

T R A N S C R I P T

Public Meeting
of the Resource Conservation Committee
on Solid Waste Product Charge Issue
November 18, 1977, Cincinnati, Ohio

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PUBLIC MEETING
CONSERVATION
RESOURCE ~~CONVERSION~~ COMMITTEE

SOLID WASTE PRODUCT CHARGE ISSUE

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JOHN ROBINSON: Good morning. I'd like to welcome you all to the second meeting of the Resource Conversation Committee. My name is John Robinson. I'll be moderating this meeting today.

Just a couple announcements before we get started. I trust all of you are registered outside. If you haven't, please do, so we can keep a good record of who's attending and so we can get your name on our mailing list. I'd also like to call your attention to the publication on the registration table outside. They're basically there for your information so you can get some additional information about both the committee and what we're doing about resource conversation. Thirdly, the restrooms are straight through the back, across the lobby. Also public telephones are out there.

As we said in our presentation, the purpose of this meeting is to find out as much as we can about your thoughts on this solid waste product charge issue. We're basically here to listen. And I'd like to reiterate, as we said in our presentation, that we will be giving full consideration to both oral and any written comments you might submit. The record will remain open for two weeks from yesterday, which would be the 1st of December, for the submission of any written comments to be included in the record.

The Resource Conservation
Committee is an inter-agency committee, which is established

by Congress for a two year period. It was established about a year ago in October of 1976. We have about a year left to go. The purpose of the committee is to study a wide variety of public policies regarding resource conservation, and to make recommendations to both the Congress and the President regarding measures we think are advisable. This is the third in a series of public meetings in which we expect to address conservation issues. We plan to hold additional meetings throughout next year. Information on those meetings will be sent to all of you here today. If you didn't get an invitation to the meeting, again, please be sure to register so we have your name.

I'd like to very briefly introduce the people we have here from the Resource Conservation Committee, Senior Advisory Group. At the far left is Dr. Edwin Clark, C.E.Q. Next to him Dick Herpst, Department of Commerce. Next to him is Mr. Steffen Plehn, Environmental Protection Agency. Lynn Brown is sitting next to Steffen, also from the Environmental Protection Agency. And David Arella, from the Resource Conservation Staff.

As I said before, the entire proceedings of this meeting, both oral and written, will be published so that the other members of the Committee can review them and have their staff review them at a later date.

Since we don't have a tremendous number of people here who would like to give formal statements,

I would like to suggest a slightly different procedure. We'll take the formal statements to start off with, then we'll move into a general discussion open up to anyone on the floor and see how long that lasts.

Without too much else, I think I'd probably better stop talking and start listening to what you have to say. Once again, I welcome you and look forward to your comments.

The first speaker we have today, who has asked to be placed on the program, is Mr. John Tracey from the American Paper Institute. Mr. Tracey.

JOHN T. TRACEY: Good morning. I am John Tracey, Senior Vice President of the Packaging Corporation of America in Evanston, Illinois. My company is a member of the American Paper Institute, which is the national trade association for the pulp, paper and paperboard industry. The two hundred firms of API produce more than ninety percent of all pulp, paper and paperboard manufactured domestically.

As Chairman of the Recycled Paperboard Division of the API, I am speaking today for the entire recycling segment of the paper industry. Many of the recyclers are small companies. Our mills produce about fifteen million tons of recycled paper.

I appreciate the opportunity to present to you, as a recycler, our views on the proposed

solid waste disposal tax -- or product charge, as you call it.

The paper industry opposes this tax for a number of reasons -- it is inflationary, it is regressive, discriminatory and will cause market dislocations. These points were made yesterday at the Washington hearings by Mr. Louis F. Laun, President of the American Paper Institute, and the recyclers support the API position.

When we review Senator Hart's bill, S 1281, and Appendix B of the EPA 4th Report to Congress, we are concerned about the concept and also the magnitude of this tax. In the first full year of implementation after the phase-in and adjustments for inflation -- it will cost paper producers who do not use post-consumer waste paper \$2.6 billion per year and we would estimate that this would add \$4 to \$5 billion to the buyers of paper products because of the effect of the markups. This tax is just so massive that it is going to cut into the growth rate of the paper industry. Anything that dampens this overall growth rate will have impact on the recycling segment.

The paper industry, and particularly the recycling segment, has supported the concept of resource recovery as the best solution to the solid waste problem.

For the paper industry, resource recovery means recycling waste paper. Currently, we are recycling on a national basis more than thirty percent of the old newspapers and used corrugated boxes discarded after use.

30%
ok

In fact, in ~~some areas of the country we are recovering over~~ 50%
 fifty percent of these grades. ~~Recycling of waste paper,~~
~~separated at the source and kept clean from contaminants,~~
~~is using waste paper at its highest economic value.~~

Not all waste paper can be recycled and that portion in solid waste that cannot be recycled should be ~~incinerated to recover its fuel value~~ High Tech.
 to ~~generate steam and electricity~~. The paper industry has for many years stated that we ~~encouraged increased recycling~~ of waste paper when it can be done on a sound economic basis.

