



By Anne Prince
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The Case for Market Based Instruments

In a perfect world, there would be no waste. Products and materials reaching the end of their useful lives, would still have sufficient intrinsic 'value' embedded in them to cover the costs of collection, dismantling and reprocessing to ensure their conversion into some sort of useful, new product. The reality is, the 'gap' between what is recovered from the waste stream and what creates the waste stream, grows larger by the day and is heading in an unsustainable direction as wealth grows. If this 'gap' has a market value, then the wastes would be transformed into resources: this is the attraction of Market Based Instruments (MBI).

Governments have recognised the substantial environmental benefits generated from resource recovery, including greenhouse gas abatement, natural resource conservation, and pollution reduction. In 1999/2000, the monetarised value of the environmental benefits arising from kerbside recycling in Australia was calculated to be over \$420 million per year.

Governments have responded to community concerns about unsustainable resource use and waste disposal, and have sought to reduce waste to landfill by various programs including the imposition of levies on landfill disposal. While levies discourage waste disposal, they are quite ineffective in selecting between landfill reduction and resource recovery: their fundamental affect is to reduce mass disposed to landfill.

The NSW Government's waste levy increase of \$30 per tonne over the next five years, whilst designed to make waste disposal less economic, will assist the recovery of some but not all materials and may have the unintended side effect of making some recycling less economic. It will for example, reduce the payment to people who present scrap cars for recycling. At worst, it could be a regressive tax on recycling that encourages illegal dumping.

Some recyclable items have a high residual content which requires disposal, and the increase in the levy may make recycling less economic and so unviable for some items. The items most affected are composite or multi-material products requiring complex and costly technologies to dismantle and recover small quantities of valuable resources, such as the case with electronics, or where the commodity price for the recovered material does not cover the increased cost in disposal of the residual i.e. motor vehicles. In these instances ACOR supports the introduction of EPR to provide the necessary financial support to underpin resource recovery.

To address the imbalance between current commercial realities of the resource recovery industry, improve the level of recycling, reduce the level of landfill disposal and meet current and future waste diversion targets requires improving the economic framework for recycling. ACOR believes there is a growing need to review the regulatory and economic platform and to reward recycling rather than just punishing waste disposal.

Historically the level of recycling achieved has had less to do with government policy than the commercial opportunity for lower cost recovered resources to compete against the

extraction and processing of virgin materials. These days, increased waste volumes and community desire for increased recycling requires that waste materials that were previously non-commercial feedstocks be converted to valuable commodities.

The best way to support these commodities is to internalise and capture the 'value' currently being given away for free to our community when these resources are recovered - the "Eco-Service" that is delivered by recycling. Essentially, there is a need for a market-based approach to valuing these environmental services and returning this to the recycling sector to drive the delivery of the current and future ambitious resource recovery targets.

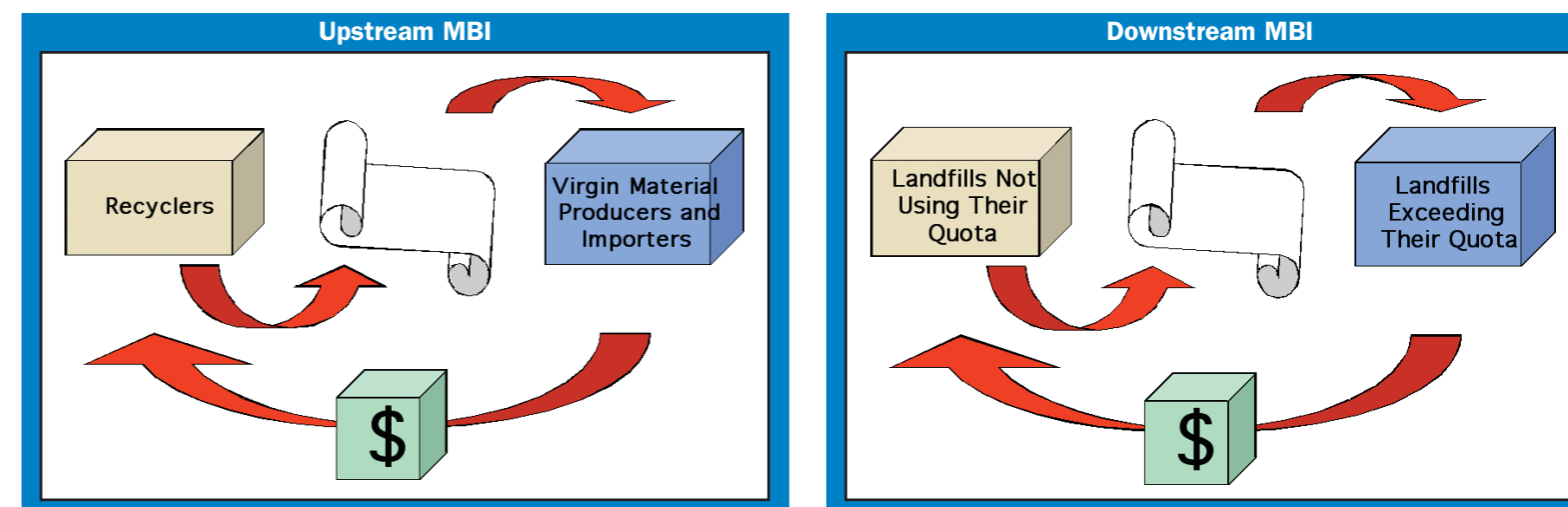
Rewarding recycling requires the establishment of a market for environmental services in the Resource Recovery Industry Sector. Such a market would provide the conditions necessary for investment by the private sector to meet the ambitious government recycling targets. For NSW to reach the 66% diversion target for the municipal waste stream requires recovery and processing of an additional 3 million tonnes per year and to achieve the 63% target for commercial and industrial requires the recovery of an additional 3.6 million tonnes.

