Joint Waste Disposal Authorities (JWDAs)

BREXIT: JWDAS POSITION PAPER

1. EXECUTIVE SUMMARY

The JWDAs (the Joint Waste Disposal Authorities of Greater Manchester, Merseyside and four covering some two-thirds of London) deal with around 16.1% of England's local authority collected waste. Our policies reflect the UK's ambition to move towards a circular economy, an aspiration that has been predominantly driven by our Membership of the European Union and the forthcoming European Circular Economy Package (CE Package) up until now.

Government and business around the world are increasingly seeing the importance of retaining the material resources that are the foundation of their economies. Leaving the EU provides an opportunity to take full control of our waste and product policies and make them fit to trade with the EU and the rest of the world.

In doing so, we would ensure the best possible outcome for the UK, and capitalise on the opportunities for economic growth, market opportunities and jobs.

Undoubtedly, the Circular Economy concept at the heart of the proposals being brought forward by Europe is at the very forefront of global waste and product policy, and has the potential to bring significant environmental as well as economic benefits. However, outside of the constraints of the existing EU Framework, and without the same need for political conciliation, we believe that the UK can lead the world in product sustainability.

- Based on our joint knowledge and experience the JWDAs would propose developing an **English Resource Strategy** that outlines a joint and shared vision across all stakeholders, to provide a long term framework that informs future investment infrastructure and market opportunities.

This English Resource Strategy should consider a suite of measures to drive action right across the value chain of all sectors from the point of specifying a product right through to its disposal by the customer to give resources the best chance of being returned to the economy. Those measures should include:

- A product policy that enables the UK to be at the forefront of product design and efficiency, by fully incorporating material eco-design.

- Developing markets for recycling materials to increase recycling rates through through supporting secondary material prices to enable competition with virgin material, and through rewarding recycled content and eco-design.

- Reducing the trading risks that are leading to a high failure rate in the recycling industry, and in turn lowering investment along the value chain. This requires price

stability to allow private sector investment, and as such may need an innovative model of public sector support/profit sharing to be developed.

- Developing capacity to recycle materials within the UK, so that we have long term sustainable markets to support the value chain.

- Recognising the contribution that waste can make to energy security, and encouraging the development of UK capacity to generate more energy from waste that cannot be recycled viably.

- Designing a more practical approach to waste targets based on environmental and economic benefits rather than amounts of waste.

- Harmonising collection systems over a period of time, by converging to a system that is driven by market potential and technology.

- Being able to fully exploit the potential opportunities of having a low carbon economy outside the EU, creating economic activity and jobs for the nation.

2. CONTACT

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3. English Resource Strategy

3.1 Securing reliable access to raw materials is crucial to the UK's economy, as well maintaining our health and quality of life in the long term. The UK should, therefore, put in place a national resource strategy that focuses on economically important materials for industry, as well as promoting technological progress and developing a more sustainable environment. Moving towards a 'Circular Economy,' where materials are maintained within the economy for as long possible is clearly the right thing to do from a resource perspective. However, this will require a fundamental change in the way our economy and society is structured and will involve completely reshaping the incentives to business, local and international environmental rules, and new models of business finance. That transformation will take time and will require the participation of all relevant stakeholders involved in the lifecycle of products – private sector, research institutions, public bodies, non-governmental organisations and consumers. A long term vision that brings together shared aims and objectives and the key actions to achieve them will be essential to retaining the materials that underpin our economy in the long term. It will provide the right conditions for more stable and sustainable markets and will inform commitment for future infrastructure investment in each of the localities.

3.2 Stepping back from the EU focus on 'local authority collected wastes' (LACW) would enable greater progress sooner, because waste streams that are more homogenous and therefore likely to be more readily recyclable can sooner deliver gains in resource and energy security, investment, employment and business efficiency for trade. This work could look not only at products, but also at wider environmental opportunities such as for soil improvements to enhance national agricultural efficiency.

3.3 Notwithstanding this, the JWDAs fully recognise that continuing work on improving LACW services should be part of a new resource strategy, because the importance of these in conveying to the general public both the need for change and the progress that is being made is fully recognised by the JWDAs. Because this is where the JWDAs have the greatest expertise, our proposals predominantly relate to wastes that are LACW or would otherwise become LACW; however it is important to note that as above we do recommend that the resource strategy secures change within the much larger non-LACW waste streams.