In 1977, the paper industry will be taking 17.5 million tons of waste paper and other waste fibers from the solid waste stream. The breakdown on this is as follows:

~~Primary consumption at U.S. paper mills~~
~~will amount to 14.5 million tons.~~

U.S. ~~exports of~~ ^{1/2} waste paper - one and a half million tons.

Consumption to make other products ^{1/2} - a half million tons.

Consumption of other waste fibers - one million tons. ¹

Totaling 17.5 million tons.

This total, we estimate, will increase by one million tons each year over the next three years.

EPA officials, when discussing increased recycling, have said we need to increase recycling faster. If the paper industry says that the economics are not sufficiently favorable to cause a faster increase, EPA says it will force the economics. This is one of our primary concerns with the tax.

As recyclers of waste paper, we are extremely apprehensive about the impact of this tax on the economics of recycling, and, therefore, we oppose this tax.

Solid waste tax proponents expect increased recycling to take place at the same time they expect waste paper prices will remain constant. We anticipate that large paper companies, now not using waste paper, will enter the waste paper markets causing dramatic dislocations in the paper industry which will impact on the many small recycling companies. In 1974, there was an all time high in the world demand for waste paper. To meet this demand, my company, as well as all companies using waste paper, worked feverishly to start up new collection programs and to increase the tonnage collected in existing programs.

We went longer distances for new supplies, thus increasing transportation costs, we financed new paper stock plants, we advertised for new collection programs and our cost for waste paper doubled, and in some cases, tripled in that year compared to the historical

average.

There is an "available supply" of all grades of waste paper out there, but it takes time to increase supply. You have to alert the over fifteen hundred paper stock dealers that additional tonnage is needed, you have to get organizations interested in conducting waste paper drives, you have to alert the public to save old newspapers. Contract waste haulers who dump recyclable waste paper in landfills or burn waste paper in incinerators must be informed when the time is right to deliver more waste paper to the mills.

It can take three to six months, and in some cases as long as a year, for a substantial increase in supply to develop, and meanwhile, all recyclers are bidding up the price of the existing paper being collected. After the collection programs turn on new supplies, waste paper prices tend to stabilize at the lower historic levels.

In 1977, we are in a situation that is a replay of 1974. For over twenty years, there has been an insulation material on the market made from old newspapers. I do not think I have to tell you what the demand is today for home insulation due to the cost of energy and the possibility of tax credits. Well, we again have to increase collection to meet the demand for recycled waste paper from paper mills and insulators, too.

Now, I know we will get the paper. We always have and we are not going to shut down our mills. We may shut down a day or a week, but we will eventually get the paper and recycling will increase, and we will decrease the amount of old newspapers in' solid waste.

But the time factor is what worries me. How long will it take and the greater worry is what will it cost?

My company operates four recycling mills and they are rather small mills. They are unable to raise the price for paperboard to offset dramatic increases in the prices for waste paper. If they become unprofitable for a long period, we will be forced to shut them down. We have shut down one mill in Michigan which operated two paper machines, one machine in Indiana, and one machine in our mill in Ohio because they are unprofitable.

We simply do not think this tax will increase recycling to any significant extent -- rather we think there will be a shift of waste paper utilization from the smaller recycling mills to the large mills who will want to avoid the tax or a percentage of it.

To increase recycling and reduce solid waste, we think there is a real opportunity to work with EPA to develop new waste paper collection systems that will generate waste paper supply on a steady flow basis, at stable prices and clean from contaminating materials.

We need a strong resource recovery section in EPA that is adequately funded and staffed. My company, as well as others, have worked with EPA's Office of Solid Waste to start up new municipal collection programs. ^{ART}

Over two hundred cities in the United States have such programs, but few of them are large cities. We need more cities and, specifically, more large cities collecting old newspapers. As new solid waste processing plants are built, we need to set up a priority for presorting recyclable waste prior to its being comingled with other waste.

We need to fund research on developing new technology for repulping waste paper and, particularly, technology to remove or disperse the contaminants in waste paper such as adhesives, inks, coatings and laminates. We think EPA can fund such research, and we can work with you to select the consultants and to write the objectives of this program.

We need to develop a communications program to alert the American people to make that extra effort to separate waste paper from other solid waste for recycling. In 1977, the API members who recycle waste paper will spend \$500,000 to ask the American people to recycle waste paper and also, to buy products made from recycled waste paper. We are on television, radio, in newspapers and magazines to get our message across, but if it is to be effective, we need a vastly expanded program to inform the

American public on the importance of recycling more waste paper.

We want to increase recycling.

but we need help on the supply side. We do not need the tax. We want to work with EPA. We have done so in the past and want to continue to do so. I would like to suggest that we schedule a meeting at your offices at Waterside Mall in Washington where we can start to work in a positive way, rather than being here opposing a tax which we believe is a negative approach to solving the solid waste problem.

Mr. Chairman, this completes my testimony and I think you very much.

JOHN ROBINSON: Any questions? During the questions and answers, if I can ask everyone to please identify themselves.

Dr. Edward Clark from the Council on Environmental Quality.

EDWARD CLARK: As the product charge proposal is usually considered recycled material, recycled paper would be exempt from it. So it would increase the price of purchasing paper, and as a result one would expect to see the price of recycled paper also increased for the recycled paper manufacturers. So we would expect to see your product being bought at a higher price. And I was interested in your comments that after the supply of waste paper increases the cost of paper, the cost of raw material tends to fall off.

