



PO Box 5926

West End Qld 4101

Phone +61 7 3051 5405

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To the Waste Levy Review
Office of Environment and Heritage
PO Box A290
Sydney South NSW 1232

Email: wastelevy.review@environment.nsw.gov.au

The Australian Council of Recycling (ACOR) welcomes the opportunity to comment to assist the Office of Environment and Heritage in making a significant policy reform to move the Australia onto a more sustainable footing in the management of its resources.

As the peak industry Council for the recycling industry, ACOR commends the Government on taking the initiative to review the operation of the levy at this time. At a time of significant economic pressures on a number of recycling companies, it is appropriate to review the operation of the levy and its impact on recycling across the NSW economy.

The wise application of the levy revenue to invest in improving recycling performance through infrastructure development, improved policy and regulatory arrangements, and better practices and systems, underpins ACOR's submission.

ACOR stands ready to assist in further consultation on the matters raised in the attached submission. And looks forward to working with the Government to ensure the levy and funds raised by it are applied to maximum benefit.

Yours sincerely

Rod Welford

Chief Executive

ACOR SUBMISSION

WASTE LEVY REVIEW 2012

INTRODUCTION

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

Its overarching 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. Its core business is to engage with and advise governments on the practical implications of policy and regulation needed to promote delivery of the business infrastructure necessary to achieve major improvements in the recovery and reapplication 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 closed loop sustainable materials economy.

TERMS OF REFERENCE

The Review will address the following terms of reference:

“The levy increases annually by \$10 per tonne (plus CPI adjustments) for the next four years. In 2015-16, the levy will be about \$120 per tonne in the Sydney, Hunter, Central Coast, Illawarra and Shoalhaven regions in today’s dollars.

Impact on the recycling industry

1. *Examine any evidence presented that the application of the levy to recycling sectors is impacting on competitiveness or the attainment of maximum economically efficient recycling.*
2. *Review the effectiveness of the levy on recycling across different streams (i.e. Municipal Solid Waste, Commercial and Industrial Waste, and Construction and Demolition Waste) and make recommendations for improvement, as necessary.*
3. *Review and report on the existing funding arrangements available to local councils and industry for waste and resource recovery initiatives, programs, infrastructure and combating illegal dumping.*
4. *Review and make recommendations on ways to improve the effectiveness of the levy in supporting investment in and the financial viability of resource recovery infrastructure.*
5. *Review the effectiveness of the Waste and Sustainability Improvement Program (WaSIP) delivery and identify funding priorities for waste and resource recovery initiatives, programs and infrastructure.”*

This submission addresses levy design and effective use of funds raised by the levy to improve resource recovery and recycling as the primary desirable outcome the overall levy regime.

