Ontario Tire Stewardship Processor Consultation Report

February 20th , 2013

Final

BACKGROUND

Ontario Tire Stewardship (OTS) has a strategic mandate to develop Ontario markets to consume the Tire Derived Products (TDPs) produced by Ontario Processors and RPMs. To support this objective, OTS has embraced a broad strategy of market incentives and development focused on a number of outcomes:

1. Ensuring used tires are picked-up from all areas of the province;
2. Incenting the development of Ontario processing capacity to be able to manage 100% of Ontario's used tires;
3. Incenting the development of Ontario Recycled Product Manufacturing (RPM) to consume an increasing portion of recycled rubber from Ontario Processors;
4. Supporting the growth of existing, and development of new, markets for Ontario TDPs;
5. To raise awareness among consumers of the variety and benefits offered by products containing recycled tire rubber, growing the markets for existing TDPs and stimulating the development of new markets and uses for TDPs in Ontario.

In respect of the last 2 items, OTS has increasingly assessed the economic viability of the end markets so as to focus development activities on end markets which are of sufficient economic value that they may preferentially consume recycled rubber at a price which will allow for the ramping down, and eventual termination, of subsidies offered by OTS or other agencies.

To achieve these objectives, OTS has developed and introduced a series of "incentives" to the market based on demonstrated movement of used tires "up the value chain", paid only on proof of performance. This replaces the former free market system where fees were charged for the "disposal" of the used tires at each stage though the supply chain (e.g. retailer / driver, Hauler / retailer, Processor / Hauler), which created an economic "push" for the tires to move to the lowest cost disposal option.

OTS set Processing Incentives (PI's) that would be sufficient to attract the investment necessary in processing operations to increase overall Ontario processing capacity to recycle 100% of the province's scrap tires. PI rates were set based on an analysis of existing Ontario market tip fees being charged by Processors, as well as a review of prevailing prices for the Tire Derived Products (TDP's) produced by Ontario Processors. 5 TDP rates were set, from a low of $55/tonne for Shred (TDP5) to a high of $270/tonne for 20 mesh minus crumb (TDP1). The hierarchy of rates was intended to both recognize the higher production costs associated with producing finer grades of crumb, and to provide a market signal that the production of finer grades of crumb (higher value and more apt to be used in the production of a wider variety of high value applications) was desirable.

In 2010, OTS also introduced a Research & Development (R&D) Grant program intended to provide support to organizations looking to invest in near-commercialization technologies and processes that had a high potential to grow existing, or develop new, high value markets for crumb rubber, preferably in Ontario. While it was expected that the early adopters of this program would be Processors and RPMs, it was anticipated that as the tire recycling industry matured (with the support of OTS) new manufacturers, seeking to utilize the material for the economic, performance and "green" benefits that it could impart to their product or process, would emerge to leverage these available funds.

To date, these programs combined (but in particular the Incentive programs) have resulted in significant progress towards the first 3 goals, and progress is continuing to be made on the latter two. As a result, this is an opportune time for OTS to assess the programs currently in place, and develop a longer-term plan to evolve the programs so as to continue to stimulate activity consistent with the organization's objectives, while reducing costs.

STARTING PRINCIPLES

In developing the Used Tires Program Incentive model, OTS considered the following principles that it believes are central to the program's success:

1. Ensures an open, competitive and fair market in Ontario

The Incentive system implemented by OTS is designed to maintain an open and competitive market for used tires diversion within Ontario. OTS does not manage used tire flows, but rather provides a system of incentives which includes (in the case of Processing Incentives) a hierarchy of rates, which are set so as to reward to higher value-added diversion of used tires and the progressively higher-value use of the recovered materials.

2. Incents outcomes that are consistent with the policy framework set out by the Government of Ontario

While OTS does not exert direct control over the used tires market in the province, the Government has set out a policy framework, which directs OTS as to which end-uses are permissible and which are not. Disposal (defined by the Government as application of the used tires to land, and/or the burning of used tires) is not to be encouraged by the program unless no other options are available or technically feasible. As a result, the program does not extend any incentives to the management of used tires in this manner.