4. Product policy

4.1 It has long been recognised that resource efficiency is rooted in the development of more sustainable product design that will improve durability, reduce materials use, improve repairability and enable materials to be more easily recycled. For that reason, the European Commission has set out its aims under the Circular Economy Action Plan to develop eco-design product requirements that will address material efficiency as a priority. A new eco-design directive may therefore be agreed prior to the UK's exit from Europe. There are good reasons why the UK should adopt both existing and new EU product policies that go beyond addressing our own waste: 44% of exports go to the EU, so those products will need to meet EU standards anyway; and, our businesses are already tied into EU legislation, so aligning with those standards may make more sense than looking elsewhere. Moreover, the UK has the largest design sector in Europe, so maintaining a lead in such areas is intrinsically linked to developing a more sustainable economy based on eco-design. Clearly, developing a sustainable product policy is more than just ensuring we do not become a dumping ground for poor quality products, but ensuring we maintain our place as a leader of design and advanced, sustainable manufacturing.

5. Market certainty

5.1 Brexit provides an opportunity to implement a truly market led approach to recycling rather than focusing on quantity. Too often local authorities and waste companies have responded to the pressure to reach targets by collecting (and developing treatment capacity) for an expanding range of materials, prior to the market being fully developed, or developed at all. As evidenced by WRAP's latest Market Situation Report for Plastic, over 60% of the plastic packaging collected is disposed (this is further analysed in Appendix A). Over collection of materials has been carried out in the belief that the availability of materials would drive recycling innovation leading to new markets. However, these measures have not provided the desired results, and in many cases it has led to either lower quality materials, or a greater need to remove contaminants, undermining the business case for its collection.

5.2 Unfortunately, the European Commission decided at a very early stage to keep the existing EU framework, believing it would be politically deliverable to build upon the existing success. Hence the continued focus on weight based collection targets. However, a more cost effective model would focus on market development, where a combination of eco-design product policies and augmented secondary material prices expand markets for different recyclables. That would send a clear signal across the value chain: retailers would be able to confidently specify product formats that will be recycled; reprocessor would be able to invest in making them; and waste collectors/local authorities would be able to confidently invest in collecting the right material to meet demand. This is an area where Brexit could provide a real opportunity for the UK to put in place a more efficient system that could achieve improved economic and environmental outcomes.

5.3 A fiscal / market driven approach that taxes virgin raw materials, and provides tax relief to recycled content can bring a greater demand for recycled materials. In developing these mechanisms it is important to focus on rewarding those that do the right thing because we need strong, buoyant companies operating in the circular economy. Positive encouragement is required because recycling companies are often in a vulnerable position, unable to secure long term revenue certainty and susceptible to changes in the spot prices for materials.

5.4 The market driven approach could be integrated with extended producer responsibility by providing reduced compliance fees for products with high recycled content. This would, in turn, provide a double incentive to expand the recycling market, since the producers of products with a high recycled content will be rewarded, and those with a low recycled content will need to pay more to cover the scheme costs.

6. Trading risk

6.1 The recycling sector is vulnerable to changes in the commodity prices, which are invariably affected by uncertainty. Hence, the continued uncertainty created by the decision to leave the EU will undoubtedly impact on commodity prices, and the recycling sector. That has been observed already when many commodity markets immediately fell closely following the vote to leave the EU in late June. Whilst they have since recovered, we should not be misled into thinking they will not fall again as commodity prices are intrinsically linked to the demand created by the economy which is again showing signs of a slowdown. Currency is another factor that was affected by the decision to leave the EU that will affect commodities. Many investors now view both the UK and Europe as more risky and are therefore moving their currency into US dollars. Since most commodities are priced in US dollars they will become more expensive in the short term as the dollar's value rises against other currencies. Higher prices, however, are likely to reduce demand since global buyers are likely to cut back purchasing, eventually leading to a fall in commodity prices in the long term. Such market variability has undermined companies that reprocess wastes, so the government should now examine how waste and recycling reprocessing capacity can be protected against potential falls in commodity prices to better manage our national resource and energy security needs.

6.2 A mechanism is needed to guarantee a minimum price for secondary raw materials and to reduce the volatility of prices. This could be achieved by establishing an independent, transparent reference point (or price range), below which the price is supported by a subsidy, which could be paid for by a tax on the virgin materials or recovered from producer responsibility schemes or general taxation. Above the reference point (when the economy is doing well) the price support may be reduced with tax revenues ring-fenced so they are available to provide support when the economy slows. We believe that such a mechanism if correctly constructed could be cost neutral in the long term, but enable investment confidence to be funded by the private sector, creating jobs and prosperity.

