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Dear Professor Byron

The Australian Council of Recycling (ACOR) welcomes the opportunity to represent the recycling and resource recovery industry to launch a submission on the review of Product Stewardship for Oil (PSO) scheme and to assist the Federal Government in moving Australia towards a more sustainable management of used oil.

Introduction

ACOR is the peak national industry body for the recycling industry.

ACOR mission is to advocate for improved levels of resource efficiency at the national and state levels and represent all businesses in the value chain of resource recovery and recycling. ACOR core business is to engage with and advise governments on the practical implications of policy and regulation to promote delivery of business infrastructure necessary to achieve major improvements in the recovery and re- application of resources, particularly material resources, into the productive economy.

ACOR seeks to support governments and the community to make the transformation from an inefficient, wasteful linear economic system (where products and materials are disposed of at the end of their productive life) to a sustainable closed loop material economy.

Attributes of the PSO scheme

The PSO scheme has been successful in encouraging used oil collection and recycling and reducing the negative externalities generated from disposal. As currently framed the scheme has the following attributes:

Positives

- The PSO scheme imposes a levy to all domestic oil sold and imported oils, with incentives raised from the levy to be directed towards delivering environmental outcomes, including a more sustainable management of used oil through oil recycling. Categories/ calibration of benefit which align with the level of achievement of the most desirable outcome would seem to be appropriate.
- The benefit payments for oil recycling have underpinned the growth of an emergent but benefit dependant domestic oil recycling industry. With the benefit payments, the Australian oil recycling industry has been able to invest and upgrade re- refining technology and infrastructure.
- Since the implementation of the PSO scheme, the volume of unaccounted for used oil has decreased.
- The benefit rates for re- refined base oils (i.e. Category 1 and 2) encourage increased volumes of re- refined base oil production. As the re- refined base oil requires the most effort and investment, as well as generating greater net environmental benefit, the benefit payments for refined based oil should be retained.

Negatives

- The review of the PSO scheme every four years inhibits the development of a domestic re-refining industry as the necessary investments require certainty and the amortization of assets over decades. A key recommendation of the review should be that the scheme is only reviewed much less periodically or that reviews are triggered by an event not related to an arbitrary period of time (e.g. payments exceeding revenue by a fixed percentage). Investment certainty is essential for the continuing development of the industry as existing and emergent investments have been based on the current scheme.

- Most of the oil collected is used as a fuel extender, rather than re- refined base oils. Notwithstanding the fact that fuel oil manufacture is an integral part of the chain, changes to the PSO scheme should also focus on encouraging the volumes for re-refinement as they generate the greatest net environmental benefit.
- Untreated used oils (no manufacturing process performed) which are exported into the international burner fuel market currently attract PSO. The export of such products may contravene the Basal Convention and do not align with the underpinning objectives of the scheme.
- Loopholes which may allow "double dipping" in the PSO scheme and undermine its sustainability should be closed.
- The PSO scheme supports burning used oil derived fuels at roughly the same rate as the current carbon price that is 6 cents per litre. Under the current scheme, oil recyclers for industrial burner oils are able to get 3 cents (i.e. Category 6) or 5 cents (i.e. Category 5) incentive for oil recycling. It is unlikely that consumers who pay the PSO levy to ensure their used oil is treated in an environmentally sustainable way would see the sense in such a subsidy. The current carbon price is likely to be disassembled or substantially amended.
- A large and seemingly growing amount of used oil is unaccounted for.

Additional Commentary

The impact of virgin oil prices is difficult to separate from the PSO's effect, although higher prices should ceteris paribus make re-refining more profitable under the current PSO scheme. However, oil price increases cannot be reasonably assumed, and may in fact fall, undermining the price incentive to recycle. This would indirectly affect the viability of used oil re-refining and may increase the negative externalities arising from improper disposal. More specifically, the USA is forecast to become the world's largest oil producer, according to the latest World Energy Outlook released by the International Energy Agency (IEA) by

2017. “Peak Oil” simply did not occur speculated in the late 2000’s. Future price paths are of course speculative and therefore should not be a significant factor in the review. In addition, the markets for both virgin production and refining are imperfect.

A reduction or termination of PSO benefit would make the Australian re-refining industry unviable without a sustained oil price shock. However, the distributed small scale of Australia’s refining industry can be seen as a success of the scheme as it allows used oils to be re-refined relatively close to source reducing the risk of environmental harm and provides some capacity to refine in the event of external shocks to virgin supply or international re-refining such as geo-political risk/conflict/ trade/ mercantilist protection and currency wars.

A guiding principal of product stewardship is that all potentially hazardous wastes should be treated and recycled as close as possible to the point of generation. The risk and cost to environmental and human health from unnecessary transport is significant. In addition, Australia is a signatory to the BASEL Convention in relation to the trade and disposal of potentially hazardous waste. The Basel Convention places obligations on countries that are party to the Convention to:

- Minimise generation of hazardous waste;
- Ensure adequate disposal facilities are available;
- Control and reduce international movements of hazardous waste;
- Ensure environmentally sound management of wastes; and
- Prevent and punish illegal traffic.

