



Rethink your relationship with tires

Development of OTS Wind Up Plan:
Seeking Stakeholder Input
May/June 2017

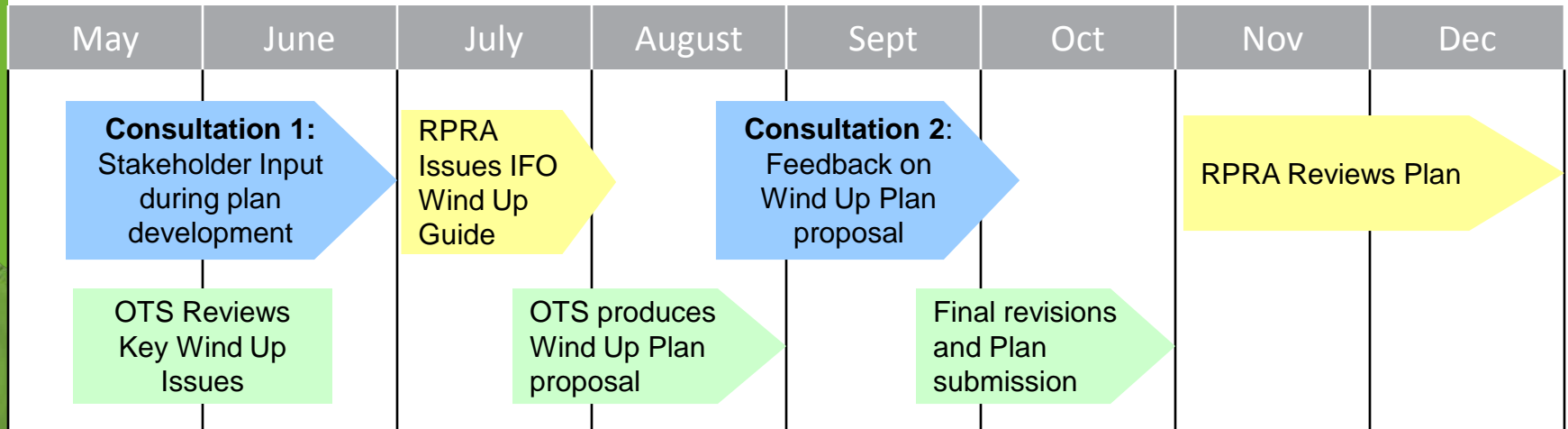
Purpose of Consultation Session

- Minister (Ministry of the Environment and Climate Change (MoECC) has directed OTS to Wind Up Used Tire program by December 31, 2018:
 - OTS to submit Wind Up Plan to Resource Productivity and Recovery Authority (RPRA) by October 31, 2017.
- Under *Waste Diversion Transition Act, 2016* (Subsection 14 (13) (see Appendix for details)) OTS is to consult with municipalities, stewards and any other persons it considers to be affected in developing its Wind Up plan:
 - RPRA obligated to consult same stakeholders in reviewing OTS wind up plan.
- OTS is seeking stakeholder input and feedback on the development of its Wind Up Plan (WUP) for the Used Tire program in order to identify and assess key issues related to termination of the program.

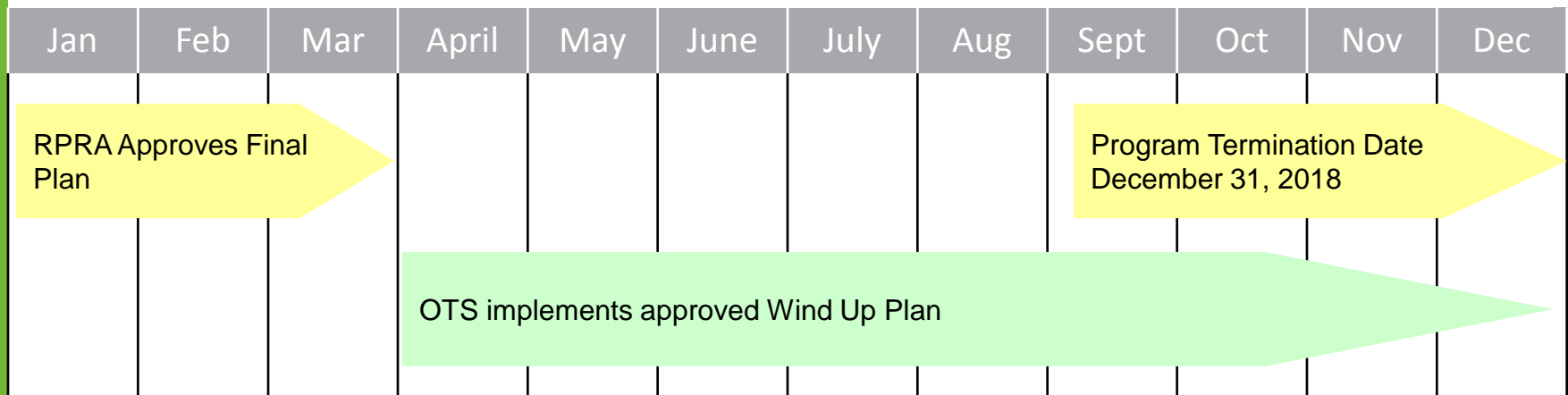
Note: OTS is creating brief summaries of all consultation sessions and a summary consultation record for inclusion in WUP submission to the RPRA.

