



# **OTS 2012 Used Tires Program Consultation**

## **OTR Tire End User Consultation Session**

**August 9<sup>th</sup>, 2012**

**For issues in joining the meeting via webinar e-mail**  
**[info@ontariots.ca](mailto:info@ontariots.ca)**

# Agenda

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- The Ontario Waste Diversion Policy Framework
- Who is OTS and What is its 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 9<sup>th</sup>, 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

# 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

## 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

# 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

# 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

# Role of the Industry Funding Organization (IFO)

- IFO's run the program's development in cooperation with WDO
- IFOs recover costs from stewards, i.e. brand owners and first importers of a designated waste
- **IFOs 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



## Who is OTS and What is it's mandate

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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 organizations representing the major Steward groups.

# Ontario Tire Stewardship

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The Used Tire Regulation sets out governance:

- 9 Directors (voting) appointed as follows:
  - 3 members from Rubber Association of Canada
  - 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...

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- 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...

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- 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

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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...

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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...

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- 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

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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

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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

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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 9<sup>th</sup>, 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

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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
<b>Passenger/ LT</b>	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
<b>Medium Truck</b>	Medium Truck Tires
<b>Agricultural</b>	Agricultural Drive and Logger Skidder Tires
<b>Small &amp; L Ind.</b>	Forklift, Skid Steer Tires measuring 16.5" and over
<b>SOTR</b>	Small Off the Road Tires: 1300R24 to 23.5R25
<b>MOTR</b>	Medium Off the Road Tires: >23.5R25 to 33"
<b>LOTR</b>	Large Off the Road Tires: >33" and up to 39"
<b>GOTR</b>	Giant Off the Road Tires: > 39"
<b>Industrial</b>	Solid Industrial Tires

# Tire Definitions

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## Passenger & Light Truck Tire



# Tire Definitions

## Medium Truck Tire





# Tire Definitions

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## Agricultural Tire



# Tire Definitions

## Industrial Tire



## Tire Definitions

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### Small OTR Tire : 1300R24 to 23.5R25



# Tire Definitions

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**Medium OTR Tire : >23.5R25 to 33"**



# Tire Definitions

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



## Tire Definitions

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**Giant OTR Tire : : > 39"**



## 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%	<b>76%*</b>

**\*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 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 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

OTS attempted to address the supply / revenue shortfall in 2011 and 2012 but was not authorized to do so by the Ministry / Waste Diversion Ontario.

## Ontario Used Off-Road Tires Program

### c) OTR Program Financial Position

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

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 9<sup>th</sup>, 2012

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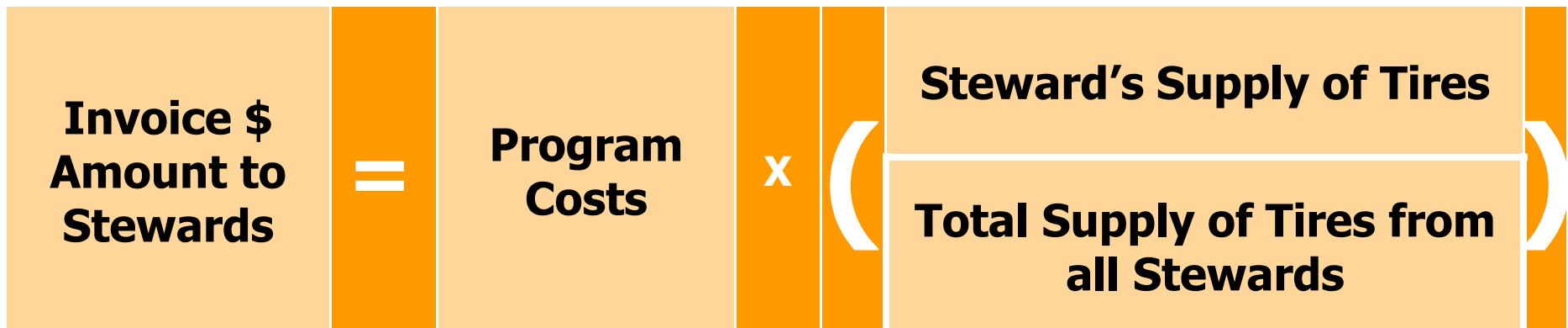
***...I am directing Waste Diversion Ontario, in accordance with Section 7 of the Act, to work with Ontario Tire Stewardship .... to develop plans to implement a similar (to the one regulated on Stewardship Ontario) **cost recovery and accumulated deficit / surplus recovery approach.*****

*The Honourable Jim Bradley, Minister of the Environment*

## The Minister's Direction of February 9<sup>th</sup>, 2012

### Cost Recovery Approach directed by the Minister:

- **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



## The Minister's Direction of February 9<sup>th</sup>, 2012

### Debt Recovery Approach directed by the Minister:

- **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

<b>Debt Invoice \$ Amount to OTR Tire Steward</b>	<b>=</b>	<b>Accumulated OTR Program Debt</b>	<b>x</b>	<table border="1"> <tr> <td style="text-align: center;"><b>Steward's Supply of OTR Tires 2009-2011</b></td> </tr> <tr> <td style="text-align: center;"><b>Total Supply of OTR Tires from all Stewards 2009- 2011</b></td> </tr> </table>	<b>Steward's Supply of OTR Tires 2009-2011</b>	<b>Total Supply of OTR Tires from all Stewards 2009- 2011</b>
<b>Steward's Supply of OTR Tires 2009-2011</b>						
<b>Total Supply of OTR Tires from all Stewards 2009- 2011</b>						

## 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.

$$\text{2013 TSF / PTE} = \frac{\text{2012 Program Costs}}{\text{2012 tire supply in PTEs}}$$

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)

$$\text{2013 Steward Invoice / Credit Adjustment} = \text{Program Surplus / Deficit \$} \times \left( \frac{\text{Steward 2013 reported Supply in PTEs}}{\text{Supply Reported by all Stewards in PTEs}} \right)$$

# OTS & Steward Revenue Proposal

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## 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

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## 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)

<b>2012 TSF by Tire by Type</b>			
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

# 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

# Tire Stewardship Fees

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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

## Program Efficiency

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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)

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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

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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

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- **August 9<sup>th</sup>** 2012 - Steward Consultations
- **August 24<sup>th</sup>** 2012 – Steward Comments to be submitted to OTS
  - Email: [Steward@ontariots.ca](mailto:Steward@ontariots.ca)
  - Mail: **OTS, 300 The East Mall, #100, Toronto, Ontario, M9B 6B7**
- **September 3<sup>rd</sup>** 2012 – Steward Consultation report released (To Be Confirmed)
- **September 25<sup>th</sup>** 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 1<sup>st</sup>** 2013 – New TSFs and Rules implemented

## Summary

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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

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Questions?

Comments?

Concerns?

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