3. Provides transparency and predictability for the market players

In order to encourage fair competition and rational investment by program stakeholders, OTS seeks to provide transparency into incentive rate setting and review criteria.

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

OTS developed the incentive model using the best information available on the state of the Ontario market, leveraging learnings from the used tires programs in the other provinces. By design, the introduction of these incentives has resulted in substantial shifts in the Ontario tire recycling market, which has changed the economics of managing these tires. OTS must constantly assess these changes and evaluate whether modifications to the incentive model are necessary so as to avoid causing unintended negative or perverse impacts.

5. Provides financial sustainability for the Ontario Used Tires Program

As a program funded by fees charged to Stewards, and ultimately consumers, OTS has an obligation to ensure that the program is based on a sound financial foundation. This means not only that OTS actively seeks to ensure compliance among Stewards, but also that its costs, in particular the incentives it provides to the market, are rational and take into account the impact of the imposition of these costs on the Stewards and consumers of new tires.

In late 2011 and through 2012, OTS began to identify actions in the market that were indicative of a market that was not moving towards stability, but rather one in which an excess of funds flowing in the market (impacted significantly buy the PI rates paid by OTS, the third highest in the country) were causing stakeholders to engage in unsustainable and counterintuitive behaviors. There has been a significant growth in "paying for tires", both by Haulers and Processors, that has lead to between $2-3 million flowing to Collectors. These are funds, which are therefore not available to fund capacity enhancements and efficiency improvements, and represent the creation of an additional subsidy to the collection of used tires.

OTS has also identified a growing incidence of Processors subsidizing the price of crumb rubber sold into the market. This trend is especially worrisome as it creates the risk that Processors will develop highly connected relationships with markets that are reliant on the price subsidy in order to be able to continue to consume the TDP, therefore embedding a dependence on the continuation of the payment of PI at current levels to maintain these markets. OTS is committed to working with stakeholders to develop sustainable markets that have the ability to consume TDPs at prices that allow Processors and RPMs to operate sustainably without the injection of incentives by OTS, so developments that run contrary to this are a cause of concern.

Lastly, OTS is grappling with the new fiscal reality presented by the Government-mandated move to a "cost-recovery" revenue model, in which fees are set based on prior year actual costs and tire supply, with any annual deficits billed to Stewards at the end of the year. This creates an urgent need for OTS to develop a strategy to continue to "live within it means", delivering a program whose costs do not exceed annual revenues.

Between 2011 and 2012, OTS saw a significant increase in crumb rubber production, as Processors that had entered the market during that period but initially focused on shred production, completed installation of crumbing lines and began producing finer grades of TDP. This activity, while anticipated and welcomed as the result of the incentive strategy implemented by OTS, drove a more than 60% increase in PI costs in 2012 over the previous year. Continued growth in 2013 is expected as production reaches full capacity. This increase is indicative of maturity in the market, and the move from one in transition to one where the production of higher-value TDPs is an established objective, and therefore no longer in need of financial support at the current levels.

The increases also highlighted the need for OTS to begin moving to rationalize incentive rates across the board so as to control the growth in program costs and achieve a level of financial stability within the new funding model. OTS is proposing to do this gradually, and therefore introduce an initial PI rate reduction of 10% effective July 1st, 2013. While future reductions will likely follow, OTS is only proposing this initial reduction at this time, and will seek to work with Processors to evaluate the impacts and develop a longer-term strategy to revise rates going forward.

CONSULTATION FEEDBACK

A full list of the questions asked at the January 23rd 2013 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.

Processors' main concerns can be grouped into three main categories:

1. Timing of the implementation of the PI rate changes;
2. Competition for tires in the market leading to negative impacts on Processors;
3. Requirement by OTS that Processors be accountable for the accuracy of tire counts delivered by Haulers.