Overview OTS Wind Up Process

Consultation and Wind Up Plan Development 2017



Wind Up Plan Approval and Implementation 2018



RRCEA Regulation Development and Obligations

- Parallel processes to OTS Wind Up Plan development
- MoECC developing *Resource Recovery and Circular Economy Act* (RRCEA) regulations:
 - New Act and regulations targeted to apply to tire brand holders Jan 1, 2019;
- RPRA developing Industry Funding Organization (IFO) Wind Up Plan guidelines, preparing for implementation of RRCEA.

OTS Program Overview (See Appendix for More Detail)

OTS Stakeholders	Stakeholder Obligations	Stakeholder Incentives	Transaction Process
<ul style="list-style-type: none"> • 670 Stewards (Tire manufacturers and imports) • 7,100 Collectors (Accept and store tires) • 120 Haulers (Transport tires) • 12 Processing Sites (Convert used tires into recycled rubber) • 17 Recycled Product Manufacturers (RPMs) (Create new products from recycled rubber) 	<ul style="list-style-type: none"> • Register with OTS; • Track and report tire sales, collection, movements, processing, etc.; • Meet OTS service standards where applicable; • Subject to OTS performance audits; • Stewards pay fees which fund program 	<ul style="list-style-type: none"> • OTS pays out incentives in support of tire recycling and the creation of a circular economy with respect to tire products (2016): • Collection Allowances: – (\$9 Million); • Transportation Incentives: – (\$22 Million); • Processing Incentives: – (\$15 Million); • Manufacturing Incentives: – (\$5.5 Million) 	<ul style="list-style-type: none"> • Processes vary by transaction type; • Generally partners submit monthly claims within 60-90 days at the end of each month; • OTS processes completed partner claims (i.e. claims where no additional information is required) within 35 calendar days of receiving the claim.
<p>• OTS also funds Promotion and Educational (P&E) activity and Research and Development (R&D) projects in support of diversion, responsible recycling, market innovation and the development of future markets for tire-derived products: – \$3 Million in P&E spending and \$943,000 in R&D projects in 2016</p>			

OTS Program Performance 2009 - 2016

- Over 100 Million tires recycled:
 - Clean up of historic tire stockpiles and elimination of illegal dumping;
- Annual tire recycling rates of 80 to 90 percent:
 - Virtually all tires available for recycling collected (see Appendix for 2016 recycling rates);
- Successful development of an innovative tire processing and manufacturing sector:
 - 200% increase in tire recycling capacity and manufacturing using Ontario crumb rubber;
- Reduced diversion costs and improved service efficiencies:
 - 40% reduction in PLT fees since inception.

OTS Wind Up Plan: General Approach and Objectives

- Minister's Wind Up Direction letter identified principles for OTS Wind Up including:
 - No disruption in the operation of the waste diversion program ...while the program is operation;
 - Current program targets and performance must be maintained or exceeded until program termination.

