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Reward good behaviour, punish bad behaviour

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BY HAN VAN DE WIEL

Taxation is popular among governments as a tool for regulating markets. You make desired trends, products or behaviour cheaper and undesirable ones more expensive. And that’s that. Governing was never so simple. The waste sector is no exception. The Netherlands has a landfill tax and a landfill ban on certain waste streams, which do indeed have the desired effect: the amount of waste going to landfill has been significantly reduced and a flourishing market has arisen for recyclers and waste incinerators. However, the incineration overcapacity threatens to throw a spanner in the works: the operators have lowered their tariffs, which has removed the stimulus to separate waste. As a result recyclers are urging for the introduction of an incineration tax. The incinerator operators fear that this would drive waste over the border.

The Netherlands is not a waste island. Steering mechanisms and their desired and undesired side-effects are being debated across the whole of Europe. What are the experiences in the rest of Europe and what can the Netherlands learn from them? We went to Germany, Belgium, Denmark, Norway and Sweden to find out.

BIG MISTAKE
Norway and Sweden are scrapping their incineration taxes on 1 October 2010. Norway’s incineration tax was introduced in 1999 and Sweden’s in 2006. Scrapping them is an indirect consequence of the economic crisis: in 2008 the playing field between Norway and Sweden was thrown entirely off kilter. The Swedish incinerators, the appointed suppliers for the nationwide system of district heating, soon saw their supplies of waste fall by ten per cent as the crisis hit and turned their sights to Norway, where a recent landfill ban had led to a plentiful supply of waste. Twenty thousand lorry loads of waste are now shipped each year from Norway to Sweden.

HÅKON JENTOFT (AFVALL NORGE): ‘An incineration tax in Norway would be difficult to sell.’
which amounts to about 600 thousand tonnes of waste. To prevent this mass exodus of Norwegian waste to Sweden, the Norwegian government had no choice but to abolish its incineration tax. The Swedish government ‘hit back’ by doing the same. ‘An incineration tax in one country can only succeed if that country is completely isolated,’ says Håkon Jentoft, director of Avfali Norge, the Norwegian waste industry association. The purpose of the Norwegian incineration tax was to encourage other forms of waste processing, such as biological treatment and recycling. ‘We don’t know whether the tax worked or not,’ says Jentoft. ‘After all, the government has an extensive arsenal of instruments at its disposal, such as source separation by households and producer responsibility. Used together, all these instruments give the same result. You can’t therefore simply say that the incineration tax has been successful.’ The Norwegian incineration tax was related to the emissions of twelve substances from the waste-to-energy plants. ‘The tax rates were based on the results of emission measurements, which was a precise and fair procedure and not subject to political decisions. In general, therefore, the Norwegian system worked well.’

Weine Wiqvist, director of Avfall Sverige, is happy that the Swedish incineration tax has been scrapped. The tax was introduced under pressure from the Greens, who were then part of a coalition government with the social democrats. ‘The social democrats were not keen on the tax. We have always thought its introduction was a big mistake. It disrupted the market, because it was only levied on municipal household waste. It did not achieve the intended result: an increase in recycling.’ This can be achieved more effectively by other instruments, says Wiqvist, ‘such as producer responsibility or waste paper collection and recycling quota. These instruments are much more efficient, because they specify exactly which wastes are to be recycled. In contrast, the incineration tax applied to all materials.’ Swedish waste policy is closely allied to energy policy. That can be seen in the way in which the consequences for the treasury of scrapping the incineration tax have been made good: the carbon tax on fossil fuels was raised. ‘Just a little, though, because this tax is levied on many more sources.’

BELGIUM

Belgium is a mini version of Europe. Belgian waste policy is delegated to the Flemish, Walloon and Brussels regions, each of which has its own legislation. For years Flanders has imposed a tax on landfill, co-incineration and incineration, the Walloon tax regime was brought more or less into line with this in 2007 and Brussels does not yet tax these activities. In the opinion of Baudouin Ska of the industry association Febem-Fege, incineration taxes should soon be a thing of the past. ‘Basically, they have no steering effect.’ Over time the taxes have become a steady source of income for the government and are included as an item in the budget. Ska: ‘When government revenues fall attempts are made to find other things to tax. At some levels of government people forget that the logical consequence of the steering effect of a tax is actually to reduce the revenue. A 100 per cent steering effect will eventually lead to zero revenue.’