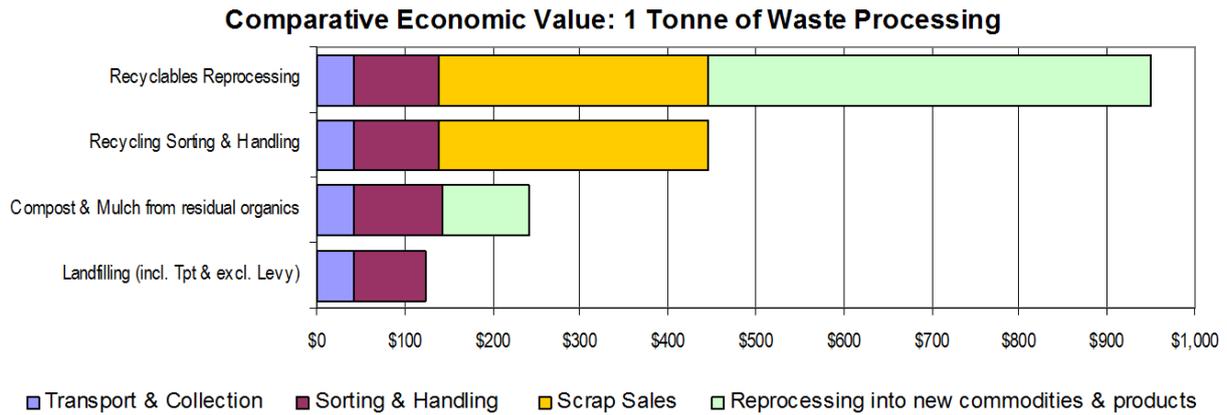
POLICY CONTEXT

While the policy framework of the 'waste hierarchy' has served as a useful starting point, measures necessary to make the transition to a more sustainable economy require a move away from the out-dated conceptual framework of 'waste management' framed in isolation and without reference to the broader context of resource management and sustainability.

With resource recovery as the desired goal, then the policy, legislative and regulatory settings that direct how to deal with resources that are the by-products of production and consumption must serve an overarching goal of ecological sustainability. This entails a number of core principles:

1. That all resources are inherently limited and should be conserved by making the most efficient use of the resource necessary to provide the product or service for which the resource is deployed
2. The by-products of the production and use of such products and services both before and after consumption should not be wasted but recovered for reuse or recycling within the productive economy, and
3. There must be a presumption that every by-product is a resource (to be redeployed) rather than a 'waste' (to be disposed of) until all economic options for making use of the resource are exhausted.

In addition, Waste Hierarchies used in various Australian jurisdictions often omit the "remanufacturing" phase of recycling which realises the additional benefits (including domestic jobs and investment) that accrue from utilisation of recyclate in the manufacturing sector as illustrated in Table 1 below. Recyclability should be primary objective of sustainable product design, as resources are inherently finite and valuable. Optimising source separation leads to higher levels of recovery of resources of higher value . The development of the recycling industry by way of well targeted government industry policy should be a priority in creating clean, green, labour and knowledge intensive, higher value employment.



BEGIN WITH THE END IN MIND

The design and formulation of the Waste Levy regime should be undertaken within context. That is, the levy should be seen not as an end in itself but a means to a higher end. Clarity about this primary purpose for introducing a levy will provide not only a more robust policy basis for it but better principles for its design and implementation.

ACOR recommends that Government characterise the levy in the context of the higher sustainability principles outlined above. The logic of this approach can be articulated as follows:

1. The ultimate goal is a more sustainable society and economy.
2. One of the key measures to achieve this is the more sustainable use of resources.
3. The sustainable use of material resources is optimised when all economic measures are geared to 'closing the loop' on resource use.
4. Closing the loop on resource use requires that government policy and regulation be aimed at maximising the recovery and recycling of all material resources which are the by-product of their most efficient first use.
5. It is rational policy to apply economic instruments by way of levies on the wasteful disposal of recyclable resources
6. Prima facie, materials being disposed of to landfill are being wasted if they have not first passed through a form of 'institutional filter' to provide a disincentive to the disposal of valuable resources and maximise their recovery and recycling.
7. Therefore, ACOR unequivocally advocates in principle support for a mandatory levy on landfilled 'waste'.

AVOIDING PERVERSE OUTCOMES

Having established the policy rationale for a levy at the landfill, it is important that the levy system be designed so as to promote its primary purpose: to maximise the recovery and recycling of materials. There is no doubt that a levy up to a certain dollar amount per tonne of material potentially disposed of to landfill, a clear incentive is provided to the 'waste generator' to explore material or resource recovery options.

All resource recovery businesses have an operational cost and some potential for capturing value from the sale of materials sorted and/or reprocessed. The reprocessed materials then must compete in the market against the use of raw or virgin materials, or, when combined into a manufactured product, with a similar product imported from some other country. The recycling process in Australia is therefore a cost input to local manufactured products.

Where the reprocessed material is not sold for use in Australia, it becomes a commodity to be sold or exported into global markets where prices obtainable for the processed materials fluctuate according to global supply and demand.