- OTS intends to fulfill core mandate functions during transition:
 - a) Maintain existing tire collection and recycling rates;
 - b) Continuation of Partner Incentives;
 - c) Continuation of Education and Awareness Programs;
 - d) Continuation of Research and Development projects

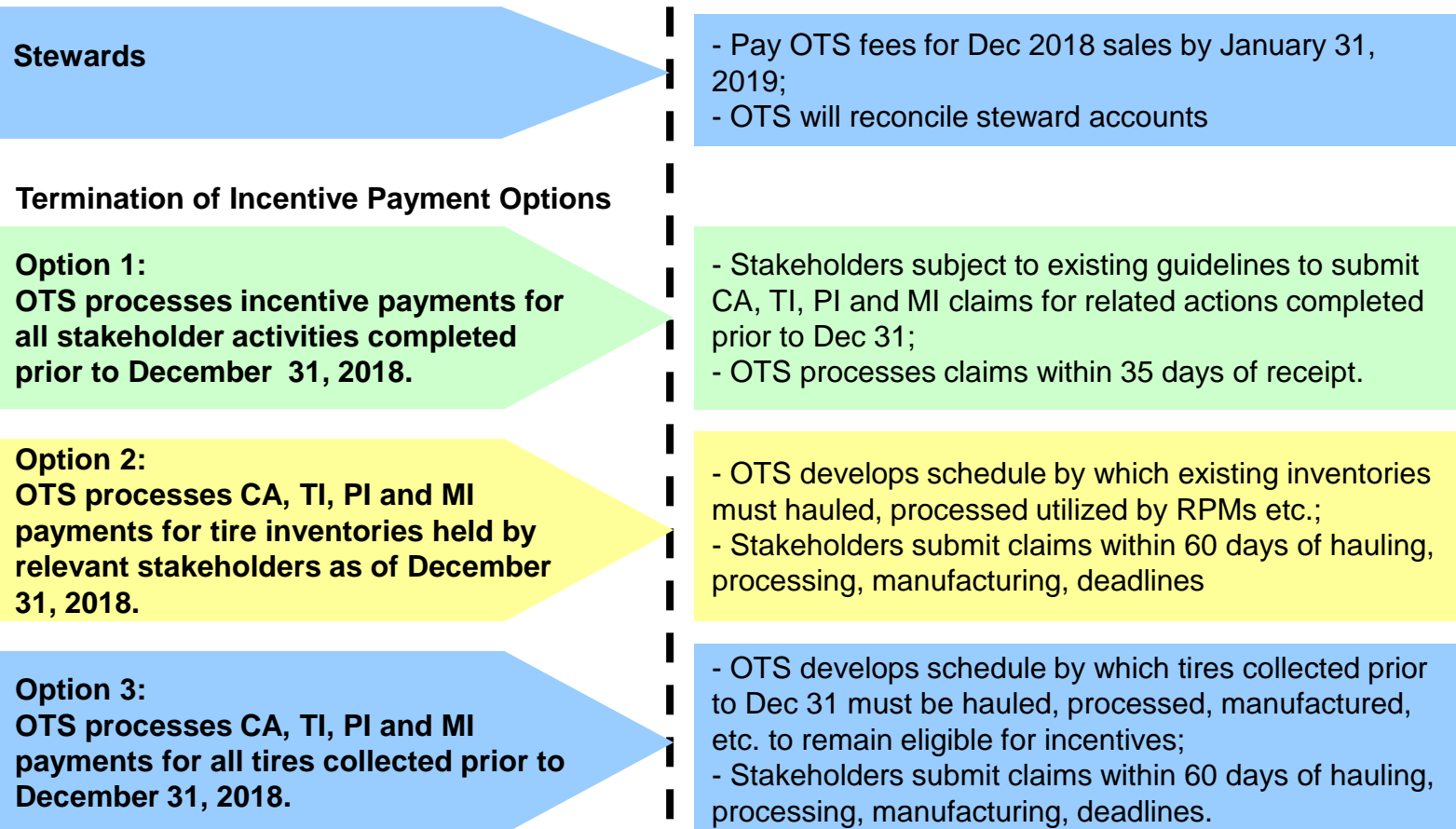
- In addition OTS supports objective of "orderly transition":
 - a) Minimize disruption for program participants during transition;
 - b) Minimize the negative consequences of wind up decisions/process for future (post-OTS) tire recyclers.