Until recently the situation with the three regions led to much confusion and fraud, especially because ‘each region only regulates its own area’, says Ska. ‘The more complicated the regulations and the more varied the tariffs, the more difficult it is for the government to verify the accuracy of the data.’ The principle is that taxes have a neutral effect on the cross-border

TAX ON PRIMARY RAW MATERIALS

Using taxes as a steering mechanism is none too popular in the European waste sector. That also goes for a possible tax on the use of primary raw materials. The Norwegian Håkon Jentoft sees no value in it. ‘Such a tax would be difficult to sell in Norway, because we are a major producer of primary raw materials like timber.’ At the same time, Norway does levy a high tax on oil and oil products to encourage the recycling of plastics. Weine Wiqvist bursts into laughter when asked whether there is talk in Sweden of a tax on raw materials. ‘There is always discussion about this. It pops up whenever we point out that the amount of waste should be reduced, because we consider that to be the core problem: we produce too much waste; the prices of raw materials are apparently too low. But how would that work in a global economy? It simply can’t be done. It’s like the Tobin tax, the tax on capital transactions: in theory very simple and effective; in practice, impossible. I think the discussion about a tax on primary raw materials is far too theoretical.’

In Belgium taxing primary raw materials is a non-issue, says Baudouin Ska of the industry association Febem-Fege. Instead, this organisation is promoting a debate on ‘recycling certificates’. These are analogous to the guarantees of origin for electricity production (previously green certificates) and provide a guarantee that a certain percentage of recyclates are used, for example in the building industry. ‘Companies that don’t take part should pay. The good thing about this proposal is that the revenues go to the recycling companies instead of the government coffers. But it is a new idea and needs time to ripen.’
transport between the regions. When transporting waste across borders hauliers must be able to prove which taxes they have paid in each region. But because the regions are distinct legal entities they do not have access to each other’s administrative systems, and so the principle does not work in practice. Over the years the taxes have become more or less comparable, which has reduced the incidence of fraud. Moreover, Flanders has made major cuts in all sorts of tariffs and exemptions.

DENMARK
Denmark imposes a landfill tax on all combustible waste and operates an incineration tax based on the heat produced from combustion. The landfill tax is effective: just 6 to 7 per cent of the country’s waste goes to landfill, which means that it achieves the objective of government policy. The Danish waste model is a great success and for years was seen as an example for the top performers in the European Union. Per head of population Denmark incinerates more waste with energy recovery than any other country in the EU: 600 kilos per head, compared for example with 400 kilos in the Netherlands. About 40 per cent of the renewable energy generated in Denmark comes from waste-to-energy plants. This success, explains Jacob Simonsen, director of the Danish intermunicipal waste organisation RenoSam, is down to strong steering. ‘The Danish municipalities regulate and steer the whole waste sector, including industrial waste management. It allows them to manage the expansion of processing capacity well.’ This has led to ‘the most efficient waste management system in Europe,’ says RenoSam in a brochure with the same name.

The incineration tax is highly controversial in Denmark. Simonsen acknowledges that it has delivered the desired result: ‘The recycling rate in Denmark is high.’ Despite this, he would like to see an end to the tax, because waste streams are ‘leaking’ to Sweden and Germany. With the scrapping of the incineration tax in Sweden this will only increase, but he is not afraid this will set back the recycling industry. ‘The industry now has a sound basis and can charge favourable prices. If the incineration tax is abolished the industry will definitely survive. The recycling industry has already proved its worth.’

The Danish government will take a decision on the incineration tax this autumn. Simonsen is not confident about the outcome. He argues for a level European playing field. ‘Taxation is a very powerful instrument. You have to be careful and use it wisely. Don’t just look at the local effects, but consider the implications at the European level. An incineration tax can only be effective in stimulating recycling in a closed market. But this is an open market. Denmark must not become a tax island. In an open market you have to coordinate policies with those of other countries, otherwise things will go wrong.’

PROXIMITY PRINCIPLE
The German market is of great significance for the Netherlands. Germany has no landfill tax – but has operated a landfill ban since 2005 – and at the moment an incineration tax is not on the cards. Moreover, public waste-to-energy plants are exempt from VAT. ‘We don’t think an incineration tax is a suitable instrument to regulate waste streams,’ says director Carsten Spohn of ITAD, the German industry association of waste-to-energy plants. ‘The only reason for reducing the “use” of waste in incinerators is if it adversely affects recycling rates. We believe this can be better prevented by waste legislation than by imposing taxes. An example would be legislating for source separation.’ Should the Netherlands introduce an incineration tax, Spohn suspects that German incinerators close to the Dutch border are well placed to profit from it. However, he does not expect any far-reaching effects. ‘Transporting large volumes of waste to Germany would be prevented by the European proximity principle. And transporting landfill waste is prohibited by the EU Waste Shipment Regulation.’