

OTS Processor Consultation Session

January 23rd, 2013
OTS offices

2009 – Launch of OTS

OTS is the not-for-profit industry-funded organization (not government) responsible for developing, implementing and operating Ontario's Used Tires Program

The Used Tires Program Goals include:

- Eliminate the approximately **1.4 million** stockpiled tires in dumpsites across Ontario,
- Ensure that the approximately 12 million plus scrap tires generated annually are diverted from burning and land filling to other uses
- ***To divert 90% of On-Road Tires, and 50% of Off-Road Tires in 5 years***

OTS strategic Objective:

Develop domestic markets to consume 100% of Ontario TDP's and products



Where is OTS Now?

Program can be divided roughly into 3 "Deliverable" Segments:

1. Short-term

- Ensure 100% of Ontario's "divert-able" tires are diverted (i.e. not sent for fuel or landfilling)

2. Medium-term

- Work with the scrap-tire recycling industry to develop Ontario processing capacity to be able to manage 100% of the province's scrap tires

3. Long-term

- Work to develop economically and environmentally sustainable markets to be able to "consume" 100% of the tire-derived products produced by the Ontario tire recycling industry

We are here



Ontario Tire Stewardship

www.ontarioTS.ca

Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

Program Accomplishments To-date

Diversion Rates

- Passenger and Light Truck tires exceed 95%
- Medium Truck tires exceed 95%
- Off-the-Road tires exceed 95%

To date OTS has cleaned-up over 500,000 tires in piles across the province



Ontario Tire Stewardship

www.ontarioTS.ca

Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

5

Program Accomplishments To-date

Ontario Processing capacity has developed since program launch so capacity now exceeds supply of On-Road Tires

Capacity Increases & Investment in Ontario

- 90+ new Haulers have entered the market since program launch
- 4 Ontario Processors have added 2.5 million tires of capacity
- 4 new Processors in place adding approx. 7.5 million tires of capacity
- 2 existing Rubber Product Manufacturers (RPM) adding capacity
- 2 new RPMs have established operations in Ontario
- **Combined investment to date \$20-30 million, estimated investment in 2012 \$5-\$10 million**
- **Estimated new job creation to date = 200+**

To date OTS has not sent **any** tires to landfill either in or out of province.



Ontario Tire Stewardship

www.ontarioTS.ca Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

6

OTS Program Design

The Ontario Used Tires Program is based on eliminating the financial barriers to the recycling of used tires and introducing a system of financial incentives that reward the movement of tires up-stream through the recycling system.

OTS Program has eliminated:

- Disposal fees for tire users and consumers
- Tire disposal costs for retailers
- Tip fees at Processors
- The option to dispose of used tires through landfilling, burning or stockpiling / baling

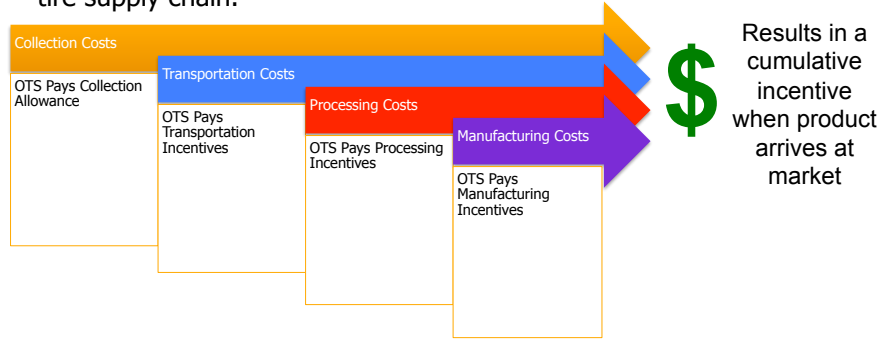
At launch the program introduced a manifest system that begins at the retailer/collector and ends with the sale of a manufactured product to an end consumer (includes tires sold for reuse / retreading).