Paper price ↑

This combination of things would seem to me to put you in a pretty good situation.

JOHN TRACEY: On the surface one might certainly think so. However, the total capacity of the recycling portion of the industry is so small compared to the virgin portion of the industry that if some of these larger mills in our business make a concentrated effort to start using solid waste, we don't think that the price is going to fall off at all. We think that it will be driven to new highs, and although it may stabilize once the supply is available, the distortion here is something that is, in our opinion, very difficult to track or to forecast.

We also are concerned about the price elasticity of our product. At what point, for example, does a purchaser of a folding carton elect not to use a folding carton? At what point, if you're packing a razor or an appliance, do you say paper is not going to be the medium which I use to put that product in the consumer's hands? Now, this would involve all kinds of foreign packaging materials, it would involve glass and plastics. And the impact on all of these, we don't feel will be necessarily equal. But we are concerned with the fact that there is such an overwhelming capacity of the virgin portion of our industry to draw upon the available, or hopefully available supply of (inaudible) -- it could very well distort the price schedule for some time to come.

EDWIN CLARK: It is my impression that most of your large virgin mills are located close to the supply of virgin materials in the northwest, and places like that. Are most of your plants located near urban areas?

JOHN TRACEY: Yes.

EDWIN CLARK: Would you not have a comparative advantage over the virgin mills where they would have to ship to the markets and you would have lower transportation costs?

JOHN TRACEY: Well, there's no question that ~~most of the recycle mills in this country are located near the large metropolitan areas where the waste paper is available.~~ But as we have seen, for example, right now on newspaper collections, we're pulling newspaper in to Hutchinson, Kansas from as far away as Houston, Texas, because that's where we have to go to get it.

And we have to believe that with the product tax that a virgin craft mill in the southeast -- there's a number of them in the State of Georgia -- we have a virgin craft mill in Tennessee. We are currently shipping from Cleveland, Ohio down there and also from Detroit and some cities in New Jersey. You go where you have to go to get it. And it's true we will have an advantage on the basis of freight, but we don't have the necessary economies of scale that they might have.

EDWIN CLARK: The ability of the recycling industry to be -- to recycle paper to expand and the extent to which (inaudible) with respect to larger ~~vir~~gin material. Is that a problem in your industry?

JOHN TRACEY: It has been a problem. Addressing myself to the first part of your question on the ability to expand. We have been attempting to get some recognition within the tax laws for additional investment tax credit for the recycle industry. We're hopeful that some of the legislation that has been recommended and is pending will be passed.

There is an opportunity to expand if there is a recognition of the need and also the future potential growth of the recycling industry. I think we can.

EDWIN CLARK: How about pollution control laws?

JOHN TRACEY: The pollution control laws are applying ^{to} all of us in the industry, whether you're virgin or recyclers. It is a very difficult financial time for the whole industry in this respect. Some thirty percent of the capital dollars in the whole industry have gone in this direction over the past ten years or so. We are, for the most part, in compliance. The mills that have shut down from the recycling segment of our business, which number over

a hundred in the past seventeen years, have shut down primarily because they felt they could not afford the expenditure for compliance with the pollution control.

I would say that for the most part in the recycling portion of the industry the pollution control bill is behind us. They are in compliance with the July '78 requirements. They will certainly be in compliance with the water regulations in '83, whatever they will finally turn out to be. All of the major recycle mills that I know of are well on the way to closing up there (inaudible) discharge systems. I think it is a very viable industry today, and I think it will be in the future.

EDWIN CLARK: Is air pollution a problem?

JOHN TRACEY: Not as serious, but it is a problem. We have a particular S O2 problem.

My mill in (inaudible), Ohio, for example, we have four boilers operating three paper machines there, and we're operating on coal. We are going through a three and a half million dollar expenditure presently to clean up our discharge into the air.

RICHARD HERPST: Richard Herpst, Department of Commerce. Would you tell me whether API has done any work with respect to what the product charge issue might have on trade implications. For example, yesterday we learned that we have what is known as (inaudible). And specifically

this treaty does not permit imported educational printed material to be taxed.

JOHN TRACEY: I can't really answer that, sir. I have with me today, Rod Edwards, who is the Vice President of API, and I will defer that question to him.

ROD EDWARDS: We haven't really made a thorough study that you might get all the details. But in our trade relationship with Canada, for instance, their pulp and newsprint comes into our country duty free. And with the solid waste tax and the proposal that imports would be taxed, that would violate the arrangement that we have with them by adding an additional amount of dollars per ton to the six and a half million tons of newsprint that is coming in.

Now, in the elasticity of demand, if that demand for newsprint were to be curtailed, then we would see an erosion in their volume, and we would have a problem we would put on their economy of making those mills less economically viable because there would be a cut into their running time.

So there is both the arrangement we have on foreign trade, particularly imports, and the economics of the producer in another country that concern us with the magnitude of this task.

JOHN ROBINSON: Anything else? Thank you. One other reminder. I would like to ask all the speakers that have prepared statements to please leave one copy with the

reporter and another copy at the registration desk.

Our second speaker today is Professor Haynes Goddard of the University of Cincinnati.

