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Commissioner Weickhardt
Presiding Commissioner
Waste Generation and Resource Efficiency Inquiry
Productivity Commission
Locked Bag 2
Collins Street East
Melbourne
Vic 8003
Via email: nparke@pc.gov.au; gmurtough@pc.gov.au

Environment Business Australia response to
Productivity Commission Waste Generation and Resource Efficiency in Australia

Dear Commissioner Weickhardt

Environment Business Australia (EBA) is pleased to provide its response to your draft report on waste management. We would appreciate the opportunity to also provide a presentation at your Sydney hearings.

Introduction
EBA is the peak organisation for the environment and sustainability industry. Our role is to raise awareness about the foreseeable scale and relevance of environmental challenges and to champion solutions. Our membership comprises companies and organisations from a number of sectors including the finance industry. Some of our members are recyclers and some operate landfills, some are manufacturers and some are in the natural resource sector. There may therefore be a divergence of opinion on various aspects of the Productivity Commission's draft waste report.

However, we note with surprise and concern that the title of the report has changed from "Waste Generation and Resource Efficiency in Australia" to "Waste Management". We seek an explanation for this. In the overview it is stated that that the Commission has broadly been asked to assess the market failures associated with the generation and disposal of waste - this line holds the clue to why we consider this report has 'de-railed'. Our reading of the terms of reference suggested that the report should evaluate the market failures that lead to so many resources not being used to full efficiency and consigned to "waste" when there is still value-adding to be obtained from them.

In addition, there are some key points where EBA finds the draft waste report does not meet the specified terms of reference. For example, "The Commission is to examine ways in which, and make recommendations on how, resource efficiencies can be optimised to improve economic, environmental and social outcomes". Instead of this the report has a focus on waste disposal.

Our main concern is that the draft report does not include the principle of valuing eco-system services. Because of this, the way that externalities (negative and positive) are addressed in the paper is detrimental to a full and proper analysis of the issues of waste, recycling, resource conservation and resource efficiency.

Australia will either end up with a national strategy for maximum resource efficiency and recovery (that encompasses a national waste management policy) - or, we will be relegated to the position of having only a strategy for waste management. And as the Concise Oxford Dictionary defines waste as "superfluous, refuse, no longer serving a purpose, spoiled, valueless" the value proposition would seem low from the latter, and so your report would be better titled “Waste Disposal”.[1]

The direction taken by the Productivity Commission's draft waste report is therefore of concern to the environment and sustainability industry because the future potential of the industry (now seen as one of the world's fastest growing sectors) is confined by this report to being the 'cleaner-upperers' of less than optimal levels of efficiency performance of other sectors. We aspire to a different goal where Australia is able to take a lead position in this industry's growth and take a share of a global marketplace where avoiding harm to the environment or public health is the main focus; and where "waste" is reduced significantly as the levels of resource efficiency rise.

Terms of reference

It was EBA's understanding that the objective of the inquiry was to identify policies that would enable Australia to address market factors and externalities associated with the generation and disposal of waste, including opportunities for resource use efficiency and recovery throughout the product life cycle (from raw material extraction and processing to the product design, manufacture, use and end of life management).

Certainly, the terms of reference announced by Treasurer Peter Costello last year suggested hope for resource efficiency and broad reform towards maximum resource recovery - "a study into waste generation and resource efficiency". However, the draft waste report focuses on waste disposal and suggests that , in today's dollar terms, technologies and processes should not be entertained unless they can match the price of disposal at landfill (and we note the range of externality costs associated with this but again they are in today's dollar terms and do not reflect a potential cumulative growth). This is a fundamental flaw which contradicts the frequent mention of including externalities in the evaluation of the waste stream and its eventual treatments because externalities do not only occur at landfill. EBA suggests that the resilience of future assets should have been investigated more fully.

