

Report to ACCC on Implementation of the Tyre Stewardship Scheme

Authorisation Numbers A91336-A91337 11 April 2013

Report Submitted by Tyre Stewardship Australia

28 Feb2015

On 11 April 2013 the ACCC authorised the Tyre Stewardship Scheme (TSS) which had been developed by an industry and government working group and which had been subject of extensive public consultation. The authorisation was subject to certain reporting and monitoring conditions, one of which was the submission of an annual report which was to be made public available. As there had been a delay with implementation of the Scheme, the ACCC agreed to an extension for submission of this report. This report covers the period April 2013 to 28 Feb 2015.

Background

The ACCC granted authorisation for the proposed national Tyre Stewardship Scheme as outlined in the *Guidelines for the Tyre Product Stewardship Scheme* attached to the application. The ACCC summarized the authorised Scheme as follows:

The authorisation is subject to annual reporting and monitoring conditions (as described at paragraphs 182 and 183 of this determination). The ACCC grants authorisation until 3 May 2018.

The Australian Tyre Industry Council (ATIC) seeks authorisation of a proposed national Tyre Stewardship Scheme (the Scheme). The aim of the Scheme is to reduce the amount of end of life tyres damaging the environment via landfill, illegal dumping or undesirable export while increasing the recycling rate of end of life tyres. ATIC advises that in 2009-10, only 16 per cent of end of life tyres in Australia were recycled. Under the Scheme, it aims to increase the recycling rate to 50 per cent over five years.

The Scheme will be administered by Tyre Stewardship Australia (TSA) pursuant to The Guidelines for the Tyre Product Stewardship Scheme (the Guidelines). The Guidelines for which authorisation is sought are provided at Attachment A to this determination.

Broadly, all participants in the Scheme are required to commit to contribute to the environmentally sound use of end of life tyres, elimination of the inappropriate export of baled tyres from Australia, elimination of the illegal dumping of end of life tyres and elimination of the disposal of end of life tyres to landfill.

Among other things, the Scheme proposes to:

- *require its members to deal only with other members of the scheme (where possible) or ensure that dealings with non-members comply with the objectives of the Scheme*
- *impose a levy on tyre importers (that is, importers of loose tyres and vehicle*

manufacturers and vehicle importers), which is proposed to be \$0.25 per passenger car tyre equivalent, adjusted annually for CPI, or an equivalent membership fee and

- *measure compliance through verification and audit processes.*

The levy is intended to fund the operation of the Scheme, including for market development and research – but not to directly fund the collection and recycling of end of life tyres.

The Tyre Stewardship Scheme (TSS)

The objectives of the Scheme are to:

- increase resource recovery and recycling and to minimise the environmental, health and safety impacts of end of life tyres in Australia, and
- develop the domestic recycling industry and markets for tyre derived products.

These objectives are to be achieved through strategies focused on an accreditation and audit regime for the entire tyre supply chain, market development initiatives, communications and the establishment of Tyre Stewardship Australia (TSA) to administer the Scheme. Businesses and organisations that join the Scheme commit to seek optimal recycling of end of life tyres and participate in an active communication program targeting industry associations and individual businesses. Participants would also assist in recruiting other participants to the Scheme and support the development of a domestic recycling industry.

Participants would be given access to technical advice, tools and networks to assist them to increase recycling rates and to identify innovative use of tyre derived materials and pursue opportunities that become available through changes in technology.

For this industry-led initiative to be successful, the TSS needs to be complemented by appropriate regulation for the collection and storage of tyres and such regulations needed to be harmonized across jurisdictions.

Implementation

The first step in implementation was the establishment of TSA as a not-for-profit company to administer the TSS. This was completed on 24 July 2013 following which Directors and an independent Chair were appointed on the same day.

At the early stage of implementation of TSA a few organisations did not continue with support on the basis that some matters of detail design of the Scheme were still addressed or that further consultation with industry was needed. At the same time an economic downturn occurred with the automotive industry (which represents approximately 20% by volume of tyres imported on vehicles) and the mining industry (30% of volume). Each of these matters had a negative impact on the implementation of the TSS by causing delay and uncertainty with various market players. Continuing consultation and negotiation with these

organisations was a priority for TSA Board. In the case of the automotive importers and the mining industry, the TSA Board decided to defer future consultation to enable limited resources to be focussed on priority implementation measure.

