UKWIN Incineration Tax Briefing - October 2017

1. Proposals for consideration

- Introduction of a tax on the incineration of waste, e.g. at £50/tonne.

2. Relevant Government commitments

- "[The Government] will provide the necessary framework to address market failures and deliver the most sustainable solutions [in relation to waste management]."
  – *Government Review of Waste Policies in England 2011*, Paragraph 239
- "Where there are seen to be significant market failures Government may choose to intervene to correct these."
  – *Energy from Waste: A guide to the debate, February 2014,* Paragraph 293

3. Details of proposals

Reasons to introduce the tax include:

- Compensating for the loss of Landfill Tax revenue;
- Supporting the management of waste in accordance with the Waste Hierarchy; and
- Addressing a significant market failure relating to the combustion of waste.

The Incineration Tax should:

- Cover all technologies defined as 'waste incineration plant' under the Environmental Permitting Regulations 2013, as well as the production of syngas/fuel from waste (e.g. through gasification/pyrolysis);
- Include the incineration of both biogenic and fossil-based material;
- Be set at a level that will fully internalise the externalities of greenhouse gas emissions on the basis of the 'polluter pays' principle;
- Be set and maintained at a rate high enough to provide a clear market signal that waste should not be incinerated if it can be reduced, re-used, recycled, composted or anaerobically digested (AD'ed);
- Be set and maintained at a rate high enough to encourage investment in appropriate infrastructure for residual waste diversion (i.e. education and infrastructure for sorting, collection, treatment and monitoring to support reduction, re-use, recycling and AD);
- Provide a source of income used to investment in supporting the higher tiers of the Waste Hierarchy, e.g. helping fund separate collection of food waste, helping reduce reliance on incineration and landfill;
- Be introduced as a matter of urgency; and
- Be accompanied by support for local authorities in long-term waste management contracts to help them assess and vary their contracts as appropriate.