Externalities

Externalities can be both positive and negative. Costing the avoidance of negative externalities and achieving full cost recovery pricing is slowly coming into mainstream economic thinking. However costing positive externalities - in terms of *monetising today benefits to be achieved in the future* - does not appear to be included in the analysis put forward in the Productivity Commission's draft report. We have, noted your reference to the GHG emissions reduction benefits from aluminium recycling and therefore hope that the bigger and longer-term picture will be included in the final report to Government.

Greenhouse gas externalities from landfill are a significant source of Australia's climate change footprint and therefore these emissions must be addressed as an integral part of a broad national response to greenhouse gas abatement.

Discounted future value

Sustainable performance of any sector is not something that can be 'sliced and diced' according to the vagaries of discounting future value against today's price/price volatility. Resilience and value need to be built in to every stage of productivity and throughout the

[1] The Australian Council of Recyclers submission to the inquiry stated "More than 90% of waste materials can be characterised as either metals, organics, paper, plastics or inerts" which have the potential for recycling.

lifecycle of products and services. The alternative is a foreseeable exponential growth curve of cost that will increasingly deny Australian innovation access to the global marketplace.

The line "We do not know with any precision what the resource needs of future generations will be, so it is difficult to know what needs to be conserved" (page XXVIII) buys into the 'technology fix' paradigm where there is an assumption that at some point the future will throw up a solution in spite of the lack of incentives for it to do so. A more enlightened –(and self-interested) approach would be to evaluate Australia's resource stocks, our likely-to-grow population, our place in the global setting, and the emerging demands of other countries and regions. This is particularly necessary with the foreseeable impacts of climate change on water and food productivity and the potential for mass migration which may affect Australia (see Dr Alan Dupont/Dr Graeme Pearman, Lowy Institute paper "heating up the planet".)

Some vision and responsibility towards materials selection and the stewardship of what we have and need, and what we may (or may not) have and will need in the future, is what is demanded and the Productivity Commission is well placed to provide this advice - however, the current draft report is not up to this task.

Private economic benefits undermine 'public good'

The draft report focuses on private economic aspects but it has taken a very short-term approach to this issue. The report has not given sufficient or equal focus to broad and long-term public good aspects or indeed to broad and long-term private sector interests. This is confusing to a marketplace that requires timely and meaningful intelligence, and this does not benefit the new era of 'cleantech' which seeks a government enabling framework of taxation, regulation, government procurement and investment, and market based instruments to support the commercialisation and deployment of private sector innovation.

Current negative externalities are a form of subsidy to poor performers which high performers struggle to compete with. Entrenched technologies and processes have benefited from decades of support - in many cases they would not have been successful without governments' intervention, but this is in itself has created a system which rewards prescription over outcome. The draft report highlights that it is desirable to have outcomes rather than a prescribed technology or process and yet governments are the worst proponents of prescription! In seeking to avoid "picking winners" this approach may consign us to picking losers. A better way forward would be to design a framework which allows for the speedy retirement of technologies/processes which have become outdated and facilitates the weaving in of new technologies and processes.

Optimise resource efficiencies

In undertaking the inquiry, the Commission was required to examine ways in which, and make recommendations on how resource efficiencies can be optimised to improve economic, environmental and social outcomes.

As with all urban utilities and services there are centres of efficiency which;

- assist the productivity of other centres
- improve public health and safety and maintain functionality of amenity assets.

Waste minimisation and treatment, like public transport or water delivery, falls clearly into this category. Therefore there should not be a requirement for these 'operational productivity centres' to also perform to 'profit centre' criteria as well. However, they should be required to provide *benchmark* performance both physically and economically.

Scale of evaluation and of marketplace

As the report highlights, the difficulty associated with waste treatment at local council level is the scale of operation and the funding available. Aggregation is highly desirable to provide

the opportunity for funding and siting of full scale demonstration of new technologies/systems. The scope and scale of the Australian marketplace is sometimes used as an objection to this approach but Australia is on the doorstep of the most rapidly growing part of the world which will increasingly need fully trialed waste reduction and recycling (resource recovery).

Clean development is a marketplace
Australia needs to be positioned to take advantage of this opportunity - not so much to develop the waste industry but to help meet the goals of clean development. Clean production and consumption are critical as developing nations ramp up their economies and as global population increases. Resource recovery will become increasingly important.