The alternative position adopted by most parties to the Scheme was that outstanding design details could best be addressed through the implementation process. However there was a lengthy delay in implementation of the Scheme and, in particular, with the application the 25cents per EPU levy which was to provide the financial foundation for the TSA and the Scheme. In late 2013 six tyre importers (Goodyear-Dunlop, Michelin, Yokohama, Continental, Pirelli and Toyo) decided that they would each provide a cash advance to TSA to allow it to move forward. The advance was to be repaid over a period of three months from the initial receipts of the levy. In January 2015 Bridgestone joined the scheme and agreed to contribute the same level of advance to TSA

The six tyre companies met several times during 2013-14 to agree on the details for the application of the levy, including the invoicing arrangements. These meetings were independently chaired to ensure that discussions stayed within the mandate provided by the ACCC authorisations for the Stewardship Scheme and could not be construed as relating to price or other anti-competitive practice between attendees.

To manage the revenue from the levy being applied by ATIC members a special trust account was established by ATIC with all receipts being transferred on a monthly basis to TSA account. This arrangement was established to ensure that individual TSA directors could not see the actual amounts from each of their competitors and thus be in a position to elicit sales data. The accounts are subject to monthly scrutiny by the Secretary of ATIC and the Chair of TSA with accountants and auditors from both organisations monitoring the implementation. The levy commenced in April 2014 with first receipts received by TSA in Sept 2014. Because of the complexity of the tyre market and the resistance by some companies to the levy, revenues in the early stage have not been in line with projections. Although the arrangements are being monitored and changes in invoicing arrangements are likely, the revenue continues to grow and has placed TSA in a sound financial position.

At 31 January 2015, TSA had received a total revenue of approximately \$660000 and had repaid five of the original advances from importers. For the period to January 2015 expenditure of funds on communications, website development and design and implementation of the accreditation scheme totalled approximately \$200000 . TSA establishment and management fees totalled approximately \$236000. The priorities for future expenditure are the establishment of a small executive team and costs associated with accreditation, auditing, and communications with the majority of revenue going to the Stewardship Fund to support a range of market development initiatives.

The TSA Board determined that the three initial priorities for action were:

The communications with industry

In addition to developing the website as the primary point of communication about the TSS, targeted initiatives had been undertaken with through placement of advertising and editorial content with trade magazines.

Establishment and commencement of the accreditation regime

Design of the accreditation scheme was finalised in October 2014 and applications for accreditations commenced on November 2014. By Feb2015 TSA had accredited seven importers, 88 retailers, two fleet operators, one collector and one recycler. In addition the Australia Tyre Recyclers Association (ATRA) members which represent a large proportion of collection and recycling began submitting applications for accreditation.

Continuing dialogue with key organisations not in the Scheme

The TSA is actively working to secure support and participation in the Scheme from a range of industry players. In January 2015 Bridgestone joined the scheme as a full member and in February 2015 ATRA and Bob Jane T-Marts advised that they had decided to fully support the scheme. Ongoing consultations are continuing with other major retail and fleet operators.

At this early stage of implementation, TSA has not yet collected data from accredited companies to enable any judgement to be made on changes to resource recovery and recycling rates. However as a measure of support the TSS, the National Environment Protection Council (NEPC) has funded Hyder Consulting to review its 2010 report on end-of-life tyre flows with a view to identifying the destination of the "unknowns" in that earlier report and establish what changes may have occurred nationally in recycling rates.

The Future

Although there were delays in the initial establishment of TSA and the Scheme, progress in the six months to Feb 2015 has been significant. TSA now enjoys the active participation by major tyre importers and retailers and the anticipated accreditation of the ATRA members with results in a majority of the supply chain for passenger and truck tyres participating in the scheme. The design feature authorised by ACCC for participants to deal only with other accredited participants in the scheme ((where possible) has already had an impact and is expected to grow participation exponentially over the next twelve months.

The priorities for the 2015 calendar are to appoint a CEO and a small executive support team to manage accreditation and auditing, communications and to design and implement the Stewardship Fund.

TSA has enjoyed the support of the Commonwealth and State and Territory governments which have introduced measures to complement the TSS. These include a requirement for some governments' fleets to seek accreditation and actively support the TSS. In addition the Victorian and NSW Governments announced a tightening of regulations relating to collection and storage of EOL tyres. Victoria has used sustainable procurement policies to actively support the TSS. Governments are also examining the issues of harmonisation of regulations and procurement policies as a further means of supporting the TSS.