Ontario Tire Stewardship

www.ontarioTS.ca Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

OTS Incentive Program design

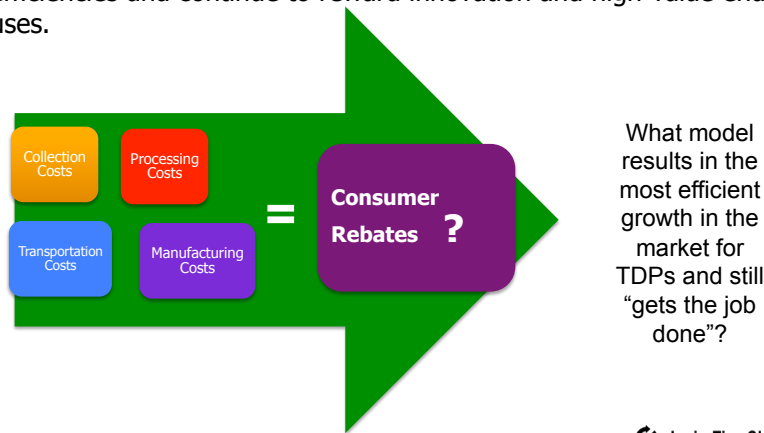
When designed the Ontario Used Tires Program adopted an approach that resulted in OTS becoming the "payor" at all stages of the used tire supply chain.



This approach most closely reflected the existing market conditions and resulted in the least market disruption.

OTS Incentive Program Design

As the Ontario market has evolved OTS is revisiting the overall incentive program structure to assess whether there are opportunities to redesign the incentives to reflect market condition, drive greater efficiencies and continue to reward innovation and high-value end uses.



9

OTS Processing Incentives

- Pre-Program used tire economics

Consumer Pays to get rid of used tires

Collector Pays Hauler to pick-up used tires

Hauler Pays tip fee on delivery of scrap tires

This system creates an incentive to move scrap tires to the lowest cost (and generally value) disposal option.

Ontario Tire Stewardship

www.ontarioTS.ca Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

10

OTS Processing Incentives

In looking at best practices in other jurisdictions it was evident that the Used Tires Program (UTP) needed to remove the economic barriers to the high-value recycling of scrap tires and the incentives to dispose of tires at the lowest possible cost.

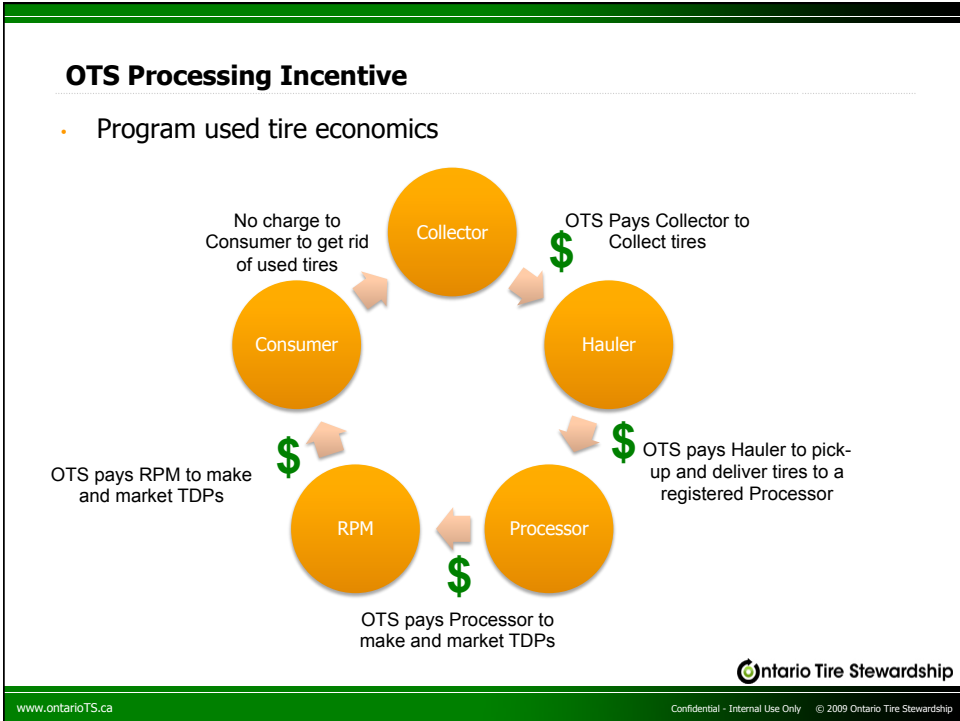
- The Minister's Program Request letter specifically directed that the UTP seek to foster the development of green technology and a green economy in its efforts to develop and promote an Ontario-based market for recycling and recycled products that can be made from scrap tires.