Key Used Tire Wind Up Plan Issues

1. Options for Termination of Stakeholder Incentive Payments
2. OTS Financial Issues:
 - Resolution of Account Balances;
 - Disposition of Potential OTS Residual Funds
3. Transition of OTS Assets: TreadMarks (Software)
4. Tire Sales and Recycling Data: Management and Transition
5. Coordination of Transition with Post-OTS Brand Owners:
 - Including Management of Potential Employee Disruption

1. Options for Termination of Stakeholder Incentive Payments

December
31, 2018



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2. OTS Financial Issues: 2016 Financial Summary (Estimate)

OTS Summary Financials	2015 (Millions)	2016E (Millions)
Revenues	\$77.3	\$51.4
Expenses		
Program Costs	\$57.9	\$54.6
Administration	\$6.7	\$9.4
Total	\$64.6	\$64.1
Surplus/(Deficit)	\$12.7	(\$12.7)
Net Assets December 31	\$61.8	\$49.2

2. OTS Financial Issues:

Estimating Level of Potential Residual Fund

OTS Assets December 31, 2016	\$49.2 M
Factors Affecting Potential OTS Residual Funds at Termination	
Operating Deficit 2017	Budget (\$16 M) Actual likely less
Operating Deficit 2018	Budget (\$16 M?)
Termination of Incentive Payment Options	(\$5 to \$35 M?)
Other Wind Up Plan Decisions	???

- Level of potential OTS residual funds at termination could vary significantly:
 - Will likely be significantly less than current assets and potentially even negligible, but will be difficult to estimate until certain wind up decisions are finalized;
 - Approach to wind down of incentive payments, in particular, has significant financial implications.

2. OTS Financial Issues:

Options for Disposition of OTS Residual Funds

1. **Reduce or Eliminate Steward Fees prior to December 31, 2018:**
 - Following completion of related operational Wind Up decisions, OTS estimates amount of residual surplus and eliminates or reduces stewards fees for related period of time;
 - Note final financial reconciliation would be required but potential surplus amounts would be minimized.
2. **Issue Rebate to Stewards After December 31, 2018:**
 - Following resolution of all OTS financial obligations, OTS distributes any remaining residue funds back to stewards.
3. **Use OTS Residual Funds to support future tire recycling:**
 - Create fund to support tire recycling initiatives after program termination - community programs, research and development re tire-derived products, etc.

2. Resolution of Historic OTR Account Balance

Tire Category	Current Fee	Account Balance
PLT (Passenger and Light Truck)	\$3.30	Balanced
MT (Medium Truck)	\$12.95	Balanced
OTR (Off Road)	\$5.55/pte	Operating Surplus Historical Deficit

- Historic OTR tire category deficit calculated as \$26 million 2013:
 - \$2 to \$3 million being removed from OTR deficit annually.
- Negative OTR account balance may remain at time of OTS termination (forecast to be less than \$5 million in two years).

OTS Proposed Approach:

- *Continue with OTR debt repayment during transition, but do not reconcile any amounts which may remain in the OTR account balance at termination.*

3. Transition of OTS Assets: TreadMarks

- Minister's Wind Up Direction letter indicates that:
 - OTS assets should be dealt with "in a fair, open and transparent process" and "disposed of for fair market value";
 - the Plan shall not adversely affect used tire marketplace, pose barriers to competition or result in unfair or preferential treatment.
- OTS TreadMarks IT system is a unique and key OTS asset:
 - Will be of significant value to post-OTS tire brand owners and tire recycling participants;
 - Need to balance potential sales value of TreadMarks with other Wind Up objectives.
- In OTS's view, making TreadMarks available to all post-OTS brand holders will support:
 - Seamless transition, open competition and fair treatment for all stakeholders;
 - The ability of all post-OTS brand holders to achieve RRCEA recycling objectives.

OTS Proposed Approach:

- Make TreadMarks available for use by any post-OTS PRO/brand holder responsible for used tire diversion in Ontario at nominal cost:
 - Transfer to post-OTS used tire PROs/brand holders ensures use of TreadMarks consistent with intended purpose.

4. Tire Sales and Recycling Data: Management and Transition

- Minster's Wind Up Direction letter indicates that sharing of OTS data and information must be done in a fair, open and transparent manner "that does not result in preferential treatment of one person over another"
- OTS databanks will be of interest and use to many stakeholders and post-OTS brand holders and help facilitate future positive recycling outcomes:
 - This includes information on tire sales, used tire collection, hauling and processing, RPM manufacturing, etc.
 - However, some OTS recycling data information is commercially sensitive;
- Consequently OTS data, will need to be aggregated beyond the company level prior to release or risk generating significant confidentiality and stakeholder concerns.