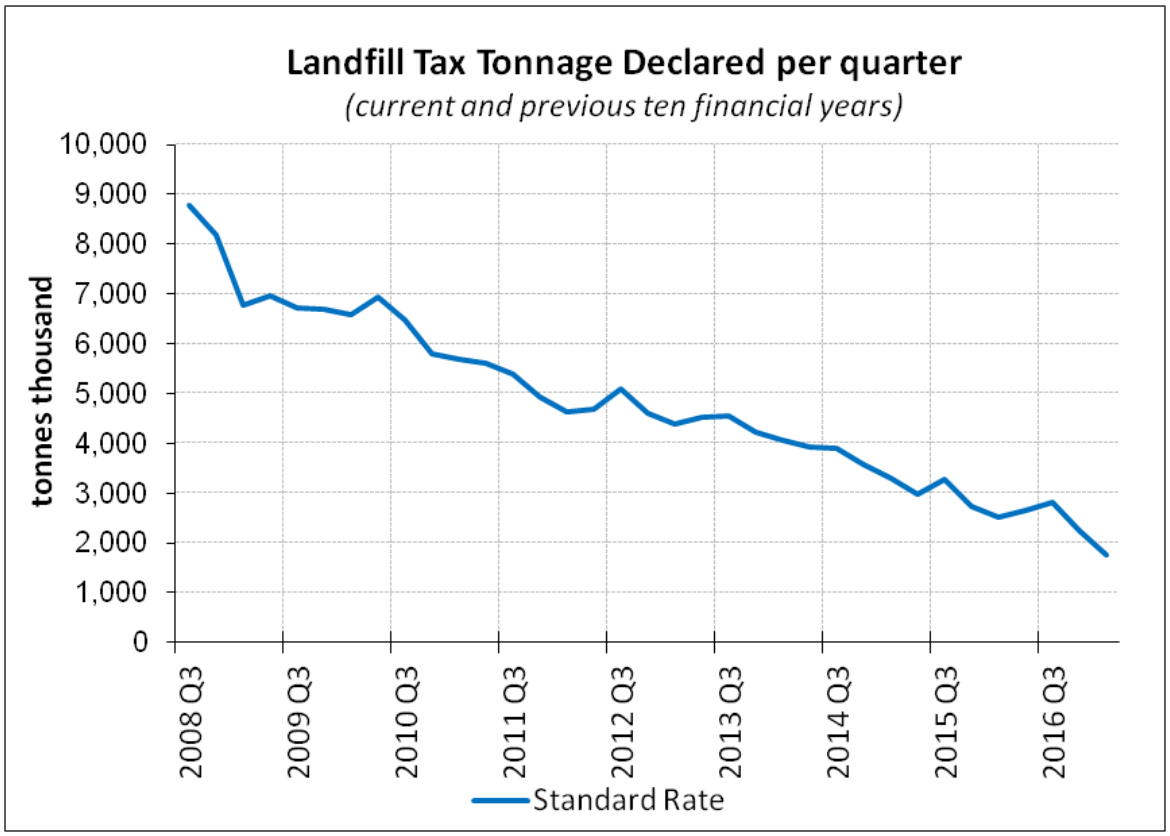
4. Detailed rationale

Compensating for the loss of Landfill Tax revenue

The Standard Rate of Landfill Tax is currently £86.10/tonne. This rate currently rises in line with the Retail Price Index (RPI).

According to HMRC, the total cash receipts for Landfill Tax in 2015/16 was £919m[1] and the provisional figure for 2016/17 is £903m[2]. This is well below Landfill Tax revenue from previous years which exceeded £1bn for each calendar year from 2010-2014.

If one looks at the rate of waste landfilled at the Standard Rate, the downward trend is clear (even when taking into account the devolution of Landfill Tax in Scotland from April 2015)[3]:



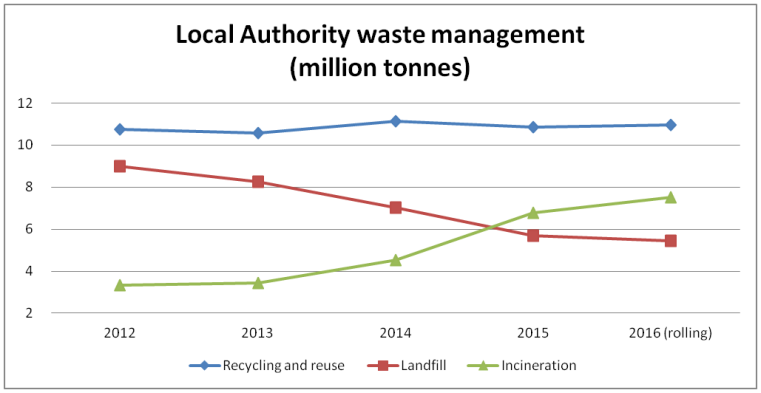
The UK currently has around 17 million tonnes of waste incineration capacity existing and under construction[4]. If this capacity were fully utilised then a £50/tonne Incineration Tax would raise around £850m a year.

[1] https://www.uktradeinfo.com/Statistics/Tax%20and%20Duty%20Bulletins/lft1016.xls
[2] https://www.uktradeinfo.com/Statistics/Tax%20and%20Duty%20Bulletins/lft0417.xls
[3] Extract from Chart 3B of https://www.uktradeinfo.com/Statistics/Tax%20and%20Duty%20Bulletins/lft0417.xls
[4] http://www.tolvik.com/wp-content/uploads/UK-EfW-Statistics-2016-report-Tolvik-June-2017.pdf

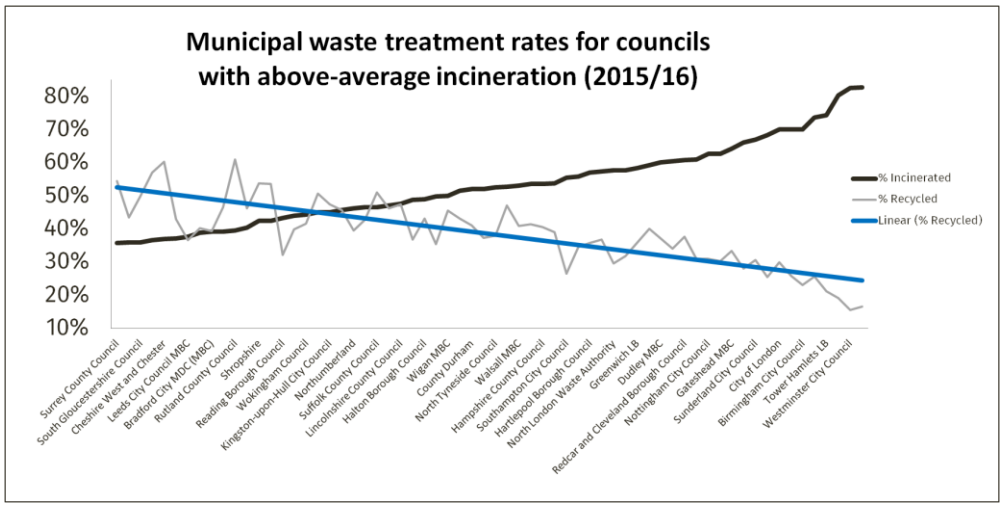
Supporting the management of waste in accordance with the Waste Hierarchy

The Tax could help fund recycling. And, as Policy Exchange put it: "By introducing taxation on incineration a clear preference is signalled to reduce, reuse, recycle or compost where possible"[5].