To achieve this OTS introduced:

- A Transportation Incentive (TI) program that would ensure tires could be delivered to Ontario Processors
- A restriction on Ontario tires leaving Ontario until the needs of Ontario Processors were met
- A tiered Processing Incentive (PI) structure that provided greater incentive to the production and sale of finer grades of crumb

Ontario Tire Stewardship

www.ontarioTS.ca Confidential - Internal Use Only © 2009 Ontario Tire Stewardship



OTS Processing Incentive

Launched in September 2009 OTS designed the PI rates to provide significant stimulus as compared to pre-program tip fee revenues realized by Processors

TDP Type	OTS PI Rate / Tonne	Tip Fee Revenue (expressed in \$ / Tonne TDP)	Incentive / Tonne of TDP	Incentive as a % of Tip Fee Revenue
TDP 1	270	153	117	76
TDP 2	230	131	99	76
TDP 3	155	115	40	35
TDP 4	65	40	25	63
TDP 5	55	25	30	120


Ontario Tire Stewardship

www.ontarioTS.ca Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

OTS Processing Incentive

PI Rates in other Provinces

	Crumbing Incentive -PLT		
	2007	2012	Change
BC	227	288	27%
AB	264	425	61%
SK	165	187	13%
MB	143	160	12%
ON	n/a	235	n/a
QC	69	100	45%
NB	n/a	n/a	n/a
PE	n/a	n/a	n/a
NS	n/a	n/a	n/a
NL	n/a	n/a	n/a

 Ontario Tire Stewardship

www.ontarioTS.ca

Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

OTS Processing Incentive

PI Rates in other Provinces

	Crumbing Incentive - MT		
	2007	2012	Change
BC	263	335	27%
AB	342	478	40%
SK	165	187	13%
MB	143	160	12%
ON	n/a	235	n/a
QC	20	62	210%
NB	n/a	n/a	n/a
PE	n/a	n/a	n/a
NS	n/a	n/a	n/a
NL	n/a	n/a	n/a

 Ontario Tire Stewardship

www.ontarioTS.ca

Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

OTS Processing Incentive

Since program launch in September 2009, the PI program, along with the other incentives and policies put in place by OTS, has supported a massive change in the Ontario Processing market:

- Processing capacity has increased from approximately 50% for On-Road tires, and 20% for OTR tires, to well over 100% for On-Road Tires and close to 100% for OTR tires
- Production of crumb rubber has increased dramatically, up 98% in 2012 over 2011
- New processing market entrants have brought fresh expertise and end-customers to the table, increasing the overall market diversity

OTS Processing Incentive

Consistent with its mission, OTS is reviewing its overall Incentive program approach to assess whether it is optimally configured to continue to drive the market for high-value TDPs. In undertaking this review, OTS is cognizant of several key factors:


- The market for scrap tires in Ontario is a highly competitive one, with Processors working closely with haulers to secure sufficient supplies of tires to continue their operations
- Ontario TDP pricing has been impacted by the incentives introduced by the program, leading to some unintended consequences around the pricing of TDPs
- There is still a significant quantity of crumb that is sold to out of province uses
- Relationships between RPMs and Processors are in some cases still at a formative stage
 - OTS would like to see these solidify more quickly