HAYNES GODDARD: Good morning. My name is Haynes Goddard. I'm an Associate Professor of Economics at the University of Cincinnati. I'm here, really, to speak for myself, but perhaps I should give a little background.

My teaching areas at the University of Cincinnati include Public Economics, mainly Environmental Economics. My research interest, principal research interest, is the economics of solid waste management, and I've written a book on the subject entitled, "Solid Waste Matter, Economics and Technology, in Institutions". It was published by (inaudible) Publishers in 1975. I'm also an editor for a journal, "Resource (inaudible) and Conservation".

First, I'd like to say I'm happy to see there's a serious interest on the part of the government towards economic incentives for environmental control.

I heard of this meeting only three days ago, so I haven't had much time to prepare my comments. I have tried to keep somewhat abreast of the analysis on the product charge and I have thought somewhat about it. My comments will be general and perhaps I can clarify some of them that may not be too clear.

I'll begin by asking a question.

The question is, what is the solid waste problem which the product charge is designed to correct? Essentially, it's designed to correct the uneconomic use of materials from the point of view of the impact on the environment. In particular, it's designed to reduce the quantities of materials that make single trips through the economy to the environment for disposal.

And secondly, to alter the composition of the wasteland from the current one to one that reduces the cost of solid waste management. And this is to be done by making the cost of waste management, solid waste management, explicit to the managers in the manufacturing and fabrication sectors of the economy, so that they will chose a product mix, and inputs into that product mix, which is more consistent with the social benefits and the social course of materials, handling, and use.

Now, the product charge is only one such instrument, however, and there are others that may perform some of the product charges functions, or all of them, at least as well, and perhaps better, on some accounts. And in particular an integrated solid waste management system that might fill this description would be characterized by the following: A user charge for collection and disposal. And this user charge, levied locally, as it is already levied

to a number of communities around the country, would be essentially a function of the quantity of waste discharge in the surface level.

The second element of this framework would be a litter control mechanism. This might include various deposits for returnable and non-returnable beverage containers, fines for littering with a clear enforcement mechanism.

The third element would be a viable ~~source separation program~~, which would be made more viable by the presence of an economic incentive of the user charge.

And lastly, of course, the resource recovery program. And all of these are designed to be put together.

I'll discuss some of the potential merits of this shortly, but I would first like to lay a little foundation. And I begin this by also asking a question. If there are alternative instruments or policy measures to solve the problem, what factor do we typically consider, or should we consider, in making a choice. Well an obvious one that gets much discussion is the benefits and costs of the alternatives to consumers, to employers and so on. However, anyone who has studied the role of benefit cost analysis in these problem areas recognizes that benefit cost analysis does indeed have its limitations. And in

particular it doesn't tell us very much about how to choose overall national policy objectives. Usually, these questions are much too large for the scope of benefit cost analysis and much too important.

The adoption of national objectives and the methods of achieving them, even for fairly straight forward economic questions, is very much conditioned, or conditioned very heavily, by our values, and the institutions that we choose to give life and substance to our values.

Two values which are fundamental to our economic and political system are the following: Each individual is the best judge of his own welfare, and individual preferences should count. I'll repeat these. Each individual is the best judge of his own welfare, and individual preferences should count.

Now the institutions which we have adopted in this society to guide our economic and political life by these values are essentially the following: We have a political democracy that permits choice by individuals, and we have an economic counterpart which can be summed up as the market system where choices can be exercised, and those who want to consume particular resources are required to pay the cost incurred for producing those resources.

You should note that I did not

say free enterprise system or capitalism. Now the meaning of this is that we have, in fact, in this society adopted decentralized decision-making institutions. And that everything else being equal, these are to be preferred. Decentralized decision-making institutions imply that incentive systems or mechanisms should reflect, in the case of solid waste management, local solid waste management for its conditions and local preferences, and not incentive mechanisms that reflect a national average in no particular place in particular. Such a situation has much potential, I think, for reducing consumer and social welfare, or economic welfare, unnecessarily.

Now, the implications of this solid waste management, I think, are the following: We should begin first to examine decentralized decision-making institutions rather than centralized ones for solving the solid waste problem. We should first look at instruments that permit incentives to reflect local cost conditions, local income, local preferences. And such a decentralized mechanism can be found within the framework that I mentioned earlier, that is an integrated solid waste management system operated essentially at the state and local levels.

The principal elements of this system include the economic incentive provided through a user charge for collection and disposal, effective litter control mechanisms, such as garbage container deposits, anti-litter laws, source separation programs and resource recovery programs.

All of which are designed to be integrated together. And as well, an on-going program which maintains the discard information to the discarding public in each of these areas about the cost implications of their behavior. Both in terms of budgetary feed-backs and the external costs. Thus decentralization can be preserved, and the local conditions can be factored into these consumer mechanisms. Something that is very difficult to do or impossible to do in the case of a national product charge.

Now, this proposal is similar to the product charge in that I believe that the federal government would have to insist that the local communities adopt a mechanism to induce waste disposal behavior that is consistent with the social flaws it creates. But it differs in that the magnitude or the level of the incentive, the price, would vary according to the local cost conditions and local preferences.