Recycling operations focussed on reprocessing resources may take materials of varying complexity. Homogenous non-contaminated materials of a single material type are the easiest and least cost resources to recovery and recycle and tend to achieve higher value. However, such resources are in some sectors simply not practical to obtain and in any case leave more complex mixed streams containing high levels of recoverable material unaddressed. To maximise recovery of materials from more complex material streams necessarily involves separating out a residue of non-recyclable material (based on current separation technology which may improve over time).

The imposition of a levy on the landfill disposal of this non-recyclable by-product or 'residue' of the recycling process will therefore have an additional cost imposition which is a function of:

Complexity of Material Stream (per tonne percentage of non-recyclable component)

x Dollars per tonne rate of the levy.

It is not at this point practical for the Government to monitor or control the complexity of materials coming to recycling facilities (although other measures might be taken to reduce this complexity). Nevertheless, it is inevitable that efforts to extract the maximum recoverable materials from the general waste stream will involve recycling system residues. All recycling systems incorporate some level of unavoidable contamination. These recycling residues are currently levied upon disposal at the same rate as materials, on which no effort to recycle is applied, taken directly to a landfill. Accordingly, the level of impost of a levy on recycling is directly related to its monetary rate of the levy's imposition.

There is growing evidence that beyond a certain level, the levy rate has a perverse impact of making the recycling process uncompetitive with the alternatives of either virgin material or direct export of the unrecycled 'waste' product. In the latter case, the neither a levy is

collected (since it bypasses landfill in Australia) nor is the material recovered for recycling domestically so value is captured domestically. It results in a classic lose-lose outcome.

A PREFERRED POLICY APPROACH

It is not possible to identify precisely the level at which the rate the levy is applied starts to mitigate against resource recovery that in favour of it. In any event, that level will vary for material to material and from time to time based on market value. As a rule of thumb, ACOR members estimate that beyond approximately \$40-\$50 per tonne (in addition to landfill operator gate fees), the levy ceases to provide a net advantage to recycling and starts to undermine the viability of recovery systems for most bulk material processing.

ACOR therefore submits that the levy should in principle not be applied to recycling operations and their residual waste. The levy should be applied in a more targeted way to achieve its primary purpose: to prevent recyclable materials being disposed of to landfill. To impose the levy on the residue of materials already recycled can serve only to penalise the very activity (recycling) the levy is designed to promote.

Two matters need to be addressed in this context.

First, it is sometimes argued that increasing the levy will force the recycling operation to invest in technology and processes to achieve higher recycling yields and minimise residues. This argument mistakenly assumes that such an incentive is necessary. It ignores the fact that the entire business model of the recycling operation is by definition driven by maximising yield through processing since income of the business depends solely on the volume of recyclate able to be sold into the market. In any event, it does not serve the primary purpose of a levy: maximising recovery by diverting recoverable resources from landfill. It simply imposes a cost on the recycling process by taxing what can only be left to landfill.

The second argument for a levy on residues, is that with an exemption from the levy, some will be induced to fraudulently avoid paying the levy at the landfill on waste which has not been legitimately subject to a recycling process by simply have the waste 'pass through' a recycling facility without any genuine recovery process applied.

ACOR has already devised a mechanism with the Queensland Government on how to address this issue of levy system integrity. The essence of the solution is to grant the levy exemption only to 'legitimate' recycling facilities. Such facilities gain legitimacy by an approved accreditation system which sets performance criteria as its threshold of accreditation. ACOR is already working with Federal and State agencies to develop such an accreditation system which can provide a 'gateway' for certifying when exemption from the levy can be appropriately granted.

AN ALTERNATIVE POLICY APPROACH

While ACOR supports the principle that the levy system should not apply to qualified recycling operations, any levy that is applied should be applied in a way that:

- a) Does not undermine the competitiveness of resource recovery compared to its immediate competitor i.e. virgin materials, export or landfill, and
- b) Rewards recycling according to performance.

Under this approach, an accreditation system is still desirable as a mechanism for ensuring minimum performance standards and data collection/reporting adequate to measure performance. Once reported, the proposal entails rewarding or incentivising performance by either:

1. Providing a rebate on the applicable levy in proportion to the level of recycling performance i.e. if recycling yield is 80%, then the levy applicable to residued is rebated at 80% of the per tonne rate; or
2. Provide a flat per tonne rebate on the recycle recovered and sold into the market for subsequent use.