7. Capacity and self sufficiency

7.1 Improving UK recycling capacity and self-sufficiency is key to providing the long term certainty that would enable further investment in waste collection and processing. The present weight based collection targets encourage the collection of volume over quality. At the same time the UK packaging compliance scheme favours export over domestic recovery (since exporters can issue a compliance note before the material has actually been recycled). The combined affect is to further encourage the collection of lower quality recyclates that are sent abroad, possibly to be manually sorted. Superficially, this may appear to be a cost effective way to meet targets at the lowest collection cost, but it masks a more serious issue in that the material exported also contains valuable

materials that are needed to provide revenue to our own recycling plants, so we are inadvertently depriving our recycling industries of this revenue and growth potential.

7.2 Therefore, we need a smarter incentive that provides a higher reward where actual recycling has been demonstrated. This could be as simple as increasing the quantity of Packaging Recovery Notes that need to be purchased ahead of Packaging Export Recovery Notes, or placing the same burdens on exporters, as well as the suggestions made in section 5 above.

8. Energy security and refuse derived fuel

8.1 Recovering energy from waste can make a significant contribution to energy security, meeting renewables targets and the UK's ambitious carbon reduction goals. In determining the right mix of treatment technologies for the UK, much greater consideration needs to be given as to whether the energy expended in recycling difficult materials via multiple process can really be justified compared to the energy that can potentially be recovered.

8.2 In 2015 municipal solid waste combustion accounted for 3.3% of renewables, with the waste sector making a further contribution from AD (1.7%), and landfill gas (5.8%). The fact the largest contribution still comes from landfill gas shows that the UK has not been good at exploiting the potential of municipal waste combustion. A recent Biffa report 'The Reality Gap' identified a capacity shortfall of approximately 15 million tonnes per annum. A gap that is likely to persist, albeit reducing to 4.4-5.9 Mtpa by 2025. The failure to build capacity is further brought into focus by the c. 2.5 Mt/year of refuse derived fuel (RDF) that is currently sent to Europe.

8.3 Whilst the spare capacity for RDF in Europe has been exploited by the waste sector to achieve flexible, competitively priced waste disposal, it clearly isn't a long term solution to the UK's waste needs. Indeed, recent rises in the price of RDF treatment are beginning to show that capacity in the RDF market may have peaked. There are a number of contributing factors, but an expanding population within the receiving countries and economic growth are probably impacting. If agreed, the European CE Package will result in a significant reduction in landfill across Europe, so competition for EfW capacity in Europe looks set to increase.

9. Practical approach to waste targets

9.1 The resource sector has long argued that blunt, weight based targets are no longer appropriate for the waste industry. The 65% recycling target proposed by the EU would be a very difficult goal to achieve, with the environmental benefits not necessarily justifying the higher incremental cost of making further gains. An exercise undertaken by the GMWDA showed that if every single marketable material is collected in Greater Manchester, then the maximum that can be achieved is only 66% recycling. On a practical level if Manchester could get 90% of its residents to accurately recycle 90% of the time then it would still only achieve 53% recycling. Given that the other JWDA areas are all in major cities and therefore face similar issues both in term of the built environment (narrow streets, high rise flats) and socio-demographics, then it would be very costly to achieve anything near 65% recycling.

9.2 Brexit, therefore, offers an opportunity to take a more focused approach that seeks to ascertain the highest economic and environmental benefit, rather than meeting an arbitrary waste collection target. Ranking materials based upon the carbon/environmental benefits of recycling to prioritise investment is a logical approach, followed by setting appropriate targets or other incentives for each material determined by what the market can practically achieve. Much of the groundwork to do

this has already been achieved, with data derived through Scotland's carbon recycling calculator, and work at the European level to determine the economic importance of materials.

10. Harmonised collections

10.1 Lately, there have been government-led discussions around harmonising collection in the UK. Harmonisation would bring significant benefits not only in developing consistent messages to residents, but more importantly it will send a clear message to the supply chain that if they make a product in a certain format it will be recycled. That will enable retailers to clearly specify recyclable formats to manufacturers, and justify the environmental claims made to their boards to encourage further investment.

10.2 In our view harmonisation should be market led whereby services are designed to provide the optimal value for residents. That involves striking a balance between separate collection, and co-collecting some materials at a much lower cost, that may be later separated by technologies to provide sufficient quality for the relevant markets.

10.3 Harmonisation is often viewed as too difficult as a result of historical decisions that have led to a plethora of different systems, and existing contracts. However, most council collect the same 'core' materials, so the main focus should be on ensuring the same materials for which there are defined markets are collected nationally, with guidance on which materials may be co-collected.