There are some problems with the proposal, however, or with both proposals. The user charge aspect of incentive mechanisms for solid waste management is very much unresearched in comparison to the product charge. These two incentive mechanisms are very likely a substitute for one another in some aspects of solid waste control, and compliments in others. I do think that the product charge should not be made into law in isolation.

The user charge merits more consideration, and the two concepts should be developed together, but they haven't been to date. Otherwise I think the potential growth rate for getting locked into environmental control mechanisms and instruments would make the attainment of environmental quality more expensive, more costly, than is necessary. And the result of this is that if environmental quality is made more expensive than the need to be, the public will inevitably demand less environmental quality than it could have in terms of the underlying benefits. And thus the public will be worse off. And, in particular, I think we will pass on to our own children a heritage of less environmental quality than they should have.

These conclude my prepared comments, and I recognize that they've been kind of general which have been put together under the press of time. If you have any questions, I'll be glad to answer them.

JOHN ROBINSON: Any questions?

EDWIN CLARK: I'm puzzled about one element. Maybe you can enlighten me about it with regard to consumer choice. You recommend a (inaudible) council, or something like that, as part of your program. And yet when you look at how consumers have reacted to the choice between throw-away cans and returnable bottles, they have chosen the throw-away cans.

HAYNES CODDARD: In the presence of deposit revisions?

EDWIN CLARK: Well, in returnable bottles the beverage is cheaper, and they have preferred to pay more for the opportunity to use the convenience of cans. And this would appear to be a strong demonstration of consumer preference and consumer decision making.

On the other hand, when you do an opinion survey, you find that something like seventy-three percent of the people prefer beverage container deposit legislation.

I would be interested if you could explain this discrepancy.

HAYNES GODDARD: Well I suspect -- You made the comment that -- something about correct consumer prices on beverages sold in returnable and non-returnable containers in the absence of a deposit mechanism. I wouldn't say they're correct. There are ^{substantive} ~~substantive~~ costs and litter costs that are not being made explicit to the people who are purchasing the containers.

It is true, typically, that beverages are slightly cheaper in returnable containers, but it could simply be, I think, that the price differential between the two is insufficient to outweigh the convenience of having a non-returnable container.

As you know, there will always be a large -- Well there will be a number of people who are really on the margin of their decision-making, and a slight jiggling of the price one way or the other won't make a change in their behavior. It may not cause a mass shift from non-returnable to returnables.

So I would say that on the surface there really isn't an inconsistency between the two, but rather you have to take a look at the magnitude of the price differential.

I would think, based on the experiences (inaudible) that I'm not all together up-to-date on, does suggest that once the price differential is made somewhat greater, you will have a much greater response, and you create a much greater demand for the returnable containers.

JOHN ROBINSON: Any questions?

STEFFEN PLEHN: It's really come to an informational question. In those communities in this country where a user charge system is in place, do you know what the experience has been in terms of the person with solid waste, in an effort to avoid the charge, littering or dumping, or otherwise discarding his waste so as to avoid it?

HAYNES GODDARD: In other words, to what extent does the presence of a user charge give incentive to

dump illegally?''

STEFFEN PLEHN: Yes.

HAYNES GODDARD: No, I don't know, nor does anyone else, to the best of my knowledge. There have been some relatively superficial studies done on the question, really, of indirect measures, and are a very poor data basis, but they do suggest that there would be a slight increase. And theoretically you indeed would expect that there will be some individuals who would say, "I'm going to dump it someplace else."

But we don't really know, and it has not been carefully studied, and my own feeling is that we're probably -- it would be very difficult to find out on the base of a historical study. Probably you would have to have an experiment someplace to see what would happen.

But the answer to the question should be posed in these terms. Even though one would expect theoretically that the presence of a local user charge would give an incentive to some to litter, the question is, once alternative mechanisms were in place to both control that litter, that is, a clear enforcement mechanism based on fines and perhaps beverage container deposits, and information and picking up whatever does get littered, which system represents the lower total cost system? It's conceivable that the total cost of local

solid waste management could indeed be lower under a system which allows user charges and also expects some increased littering cost. But all things considered, the total cost would be lower.

Now this is also within the context of source separation programs and resource recovery programs.

It's also possible that the total cost would be higher. And if that were the case, then the evidence, I think -- one would have to conclude from the evidence that the user charge system is not the best system to do. But we don't know this, and I'm reasonably confident that no one does. There are some formed opinions, though.

STEFFEN PLEHN: From the institutional point of view, would it be your feeling that serious consideration be given to a federal requirement that states ~~for~~ more local governments be required to institute the user charge system? I'm asking that in the context of your earlier statements about the free market choices and the decentralization of decision-making within our society.

HAYNES GODDARD: Well, my major thrust is to preserve local choice and to have incentive mechanisms that make solid waste management cost explicit. And so, in general, I would say that probably is warranted in major metropolitan areas, but there has to be room for exceptions.

I don't doubt that there are many local rural communities where the cost of solid waste management is sufficiently low, or the external costs are virtually nonexistent, that the benefits and costs of the situation would warrant no user charge system. That is, they would go on either disposing of it themselves or have it financed out of the property tax. The situation is that local cost conditions may be such that zero price would be the proper price. Whereas in many other areas, some positive price that would reflect the cost of collection and disposal, would be the proper price.