THE NEW SOUTH WALES LEVY

The levy system in New South Wales has led the nation in sending a strong signal to divert materials from landfill. However, at current and pending levels, this diversion is more likely to be towards illegal disposal or export of raw wastes rather than to recycling operations where the levy, combined with the economic cost of recycling operations, results in a recovered secondary material that cannot be sold into local or global markets at a price competitive with imported materials or finished products.

At the very least, it is essential that this Review address this fundamental disconnect between the rate at which the levy is applied and the objective for which is applied in the first place. Failure to do so will leave the levy system and the government with a discredited system that will be seen as, and in reality be, merely an additional tax, with no genuine purpose directed at recycling industry development, resource recovery or environmental benefits.

APPLICATION OF LEVY REVENUE

ACOR believes a separate analysis of investment options should be undertaken after a scoping study of the supply chain for resource recovery and recycling of each of the material streams which are to be addressed and the gaps in or barriers to improved recovery across those streams.

There are existing models of programs to invest funds in new infrastructure, innovative business systems, emerging technologies, industry wide standards and guidelines and other initiatives that can aid in the collective improvement in recycling performance. A useful starting point to catalogue the range of types of programs that might be considered can be noted in the recently developed and issued *Queensland Waste Reduction and Recycling*

Business Plan 2011-2015. A scan of programs in other States will also assist in identifying various program models.

ACOR notes in particular that the small grants that are distributed under the current arrangements to local government under the WaSIP program could be better targeted as seed funding for substantial infrastructure implementation (e.g. through seed funding of recycling plant).

The key issue here is that funding should be directed in ways that are targeted at achieving the overriding policy goals set out previously in this submission. ACOR is ready to sit down with the Government to optimise and prioritise these investments.

CONCLUSION

The review of the New South Wales Levy should embody the following principles:

- ACOR gives in principle support for waste levies whose primary purpose is to maximise the recovery and recycling of material and other resources.
- The level of the New South Wales levy should be calibrated to provide the best form of incentive to all stakeholders in the value chain – the generator, collector, processor and recycler/manufacturer – to achieve maximum recovery of resources and their application to highest and best use.
- Waste levies should be structured so that they do not have effect as a perverse incentive which inhibits the commercial viability of resource recovery and recycling
- Waste levies should be set at a level and applied in a way to embed a financial or commercial incentive for consumers and those disposing of end-of-life products and materials to divert resources to resource recovery as a first resort with disposal to landfill as a last resort
- ACOR advocates that levies should operate as a ‘feebate’ such that the levy (fee) imposed on wasteful resource disposal is applied as an incentive (rebate) for the benefit of resource recovery and recycling by commercially available means.
- the full amount of all revenue raised by such waste levies should be applied to the principle purpose of maximizing the recovery and recycling of resources.
- ACOR recommends infrastructure funding be non-discriminatory between public and private sector providers.
- ACOR supports a consistent approach to levy systems across all Australian jurisdictions as far as practicable.

ACOR believes waste levies **should not** apply to:

- recycling residues which are inherently not capable of being recycled based on current best practice;
- hazardous materials, such as asbestos and highly contaminated soils, which have no recyclable properties and should properly be disposed of to landfill.

Where any levy does apply to recycling residues, the levy should be subject to a discount or rebate in proportion to the efficiency with which the recycling process recovers the resource for recycling i.e. an 80% recycling yield will be awarded a rebate of 80% of the levy otherwise applying to general waste.

The current levy system is having perverse impacts on the local resource recovery industry in some material streams (e.g metals where is more cost effective to bale whole cars for offshore processing due to the levy being too high).

The Levy could be designated as a “Resource Recovery Levy”, not a waste levy, thus focussing on the outcome to which the levy is directed, rather than be seen simply as a tax on waste.

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