Through the Consultation session and the follow-up questions from Processors, it was clear that the primary concern of these stakeholders related to the timing of the proposed reduction in the PI rates. Several Processors noted that the proposed timing of the PI rate reductions is insufficient to allow them to negotiate revised pricing with their customers. Processors were also concerned that the PI rate decrease implementation date did not correspond to the MI rate increase being proposed to the Recycled Product Manufacturers.

One of the reasons for the proposed changes to the PI rates was that OTS was seeing an increased incidence of Processors using the incentive to subsidize the price charged to customers of crumb rubber. The PIs are intended to allow Processors to dispense with tip fees charged to Haulers prior to program implementation, and to allow Processors to invest in their operations. The use of PI to subsidize product price is an unsustainable practice that creates market dependence and distorts the natural crumb rubber markets. The proposed reduction is a first step in signaling to Processors that this activity is not sustainable or supported by the program.

Additionally, the proposed 10% reduction is not so substantial as to warrant a wholesale reworking of a Processors TDP pricing strategy. If, as intended by OTS, Processors are using the PI to improve their current operations and are not simply applying the PI to subsidize prices, the net effect of this 10% reduction should not materially impact TDP pricing.

Several Processors cited the expansion in Processor capacity and the resultant competition for used tires as having a negative impact on operational costs and efficiency. Processors cited difficulty sourcing the quantity of tires necessary for optimal operations, and thus have realized an increase in Processing costs per tonne of TDP produced.

Processors also noted that there is an increasing incidence of having to pay for tires, thus further draining their ability to direct investments (funded at least in part by the PI from OTS) to facility, equipment and process enhancements. Processors proposed a range of actions for OTS to take, from prohibiting stakeholders from paying for tires, to closing the market to new Processors and engaging in a program of acquiring and closing the surplus capacity.

OTS is committed to ensuring an open and competitive market for tires recycling in Ontario. It is not the role of OTS to determine which Processors will be permitted to compete in the provincial market, nor is it the role of OTS to enforce a balance between used tire supply and processing capacity. OTS provides a hierarchy of PI that is available to any Processor that chooses to enter the Ontario market and execute a Processor Agreement with OTS. It is up to the Processors, their customers and the broader market to determine which companies will be successful and which will not.

OTS is aware of the growing incidence of “paying for tires”, both at the Hauler - Collector level, and between Processors and Haulers, and has not taken a position for or against this activity other than to recognize it as an indication that there is a surplus of money in the system, precipitated by the OTS incentives. This signals that there is an opportunity, and a need, for OTS to reduce the amount of money it is injecting into the market by reducing the incentives. This action will allow the market to find a new equilibrium and rationalize the transactions taking place in the market at a sustainable level.

Processors also voiced concerns to OTS regarding the proposal to make them accountable for the accuracy in the reporting of tire counts delivered to their facility. OTS is proposing to implement a system to validate the quantities of tires being reported as delivered to a Processor against the actual inventory of the Processor. In the event that discrepancies are identified that exceed what could be reasonable expected, OTS may impose a penalty on the Processor equivalent to some portion of the delivered inventory average Transportation Incentive (TI) value multiplied by the amount of the tire quantity discrepancy.

Processors expressed concern regarding their ability to “police” the actual quantity of tires units, by type, being delivered to their facility, and noted that as they are paid PI by OTS only on the weight of TDPs produced and sold. They did not agree that they should be held accountable for the accuracy of this information.

OTS discussed the overall design of the manifest system and highlighted the shared responsibility of both parties signing the manifest form in ensuring and certifying the accuracy of the information submitted to OTS. Submitting inaccurate tire count information (either relating to a pick-up or a delivery of used tires) creates an opportunity for inaccurate and/or fraudulent claims to be submitted to OTS, increasing costs and reducing program efficiency.

It is the responsibility of both the Hauler and the Processor to collaborate to ensure that tire count information is accurate, and it is up to the Hauler and Processor to determine a method that allows them to achieve this.

