

Wasting Waste

Risks and benefits of exporting the UK's waste

By Guy Newey

Summary of a roundtable discussion on 25 June 2013



Summary



The quantity of waste the UK exports, both Refuse Derived Fuel (RDF) and Solid Recovered Fuel (SRF – meeting higher quality standards), has increased significantly in recent years. On June 25 2013 Policy Exchange held a roundtable discussion to consider whether this increased volume of exports created risks for the waste industry and whether policy makers should intervene in the current market.

The following key points were made at the roundtable (which do not necessarily reflect the views of Policy Exchange):

- There remains considerable uncertainty about how markets for the export of RDF and SRF will develop and whether the high growth in exports will continue. Different players in the markets had starkly different opinions as to the future development of the markets. The two markets for export of RDF and SRF should be considered separately
- There is some suggestion that the increase in waste exports has created risks for some Energy from Waste plants in the UK. Investors in such plants are concerned about the reduced gate fees such plants are forced to charge, partly driven by competition from the European market. This risks making access to finance for new energy from waste (EfW) plants more difficult.
- However, while this was an understandable concern to those in the industry, there was no evidence among roundtable participants that the increasing use of exports created any

greater environmental damage or wider economic loss (i.e. higher costs to consumers). Participants could not foresee any major political risks with exporting waste.

- Such risks were also minimal when compared with the lack of certainty about future direction of energy policy and what that would mean for investors in EfW and/or co-combustion plants.
- There was no evidence that European EfW industries and other buyers of UK exported waste had established any unfair advantages compared to UK players. The major advantage was that EfW plant had already been built. They had also benefited from greater co-ordination over what they do with heat generated by EfW plants.
- There was considerable concern among participants about illegal activity in the waste industry in the UK.
- There was some discussion about whether the UK should have more sophisticated plans for how it deals with wider issues of how it uses its resources, including waste.

In conclusion, there was little support for the idea that government should intervene in the current waste exports market (apart from clamping down on illegal activity). The market is maturing and there remains considerable uncertainty about how it will develop. Market participants have divergent views on this. There is some suggestion that this uncertainty creates risks for investors in Energy from Waste plants. However, managing and reacting to these risks is part of a functioning market.

Introduction



The UK is exporting an increasing quantity of its waste, including recyclate, Refuse Derived Fuel (RDF) and Solid Recovered Fuel (SRF), to Europe. This is driven by many factors, including changes to taxes and regulation in the UK, as well as overcapacity in the European energy from waste market.

Some market participants have argued this phenomenon poses a risk to the UK's own EfW sector, which is being forced to offer lower gate fees to source enough fuel for its power stations. Some argue this creates a threat to the future of the energy from waste sector in the UK. This may present a risk to the number of jobs the industry can create and the amount of investment in the wider waste sector, which is worth £11 billion to the UK economy and employs around 95,000 people.

On June 25 2013 Policy Exchange held a roundtable discussion, including waste industry players, trade bodies, industry consultants, academics and government. The event aimed to answer several questions, including:

1. What has led to the increased quantity of waste exports in recent years?
2. Are there any unfair advantages from which the continental market benefits?
3. What effect is this having on different parts of the waste industry?
4. What are the risks of such changes, including environmental, economic and investment risks?
5. Is policy intervention in this industry necessary?

The aim of the roundtable was not to come to firm conclusions, but to explore these issues. It also acted as a scoping exercise for whether Policy Exchange would look to do any further research in this area.

This note summarises, in the words of the author, some of the key points made at the roundtable (at which discussion was held under the Chatham House Rule). ***Points outlined in this summary do not necessarily reflect the views of Policy Exchange, nor of particular attendees at the roundtable.***

Opening remarks at the round table were made by Chris Coggins, who has more than 25 years of experience in the waste industry as a researcher, consultant and academic. He is also author of the Policy Exchange paper, *A Wasted Opportunity? How to get the most out of Britain's bins.*

Key points from Chris Coggins's opening remarks



- 30 years ago, UK was seen as a 'world leader' in RDF technology, but then the industry disappeared from view. Reappeared in 2000, and then market matured with emergence of SRF and developments of higher quality standards. However, it was still not a major part of the debate even relatively recently. In 2007 Government Waste Strategy, only a small mention. In 2008 Policy Exchange paper on future of waste industry, no mention of it.
- Key drivers of rapid increase in RDF and SRF has been policy and planning. Landfill tax has driven waste away from landfill and in search of recovery or disposal options. At the same time, the problems of the planning system has meant it is very difficult to build EfW plants in the UK, giving an advantage to overseas markets which have more mature sectors. Within Europe in

general, but Scandinavia in particular, it is seen as a way of displacing fossil fuel imports and use.

- One of the key issues going forward is whether energy policy becomes more important than waste policy in terms of the economics. Subsidy levels for the energy supplied by EfW plants will be the key determinant for the industry going forward, rather than waste policy.

Key question is whether spike in RDF exports is a short-term blip, a medium-term trend or something more sustained. Given the rapid changes we have seen in recent years in the sector, including the unexpected spike in RDF exports, there is too much uncertainty to know for sure.

