

20 January 2016

Dr Richard Chadwick
General Manager
Adjudication Branch
Australian Competition and Consumer Commission
GPO Box 3131
CANBERRA ACT 2601
Cc: David Hatfield

Dear Dr Chadwick,

Tyre Stewardship Australia – Annual Report Addendum – Public Reporting Requirements

On 11 April 2013 the ACCC authorised (Ref: A91336-A91337) the National Tyre Product Stewardship Scheme (“the scheme”), an industry led scheme to improve the management of end-of-life tyres in Australia which is administered by Tyre Stewardship Australia (TSA) Limited. This voluntary scheme seeks to work across the tyre supply chain to increase the number of discarded tyres being recycled, reduce the incidence of landfilling and illegitimate stockpiling and to build strong markets for locally made tyre-derived products.

The ACCC authorisation was subject to certain reporting and monitoring conditions, one of which was the submission of an annual report which was to be made publically available. Enclosed is a copy of the TSA 2014/15 Annual Report which is publically available on the TSA website and provides a detailed overview of the scheme’s progress, audited financial accounts to 30 June 2015 and key priorities for the next 12 months.

This letter constitutes an ‘Addendum to the Annual Report’ and provides specific responses relevant to the requirements of the ACCC determination. Much of this information relies on industry data which is not yet being fully captured by the scheme, and as such it was deemed more appropriate by the TSA Board to provide a specific addendum to ACCC in response, which commences overleaf.

The scheme has advanced considerably over the past 12 months, and in particular I would like to highlight the following achievements:

- TSA has accredited approximately 90% of tyre collectors operating in Australia (by volume).
- The audit and compliance function is fully operational with internal resources and external, independent auditors undertaking site audits, desktop audits and risk based audits of participants across Australia.
- More than 1,000 retail outlets are either fully accredited or in the accreditation process, meaning the vast majority of Australians now have an accredited tyre retailer within a short drive of their homes.
- TSA has released more than \$1.5 million in research and development funding to build stronger local end markets for tyre-derived products (such as crumb rubber and rubber granules).
- Accreditation of fleet providers and local government authorities has now commenced with strong initial interest from these groups (expressions of interest have already been received from 25 local government authorities).

Our focus over the next 12 months will be to consolidate and expand on the activities underway and continue to grow participation in the scheme. Key priorities for the coming year include:

- Finalisation of the TSA Audit Handbook and roll out of the data collection tool to ensure up to date industry information is being captured by TSA.
- Continue to support research and development projects and play a more active role in linking buyers and sellers in the tyre recycling market.
- Engage more broadly with consumers (including fleet operators, local government, mining industry and the general public) using targeted marketing and awareness raising.
- Develop strategies to improve price transparency within the tyre retail industry.
- Bring new car importers into the scheme.

I would like to further advise, that in line with your response of 28 April 2015, TSA will appoint an independent, external consultant to conduct a full review of the operation of the Scheme, to commence in November 2016 and be completed no later than May 2017.

I look forward to continuing our relationship with ACCC and I would be happy to present on the scheme and its progress in person at your convenience.

Kind regards

A handwritten signature in black ink, appearing to read 'M Genever', with a long horizontal flourish extending to the right.

Matt Genever
Chief Executive Officer
Tyre Stewardship Australia

Addendum to Tyre Stewardship 2014/15 Annual Report

The following information is presented in response to the reporting requirements outlined in the Australian Competition and Consumer Commission determination on 11 April 2013 (Authorisation Numbers: A91336-A91337).

1. The number of participants in the Scheme

The National Tyre Product Stewardship Scheme relies on business to business engagement and as such a critical mass of accredited participants at the top end of the supply chain is essential for cut through into the other accreditation categories, such as local government and fleet operators. TSA has therefore focused the bulk of its communication and engagement activity on recruiting tyre manufacturers and importers, tyre retailers, tyre collectors and recyclers. This is reflected in Table 1 which provides a breakdown of participation in the scheme across the seven accreditation categories.