CONCLUSION

Based on the feedback received from Processors, and on the activity OTS is seeing in the tire recycling and TDP production markets, OTS has agreed to change the proposed implementation date of July 1st, 2013 for the introduction of the revised PI rates to **January 1st, 2014**. This will provide additional time for Processors to modify their business plans to absorb the rate decrease and to engage with discussions with their customers about TDP pricing as necessary. It also allows OTS to signal the market that it will be gradually reducing the level of funds it injects into the market and thus encourage stakeholders to review their current business practices to ensure they are making decisions and investments that are aligned with their long-term interests.

OTS January 23rd, 2013 Processor Consultation Session Questions & OTS Responses

1. **Why is OTS continuing to pay for TDP 5 (shred) given the growth in demand for tires for crumb rubber production by Ontario Processors?**

TDP 5 is now a marginal activity with limited production taking place (from On-Road tires). Early in the program shred production constituted a more significant portion of the overall TDP production as new-to-market Processors established operations in the province and focused on shredding while they built up their crumbing capacity. Over the past 2 years, OTS has seen those processors transition their production to crumb. Today TDP 5 production is much more heavily weighted toward OTR tires and OTS is currently looking at what should be done with TDP 5, however before we do cut out this incentive entirely OTS needs to make sure those processors who are still making TDP 5 will be able to plan and adjust their business accordingly.

2. **As a processor, we receive an incentive when we sell the crumb rubber and show proof of sale. Is this the same for a manufacturer when they make a product and sell it, would they have to show proof of sale before receiving an incentive?**

The Manufacturing Incentive (MI) is paid out to Recycled Product Manufacturers in the same way as the PI, only on proof of product manufactured and sold. However with some manufacturers, it could be a little bit more complicated due to the fact that they may have a range of recycled content in their product, which would mean that OTS would have to work with them on the average percentage of rubber in their SKUs, and apply the incentive to only the rubber content in their product and reconcile that against the amount of rubber they are purchasing from processors.

3. **OTS has mentioned that it is looking at implementing penalties for Processors based on discrepancies in the tire count information on the PTR forms vs. yard counts. Given that OTS is now moving towards a weight base program for payment of the Transportation Incentives (TI), so as a processor why would we care if there are 1,200 or 2,000 tires, if its 20 tonnes? Why even bother counting the tires?**

As a processor who is signing off on the PTR form, you are certifying that all the information on the form, including the tire count, is correct. It is the shared responsibility of each stakeholder to ensure that the information being reported to OTS is accurate, and though OTS is moving to change how the TI is paid, this does not relieve the Processor of this responsibility. Although OTS is moving to a weight base system, we need to continue using the number of units on the form for reconciliation purposes.

4. **If the proposed 10% reduction is to take place as of July 1st, 2013 and our business is a seasonal business and we already have purchase orders against the product, does this mean**

to qualify for the existing rates would I need to sell all of my current inventory before July 1st 2013?

If OTS goes by the July 1st 2013 time line, then yes in order to receive an incentive at the current rate on the product you currently have on your property you would have to sell it by the end of June 2013.

5. **If I have inventory June 30th, 2013, and I sell that inventory on July 2nd, 2013, would all inventory that I sell on July 2nd, 2013 be paid at the new rate?**

Yes, this is correct. All eligible crumb sold after July 1st, 2013 will be incented at the new rates.

6. **In the WDO meeting last year, one thing that came out of that meeting was sustainability, and giving participants ample time to adjust to these changes. July 1st, 2013 is a short time frame to make these changes. As a processor I think that January 1st, 2014 would be a better time implementation when it comes to reducing these rates. Since this a consultation meeting and majority of the processor agree on January 1st, 2014, is OTS willing to take this into consideration and re-visit the date of the reductions?**

OTS will definitely take into consideration the feedback they receive from processors about the time frame; we will go back and look at our implementation plan. This not a 100% locked proposal, the purpose of this session is for OTS to consult with processors on the proposal and share the rationale of OTS for proposing the changes to the incentive rates.

