

Submission

By



to

Ministry for the Environment

on the

**Priority waste streams for product
stewardship intervention – a discussion
document**

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**PRIORITY WASTE STREAMS FOR PRODUCT STEWARDSHIP INTERVENTION
A DISCUSSION DOCUMENT
SUBMISSION BY BUSINESS NEW ZEALAND¹**

1.0 INTRODUCTION

- 1.1 BusinessNZ welcomes the opportunity to make a submission on Priority Waste Streams for Product Stewardship Intervention – A Discussion Document (“the Discussion Document”).
- 1.2 BusinessNZ notes that four products are identified in the Discussion Document for potential mandatory product stewardship, namely:
- Electrical and electronic equipment;
 - Tyres;
 - Agricultural and chemicals and farm plastics; and
 - Refrigerants and other synthetic greenhouse gases.
- 1.3 The membership of BusinessNZ has mixed views on the merits or otherwise of mandatory product stewardship. While some members are totally opposed to any form of mandatory product stewardship, others are receptive to at least one or more of the products identified above as being potentially subject to mandatory product stewardship. In this respect BusinessNZ has encouraged individual members to put in submissions to outline specific issues they may wish to raise.
- 1.4 As a general principle, individuals and companies should bear the full costs associated with their behaviour (i.e. costs should be internalised) or individuals will over-consume resources if they can shift costs onto third parties. Waste minimisation is no different in this respect. In order for individuals to make rational decisions about waste minimisation, they should ideally bear the costs (and benefits) associated with specific options/outcomes. On the other hand, if individuals and companies are forced to pay greater amounts than any costs they impose, the result will be either more expensive items, ultimately reflected in consumer prices, and/or reduced consumer choice, leaving consumers unable to buy products which meet their unique preferences.
- 1.5 It is important to understand that there is an “optimal” amount of waste, just as there is an optimal amount of resource that should be spent on crime prevention etc. Waste cannot be completely eliminated, at least not without great cost. It may be possible to reduce waste but beyond a certain point the marginal cost of taking action to minimise waste becomes progressively higher, while the potential returns from taking action become less. Economies of scale are often important when dealing with particular waste streams. This is particularly relevant for smaller businesses who face disproportionate costs from waste and recycling companies to pick up smaller amounts of recyclable or specialised waste.

¹ Background information on Business New Zealand is attached as Appendix 1.

- 1.6 Notwithstanding the above, BusinessNZ submits that justification for mandatory intervention requires a number of basic tests to be met (i.e. be based on a sound cost benefit analysis). These include but are not limited to, identifying whether there is a problem with current market arrangements, whether significant externalities are not being addressed and finally, whether intervention would have net benefits or simply add to cost without solving alleged problems. Unintended consequences also need to be considered. For example, would mandatory product stewardship impact adversely on competition.
- 1.7 Public opinion provides no rationale for “declarations” if not based on sound scientific data. For example, some forms of waste that have recently captured public attention are only a small part of landfill volumes, e.g. disposable nappies and plastic bags. Moreover, as the Discussion Document correctly points out on p.5 “....modern landfills are usually highly engineered and professionally operated to minimize environmental effects....” This suggests that encouraging households and businesses to use landfills should be a priority for best managing waste, rather than discouraging them from doing so (through, for example, unnecessary levies and taxes) and risk unintended consequences.

RECOMMENDATIONS

BusinessNZ **recommends** that:

If the Government intends to proceed with legislation and/or regulation relating to mandatory product stewardship schemes, the Ministry for the Environment should be required to prepare a further discussion document based on the Regulatory Impact Statement (RIS) Framework to ensure a full cost-benefit analysis is undertaken.

2.0 DISCUSSION

- 2.1 Business New Zealand appreciates that the Discussion Document’s general intent is to ensure that “waste” is minimised and the potential for adverse effects from waste is reduced. While it is understood that the objective is to improve on current voluntary arrangements, BusinessNZ is concerned that the Discussion Document fails to outline a clear set of principles to assist with policy development (and therefore provide options) in this area. For example, such fundamental questions as:

- Is there a problem *in New Zealand* with current waste management systems?
- If there is a problem, is the problem significant?

- What trade-offs are individuals and possibly communities prepared to make in relation to waste minimisation and its costs and benefits?
 - What are the risks of taking (regulatory?) action for “improvement” purposes?
 - What would be the costs and benefits (including unintended costs) of imposing regulatory standards? For example, how to ensure domestic manufacturers are not disadvantaged compared to those importing similar products?
 - Can any standard introduced be enforced, and if so, at what cost?
 - What options exist to improve current standards without imposing significant cost?
- 2.2 Before any regulatory approach is considered, it is first important to fully understand the nature of the problem, who is affected, the cost of taking action, and who bears that cost. Regulatory intervention should generally be considered a last, not a first option, to be invoked only when all other cost effective approaches have been exhausted.
- 2.3 For government involvement, via regulation, to be justified there must be a clear case of market failure. So what might any market failures look like?
- 2.4 The following list provides a brief outline of the predominant market failures often quoted in economic literature which may have relevance when analysing government involvement in the waste market. It is not exhaustive as often, for example, the mere existence of unemployment is sometimes considered to be evidence of market failure. Moreover, some so-called market failures are highly debatable and can be challenged on economic grounds, such as “merit goods”. Other examples, such as monopolies, are not considered relevant to the specific issue of waste management and so are not discussed further.²

Externalities;
Public Goods; and
Information failures

- Externalities

- 2.5 Externalities (or spillovers) lead to a divergence between private and social (public) costs or benefits, where private refers to the costs and benefits to those participating in market transactions and social refers to the costs and benefits to all members of society.

