



OTS Recycled Product Manufacturer Consultation Session

January 22nd, 2013

OTS offices

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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



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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

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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



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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.



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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).

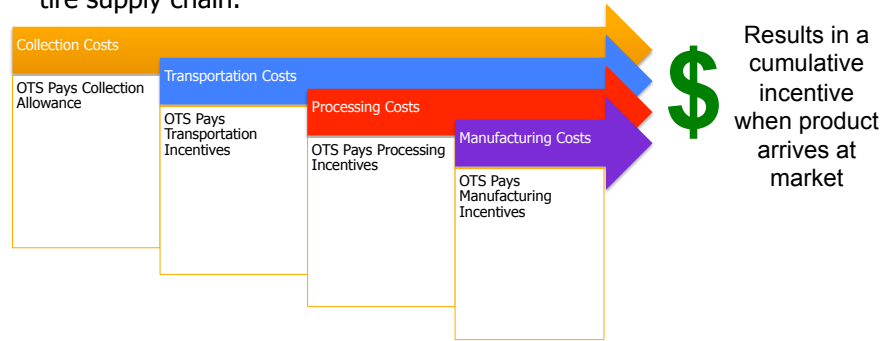
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OTS Incentive Program design

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.

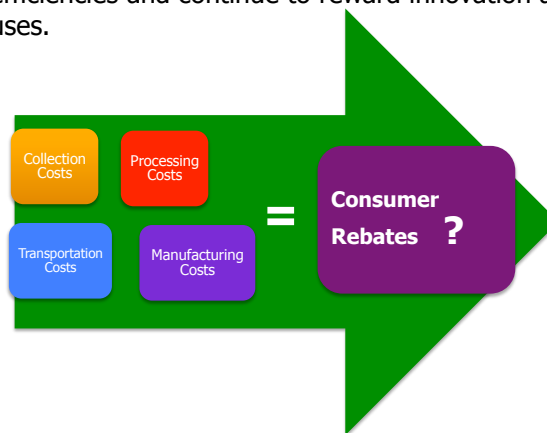
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OTS Incentive Program design

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.



What model results in the most efficient growth in the market for TDPs and still "gets the job done"?

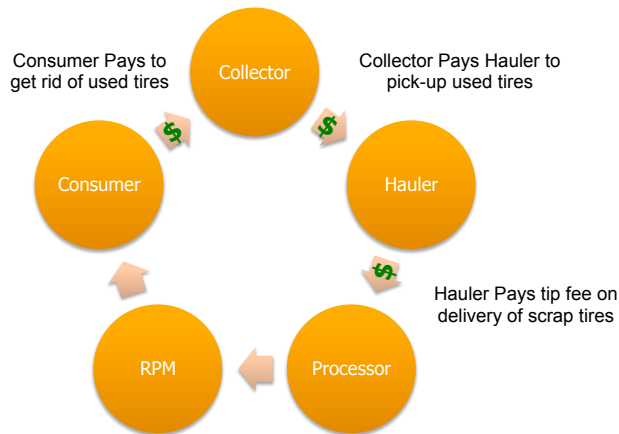
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OTS Manufacturing Incentives

- Pre-Program used tire economics



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

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OTS Manufacturing 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 place a priority on the diversion of used tires into higher end-uses whenever possible.

To achieve this, OTS proposed to introduce:

- a tiered Processing Incentive (PI) structure that provided greater incentive to the production and sale of finer grades of crumb;
- A Manufacturing Incentive (MI) that rewarded the used of Ontario crumb rubber in the production and sale of moulded, calandared and extruded products in Ontario