OTS Proposed Approach:

Aggregate OTS tire sale and recycling data for release to post-OTS brand holders and recycling participants in electronic form at nominal cost.

5. Coordination of Transition with Post-OTS Brand Holders

- While OTS is only responsible for winding up the existing used tire program, many of the functions performed by OTS will continue to be performed by RRCEA brand holders or related organizations:
 - Part of orderly wind up of the existing Used Tire Program involves creating a smooth process to transition to RRCEA recycling.
- In the view of OTS, smoothest approach to wind-up and transition would be for OTS to coordinate wind up with RRCEA brand holder start-up organizations so OTS functions are effectively replaced by new entities:
 - Ideally OTS would be able to negotiate transition terms with RRCEA startups potentially transferring liabilities, obligations and assets (where such arrangements were consistent with RRCEA objectives);
 - Where possible and appropriate OTS could also coordinate employee transitions in a manner that minimizing disruption to the OTS program.
- Key issue with respect to facilitating smooth transition and wind up of existing used tire program is the level of coordination that can take place between OTS and RRCEA brand holder start-ups.

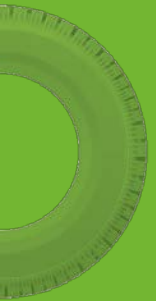
OTS Wind Up Consultation: Stakeholder Questions

1. What are your views on the potential options for the termination of OTS stakeholder incentive payments?
2. If OTS has any residual funds remaining following program termination what do you think are appropriate parameters for disposition of those funds?
 - a) What are your views on the proposed OTS approach related to final reconciliation of category account balances?
3. What are your views on the proposed OTS approach to transition of the OTS Treadmarks data tracking and management system?
4. What are your views on the proposed OTS approach to the release of aggregated tire sale and recycling data and information?
5. What are your views on the level of potential coordination re transition between OTS and post-OTS RRCEA brand holders?
 - a) Should OTS be permitted to negotiate transition terms and transfer of obligations/assets etc. with post-RRCEA brand holders to ensure smooth transition?
6. Are there any other issues/concerns you would like to identify related to the wind up of the used tire program?

OTS Wind Up Consultation: Next Steps

- Following end of Stage 1 Consultation and the release of RPRA IFO Wind Up Plan guidelines: OTS will develop Wind Up Plan (WUP) proposal for discussion with stakeholders prior to submission to RPRA (likely late August - September)
- OTS will produce a brief summary of this session (circulated to your organization for comment) for inclusion in its WUP consultation record:
 - Any written submissions received from stakeholders will also be included in its WUP consultation record.
- Any questions or inquiries regarding OTS consultation and Wind Up Plan development can be directed to Doug Mander (dougmander@rogers.com) or Andrew Horsman (ahorsman@rethinktires.ca)

Appendix



Background: OTS Consultation Requirements

Subsection 14 (13) of the *Waste Diversion Transition Act, 2016*

Consultation

(13) In developing the plan, the industry funding organization shall consult with,

(a) representatives of municipalities;

(b) representatives of persons who are designated as stewards under the rules made by an industry funding organization under section 33 or a regulation made under subsection 73 (3) in respect of the designated waste to which the waste diversion program applies; and

(c) any other persons the industry funding organization considers to be affected by the winding up.

Ministers OTS Wind Up Direction Letter:

- “Affected stakeholders should be consulted and have opportunities for meaningful engagement during the development and implementation of the wind up plan.”
- Directs OTS that its wind up plan will include:
 - A detailed report outlining how OTS has met the consultation requirements of ss 14 (13) of the *Waste Diversion Transition Act, 2016* during the development of the wind up plan and including:
 - A list of the stewards, municipalities, service providers and other affected stakeholders that were consulted during the development of the plan;
 - A summary of the comments received by OTS from affected stakeholders, and;
 - A report of how the comments were considered by OTS in the development of the wind up plan.
- Indicates that an OTS wind up plan must be submitted to the RPRA no later than October 31, 2017.