17

OTS Processing Incentive

Proposed changes to the OTS PI Program – 2013 (July 1st 2013 Implementation)

TDP Type	OTS PI Rate / Tonne	Tip Fee Revenue (expressed in \$ / Tonne TDP)	Incentive / Tonne of TDP	Incentive as a % of Tip Fee Revenue
TDP 1	243	153	90	59
TDP 2	207	131	76	58
TDP 3	139	115	24	21
TDP 4	58	40	18	45
TDP 5	50	25	25	100




www.ontarioTS.ca Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

18

OTS Processing Incentive

Proposed changes to the OTS PI Program – 2014 (July 1st 2014 Implementation)

TDP Type	OTS PI Rate / Tonne	Tip Fee Revenue (expressed in \$ / Tonne TDP)	Incentive / Tonne of TDP	Incentive as a % of Tip Fee Revenue
TDP 1	216	153	63	41
TDP 2	184	131	53	40
TDP 3	124	115	9	8
TDP 4	52	40	12	30
TDP 5	0	25	0	0




www.ontarioTS.ca Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

19

OTS Processing Incentive

Proposed changes to the OTS PI Program – 2015 (July 1st 2015 Implementation)

TDP Type	OTS PI Rate / Tonne	Tip Fee Revenue (expressed in \$ / Tonne TDP)	Incentive / Tonne of TDP	Incentive as a % of Tip Fee Revenue
TDP 1	189	153	36	24
TDP 2	161	131	30	23
TDP 3	108	115	7	6
TDP 4	45	40	5	12
TDP 5	0	25	0	0




www.ontarioTS.ca Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

20

OTS Processing Incentive

In addition to the PI Rate decrease, OTS will be increasing the Manufacturing Incentives and piloting a limited Retail Consumer Rebate Program in 2013:

- MI rates will go from \$40/tonne on base production to \$80/tonne and from \$160/tonne on incremental production to \$200/tonne
- The retail rebate program will provide POS rebates (rebate budget for 2013 is \$500,000) to consumers on select Ontario-produced TDPs sold at a selected retailer(s)
 - Assuming success, OTS will seek to expand the program in 2014 to more retailers and potentially to non-retail consumers



www.ontarioTS.ca Confidential - Internal Use Only © 2009 Ontario Tire Stewardship

OTS Incentives – Policy & Procedure Update

As market conditions shift, OTS has identified reporting and compliance issues that have a material financial impact on the program, as a result OTS will be introducing some changes to the Processor Agreements and PI Claims procedures:

- Tire Quantity justification: All stakeholders have a responsibility to ensure reported tire quantities are accurate. OTS will be strengthening its audit program and enforcing the requirement that stakeholders be able to support quantities of tires being reported on OTS manifests
- Spot inspections: OTS will be beginning a program of spot inspections at Collectors, Hauler and Processor yards to validate quantities of tires being picked-up and delivered with information reported on manifests
 - In the event of significant differences, OTS may deny loads from being eligible for incentive payments
 - Repeat issues may lead to stakeholder suspension and/or termination



OTS Manufacturing Incentive

It is OTS's position that these revisions to the Incentive model will result in continued stimulus to the Ontario tire recycling industry:

- Increasing both base and Incremental Manufacturing Incentives
- Introducing a Consumer Rebate Program
- Revising other program incentives to increase the economic emphasis on domestic use of tires / crumb

At the same time, the industry must capitalize on these incentives to drive sustainable growth in their markets and businesses. OTS will be continually reviewing the impact of these incentive rates and will be seeking to gradually reduce them and drive down program costs.

You are responsible for the sustainability of your business, without incentives (eventually).



Timelines and Expectations

- Feedback on the consultation is very much appreciated
- February 6th, 2013 (17:00) – Deadline for comments and questions by Processors on Proposed changes
- February 20th, 2013 – Stakeholder Consultation Report released
- July 1st, 2013 – New PI rates implemented for the OTS program