So, if you were to legislate that all communities were required to have it, you would be forcing on some communities, I think, a mechanism which is really not warranted in terms of benefits and costs. So the legislation would have to be in such a way to allow that flexibility, otherwise you're running counter to my whole thrust. You're imposing unnecessary requirements upon communities. And that's exactly one of my ^{CRITICISMS} ~~criticisms~~ of the product charge in requiring local communities, such as Missoula, Montana, which is in the middle of nowhere, which may not have to be subject to a product charge. There is likely no opportunity that the material they use would be recycled, because of the (inaudible) involved. It's much cheaper for them to landfill it locally. So you're

imposing an unnecessary cost upon them, a cost that reflects New York City, or Philadelphia, or Boston where waste management problems are getting serious. Therefore, you reduce their wealth unnecessarily.

EDWIN CLARK: Should one presume that one should write a law that says that the user charge should reflect actual costs? But from a political standpoint, is it appropriate for the federal government to pass a law dictating how communities should charge?

HAYNES GODDARD: Well, we do it already. One part of the water pollution control act requires cost sharing.

EDWIN CLARK: I don't think that's an appropriate role.

HAYNES GODDARD: Well, I really couldn't address that. I suspect I would quarrel with the way it's implemented. I usually do when it's done through legislation. But it is a mechanism designed to make at least some of the costs explicit to local dischargers in that case. So the general thrust is appropriate.

EDWIN CLARK: The justification of the Water Pollution Control Act involves about seventy-five percent of the facilities, and, therefore, they have an interest in trying to reduce the discharge. And in this case, there is no such justification. So it seems there would be less of a justification here.

HAYNES GODDARD: Well, that's possible. I really haven't thought, from a political point of view, what kind of justification might be required. Certainly in areas in which a solid waste management problem transcends local boundaries^{ARIES}, and in some cases in state areas, there would be some cross with that, but that, perhaps by itself, wouldn't be sufficient reason to have a national law.

The only thing I can think of is, for example, there has been recent discussion in Congress about requiring states to require the utility price of electricity (inaudible). Without having looked at the justification, it strikes me as essentially similar. So you would probably find a justification there. Of course, that law hasn't passed the Congress yet.

EDWIN CLARK: One part of your program called for viable source separation programs. One of the reasons such a program is not viable now (inaudible). A product charge would serve to make them more economical, but you seem to be saying that you shouldn't have a product charge. How would you react to a choice between something like a product charge which might increase the market value of recycled materials versus a program of subsidized (inaudible)?

HAYNES GODDARD: Well, this might be one of the areas that are complimentary. I'm not saying

that the user charge should be referred to the product charge. As a matter of fact, I think that the user charge would also stimulate the resource recovery program, and it would do more, I think, although I don't really know, to insure a consistent supply of separated raw materials. Particularly if you allow the household to have its separated waste picked up for nothing, and the waste that it does not separate be subject to the user charge. Or if not (inaudible) sufficient to give an incentive and also to reflect any underlying cost.

One of the problems with the self-separation programs is that the household has no incentive to measure against the implicit cost of having to separate and store separated waste. Whereas, if he has an incentive by saving some money, through collection, having the material picked up for nothing, then he would be more likely to engage in it. How widely, of course, depends on the level that is charged. Some households, again, will always be in the margin and separate nothing. Some do it for nothing already. Others will never do it. That way you can insure, I think, a steadier supply of materials.

Now, that's essentially the supply side, and that doesn't create a demand. So in this case a product charge might be appropriate to insure there is a demand for the materials as well. Although resource

scarcity, by itself, will also do that. If one projects ahead that the scarcity situation may be for variously long periods and may not require (inaudible).

RICHARD HERPST: You may well know that the Resource Conservation Committee is addressing the question of (inaudible). And in view of your comments about taking an integrated approach, could you reflect on whether this committee should be making a decision with respect to mandatory deposits.

HAYNES GODDARD: Well, they certainly are related. And on the surface I haven't thought about that question very much. But if things are related I think you certainly ought to be thinking about them in a related framework. That would include a product charge and mandatory deposits on containers. Because they are substitute mechanisms for dealing with the solid waste management program along some dimensions, and along other dimensions they would be compliments. We really need to determine which is which. Otherwise, I think the potential is very great, as I think has happened with the water pollution control, that we get ourselves locked into mechanisms that in the long run prove to be frightfully expensive, and uneconomic, and frequently don't work in some cases or they overlook the fact that the communities don't operate the mechanism, and so on. By looking at them all together and sorting out what follows what and what

relates to what seems to be a better approach ^{than} ~~then~~ considering them in isolation. But it does make the problem more complex.

JOHN ROBINSON: Are there any other questions? Thank you. Are there any others from the audience that wish to make a formal statement at this time?

I notice from looking through the registration cards there are a number of representatives from state and local governments. We haven't really heard much of anything from the state and local governments, and if any of you have any thoughts on this issue we would certainly be glad to hear them. No volunteers?