Key points from discussion



A range of points was made in discussion, including those summarised below:

Changes in the market over recent years



- There has been a rapid increase in both the tonnage of RDF and SRF produced, but also the tonnage for exports, from zero in 2008 to 892,000 tonnes in 2012. UK market simply cannot cope with the increases in tonnage, so export is inevitable.
- A lot of this has been driven by the Landfill Tax, which has led to a sharp increase in the tonnage of RDF and SRF created. This tonnage is beyond the quantity that UK industry and EfW sector can absorb as yet, and so it is inevitable that it will go to more mature European EfW markets.
- Overseas markets were not seen to have any unfair advantages compared to the UK that would result in the need for greater policy intervention. The advantage enjoyed was simply that EfW plants already existed (partly as a result of more favourable planning regimes and greater political support for EfW plants). They also benefited from greater use of generated heat, improving the economics of plants.

Future development of the market



- There was considerable uncertainty about how the market will develop in the next few years.
- For RDF, some roundtable participants argued that exports were unlikely to maintain the same levels over the next three years. They argued that as the EfW and co-combustion sectors developed in the UK, there was likely to be greater demand within the UK
- However, this was countered by other participants who argued that RDF could maintain a strong

export material for many years to come, especially reflecting concerns about the planning system and how difficult it is to build EfW plants in the UK.

- The level of uncertainty was underlined during a discussion of what will happen with the Eastern European market. As waste industries mature in different European markets, it is likely that there will be a greater tonnage of RDF and SRF produced in Eastern Europe, as regulation on reducing landfill becomes more important. This is likely to be produced at a lower cost than UK material. Therefore, this may become a greater feedstock for Northern European EfW markets. Again, there was little consensus about how this would develop.
- Others questions about whether large EfW plants would be supported by EU accession funds and changes to future German waste contracts highlighted overall uncertainty.

Illegal activity in the waste industry



- Many participants argued that illegal activity was undermining the industry.
- They argued that some were offering deliberately low prices, but the waste was not being processed and/or was remaining in inadequate storage in the UK. Eventually the company would declare bankruptcy (after collecting the fees for removing the waste) and the Environment Agency (ie the taxpayer) would have to pay to clean up the problem.
- One participant argued the volume of this was extremely high and that for every unit of waste that was properly disposed of, the same volume was being improperly managed.

Impact of increased exports on UK waste industry



- **Economic.** Some participants argued that the competition from overseas markets for RDF meant it was often difficult to convince investors that there will be a reliable and cheap source of fuel for any new power plants. This concern had been voiced by others in the industry, who saw this as a major risk to the development of the EfW industry in the UK.
- However, it was not clear that such increased risks for investors was sufficient reason to intervene in the current market. While it is of understandable concern to market participants, it is not clear the current market arrangements did not produce satisfactory outcomes. In particular:
- **Environmental.** There was no suggestion that the export of waste was leading to poorer environmental outcomes, either in terms of landfill or carbon emissions. In fact, because of the greater use of spare heat in European EfW plants, it may be that carbon emissions are reduced more than they would be from using some of the UK's less efficient plants. Offsetting fossil fuel

use may also involve lower carbon emissions. Concerns that the waste would be disposed of in an unsatisfactory manner, or sent to developing countries, were potentially important, but current legislation was very clear on the need for strong export controls.

- **Political.** Participants discussed briefly if there was a political risk from exporting waste, and whether the potential job losses in terms of EfW plants not built in the UK, could be a risk. Participants agreed they felt this was a low political risk. In fact, they said it was likely that people would welcome the export of waste. In fact, the major political risk for the UK would be the importing of more foreign waste.

Balance with energy policy



- Many participants agreed that, in fact, it was uncertainty about the future direction of energy policy that posed a much greater risk to new investment in EfW plant compared to concerns about sourcing enough waste.
- Concerns about the future of support systems for EfW plants through the Energy Bill and the new Contract for Difference system were a much greater concern for the development of the industry.

Resource nationalism



There was a discussion of whether the UK should have a more interventionist policy towards waste exports during a discussion of resource strategies. Some participants argued that concerns about the availability of certain commodities, including rare earths and metals crucial in the construction of mobile phones, should lead the UK to be more aggressive in securing these commodities from our existing waste stream. It was argued that failure to take these risks seriously could present problems for the UK's businesses.

- This is an issue that Defra is considering, along with Green Alliance and EEF, the manufacturers' association. EEF believes such an approach could encourage the UK manufacturing sector.
- The key debate will be whether international trade can provide access to these materials or whether protectionist action on certain commodities abroad creates the need to be more circumspect in what waste we export.
- Different approaches may be needed for different materials.

Policy Exchange concluding comment



While there are genuine risks for investors in EfW plants from the increased export of some waste materials, it is not yet clear that this provides a compelling reason to limit waste exports, or intervene in any new way in the current market arrangements. Environmental and wider economic outcomes did not justify greater intervention.

There was a huge level of uncertainty about the future development of the waste market, both within the UK and in Europe. This is not surprising and reflects the environmental challenges the sector faces, and the significant changes in government intervention in energy markets. Market processes are often the most adept at dealing with such uncertainty.

Further work may be needed on how we balance concerns about making the most of our own resources in the waste stream, and whether such 'security of supply' concerns are best met through open trade.

Further reading



Chris Coggins & Robert McIlveen (2008) *A Waste Opportunity? How to get the most out of Britain's bins*. Policy Exchange. Available from <http://www.policyexchange.org.uk/publications/category/item/a-wasted-opportunity-getting-the-most-out-of-britain-s-bins>

Work of the Circular Economy Task Force at Green Alliance. See <http://www.green-alliance.org.uk/grea1.aspx?id=6571> for more details.

Environmental Services Association (2012) *Beyond Landfill: using green taxes to incentivise the waste hierarchy*. Available from http://www.esauk.org/esa_reports/

Environmental Services Association (2013) *Going for Growth: A practical route to a Circular Economy*.

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