7. **When is OTS looking into raising the Manufacturing Incentive?**

OTS plans on implementing the new rate for the Manufacturing Incentive in January of 2014.

8. **If an RPM makes a mat and sells it to Canadian Tire will the Manufacturing incentive raise from $40.00 to $80.00 and $160.00 to $200.00 a tonne on that mat which has been sold at the retail store?**

In 2014, the Manufacturing Incentive program will continue to operate as it does currently, albeit with new incentive rates being applied. The Manufacturing Incentive is paid on the production and sale of that product. The retail rebate program pilot will be just in Ontario, with one or two retailers on a limited range of products. The selection of products which the retail rebate will apply to will be as much about what we think will drive incremental demand as it is about what the manufacturer is making. Manufacturers will continue to get paid a manufacturing incentive at $80.00 and $200.00 a tonne in 2014 for every tonne of product they make and sell.

Appendix A

PROCESSOR CONSULTATION SESSION PRESENTATION

Available on the OTS website at https://www.ontariots.ca/?q=Resources

Appendix B

WRITTEN PROCESSOR SUBMISSIONS

February 6, 2013

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

Re: Proposed Reduction in Processing Incentive Rates

Dear Andrew,

In response to the proposed reduction in PI rates, presented at the OTS Processor Consultation Session on January 23, 2013, CRM asks that the initial reduction in PI rates scheduled for July 1, 2013 be extended to January 1, 2014; aligning with the increase in MI rates for the RPMs.

The foremost theme recognized in the KPMG audit of the OTS Incentive structure, provided to us by the WDO following the Stakeholder Consultation meeting on May 2, 2012, was the perceived lack of sustainability in the program. A reduction in PI rates, as proposed to take place on July 1, 2013, is not sustainable and will be detrimental to CRM and the remaining processors, whom all have made substantial financial investments in Ontario.

We have set annual price contracts with our customers for the year. We cannot approach them to renegotiate these prices mid-year. We are supportive of OTS however a reduction of the PI rates as proposed on July 1, 2013 will indeed be a great hardship.

We ask simply for an extension of this proposed date to January 1, 2014 and appreciate your consideration with this matter.

Sincerely,

H. Barry Takallou, Ph.D., P.E.
President & CEO

CRM Companies, LLC Corporate Headquarters
1301 Dove Street, Suite 940, Newport Beach, Ca 92660
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EMTERRA
Tire Recycling

Thinking innovatively
Transforming waste to resources

February 5, 2013

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

RE: Proposed Reduction in Processing Incentive Rates

Dear Andrew;

Please be advised that we have concerns regarding the proposed reduction(s) in the processing incentive rates as outlined during the OTS Processor Consultation Session on January 23, 2013.

For example, due to the significant amount of overcapacity that has developed in the tire processing business, many processors are now finding themselves in a position where they must purchase tires at a cost of $60 per tonne and more in an attempt to get enough tires in the door to run their plants efficiently. Even with that, due to the large demand for tires it is difficult, if not impossible to acquire sufficient tires to run a plant efficiently. The net result that the processing cost per tonne is significantly higher than it otherwise would be.

In addition, operating costs such as that for electricity have got out of control especially considering the effect of the Provincial Benefit which recently has been more than double the energy cost.

By cutting the processing incentive we believe that OTS in effect will be setting the stage for the failure of a number of processors. These business people will be unable to make up for the cut in the PI by increasing throughput, increasing productivity and cutting their costs due to the inability to acquire sufficient tires to do so.

Rather than cutting the processing incentive to move incentive dollars downstream, we think that OTS should consider a two-part initiative to reduce processing capacity first. Following the lead of British Columbia OTS should institute a moratorium on new processors in the province followed immediately by implementation of a program to buy up excess processing capacity in the province with the goal of balancing demand with supply. Once this has been completed the remaining processors will be in a much better position to absorb a decrease in processing incentives.

