

**Report from Executive Director
Scrap Tire Diversion Program Plan August 20, 2004**

To: Members of the WDO Board

From: Glenda Gies
Executive Director

Subject: Scrap Tire Diversion Program Plan August 20, 2004

Date: September 10, 2004

1.0 Background

A letter designating Used Tires was received from the Minister of Environment at the March 26, 2003 meeting of the Board of Directors of Waste Diversion Ontario (WDO). The submission deadline for the Used Tires Program Plan was identified by the Minister as January 30, 2004.

Ontario Tire Stewardship (OTS) has formed as the industry funding organization (IFO) for Used Tires.

In December 2003, WDO requested clarification of Used Tires stewards and also an extension to the submission deadline to March 31, 2004 to accommodate the request for clarification. This request for the extension was granted by the Minister and clarification of Used Tires stewards was provided by letter in March 2004.

OTS presented a draft final Scrap Tire Diversion Program Plan dated March 15, 2004. Consideration of this Plan by the WDO Board was deferred in order to request a meeting with the Minister to clarify her March letter. This meeting was held with representatives from OTS and WDO on June 2, 2004. Subsequent meetings were held between representatives from OTS and the Minister's staff during July and August.

OTS has presented a draft final Scrap Tire Diversion Program Plan dated August 20, 2004.

2.0 Issue

The Minister's request for a diversion program plan for Used Tires is outstanding.

3.0 Status

The meetings between representatives from OTS and the Minister's staff identified a number of revisions to the Scrap Tire Diversion Program Plan:

- Board governance, specifically representation on the OTS board from vehicle manufacturers, smaller tire retailers, ENGOs and consumers and clear indications of responsive, transparent and accountable governance in the annual report;

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- consumer education, specifically more expenditures at start up and in early years of Plan implementation including, for example, a 1-800 number, comprehensive information available via a website, plan to manage consumer complaints with a response time commitment;
- stockpile abatement, specifically more rapid implementation and a clear commitment to a collaborative relationship with MOE and municipalities to prioritize sites for remediation;
- R&D, specifically initiatives that will set Ontario ahead of other jurisdictions; and
- Communications, specifically communicating the benefits of the Scrap Tire Diversion Program Plan in terms of environment, health, economy, sustainability and co-operating with other jurisdictions.

OTS reports it has addressed these issues in the August 20 Plan and has met with Minister's staff to review the revisions. It is OTS' understanding that these revisions are acceptable to the Minister's office. This understanding is consistent with discussions between the Executive Director and Minister's staff.

The Scrap Tire Diversion Program Plan names retailers as stewards, rather than brand owners/first importers as originally specified in Minister's program request letter. Following meetings between the Minister's staff and OTS, the Minister has forwarded a letter to WDO dated September 8, 2004 referencing 'approaches which are in keeping with the principles of the discussions' at meetings between OTS and Minister's staff.

The Executive Director's review of the March 15 Scrap Tire Diversion Program Plan identified a number of points which have been addressed in the August 20 Scrap Tire Diversion Program Plan:

1. The annual review outlined in Section 8.2 now includes review of the Tire Stewardship Fee (TSF).
2. A survey of Ontario crumb rubber processors is provided in Appendix 26.
3. Additional information has been added in Appendix 32 on start up time for two Ontario cement kilns in order to accept Tire Derived Fuel (TDF). Appendix 32 also references export to Quebec for TDF until Ontario kilns are able to accept tires.

The Executive Director's review of the August 20 Scrap Tire Diversion Program Plan has identified the following points of interest:

1. The August 20 Plan proposes to expand the OTS Board following approval of the Plan by the Minister to include representation from consumer, environmental and industry groups.