Table 1 - Overview of participation in the scheme (approximate at end December 2015)

Category	Fully Accredited at End Dec 2014	Fully Accredited at End Dec 2015	Estimated % of Market Captured
Importers	6	7	25%
Retailers	4	905 ¹	45%
Collectors	2	6	75%
Recyclers	3	12	90%
Fleet	0	3	<10%
Local Gov	0	0	0%
Mining	0	0	0%

The number of participants of the scheme has increased considerably over the past 12 months with particularly strong progress in the retail sector. The majority of retail chains and a number of independents are now accredited under the scheme which significantly restricts the flow of waste tyres to non-accredited tyre collectors and tyre recyclers. In addition, the geographic spread of our retailers means that the vast majority of Australians now have a TSA accredited tyre retailer within a short drive of their homes.

Engagement with tyre collectors and tyre recyclers over the past year has also proved successful and the scheme is working as it was intended in this area. By volume, the vast majority of tyre collectors and tyre recyclers in Australia are now TSA accredited, which in many instances has been driven by pressure in the supply chain, particularly from tyre retailers who are required to deal only with TSA accredited collectors or recyclers under the scheme. It should be noted that in October 2015, TSA revoked the accreditation status of a tyre recycler who was found to be in breach of state-based regulations relating to tyre storage and fire safety.

Recruitment of local government authorities and fleet operators has recently commenced in earnest with early indications suggesting engagement, particularly with local government, is strong. A new communications and engagement strategy has been approved by the TSA Board and it will focus efforts over the coming 12 months on broader consumer engagement across print and online media.

¹ Whilst there are 905 fully accredited retail stores, a further ~300 retail stores are in the accreditation process which will move the market capture rate well over 50% in this sector

2. *The percentage of tyre importers and vehicle manufacturers and importers that are participants in the scheme – the aim being to have 90% in the scheme within 5 years*

At present, there are 7 fully accredited tyre importers and vehicle manufacturers participating in the scheme which represent around 25% of the total tyre market². However, this figure is not evenly distributed across tyre types and Table 2 below provides some more context with regard to the capture rate within the scheme across the different tyre types.

Table 2 - Estimated capture rate of new tyres by type

Tyre type	Estimated % Captured by TSA
Passenger	37%
Truck / Bus	32%
Off-the-Road (OTR)	0%
New Vehicles	0%

A significant portion of passenger and truck tyres are being captured by the scheme and TSA continues to engage with those brands currently not participating in the scheme. However, there has been limited recent engagement with the mining and resources sector on the import of large, OTR (off-the-road) tyres due to the current downward price pressure on commodity markets.

A focus of our recruitment and engagement activity over the coming year will be on bringing new car importers into the scheme to increase the capture rates and provide additional revenue to support delivery of the scheme. In addition, our engagement with fleet operators and local government authorities will act as incentive for the remaining tyre importers and retailers to join the scheme.

3. *The national resource recovery and recycling rates of EOLT*

There have been a number of studies undertaken in recent years to collect industry and government data and assess the tyre recycling market in Australia which allows for examination of current resource recovery rates and trends over the past 5 years. The most recent study commissioned by the National Environment Protection Council (NEPC) and undertaken by Hyder Consulting (2014) suggests that in 2013-14 some 51 million EPU's (equivalent passenger units) reach end-of-life in Australia with the national resource recovery rate being approximately 37%. A breakdown of end-of-life destinations is provided in Table 3 below.