Our second concern is that any reduction in processing incentives should it take place, should be timed to coincide with the planned increase in manufacturing incentives slated for 2014. We are reasonably certain that Ontario manufacturers will not be willing to pay more for Ontario made crumb rubber until and unless there is an incentive to do so.

Regards,

John J. Cassell
General Manager

NATIONAL RUBBER
TECHNOLOGIES
A KN Rubber company

VIA E-MAIL

February 6, 2013

Ontario Tire Stewardship
300 The East Mall, Suite 100
Toronto, ON M9B 6B7

Attention: Mr. Andrew Horsman

Dear Andrew,

Let me first compliment you and your team for the work you have done and continue to do in introducing, managing and further developing a program to recycle used tires into value added goods creating investment and employment in Ontario.

As both a long time processor of recycled tires and a manufacturer of value added products using tire derived materials in Ontario, National Rubber Technologies ("NRT") has a vested interest in maintaining and growing its physical asset and employment base in Ontario. Therefore, the proposed changes to the OTS incentive program are of keen interest to NRT from various perspectives.

Processor Incentives

We believe it is important to correct the processing imbalance and unintended consequences that the Processor Incentive has had in the market place. For this reason, we conceptually support the OTS approach to reducing the level of Processor Incentives paid.

However, this change, coupled with the shortage of tire supply in Ontario which has resulted in inefficient processing of tires, will add to a financial burden on NRT in the short term. Based upon 2011 operating volumes, PI revenues alone will fall approximately $0.2 million in 2013 and over the 3 years ending in 2015 total revenue reduction will be approximately $1.2 million. Of course, elimination of tire processing capability over this time has the potential of increasing throughput and somewhat mitigating this shortfall, however, we believe that this market correction may take 1 – 2 years and so the offset of this market change will not be significant in the short term.

Manufacturing Incentives

We support the shift in incentive payments from the processing of tires to supporting and encouraging the manufacturing of value added goods in the province of Ontario, thereby contributing to the re-establishment of the manufacturing base and related employment in Ontario. We continue to support this strategy.

NRT believes though that the current model unfairly penalizes manufacturers such as NRT which have established operations in Ontario in favour of attracting new manufacturing into the province. Although NRT welcomes competition and believes that healthy competition is good both for the company and the economy as a whole, incentives have the potential of creating unintended market changes which could be harmful to individual companies and the economy.

Based upon our models, the current OTS proposal will result in essential no change to manufacturing incentives paid to NRT. In contrast, if the "base" calculation (above which the higher incentives are paid) were to remain unchanged from the current level, the increase in the rate of manufacturing incentive paid would result in an increase of approximately $0.3 million.

By way of illustration, a new manufacturer, who established operations in 2012 for instance, would have a substantially lower "base". At a "base" of zero, this manufacturer, utilizing the same volume assumptions would realize annual incentives of approximately $1.0 million. We believe that this level of incentive to new manufacturers is excessive and could result in the unintended attraction of manufacturers into the province for the sole reason of exploiting the incentives as opposed to establishing long term, viable operations which will benefit the Ontario economy for many years to come.

NATIONAL RUBBER TECHNOLOGIES
A KN Rubber company

Therefore, we would respectively propose that OTS consider modifying the changes to the manufacturing incentive as follows:

- Change the "base" calculation annually utilizing a 3 year rolling average commencing January 1, 2014. This process would still provide an incentive for new manufacturers to enter the market place but would avoid the accumulation of these additional incentives over the initial 3 year period as proposed. For instance, a new manufacturer who can achieve volumes similar to that of NRT within the first 3 years of their entrance into the market place could realize $3 million in incentives in excess of that realized by NRT during that same period. Given where the market for recycled products is now, this type of early growth in market share would not be unreasonable and this would create an unfair advantage for new entrants versus existing competitors. The 3 year rolling average would provide an incentive to growth but, at the same time, limit the advantage realized by new entrants versus the current 3 year static re-set of the "base" tonnes.