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2. The Diversion and Collection Forecast (page 30) outlines targets for diversion which increase over the five year forecast from 54% to 80% and for non-3Rs management systems which decline over the five year forecast from 31% to 10%. Total quantity diverted and collected increases from 85% to 90% over the five year forecast.
3. Page 40 of the August 20 Plan has a four year budget forecast rather than a five year forecast as shown in the March 15 Plan. OTS has indicated that this was a printing error and has supplied a replacement page 40 which is distributed with this report.
4. Revenue from fees has increased from \$36,695,000 in the March 15 Plan to \$37,590,000 in the August 20 Plan. While the estimates of tires sold and the value of the Tire Stewardship Fee (formerly called the Advanced Disposal Fee) remained unchanged, the assumption regarding the compliance of retailers to submit the fee has been adjusted from 82% to 84%.
5. The budget indicates \$14,032,000 will be paid in year one to haulers. For clarification, this figure is based on 13,885 passenger tire equivalents (PTEs) which includes 10,250 passenger tires (PT) and light truck tires (LT) (including culled tires) and 625,000 commercial tires (CT). This calculation utilizes the hauling fee rates of \$0.90 per PT/LT and \$6.00 per CT in southern Ontario and \$1.40 per PT/LT and \$9 per CT in northern Ontario. The lower hauling rates for U.S. based haulers outlined in Section 4.4 of \$0.80 per PT/LT and \$5.00 per CT are not factored into this calculation. It is expected that some portion of the tires will be transported to the US at these lower hauling rates, providing some flexibility in the Scrap Tire Diversion Program Plan budget in this category.
6. The hierarchical processing incentives have been revised to \$40 (from \$45) for TDF and \$60 (from \$65) for Fabricated Products. Other categories (\$50 for Tire Shred < 4", \$100 for Ground Rubber TDP2, \$120 for Ground Rubber TDP1) remain unchanged. The differential in August 20 Plan of \$80 between the lowest and highest processors fees (from TDF at \$40/tonne to \$120 for Ground Rubber TDP1) has increased from \$75 in March 15 Plan and \$45 in December 9 Plan.
7. The communication budget has been increased from \$367,000 in year 1 and \$379,000 in year 2 in March 15 Plan to \$376,000 in year 1 and \$393,000 in year 2 in August 20 Plan. The budget for communication for the remaining three years remains unchanged from the March 15 Plan. Total budget for communication in the March 15 Plan is \$2,011,000 while total budget for communication in the August 20 is \$2,034,000, representing an increase of \$23,000.

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The Executive Director's review of the August 20 Scrap Tire Diversion Program Plan has identified the following outstanding issues:

1. Section 4.1 indicated haulers will be paid by 'weight/km' while the payments to haulers outlined in Appendix 22 (page 161) are \$0.90 per PT/LT and \$6.00 per CT in southern Ontario and \$1.40 per PT/LT and \$9 per CT in northern Ontario. OTS reports that payment will be made per tire not by 'weight/km'. Section 4.1 requires revision for consistency.
2. The Hauler Economic Comparison provided in Section 5.6.2 is based on a hauling fee of \$0.90 per PTE. Note # 2 to the budget provides conversion factors of 1.4 PTEs per light truck tire and 5 PTEs per commercial tire. On the basis of \$0.90 per PTE, haulers would be paid \$1.26 per light truck tire and \$4.50 per commercial tires. Payments to haulers outlined in Appendix 22 (page 161) are \$0.90 per PT/LT and \$6.00 per CT. Clarification of whether the reference to 'PTE' in the Hauler Economic Comparison is accurate or whether this reference should read 'passenger tire' is required.
3. In Section 8, the first Year 1 Goal under Diversion Operations references '82% compliance level on scrap tire diversion with 11.4 million PTEs diverted'. This differs from the Diversion and Collection Forecast (page 30) which totals 85%. The goal should also be revised to include both total collected (85% from the Diversion and Collection Forecast) and total diverted (54% from the Diversion and Collection Forecast).
4. The March 15 Plan showed 95,900 tonnes or 2 to 3 million PTEs of stockpiled tires remediated in five years at a cost of \$4.00 per tire or \$10,192,000. The August 20 Plan shows 57,100 tonnes or 5.7 million PTEs of stockpiled tires remediated in five years at a cost of \$2.25 per tire or \$12,852,000. Based on the conversion factor of tires to tonnes (Section 9.2 Notes to Financial Forecast Note # 3), there appears to be discrepancy in the PTE to tonnage conversion in the March 15 Plan. Clarification is required.
5. The Plan proposes a Tire Stewardship Fee (TSF) of \$4.00 per passenger tire (PT) and light truck tire (LT) and \$6.00 per commercial tire (CT). Payments to haulers are outlined in Appendix 22 as \$0.90 per PT/LT and \$6.00 per CT in southern Ontario and \$1.40 per PT/LT and \$9 per CT in northern Ontario. Note # 2 to the budget provides conversion factors of 1.4 passenger tire equivalents (PTE) per light truck tire and 5 PTEs per commercial tire. The relative payments to haulers for PT and CT are generally consistent with the conversion factor of 5 PTEs for each commercial tire. The TSF at \$4.00 per PT/LT and \$6.00 per CT, is not consistent with the conversion factor of 5 PTEs per commercial tire. This suggests that the fees collected on passenger tires are subsidizing the costs of managing commercial tires. Commercial tires represent 6% of all tires and 30% of all PTEs managed under the Plan.