Table 3 - Breakdown of end-of-life destination by percentage and quantity (after Hyder 2014)

End-of-Life Destination	Percentage	Quantity (Equivalent Passenger Units³)
Material Recycling	3.6%	1,862,813
Energy Recovery	0.6%	327,500
Civil Engineering	0.8%	423,125
Landfilling / Stockpiling ⁴	48.7%	24,838,386
Exported	32.6%	16,644,532
Unknown Destination	13.6%	6,945,037
TOTAL	100%	51,041,392

² Based on the current TSA levy receipts compared to 2013-14 ABS data on annual importation of loose and fitted tyres

³ Equivalent passenger units (EPU's) is a standard measure of end-of-life tyres that equates to an average waste car tyre of approximately 8kg

⁴ Note that landfilling also includes off the road tyres that are "managed on-site" at mining facilities.

This latest data suggests a fundamental shift in the Australian tyre recycling market toward the export of tyre-derived fuel and away from local reprocessing of higher value crumb rubber and rubber granule products. This is attributed to the low barriers to entry to access overseas markets (i.e. minimal processing infrastructure is required and access to international ports is good in most major capital cities) and other fuel prices against which tyre-derived fuel directly competes.

4. *The resource recovery and recycling rates of end of life tyres that can be attributed to the scheme*

The scheme is still in its infancy with genuine activity in the market commencing just over 12 months ago in November 2014. It is therefore worth noting that some of the reporting structures required to measure progress and attribution are still in development. These will be critical in assessing TSA performance and resource recovery rates over the coming years.

At present, TSA is in the process of launching a data collection tool for all participants in the scheme. This will allow for the collection of monthly data on end-of-life tyres captured and recycled within the scheme. The TSA Board has instigated the development of a strategic plan for the organisation that will support further monitoring and evaluation of the scheme's success through the key performance indicators suggested by the ACCC in its determination and additional KPIs set by the Board.

5. *The increase in the percentage of EOLT that are going to an environmentally sound use – the schemes performance target is to increase this percentage from 16% to 50% of tyres going to an environmentally sound use by the end of 5 years*

Given the scheme is at such an early stage there is insufficient information to address some of the longer term performance measures related to resource recovery and market development. As per the commentary above, the TSA data collection tool will provide information related to local recycling and international exports. The 50% target will be reached via local and international markets for tyre-derived products and tyre-derived fuel. TSA is currently collecting evidence as part of the audit and compliance program to ensure that overseas customers are able to verify that tyres being imported from Australia are finding sustainable end uses. Education material (such as a Best Practice Guide) will be developed over the coming months.

6. *The volume of tyre-derived products sold or otherwise provided for environmentally sound use*

In the absence of the TSA data reporting tool the current benchmark for the market for tyre-derived products remains the Hyder (2014) study. The report indicates that the current market for tyre-derived products in Australia remains fragmented and exposed to changes in commodity prices, particular thermal coal for which tyre-derived fuel is a substitute.

Table 4 provides an overview of the current market for tyre-derived products in Australia and overseas.

Table 4 - Overview of the current market for tyre-derived products (after Hyder 2014)

Form	Product	Example Applications	Total EPU's	Percentage of Total
Local Markets				
Granulated, crumbed or powdered	Rubber Crumb	Road construction Adhesives Explosives Polymers	1,354,438	2.7%
	Granules	Soft surface matting Moulded products	527,438	1%
Whole tyres / shredded tyres	Tyre Derived Fuel (local use)	Energy recovery	327,500	0.6%
	Civil Engineering	Construction Aggregate	423,125	0.8%
TOTAL			2,632,501	5.1%
International Markets				
Whole tyres / shredded tyres	Tyre Derived Fuel (exported)	Energy recovery	12,116,014	23.7%
Whole tyres	Reuse / Re-treading (exported)	Reuse	4,528,518	8.9%
TOTAL			16,544,532	32.6%

The current size of the local market for recycling is approximately 5.1% with the production of rubber crumb being the key outlet. However, a further 32.6% of end-of-life tyres are exported for use as tyre-derived fuel or for reuse or re-treading. Whilst TSA's preference is to support and promote local markets for value added products (such as crumb rubber), the export of tyre-derived fuel will remain a key outlet and as such we will continue to do work with participants to ensure that sustainable end uses are being employed with overseas customers.