Current OTS Program Overview

- Used tire recycling program began in 2009:
 - OTS Not-for-profit corporation (Industry Funding Organization) established under the *Waste Diversion Act*;
 - Stewards fund program;
 - OTS provides incentives to support the collection and recycling of used tires:
 - Collectors, Haulers, Processors and Recycled Product Manufacturers (RPMs) must register with OTS, track tires and submit documentation to receive related incentives:
 - Processing and manufacturing incentives intended to drive the higher value-added use of tire derive products (TDPs);
 - OTS also funds promotional and education (P&E) and tire recycling research and development;
 - Audits program participants and administers program

OTS Operational Overview: Stewards

OTS Partners	Partner Obligations	Transaction Process
<p>~ 670 Stewards:</p> <ul style="list-style-type: none"> - Original Equipment Manufacturers; - Brand Owners; and - First Importers. 	<ul style="list-style-type: none"> - Report the number and types of tires supplied into the Ontario market; - Remit stewardship fees to OTS: - Current Schedule: <ul style="list-style-type: none"> – \$3.30 - Passenger and Light Truck (PLT); – \$12.95 - Medium Truck (MT); – \$5.55 Off the Road (OTR) 	<ul style="list-style-type: none"> - Submit remittances to OTS monthly based on previous month's sales; - E.g. Remittances for January 2017 due Feb 28 2017;

Note: Some program participants have more than one function in the used tire program (i.e. some stewards may also be tire collectors).

OTS Operational Overview: Collectors

OTS Partners	Partner Obligations & Incentives	Transaction Process
<p>~ 7,100 Collectors (Including):</p> <ul style="list-style-type: none"> - Tire dealers, retailers or wholesalers - Car, Truck or Trailer dealers - Mass merchants - Auto Service Center/Garages - Auto Dismantlers/Recyclers - Ontario Municipalities that collect used tires - Private waste management companies 	<ul style="list-style-type: none"> • Free consumer drop off; • Track and report tires collected; • Use of registered haulers; • • Eligible for allowances of: <ul style="list-style-type: none"> - \$0.88 per PLT tire; - \$3.05 per MT tire - \$0.88 per OTR tire < PLT tire; - \$3.05 per OTR tire > PLT tire <p>~ \$8 Million in Collection Allowances paid in 2016</p>	<ul style="list-style-type: none"> - Collectors have from 90 days after the end of each quarter to submit claims for that quarter; - OTS processes completed collector claims (i.e. claims where no additional information is required) within 35 calendar days of receiving the claim.

Note: Some program participants have more than one function in the used tire program (e.g. some stewards may also be tire collectors).

OTS Operational Overview: Haulers

OTS Partners	Partner Obligations	OTS Incentives	Transaction Process
<p>Haulers: Transport tires to Processors</p>	<ul style="list-style-type: none"> • Free collection from registered collectors • Delivery to registered processors (no tipping fees) • Track and report on tires delivered 	<p>- Transportation Incentives (TI) based on zones, processor location and tire types:</p> <ul style="list-style-type: none"> - (range from \$1.32 to \$2.24 per tire); <p>- Premium incentives for Northern and Dedicated Off the Road Tire (DOT) deliveries paid directly to haulers by OTS:</p> <ul style="list-style-type: none"> - (range of \$0.19 to \$2.35 per tire). <p>- ~\$22 Million in 2016</p>	<p>- OTS pays TI to processors:</p> <ul style="list-style-type: none"> - Haulers negotiate rate and timing of transportation incentives payments with processors; <p>- OTS pays Northern and DOT TI premiums directly to haulers:</p> <ul style="list-style-type: none"> - Haulers submit monthly claims based on previous month's deliveries within 60 days of the end of the month; <p>- OTS processes completed collector claims (i.e. claims where no additional information is required) within 35 calendar days of receiving the claim.</p>



OTS Operational Overview: Processors

OTS Partners	Partner Obligations	OTS Incentives	Transaction Process
<p>Processors:</p> <p>Convert used tires into recycled rubber</p>	<ul style="list-style-type: none"> • Ontario based • Comply with OTS processor standards • Accept tires from registered haulers at no charge 	<ul style="list-style-type: none"> • Range of Processing Incentives (PI) for production of TDPs such as crumb rubber; shred & fabricated products: <ul style="list-style-type: none"> – PI range of \$42 to \$207 per metric tonne dependent on TDP type; • ~\$15 Million in 2016 	<ul style="list-style-type: none"> - Processors submit monthly claims for both TI and PI incentives within 60 days of the end of each month; - OTS processes completed processor claims (i.e. claims where no additional information is required) within 35 calendar days of receiving the claim.