The Waste Hierarchy prioritises prevention, re-use and recycling. Waste incineration and landfill are at the lowest tiers of the hierarchy. Efforts to divert waste from landfill resulted in waste being redirected to incineration even when this material could and should have been recycled or composted, indicating that clearer market signals are needed to incentivise the top tiers of the Waste Hierarchy. While the quantity of waste sent to landfill has been decreasing, the quantity of waste sent for incineration has been increasing. Defra waste statistics[6] show this trend, with waste being diverted from landfill to incineration rather than being recycled:



Current rates of incineration and recycling for Councils with above-average rates of incineration[7] clearly show that Local Authorities are burning material that other Councils are recycling, with those Local Authorities who are burning the most recycling the least:



EFRACOM noted in 2014 that: "When we asked the Minister how the Government ensures that only genuinely residual waste is sent to incinerators, he told us that the key pressure is gate fees - i.e. the charge that must be paid to dispose of waste in an incineration facility. However, we are concerned about the effectiveness of this singular mechanism following evidence we received about 'put or pay contracts' and negative impacts on recycling rates"[8].

[5] A Wasted Opportunity: Getting the most out of Britain's Bins. Policy Exchange, 20 July 2009.
[6] https://www.gov.uk/government/statistical-data-sets/env19-local-authority-collected-waste-quarterly-tables
[7] https://www.gov.uk/government/statistical-data-sets/env18-local-authority-collected-waste-annual-results-tables
[8] https://www.publications.parliament.uk/pa/cm201415/cmselect/cmenvfru/241/24107.htm

Addressing a significant market failure relating to the combustion of waste

The introduction of an Incineration Tax would help address an existing market failure that currently harms resource security, impedes the efficient management of waste, and hampers efforts to achieve resource productivity.

As is recorded in the Government's 2011 Review of Waste Policies Impact Assessment[9]:

> "Failing to price in the environmental cost and benefit of generating waste leads to inefficient production and consumption patterns, and excess waste being produced...Without government intervention, waste treatment options with better environmental performance may be penalised relative to treatments with poorer performance. Accounting for the environmental impact requires that the costs of various treatment options and levels of the hierarchy fully reflect the costs to society of each option. For example, government intervention such as the landfill tax raises the cost of sending waste to landfill, reflecting the environmental externality of disposing waste in this way. However, it does not reflect the relative scale of the environmental impact of treatment and disposal methods further up the hierarchy; for example, the externality associated with incineration, recycling or re-use. Although the recycling rate has risen, further intervention is required to further move waste to an efficient level amongst the various management options".

In 2011 Defra acknowledged a market failure in relation to waste incineration, stating that: "The emissions from waste combustion of non-biogenic material (via any technology including mass-burn incineration) are also not comprehensively reflected in the price of disposal…a negative externality persists – such installations are creating GHG emissions without paying the relevant price"[10]. Unfortunately, to date this acknowledged market failure has yet to be addressed.

If set at the right level then the proposed Incineration Tax would internalise the externality of greenhouse gas (GHG) emissions from the combustion of waste and therefore address this market failure by ensuring that the polluter is not exempt from paying for the environmental impact of their activity.

Energy generated through waste incineration has a higher carbon intensity than the conventional use of fossil fuels. For every tonne of waste burned, typically more than one tonne of CO2 is released into the atmosphere[11]. By 2050 incinerators could be more than ten times the average carbon intensity of the electricity grid, making incineration a significant barrier to the long-term decarbonisation of the power supply and an obstacle to a low-carbon economy.[12]

Furthermore, by harming waste reduction, reuse and recycling incineration can result in significantly higher levels of GHG emissions than would have occurred had the waste been dealt with sustainably.

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9 http://webarchive.nationalarchives.gov.uk/20130402151656/http://archive.defra.gov.uk/environment/waste/documents/ia-review-waste-policy.pdf

10 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69500/pb13548-economic-principles-wr110613.pdf

11 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/296988/LIT_7757_9e97eb.pdf

12 http://www.zerowasteeurope.eu/downloads/the-potential-contribution-of-waste-management-to-a-low-carbon-economy/