The scheme aims to support the development of strong, local markets for tyre-derived products, and to this end TSA has already released more than \$1.5 million in funding for research and development projects to identify new and improved markets for crumb rubber and granules. We will continue over the life of the scheme to invest a considerable portion of all levy monies raised into research and development projects that can identify and promote new local markets for tyre-derived products in Australia.

7. The total levy funds collected under the scheme

The attached TSA 2014/15 Annual Report provides a full, audited set of accounts for the financial year. Levy receipts for 2014/15 totalled \$1,453,073.

8. A breakdown of how levy funds were spent during the period

The attached TSA 2014/15 Annual Report provides a full, audited set of accounts for the financial year.

9. *An explanation of how the funds being spent is contributing to achieving the schemes objectives – that is, to increase resource recovery and recycling and to minimise the environmental, health and safety impacts of EOLT in Australia; and to develop the domestic tyre recycling industry and markets for tyre derived products.*

The funds being raised through the levy are essentially used across four key areas, which combined aim to deliver the objectives of the scheme:

- **Research and Development / Market Development:** TSA has released more than \$1.5 million in research and development funding to support projects aimed and developing new and improved markets for tyre derived products. Projects currently in development include the use of crumb rubber in road pavement (asphalt) and surfacing; applications for truck tyres for sub-surface stabilization beneath rail ballast; and the use of rubber modified structural concrete in construction. These projects have the potential to open up significant markets for tyre-derived products in Australia.
- **Audit and Compliance:** The current audit and compliance function involves a robust matrix of site audits and desktop audits and seeks to ensure that participants using the TSA brand are representing best practice management of end-of-life tyres. The audit protocol is delivered through a dedicated internal resource and the use of third-party, independent environmental, health and safety auditors who undertake detailed site audits particularly with tyre collectors and tyre recyclers. The rollout of the TSA data collection tool is currently underway and when completed will represent the first national approach to data collection in the industry. This will provide the basis for data audits and support targeting of market development and research and development funding.
- **Education and Awareness:** TSA provides education and awareness activities to build the capacity and capability of the tyre recycling industry. This can involve targeted education stemming from compliance activities and also broader industry engagement on local and international trends. For example, TSA recently hosted international expert Peter Taylor OBE in Melbourne to provide a perspective of the European market to an audience of around 50 stakeholders.
- **Operations:** Levy funds are also used for operational costs which the TSA Board seeks to keep to a minimum. At present there is a staff of three full time employees delivering all elements of the scheme with the assistance of strategic contractors and partners in areas such as engagement and communications.

10. *To the extent possible, data on the volume of end of life tyres not going to an environmentally sound use (broken down into the proportion of EOLT being illegally stockpiled, going into landfill and inappropriately exported)*

Data collected by Hyder (2014) and presented in Table 5 shows that around 62% of all end-of-life arisings in Australia are not currently going to an environmentally sound use.

Table 5 - End-of-life tyres not going to an environmentally sound use by % and quantity (from Hyder 2014)

End-of-Life Destination	Percentage	Quantity (EPUs)
Landfilling / Stockpiling ⁵	48.7%	24,838,386
Unknown Destination	13.6%	6,945,037
TOTAL	62.3%	31,783,423

⁵ "Stockpiling" in this category refers to the level of stock on site at legitimate operator sites that is yet to be processed.

Whilst the bulk of end-of-life tyres Australia not going to an environmentally sound use are disposed of at existing landfills (including OTR tyres that are managed “in pit”), the end-of-life destination of some 7 million EPU’s still remains unknown. This includes material that is disposed to unlicensed landfills, illegitimately stockpiled or exported (for example under false export codes or without appropriate customs documentation) or illegally dumped. This figure has reduced significantly since the earlier 2009-10 Hyder study which found more than half of all end-of-life tyres in Australia were going to unknown destinations. TSA hopes that with its continued efforts as outlined above, this number will further reduce over the life of the scheme.