OTS Operational Overview: Recycled Product Manufacturers (RPMs)

OTS Partners	Partner Obligations	OTS Incentives	Transaction Process
<p>Recycled Product Manufacturers (RPMs)</p> <p>Manufacture new products from recycled tire rubber</p>	<ul style="list-style-type: none"> • Ontario based • Enter into RPM agreement with OTS, compliance with RPM standards • Provide proof of sale of recycled tire products • Provide proof of end use of products consistent with program objectives 	<ul style="list-style-type: none"> - Manufacturing Incentives (MI) vary by the type of product created and content of recycled rubber; <ul style="list-style-type: none"> – Only recycled rubber from registered processors eligible for MI incentives; – MI rates generally range from \$xx to \$xxx per tonne of product material; – RPMs must submit applications for product eligibility to OTS to confirm MI applicability and rate. - ~\$5.5 Million in 2016 	<ul style="list-style-type: none"> - RPMs submit monthly claims within 60 days from the end of the month; OTS processes completed manufacturer claims (i.e. claims where no additional information is required) within 35 calendar days of receiving the claim.

OTS Promotion & Education (P&E) and Research & Development (R&D)

- OTS Promotion and Education programs focus on delivering key messages of diversion, responsible recycling, market innovation and environmental sustainability through a variety of coordinated activities including:
 - Participation in collection events, consumer and trade shows, community events and design competitions; digital marketing & social media, rebate programs;
 - \$3 million spent on P&E activities in 2016.
- OTS Research and Development projects support the growth of existing and future markets for tire-derived products (TDPs):
 - OTS provides up to 50% of costs for eligible programs up to a maximum of \$250,000 per project;
 - In 2016 Research and Development projects = \$943,000

Program Update

2016 Diversion - PLT

	2016	2015
Supply	116,230	113,524
Collection	90,036	88,835
Collection %	88%	89%
TDP Production (On-Road)	75,358	78,891
RPM Crumb Use (All)	54,008	55,215
RPM use as % of Crumb Production	61%	59%
Diversion	80%	79%



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Program Update

2016 Diversion - MT

	2016	2015
Supply	45,448	44,858
Collection	34,155	32,122
Collection %	77%	73%
TDP Production (On-Road)	75,358	78,891
RPM Crumb Use (All)	54,008	55,215
RPM use as % of Crumb Production	61%	59%
Diversion	69%	66%



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Program Update

2016 Diversion - OTR

	2016	2015
Supply	18,225	18,422
Collection	18,412	16,472
Collection %	122%	108%
TDP Production (On-Road)	12,752	15,143
RPM Crumb Use (All)	54,008	55,215
RPM use as % of Crumb Production	61%	59%
Diversion	104%	90%



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2. Current OTS Financial Position: Reserve Fund Breakdown

OTS Reserve Funds	Current Level	Purpose
Operational Reserve Fund	\$26.2 M	Finance OTS Obligations Following Program Termination
Stabilization Fund	\$15 M	Stabilize Fees During Wind Up Process
Market Development Fund	\$8 M	Develop markets for recycled tire materials
Total Assets January 2017	\$49.2 M	

Potential Fund Status at Program End
(December 31, 2018)
Assumes Dec 31 represents last day
stewards legally required to support
program

Amount necessary to fund OTS financial obligations at termination

Amount left in funds will depend on level of operating deficits and market development project allocations 2017 & 2018

OTS Board has approved draft 2017 Budget with an operating deficit estimate of \$16 million

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2. OTS Financial Issues:

OTS Financial Obligations at Termination

- Based on KPMG methodology, OTS estimates that it will require \$21.4 to \$23.6 million at program termination to finance remaining obligations. Cost estimate includes:
 - 90 days of Collection Allowance Claims
 - 30 days of Transportation Incentive Claims
 - 60 Days of Processing Incentive Claims
 - 60 days of Manufacturing Incentive Claims
 - Contractual commitments for R&D, P&E, IT etc...
 - Lease wind-up cost and RPRAs costs
- Retention & Severance costs not yet factored in
- Note: Assumptions regarding cost estimates will vary dependent on Wind-Up plan design and selected schedule for termination of incentives payments.