The high level of investments into "cleantech" sees investors looking at both upstream and downstream, therefore it makes sense to develop a more holistic view of the entire waste/resources stream from a materials science and embodied water and energy perspective.

Some indicative examples of current and potential economic benefits from alternative uses of resources that have completed their first market journey:

- Diverting waste to recycling has built successful outcomes for the aluminium sector; the cement sector; the agricultural sector
- Need to replenish Australian soils where nutrients and minerals are being steadily stripped by agricultural productivity. There are reports of Australian food carrying 17% less minerals and nutrients than 30 years ago
- Biomass fuels could benefit from various waste streams as feed stock

Proper pricing required
The lacking element for more demand for resource efficiency and reuse is due to outdated pricing. Full cost recovery pricing is missing in both upstream and downstream activities. Low landfill prices are one element of this.

The issue of landfill levies needs to be addressed in the context of hypothecation of levies to achieve desired outcomes. Landfill levies that simply raise revenue for consolidated revenue are not being used to maximum efficiency.

If the basis of argument is that the only justifiable recycling is recycling that is "economic" then current and future opportunities to:

- reduce use of virgin materials
- pursue a whole of lifecycle materials science approach
- avoid pollution due to toxic leachates
- reduce greenhouse gas (GHG) emissions

would be reduced.

If the argument is that "companies do not want to bear the cost and complexity of waste elimination and recycling and that a company's role is not to be a materials science analyst or an environmental steward", then we would counter that argument by citing the need to evaluate the cost and complexity of a sustained incremental growth in the volume of waste going to landfill, because without intervention volumes will undoubtedly increase.

Private sector waste generators
That the private sector has, in the case of waste generators, succeeded in having decades of direct and indirect subsidy to cover the cost of the negative externalities, is no reason for this approach to continue.

Private sector waste industry performance

That the private waste sector has managed to improve performance considerably over these decades (both in terms of recycling and disposal of intractable waste to landfill) with a marketplace skewed towards dumping goods after a cursory first use, demonstrates how innovative industry can be. But is Australia to allow other countries to develop all future benchmarks in this area or will policy be developed to encourage trialing and demonstration of new processes at resource extraction, manufacturing, transportation and re-use?

Does recycling actually cost more?
Yes - at face value. But what is the discounted cost/return to consolidated revenue? That question should be factored into the equation.

"Rising prices encourage exploration for new supplies" (page 351) which is admitting that our generation will push resource price rises onto future generations. Your argument continues this theme by saying "As there appears to be no market failure associated with extraction rates for finite resources, it is not appropriate to treat resource depletion as an externality". This approach supports intergenerational cost transfer, which is fundamentally unsustainable behaviour.

EBA can provide evidence that investment in large scale infrastructure resource recovery can deliver greenhouse gas reductions at a cost that is only a few percent, on a once-off basis, of the costs being contemplated as acceptable (by government and the resources industries) for the implementation of CO2 sequestration from coal-fired power stations, which will be on a perpetual per annum basis. This scenario needs to be an integral part of the final submission to Government.

Conclusion
The draft report has separated waste policy from resource policy. This differs from current and emerging waste policy around the world and is to our mind a step backwards not forwards.

Sustainable resource management requires that we "get right the price for the services of nature". That is, we need to properly value the delivery of eco-system services such as fresh water, greenhouse gas abatement and mitigation, and resource conservation. The Productivity Commission's draft report does not appear to recognise the case for using waste management policy to address climate change; nor does it appear to recognise the inherent value of resource conservation and efficiency.

The draft report, in our view, does not conform with, nor does it add value to, either the stated objectives of the inquiry or the general approach by government in Australia (representing the requirements of the Australian public), to improving economic, environmental and social outcomes in all aspects of urban living.

We find that the draft Productivity Commission report does not fully address the scale and relevance of the issues - or of the opportunities. EBA looks forward to working with the Productivity Commission to address these issues.

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