacity
 - Assumed 50% of tires attract CA (vs 100% in 2010-2011)

Increases in tire Processing and Manufacturing increase by **\$5.5 million** due to increased Ontario capacity and demand for finer grades of crumb rubber

2012 Program Budget

Administration, Stockpile abatement, Contingencies, P&E, R&D

- Administration reduced by \$2.1 million (forecast to be 6.6% of Program Budget in 2012)
- P&E reduced by \$1.3 million
- R&D reduced by \$650,000
- Contingencies on PLT tires eliminated (\$1.2 million)
- All Stockpile abatement eliminated (\$3.75 million)

2012 Program Budget

Debt / Surplus adjustments

- PLT
 - Surplus adjustment of approximately \$700,000
- MT
 - Debt adjustment of approximately \$500,000
- OTR
 - Debt adjustment of approximately \$215,000

2012 Program Budget - HST

In 2012 OTS is proposing to move forward a budget that internalizes the HST cost based on a conservative assumption of a negative ruling from CRA. This would add an incremental \$8 million cost to the OTS program

HST	PLT	MT	OTR	TOTAL
CA	\$ 925,552	\$ 148,025	\$ 9,937	\$ 1,083,514
TI	\$ 2,194,915	\$ 239,343	\$ 463,320	\$ 2,897,578
PI & MI	\$ 2,700,130	\$ 294,433	\$ 345,498	\$ 3,340,061
Stockpile				\$ -
Contingency	\$ -	\$ 35,943	\$ 717,145	\$ 753,088
TOTAL	\$ 5,820,597.27	\$ 717,743.97	\$ 1,535,899.40	\$ 8,074,240.64
HST / PTE	\$ 0.59	\$ 0.28	\$ 0.71	

2012 Program Budget

2012 Tire Program Budget				
	PLT Tires	MT Tires	OTR Tires	Total
<u>Direct Costs</u>				
Collection	\$ 9,439,679	\$ 1,427,042	\$ 100,294	\$ 10,967,015
Transportation	\$ 18,463,432	\$ 2,013,330	\$ 4,027,320	\$ 24,504,082
Processing & Manufacturing	\$ 22,790,404	\$ 2,485,161	\$ 3,003,173	\$ 28,278,737
Processing				\$ 17,509,686
Manufacturing				\$ 7,765,879
Direct R&D	\$ 1,111,651	\$ 121,219	\$ 431,200	\$ 1,664,070
Direct P&E	\$ 2,223,302	\$ 242,438	\$ 215,600	\$ 2,681,341
Total Direct Costs	\$ 54,028,468	\$ 6,289,191	\$ 7,777,586	\$ 68,095,245
<u>Shared Costs</u>				
Administration			\$ 816,392	\$ 4,908,592
Stockpiles	\$ -	\$ -	\$ -	\$ -
<u>Contingencies</u>				
Transportation		\$ -	\$ 402,732	\$ 534,324
Processing	\$ -	\$ -	\$ 300,317	\$ 426,207
Stockpiles	\$ -	\$ -	\$ -	\$ -
Total Contingencies	\$ -	\$ -	\$ 703,049	\$ 960,531
Surplus / Deficit Adjustment	\$ (685,483)	\$ 507,218	\$ 215,600	
<u>TOTAL</u>	\$ 53,342,985	\$ 6,796,409	\$ 9,512,627	\$ 73,964,368

2012 Program Budget - 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

2012 Program Budget - Estimated Tire Weights

Tire	2011 PTEs	2012 PTEs
Passenger/LT	1	1
Medium Truck	5	5
OTR	1	1
Agricultural	11	3.5
Small & L Ind.	9	11.2
SOTR	16	19.6
MOTR	70	86.8
LOTR	75	93
GOTR	180	223.2

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

2012 TSFs

Tire	2011 TSF	2012 TSF
Passenger/LT	\$5.84	\$5.84
Medium Truck	\$14.65	\$14.65
OTR (\$/PTE)	\$1.39	\$4.40
Agricultural	\$15.29	\$15.29
Small & L Ind.	\$12.52	\$49.09
SOTR	\$22.24	\$87.28
MOTR	\$97.30	\$381.83
LOTR	\$104.25	\$409.11
GOTR	\$250.20	\$981.86

2012 TSFs

OTS understands 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 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	2012
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	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 <30 Kgs
Medium Truck	Medium Truck Tires	Medium Truck Tires <70 Kgs
Agricultural	Agricultural Drive and Logger Skidder Tires	Agricultural Drive <200 Kgs
Small & L Ind.	Forklift, Bobcat/Skid Steer Tires measuring 16.5" and over	Industrial Forklift, Bobcat/Skid Steer Tires <250 Kgs
SOTR	Small Off the Road Tires: 1300R24 to 23.5R25	Small Off the Road Tires <375 Kgs
MOTR	Medium Off the Road Tires: >23.5R25 to 33"	Medium Off the Road Tires <700 kgs
LOTR	Large Off the Road Tires: >33" and up to 39"	Large Off the Road Tires < or = 1200 Kgs
GOTR	Giant Off the Road Tires: > 39"	Giant Off the Road Tires > 1200 Kgs
Industrial	Solid Industrial Tires	Now in Small & Large Industrial or other category as determined by weight

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 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 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.

OTS Next Steps

- **November 7th** 2011- Steward Consultation
- **November 11th** 2011 – Steward Comments submitted to OTS
 - Email: Steward@ontariots.ca
 - Mail: **OTS, 405 The West Mall, #500, Toronto, Ontario, M9C 5K7**
- **November 14th** 2011 – Steward Consultation report released
- **November 23rd** 2011– OTS brings 2012 budget, consultation report to WDO Board for Approval
- **March 1st** 2012 – New TSFs and Rules implemented

Summary

Impact of HST and market response to program implementation (i.e. increased processing and manufacturing activity) are driving increased program costs that cannot be fully mitigated with increasing rates.

Avoiding increases on PLT and MT tire TSFs only possible by “truing-up” OTR supply with actual to eliminate annual deficit.

OTS is seeking to work with the Ministry to mitigate any negative impacts resulting from rate changes, however sustainability of the program, and the positive benefits it has brought to Ontario, must be considered when discussing appropriate actions.

Summary

Questions?

Comments?

Concerns?

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