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6. The budget for R&D in the August 20 Plan totals \$1,800,000 over five years while the budget for R&D in the March 15 Plan totals \$2,900,000 for five years, representing a reduction of ~60% in R&D spending. This may be inconsistent with the issues raised by the Minister's staff.
7. The operating policies for haulers (Appendix 21) should also include the surcharges for tires on rims specified in the operating policies for generators (Appendix 20).
8. Appendix 30: 3R Collection and Diversion Summary differs from the Diversion and Collection Forecast (page 30). Appendix 30 requires revision to be consistent with the Diversion and Collection Forecast.

Of these outstanding items, numbers 1 to 4, 7 and 8 are editorial corrections. Items 5 and 6 require discussions with OTS.

With respect to the issues raised by Minister's staff:

- Board governance has been addressed as the August 20 Plan proposes to expand the OTS Board following approval of the Plan by the Minister to include representation from consumer, environmental and industry groups. OTS Board structure currently can accommodate representation from vehicle manufacturers and smaller tire retailers.
- More expenditure on consumer education at start up and in the early years of the Plan has been addressed as the budget for communication has been increased from \$367,000 in year 1 and \$379,000 in year 2 in March 15 Plan to \$376,000 in year 1 and \$393,000 in year 2 in August 20 Plan.
- More rapid implementation of stockpile abatement has been addressed as the March 15 Plan showed 2 to 3 million PTEs of stockpiled tires remediated in five years while the August 20 Plan shows 5.7 million PTEs of stockpiled tires remediated in five years. The request for a clear commitment to a collaborative relationship with MOE and municipalities to prioritize sites for remediation has been addressed by references in the Plan that OTS will work with MOE, Ministry of Health and Long-term care, AMO and individual municipalities to 'ensure an aggressive identification, prioritization and execution of stockpile site abatement'. The collaborative effort will be supported by a working group.
- It is unclear that the requirement for R&D initiatives that will set Ontario ahead of other jurisdictions has been met as the budget for R&D in the August 20 Plan totals \$1,800,000 over five years while the budget for R&D in the March 15 Plan totals \$2,900,000 for five years, representing a reduction of ~60% in R&D spending.

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- It is unclear that the requirement to communicate the benefits of the Scrap Tire Diversion Program Plan in terms of environment, health, economy, sustainability and co-operating with other jurisdictions has been met. While the budget for communication has been increased from \$367,000 in year 1 and \$379,000 in year 2 in March 15 Plan to \$376,000 in year 1 and \$393,000 in year 2 in August 20 Plan and Section 7.4 Communication provides information on the proposed communication plan, the level of detail provided does not clarify whether Plan benefits in terms of environment, health, economy, sustainability and co-operating with other jurisdictions will be comprehensively communicated.

Of the issues raised by the Minister's staff, clarification of R&D initiatives and the proposed communications plan require discussions with OTS.

4.0 Budget Implications

As of June 30, 2004, WDO has spent a total of \$62,007.04 on development of a diversion program plan for Used Tires. WDO is currently financing the cash flow for this expenditure, pending invoicing of OTS which will begin upon approval of a Scrap Tire Diversion Program Plan.

5.0 Action Required

WDO Board approval of the Scrap Tire Diversion Program Plan August 20, 2004 is required prior to forwarding the Plan to the Minister for approval.

6.0 Recommendation

Motion: To approve the Scrap Tire Diversion Program Plan August 20, 2004
subject to:

- Editorial corrections identified by the Executive Director
- clarification of the outstanding issues noted by the Executive Director and any revisions to the Plan resulting from these clarifications
- clarification of R&D initiatives and the communications plan and any revisions to the Plan resulting from these clarifications; and
- finalization of the rules for stewards in consultation with the MOE prior to Plan implementation.

To forward the Plan to the Minister of the Environment for approval.