ROD EDWARDS: Could I make one addition to Mr. Herpst's question on the international trade? I neglected to mention that in addition to the situation with Canada, we are in GATT negotiations now with the objective of lowering tariffs world-wide. And the product disposal charge on imports of paper could be construed as an attempt by the United States to add import duties. And that might upset those international trade agreements and the objectives of the GATT negotiations. Thank you. For the record, I'm Rod Edwards of the American Paper Institute.

EDWIN CLARK: I'm not so sure about your GATT argument. It seems to me that under the general

GATT agreements that a product charge would not be treated like a tariff or income tax. I think that it could be adjusted under the GATT agreements.

The question I had is, both the head of the American Paper Institute and the person speaking this morning talked about the distribution of income tax. Has the American Paper Institute done any analysis on how this charge, in fact, would be distributed across income levels?

ROD EDWARDS: No, I guess we really haven't done anything that looks at the various income levels and their consumption of paper. We do know that the lower income groups are larger purchasers of packaged food items, such as rice, pastas and cereals. That is the largest part of the percentage of their disposable income. So they are the larger buyers of packaging with regard to their total disposable income. Therefore, we say it's regressive because the impact on that wage level would be greater from a percentage interpretation than it would be on the higher income people who do not spend that great percentage on packaged food products.

JOHN ROBINSON: Thank you. Is there anyone else that would like to say anything on the subject?

EDWIN CLARK: Regarding the representatives from state and local governments, if a product charge were

introduced it would be generated from a fair amount of revenues, and there's the question of what to do with the revenues. One of the proposals is to pass them back to the state and local governments. And there are various ways this could go. It could be a block grant to the states. It could be a block grant directly back to municipalities on the basis of solving waste costs. Or it could be a (inaudible) grant program where it is passed back to the local level for better solid waste disposal facilities. Or it could be a state grant program.

I would be very interested in getting peoples observations on the relative presence of these alternatives. If there are representatives from state and local governments, they must have some thought on it.

JOHN ROBINSON: Does anyone care to respond?

ROD EDWARDS: I've always wondered how the return of revenues from the product charge is going to impact upon individuals of those communities that have private collections where governments are not involved. Are these individuals going to have to pay twice. That is, once when they have their material picked up, and once in the products they buy?

EDWIN CLARK: That question -- there's been no answer to any of these questions. That question can be answered, like I say, in three ways. One is, some attempt is made to pass it back in such a way that it would compensate the private -- these people who have their waste privately collected, to the extent of passing it back directly in solid waste collection costs.

The second is if it went back to the communities it would lower property taxes, which would in some way compensate for not lowering the solid waste collection costs.

UNIDENTIFIED SPEAKER: It could lower property taxes, it doesn't mean it would.

EDWIN CLARK: That's a judgment I think you have to be fairly careful of. You have to be careful of making that judgment.

JOHN ROBINSON: Would anyone else care to address that question? Does anyone on the Committee have anything further to say?

DAVID ARELLA: I have a follow-up question for Mr. Goddard. I think your point is well taken about the need and value of local decision-making, and also about the complimentary aspects of a user charge. And I fully appreciate the incentive that this puts on the consumer to be conscious of his waste.

My follow-up question is, do you feel there is any role or justification for an incentive at the manufacturing level both to increase demands and also to produce waste?

HAYNES GODDARD: Well, since I'm not really intimate with the lay studies and I haven't been able to follow the concept as carefully as I would like, I would say there likely are complementarities to the two approaches. And my main concern is, one is being pursued (inaudible). I can envision that the market mechanism may not be sufficiently ^{INSENSITIVE} incentive or sensitive to changes in local waste management costs or changes in the incentive structure on the local level, particularly the user charge, making it explicit to the householder. It may have little impact on packaging configurations that the manufacturer chooses.

Now, on the other hand, it doesn't have to be. I think we view the consumer as typically knowing what he is doing, and yet retrospective analysis indicate that consumers make bad choices. In this case, I think we can go far in that direction by simply maintaining a reasonably accurate and continual flow of information to consumers, say, once a month when the bill comes out, or however billing is effectuated. Explain to householders what the cost implications are if they continue to buy non-returnable containers, if they buy packages that

have four or five levels of packaging, if they buy containers that are four or five times larger than the contents.

By this sort of mechanism I suspect that the sensitivity of the market mechanism can be improved a great deal. And the advantage of it is it does still permit choice.

Now, if one does a complete accounting of the benefits and see what we can do, the benefits and costs of an alternative mechanism, I'm sure there would be a limit to that kind of activity. And there still may be a complimentary relationship for which it's difficult to get consumer preferences translated effectively back to the manufacturer or the packaging fabricator, and maybe there would be some reason to have a product charge. They would have to be phased in together. Maybe that makes life more complex, but my preference is, and, I think, based on the values that I think characterize this society, that's where we should begin. And then if we find that we still have a problem, then we look for alternative mechanisms that are more centralized.

Of course, they still go through the political mechanism, but I think it's better to start on the decentralized mechanism first, and then if it doesn't work move towards more centralization.

JOHN ROBINSON: If there are no further questions, I'd like to remind everyone that written comments will be accepted through the first of December and will be distributed to all the Committee members. We would encourage you to please submit your written thoughts on this issue.

We'll remain around for a while after we turn off the microphones. So if anyone would like to talk a little bit more informally about it, we'll be here.