An appraisal by Hyder Consulting of MBIs in the context of waste and resource recovery in Australia (using NSW as a particular example where large quantities need to be diverted from landfill if State Government targets are to be achieved) has analysed some potential options including:

■ **Upstream MBIs - Tradable permits** – a model could be based on the setting of material specific targets for manufacturers. A minimum target could be set for all manufactures and importers for the use of recycled content material in their products. Manufacturers and importers using virgin material and no recycled content material in their products would have to purchase certificates from manufacturers exceeding the minimum usage target, i.e., recyclers/reprocessors holding surplus certificates.

The outcome of such a program would be both direct and indirect. On a direct basis, there would be additional cash flow to the recycling industry. On an indirect basis, recycled materials would become more competitive and attractive. These outcomes would in turn stimulate increased recycling activity and progress toward environmental and social goals.

■ **Downstream MBI - The Landfill Allowance Trading Scheme** – All landfills are allowed to receive an identified quantity of material, e.g., a cap of material permitted to go to landfill is established and a regime that penalises excess tonnes is applied. As a result of the cap on the amount of material being landfilled, the cost of disposal prices will increase and this will in turn make the diversion of material away from landfill and into recycling a more competitive and attractive proposition. Landfills receiving less material than their caps would get surplus allowances or certificates which can be sold to landfills receiving more waste than their caps. If a landfill has or diversifies to



have a recycling system in place, additional certificates can be generated and sold on the market. But these certificates should only be created through a central "clearing house" so that opportunities to rot the scheme are reduced. Optionally, certificates can also be saved for future years or borrowed from future allowances (e.g., up to a limit of 5 percent as in the UK LATS scheme reported in the last edition of Inside Waste).

The advantages of such a system are that it is comparatively easy to define and identify liable parties, easy to administrate, and easy to measure.

A landfill levy scheme would need "rewards for recycling" in order to avoid reducing the level of recycling of some mixed streams.

The level of 'ecoservice recognition' could be developed from an initial set of programs for infrastructure funding (mainly of recycling facilities, reprocessing (beneficiation) plants and AWT technologies for unrecoverable mixed putrescible waste) to a scheme compensating for the provision of an environmental service based on the actual benefits ('recycling credits') delivered on a material specific basis.

The waste management and resource recovery sector certainly has significant potential for the effective use of market based instruments as they are seen to offer efficiency benefits over direct regulation and effectiveness benefits over voluntary agreements. It would be an over simplification, however, to assume that MBIs and the creation of markets can completely solve the challenges that the waste management industry confronts.

The practicalities of implementation and the lack of full trading markets suggest that an instrument "package", involving more sophisticated regulation combined with negotiated agreements and well designed MBIs, is likely to be the most effective framework rather than using blunt instruments like waste levies.

Given the announcement by Premier Morris Lemma of the increase in the NSW levy which will raise an additional \$300 million to fund a comprehensive suite of environmental programs and initiatives, including two marine parks, improving rivers and a climate change plan. The only sector to miss out appears to be the resource recovery sector.

If the levy is here to stay then it is recommended that the revenue raised should reward recyclers/reprocessors for the

environmental benefits desired by the community - something which is currently not the case as recyclers have to struggle to compete with virgin material products. The NSW Government has shown that it is possible to put a value on the eco-service of greenhouse gas abatement, and has created the NSW Greenhouse Abatement Certificate (NGAC). Similar smart regulation should be expected from waste regulators.

Such an approach would provide the necessary 'pull' component in the waste management/recycling industry to achieve government recycling targets. Depending on the details and sophistication of how this recognition is provided, such a scheme could be capable of going beyond the blunt and deceptive 'per tonne waste diverted from landfill' principle in that any payments would consider the environmental relevance of the materials recovered.

The precedent for such "eco services" payment has already been set in the government's announcement that it will return half of the additional levy payment to those councils which meet or exceed certain benchmarks for resource recovery. This same principle needs to be applied to reward achievement of targets in Commercial and Industrial and Construction and Demolition systems.

At present in NSW, not only is there no reward for recycling, but there is no differentiation in landfill levy across the spectrum from inert to hazardous wastes. Whilst the NSW DEC has indicated a dislike for differentiated waste disposal levies due to "cowboys" in the industry abusing the process, ACOR supports a differentiation of the levy based on linking the potential for environmental harm to the levy applicable. i.e. a higher levy for putrescible or Class I landfill over non putrescible landfills and other classes dealing with inert wastes.

The 21st Century presents challenges in sustainable waste management on a scale that has never been seen before. There is a need to harness market forces in the most efficient and effective way to achieve the community's desire for sustainability.

This article is based on a recently completed study by Hyder Consulting funded by ACOR. For further information about the need for MBIs refer to ACOR web site www.acor.org.au for a copy of "Rewarding Recycling: Eco services from Resource Recovery Industry - A Market Based Approach" under the What's New link.

Feedback on issues - ACOR are interested in your views and feedback on the issues raised in this issue. To submit anonymous responses please go to www.acor.org.au/feedback

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