- Increase the MI rate for the "base tonnes" from the proposed rate of $80 to $120 and decreasing the MI rate for "incremental tonnes" from the proposed rate of $200 to $180. These changes would increase the incentive for incremental tonnes from the current level without supporting an unequal playing field between new and existing manufacturers. Further, this approach continues to incent existing manufacturers to make further investments in their business, growing the breadth and depth of their product penetration levelling the playing field with the new comers to the market place who are attracted by the early stage incentives this program offers.

We recognize that it is NRT's responsibility to run its business in an efficient and effective manner without relying on the revenues flowing from the incentive program and the intent in these changes is to ensure that new entrants do not gain an unfair competitive advantage through excess incentives which may be used to subsidize prices to gain market share and force existing manufacturers, who do not have the benefit of excess incentives, to reduce margins, potentially prompting employee losses or shareholders to re-evaluate investments already in place in Ontario.

We would also like OTS to consider, within the realm of Retail Rebates to explore methods of supporting the industrial market in a similar manner. Although these products do not get the "headlines" as products sold at the retail level, we recognize that these products, often hidden, also end up in consumer hands in the automobiles, homes and renovations they purchase. We believe that these products are also worthy of consideration by OTS of a form of pilot rebate program aimed at placing products made from recycled Ontario tires into the infrastructure of Ontario life.

In summary, we believe that taking steps to correct the tire supply vs. processor capacity issue in Ontario is sound and a slower approach to creating manufacturing capacity in Ontario will create and support a solid foundation upon which the manufacture of products in Ontario derived from recycled tires will flourish, providing long term, well paying employment in Ontario.

We have enjoyed our past relationship with OTS and we look forward to working with your team in continuing our mutual success in transforming what was a waste product into a value added, self sustaining economic model

Sincerely,

David Ongaro
Vice President & Treasurer
National Rubber Technologies Corp.

c.c. Mr. Bill Dube, Chief Executive Officer, National Rubber Technologies Corp.
Mr. Christopher Keogh, Chief Operating Officer, National Rubber Technologies Corp.
Mr. Christopher McKee, Chief Financial Officer, National Rubber Technologies Corp.

MOOSE CREEK
TIRE RECYCLING

February 6, 2013

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

Re: Proposed changes to Processing Incentives

Dear Andrew,

Following the January 23rd Processor Consultation Session, during which OTS introduced proposed reductions to processing incentives, we, at Moose Creek Tire Recycling, feel that the proposed implementation date does not allow processors enough time to adjust.

During the consultation session, it was revealed that one of OTS' objectives is to gradually move to a system where incentives will be paid to RPM's who would in turn make their own arrangements with suppliers. While we understand and agree with the principles behind this direction, we do not understand the delay between the proposed July 1st, 2013 PI reduction and the January 1st, 2014 MI increase. This move will, in all likelihood, force processors to absorb the difference in PI as there is more capacity for crumb production in Ontario than consumption, creating a highly competitive marketplace where consumers of crumb will not be very willing to increase cost... especially during the lag period where MI rates will not yet have increased.

The overall success of the OTS in achieving tire diversion objectives has been largely due to the development of processing and manufacturing capacity. Without this capacity, there would be few places for tires to be recycled. Not to minimize the importance of collectors and haulers, the largest investments in the program have been made by processors and manufacturers. In the case of Moose Creek Tire Recycling, we have committed large sums of money in facilities and tire recycling equipment. We feel that a premature reduction of the very incentive that was created to attract and help maintain short term stability of organizations making this kind of investment would be counter-productive.

17354 Allaire Road, Moose Creek, Ontario K0C 1W0
Phone: 613-538-4760 Fax: 613-538-4769
OTS Registration No. 4000021

During the WDO Stakeholder Consultation meetings held last May, many participants expressed their concerns about the lack of long-term visibility for business planning purposes, and asked that OTS develop and share a 5-year plan with it's stakeholders. This common viewpoint was captured in KPMG's final report on the matter. Implementation of the PI reductions as currently proposed goes against KPMG's recommendations, preventing businesses to plan for these changes in a more organized and sustainable manner.