The existence or otherwise of EPAs is impossible to separate from the success of the PSO scheme in a cost benefit analysis or effectiveness analysis framework. Indeed, the legislative, regulatory and enforcement powers and resources available to EPAs (in jurisdictions where they exist) have been dramatically reduced in some jurisdictions in recent times. Furthermore, the majority of states have or are in the process of reducing regulatory requirements for environmental enforcement as exercise in “green tape reduction” along with the human resources allocated to enforcing the remaining regulations. In summary, the existence, nature, scale and scope of state based regulation and enforcement varies significantly over time.

As the consultation paper notes there are varying conclusions from life cycle analysis (LCA). It should be understood that LCA is a linear ‘cradle- to- grave’ framework, fraught with an unresolved set of methodological boundary issues. While LCA does broadly align with the waste hierarchy, neither should be confused with sustainability as both are intermediate frameworks designed to be “less bad”, not sustainable closed loop systems that can perpetuate into the future. The development of efficient closed loop circular and sustainable systems requires well designed markets for material streams that are finite, generate negative externalities in production and consumption and operate in imperfect markets.

The framing of the PSO as a benefit/subsidy payment in Consultation paper is somewhat pejorative. Governments frequently place a fee/price signals on undesirable behaviours and use this revenue to encourage the market behaviours that they seek to encourage. An example is the use of landfill levy’s by all state governments excluding one, where a price is placed on the disposal of valuable finite resources into landfills with all of the cost/negative externalities involved in new/remediated landfills, and revenue directed towards encouraging the systems the necessary outcomes (recycling systems). This comes to the question of how at what rate and for how long will the “feebate” of the PSO be required. Landfill levies go one way, up, as the level of waste generation keeps increasing as do the costs to the community and the economy of doing nothing (not dissimilar to the carbon price in some respects). If Oil is regarded as a finite resource that is being consumed in an irreversible and unsustainable manner with cost to the community then the continuation a least cost scheme which continues to encourage the development of a domestic oil re-refining industry is essential. A scheme should continue until either oil is widely used in sustainable way or oil ceases to be widely used.

The issue of small dispersed rural markets is very problematic. Consideration could be given to PSO Zones, where the most remote regions of the country are subject to differential rates in the scheme. A further complexity arises as many very significant virgin resource projects are still in the construction phase in very remote areas. The temporal and spatial impacts of the volumes of used oil in resource project construction versus operation need to be considered.

Recommendations

To further improve the PSO scheme, the independent review should give due consideration to:

1. Infrequent reviews of the scheme to provide the necessary certainty for private sector investment.
2. Continuation of the 5.449 cents per litre levy on all sales as a minimum with the reintroduction of indexation or equivalent revenue generation for financial sustainability (i.e. levied on producers and/or purchasers). The level of the levy should be calibrated at the rate necessary to achieve the schemes objectives.
3. To achieve PSO scheme objectives, re- refined base oils (i.e. Category 1 and 2) or similar should be retained to secure ongoing investment in re-refining.
4. The review should focus on the objectives of the scheme, rather than the recent expenditure/revenue imbalance alone. Any changes/ measures that would undermine the industry would have implications for a wide range of factors beyond improper disposal, including investment, employment and security.
5. The financial sustainability of the system should be secured through ensuring the integrity of the benefits payed, specifically for domestic recyclers of used oil and energy recovery where recycling is not viable.
6. Untreated used oil, or any other unrefined fuel, should not be allowed to be exported when domestic processing options are available. Australia's obligations under the Basel Convention should be enforced.
7. All waste oil should be processed to separate materials and recover recyclables where economically practical, so that only residual streams are directed to the production of fuels.

8. To ensure the scheme remains sustainable and to drive market development mandatory refined content targets could be considered.
9. Current Fuel Excise policy should be re- examined to rebalance the cost incentive to burn unrefined fuels.
10. As standards and specifications strongly influence the market and the operation of the used oil recycling industry, there is a necessity to develop content specifications/ targets of used oil. The development of a systematic data gathering, assessment and evaluation can be able to build capacity within the used oil recycling industry to apply and build awareness of these specifications/ targets. As ACOR is a national industry representative, it may be able to assist the Federal Government to the process.

Conclusion

ACOR supports the PSO scheme which effectively increases used oil recycling rates and promotes the sustainable environmental management of used oil. The scheme has been successful and should continue to evolve with refinements.

We welcome the opportunity to contribute to the review of the scheme and stand ready to advise government following the outcomes of the independent review.

Yours sincerely,

Grant Musgrove

Chief Executive Officer