² Merit goods are goods or services of which some members of society do not consume enough, according to the judgement of a select group. The policy implication is that people should be encouraged (or forced) for their own good to consume more than they themselves would freely choose to consume. Just as there are so-called merit goods, there are also so-called merit bads with proponents advocating less consumption through direct regulation and/or targeted taxes. Intervention based on the good/bad argument is extremely paternalistic.

- 2.6 Where there are externalities, market resource allocation may not be efficient. Individuals and firms that do not bear the full cost of the negative externalities they generate will engage excessively in such activities. Conversely, since individuals and firms do not reap the full benefit of activities generating positive externalities, they will engage less in these activities than is socially optimal.
- 2.7 Governments can respond to externalities in several ways. In some cases (mainly involving negative externalities) they can attempt to regulate or levy (tax) the activity in question. Alternatively, a government can encourage activities where positive externalities are created, for example, through subsidies or cash payments or other support mechanisms to people participating in such activities. Often these are output-based to encourage increased production or supply of the positive externalities.

- Public Goods

- 2.8 Perhaps the strongest market failure argument relates to “public goods”. Public goods are effectively those activities from which people cannot be excluded and where the benefits to one person do not reduce the benefits to another.
- 2.9 Market participants will under-invest in public goods because they cannot appropriate most of the benefits of investment. So from society’s point view, firm under-investment will be to the detriment of the nation as a whole. To overcome this, governments will often step in to produce the goods or will contract the private sector to provide the goods for a fee.

- Information Failures

- 2.10 There are times in a market for exchange where one participant knows more about the quality of the product than does the other. This is called “asymmetric” information and is often considered relevant in the case of health care where doctors may be able to disguise the quality of their patient treatment given their superior knowledge.
- 2.11 It should be noted that asymmetric information is not only relevant in the field of health care but also in a host of other markets for goods and services, where generally government has seen fit not to intervene.
- 2.12 On the basis of the above considerations, the case for potential market failure in relation to waste management possibly justifying government involvement will tend to focus on the issue of externalities, i.e. where the full costs of disposal are not borne by the person or company disposing of the waste.
- 2.13 The nature of some of the activities referred to in the Discussion Document, such as illegal dumping, needs to be clearly identified with perhaps a discussion of the environmental outcomes that could be achieved if the

Resource Management Act were effectively enforced. Illegal dumping should be seen for what it is rather than as a justification for potential mandatory product stewardship, which in reality may do little to address any concerns. Clearly, dealing with current illegal activity is the starting point before moving forward on mandatory product stewardship.

- 2.14 While Business NZ, without reservation, endorses the need to dispose of harmful substances in an appropriate manner, the crucial issue for debate is who should be responsible for the disposal at end of life?
- 2.15 Given the normal sale of goods creates a bundle of rights and responsibilities on transfer to the new owner, the requirement for appropriate disposal of materials at end of life rests with the final consumer. This is not to say that many manufacturers for various reasons should not apply voluntary “take back” of products at end of life either for “free” (assuming this is built into the original cost of product) or for a small cost. Manufacturers may do this for a range of reasons including enhancing and promoting their brand-name in the market.
- 2.16 If the full cost of disposal is not met by the consumer then there may be a tendency to over-consume from society’s point of view. On the other hand, requiring consumers to pay more than the cost of disposal will lead to an inefficient use of resources and reduced consumer choice.
- 2.17 The policy prescription for reducing the likelihood of the results described occurring is to ensure adequate user charges are imposed on consumers and landfills etc are not subsidised unnecessarily by general taxpayers. Greater use of private rubbish collections, where the cost of waste is more clearly apparent, is one mechanism whereby cost can be more clearly sheeted home to those incurring the cost. Conversely, flat charges (out of local government rates), with no consideration given to the amount of waste collected, will likely have little effect on individual behaviour.

APPENDIX 1

BACKGROUND INFORMATION ON BUSINESS NEW ZEALAND

Business New Zealand is New Zealand's largest business advocacy organisation.

Through its four founding member organisations – EMA Northern, EMA Central, Canterbury Employers' Chamber of Commerce and the Otago-Southland Employers' Association – and 70 affiliated trade and industry associations, Business NZ represents the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, Business NZ contributes to Governmental and tripartite working parties and international bodies including the International Labour Organisation, the International Organisation of Employers and the Business and Industry Advisory Council to the Organisation for Economic Cooperation and Development.