10.4 Potentially, being outside the EU regulatory regime may help the UK to achieve harmonisation since the risk of more stringent future source separation requirements has been viewed differently at the point of awarding new contracts, leading to more diversity in collection systems.

11. Conclusion

11.1 The EU vote to leave the UK has left significant uncertainty for the waste and recycling sector. In the medium term the industry is left in a quandary, since it is currently working towards targets in 2020 that may no longer apply depending upon the speed of the UK's exit from the EU. If there is a protracted negotiation period, that may leave the UK at a significant risk of fines from the EU, since the industry will undoubtedly pull back from further investment. In the long term it isn't clear whether the UK will voluntarily sign up to the proposed EU Circular Economy legislation or forge its own path of resource and energy efficiency to improve economic security and opportunity. Without a resource strategy then the UK will produce and import unsustainable products resulting in more waste. Clearly, it is time for the UK to have its own resource strategy to guide the industry, and bring confidence to the markets so we can invest in the future.

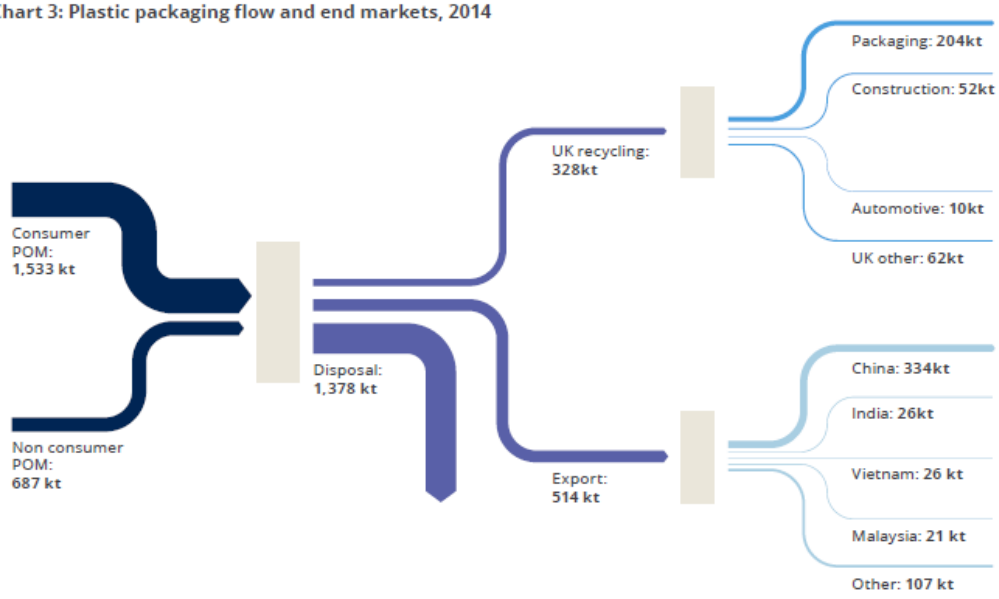
11.2 In our view the thinking behind the EU Circular Economy proposals is also positive for the UK, and we should seek to embrace this approach, notwithstanding that there are several aspects that hitherto have been steered by EU-wide political deliverability rather than the best course of action for the UK or the wider economy or environment. We would, therefore, welcome an opportunity to discuss with you the way forward for the UK.

12. Appendix A – Supporting Evidence for market development

12.1 Waste materials are only recyclable in practice if there are viable markets for the processing of these wastes and the use of the products made from them.

12.2 The data shown below is taken from WRAP's most recent Market Situation report for plastics[1] to illustrate the issue. It shows that over 60% of the plastics collected for recycling are actually disposed because there isn't a market for them. If we consider the data more critically, then it consists of 756 kt of bottles (both post-consumer and non-consumer), and a further 384 kt tonnes of non-consumer films. Both bottles and industrial films have established markets and are more easily separated compared to post-consumer films, pots, tubs or trays. It is therefore likely that bottles and non-consumer films make up the majority of the plastics actually recycled: Furthermore, the quantity of those two fractions, alone, exceeds the total amount of plastic entering the recycling market. That means the vast majority of the post-consumer films, pots, tubs and trays collected are probably being disposed.

Chart 3: Plastic packaging flow and end markets, 2014



Source: WRAP estimates

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12.3 The data above shows that many local authorities are expending valuable resources, at a time of competing priorities, in collecting materials for which there is no realistic prospect of them being recycled. A smarter approach to target setting is required that goes beyond the blunt weight based targets proposed in the EU Circular Economy Package.

[1] Waste Resources Action Programme (2016) Market Situation Report Spring 2016