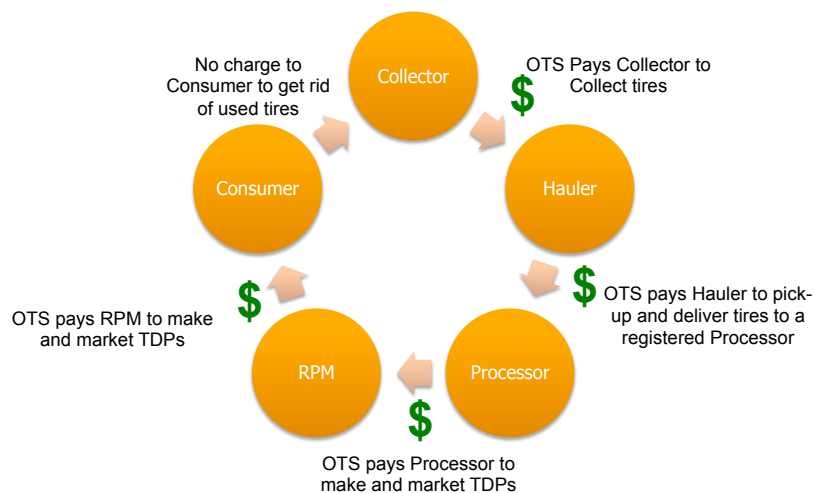
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OTS Manufacturing Incentives

- Program used tire economics



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OTS Manufacturing Incentive

MI Rates		Implementation
2009-2010	\$160 / Tonne of TDP capped at 30% of total funds available (\$2.1 million) and allocated according to share of historic Ontario crumb use	September 1 2009 – December 31 2010
2011	\$40 / tonne on "Base" tonnes, calculated as the annual average of the total Ontario crumb use 2007-2009	January 1 2011 – December 31 2013
	\$160 / tonne on all "Incremental" tonnes produced over the "Base" amount	
2014	Recalculation of "Base" using Ontario crumb rubber use 2010-2012	January 1 2014 – December 31 2016

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OTS Manufacturing Incentive

Since program launch in September 2009, the MI program, supported by the growth in Ontario crumb rubber production capacity, has been highly successful in incenting incremental manufacturing activity:

- 3 new RPMs have entered the Ontario market
- Use of Ontario crumb rubber in manufacturing has increased by 65% in 2012 over 2011
- Ontario RPMs have introduced new products to the market
- Demand by Ontario RPMs has created increased market opportunities for Ontario Processors to sell their TDP production
- Through its R&D program, OTS expects 2 additional RPMs to become active in 2013



OTS Manufacturing 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 2014 "Base" production reset will have a significant downward impact on the MI funding able to be claimed by RPMs
- 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




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OTS Manufacturing Incentive

Proposed changes to the 2014 MI Program

MI Rates		Implementation
2014	\$80 / tonne on "Base" tonnes, calculated as the annual average of the total Ontario crumb use 2010-2012	January 1 2014 – December 31 2016
	\$200 / tonne on all "Incremental" tonnes produced over the "Base" amount	
2017	Recalculation of "Base" using Ontario crumb rubber use 2013-2015	January 1 2017




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OTS Manufacturing Incentive

In 2013, OTS will also be introducing changes to the Processing Incentive Rates

- PI rates will be decreased by 10% per year in each of 2013, 2014 and 2015
- PI for TDP5 will be eliminated in 2014



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OTS Manufacturing Incentive

In addition to the MI Rate increase, OTS will be piloting a limited Retail Consumer Rebate Program in 2013. This 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)
- The objective will be to:
 - Gauge consumer and retailer perceptions of TDPs
 - Assess the effectiveness of a rebate program on growing demand for these products
 - Determine what level of rebate is required to make a significant impact on TDP sales
 - Assess whether a rebate program can contribute to the long-term growth in the market for TDPs even in the absence of a rebate
- The pilot will be run in late spring / early summer 2013
- Assuming success, OTS will seek to expand the program in 2014 to more retailers and potentially to non-retail consumers



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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 RPMs on Proposed changes
- February 20th, 2013 – Stakeholder Consultation Report released.
- January 1st, 2014 – New incentive rates implemented for the OTS program