In closing, we kindly request that OTS consider moving the proposed implementation date of the PI reductions from July 1, 2013 to January 1, 2014, thereby allowing the transition to occur in a more planned manner.

Sincerely,

André Amyot,
General Manager

Ridge Recycling

Response to the January 23, 2013 Processor Consultation

1) Elimination of Incentives on TDP 5 or TDA (Tire Derived Aggregate)

We agree that this should be curtailed but consideration should be given to the following:

i) A rate that would allow rough shred to be transferred between processors or to manufacturers who can further process it into higher end products.

ii) We should not give up on trying to use TDA for construction projects. We have had a few contractors on the bubble and it would be nice not to abandon this market. So perhaps a rate could be used for projects that are preapproved by OTS.,

iii) For stockpile clean up some of the old tires may not be suitable for converting them into crumb. I would think this material being used as road making material for landfills is a better use than having the tires used as TDF in the US. Again, this could be preapproved by OTS as part of the bidding process for this work.

2) Over Capacity of Ontario Processors

We agree with the sentiment that nothing should be sent out of the province now that there is an over capacity in Ontario. Therefore:

i) All agreements with extra-provincial processors should be terminated,

ii) Any sales of rough shred leaving the province should be reported to all stakeholders of OTS, and

iii) The onus of the processor insuring a higher end use must be actively demonstrated for rough shred leaving the province. In the case where rough shred is made availble to a facility that produces higher and products and TDF, it should be deemed that the rough shred is being converted to TDF and the sale should be disallowed.

From: Terry Gilmore
Sent: Friday, February 01, 2013 9:21 PM
To: processor
Subject: Treadcraft comments regarding the Jan 23 consultation mtg

Good afternoon,

I wish to comment on the proposed timeline for the reduction of PI paid for the production of TDP

We wish to request that OTS consider delaying the implementation of the first round of reductions from July 1, 2013 to January 1, 2014. This would allow us time to make the necessary adjustments in pricing of our finished products. It would also put the timing in line with the increase in MI to the RPM who purchase our material. We will have to try to negotiate increases with our customers in order to compensate for the reductions in PI.

It is also important to point out that the processing of scrap tires is the most cost intensive segment of the scrap tire industry. Our segment has the most difficult job in the supply chain in converting scrap tires into a usable product again. While we understand that Ontario has one of the most expensive programs in the country it is misleading due to the fact that collectors are getting paid a substantial amount of money to simply move tires from one part of their operation to another or onto a trailer. No costs to operate trucks, no costs to purchase large, expensive equipment, no costs to maintain this equipment. It seems to us that the burden of reducing the cost of the program is not being equitably shared.

We have concerns about the success of processors to recoup the revenue from reduced PI from RPM's who are getting increases. Trickle down economics may work for governments and taxpayers but I am not convinced that it will work in the current marketplace for crumb rubber.

Thank you for your consideration of our concerns,

Terry Gilmore
Treadcraft Limited

Appendix C

PROCESSIOR CONSULTATION SESSION ATTENDEES

Name	Company
Terry Gilmore	Tread Craft
Doug Jones	Recycled Rubber
Daniel Gosselin	Animat INC
Ross Burt	Moosecreek Tire Recycling
David Ongaro	National Rubber Techonology
John Cassell	Emterra Tire Recycling
Barry Takallou	CRM
Jesse Hertel	Liberty Tire Recycling
Peter Valente	Windsor Rubber Processing
Kevin O'biren	Ridge Recycling
Bob Bignell	OTDA
Jeff Murrary	Best Blasting Mats
Christian Audet	Royal Mat Inc
Will Mueller	WDO
Vinh Ngo	Ideal Rubber Industries
Peter Valente	Windsor Rubber
Rosemary	Tire Stewardship BC
Jesse Hertel	Liberty Tire Recycling