Thank you very much for coming.

HEARING CONCLUDED

STATEMENT

BY

JOHN T. TRACEY

SENIOR VICE PRESIDENT

PACKAGING CORPORATION OF AMERICA

FOR

THE AMERICAN PAPER INSTITUTE

BEFORE

RESOURCE CONSERVATION COMMITTEE

Cincinnati, Ohio

November 18, 1977

We went longer distances for new supplies thus increasing transportation costs, we financed new paper stock plants, we advertised for new collection programs and our cost for waste paper doubled, and in some cases, tripled in that year compared to the historical average.

There is an "available supply" of all grades of waste paper out there, but it takes time to increase supply. You have to alert the over 1500 paper stock dealers that additional tonnage is needed, you have to get organizations interested in conducting waste paper drives, you have to alert the public to save old newspapers. Contract waste haulers who dump recyclable waste paper in landfills or burn waste paper in incinerators must be informed when the time is right to deliver more waste paper to the mills.

It can take three to six months and in some cases as long as a year for a substantial increase in supply to develop and meanwhile, all recyclers are bidding up the price of the existing paper being collected. After the collection programs turn on new supply, waste paper prices tend to stabilize at the lower historic levels.

In 1977, we are in a situation that is a replay of 1974. For over 20 years, there has been an insulation material on the market made from old newspapers. I do not think I have to tell you what the demand is today for home insulation due to the cost of energy and the possibility of tax credits. Well, we again have to increase collection to meet the demand for recycled waste paper from paper mills and insulators, too.

I am John T. Tracey. I am Senior Vice President of the Packaging Corporation of America (PCA). My company is a member of the American Paper Institute, the national trade association for the pulp, paper and paperboard industry. The 200 member firms of API produce more than 90% of all pulp, paper and paperboard manufactured domestically.

As Chairman of the Recycled Paperboard Division of the API, I am speaking today for the entire recycling segment of the paper industry. Many of the recyclers are small companies. Our mills produce about 15 million tons of recycled paper.

I appreciate the opportunity to present to you, as a recycler, our views on the proposed solid waste disposal tax -- or product charge, as you call it.

The paper industry opposes this tax for a number of reasons -- it is inflationary, it is regressive, discriminatory and will cause market dislocations. These points were made yesterday at the Washington hearings by Mr. Louis F. Laun, President of the American Paper Institute, and the recyclers support the API position.

When we review Senator Hart's bill, S 1281, and Appendix B of the EPA 4th Report to Congress, we are concerned about the concept and also the magnitude of this tax. In the first full year of implementation -- after the phase-in and adjustments for inflation -- it will cost paper producers who do not use post-

consumer waste paper \$2.6 billion per year and we would estimate that this would add \$4 to \$5 billion to the buyers of paper products because of the effect of the markups. This tax is just so massive that it is going to cut into the growth rate of the paper industry. Anything that dampens this overall growth rate will have impact on the recycling segment.

The paper industry and particularly the recycling segment has supported the concept of resource recovery as the best solution to the solid waste problem.

For the paper industry, resource recovery means recycling waste paper. Currently, we are recycling on a national basis more than 30% of the old newspapers and used corrugated boxes discarded after use. In fact, in some areas of the country we are recovering over 50% of these grades. Recycling of waste paper, separated at the source and kept clean from contaminants, is using waste paper at its highest economic value.

Not all waste paper can be recycled and that portion in solid waste that cannot be recycled should be incinerated to recover its fuel value to generate steam and electricity. The paper industry has for many years stated that we encouraged increased recycling of waste paper when it can be done on a sound economic basis.

In 1977, the paper industry will be taking 17.5 million tons of waste paper and other waste fibers from the solid waste stream:

U.S. 1977 Waste Paper Collection

Consumption at U. S. paper mills	14.5 million tons
U.S. exports of waste paper	1.5 million tons
Consumption to make other products	.5 million tons
Consumption of other waste fibers	<u>1.0 million tons</u>

Total 17.5 million tons

This total will increase by 1 million tons each year over the next three years.

EPA officials when discussing increased recycling have said we need to increase recycling faster. If the paper industry says that the economics are not sufficiently favorable to cause a faster increase EPA says it will force the economics. This is one of our primary concerns with the tax.

As recyclers of waste paper, we are extremely apprehensive about the impact of this tax on the economics of recycling, and, therefore, we oppose this tax.

Solid waste tax proponents expect increased recycling to take place at the same time they expect waste paper prices will remain constant. We anticipate that large paper companies, now not using waste paper, will enter the waste paper markets causing dramatic dislocations in the paper industry which will impact on the many small recycling companies. In 1974, there was an all time high in the world demand for waste paper. To meet this demand, my company, as well as all companies using waste paper, worked feverishly to start-up new collection programs and to increase the tonnage collected in existing programs.

Now, I know we will get the paper. We always have and we are not going to shut down our mills. We may shut down a day or a week, but we will eventually get the paper and recycling will increase, and we will decrease the amount of old newspapers in solid waste.

But the time factor is what worries me. How long will it take and the greater worry is what will it cost?

My company operates four recycling mills and they are rather small mills. They are unable to raise the price for paperboard to offset dramatic increases in the prices for waste paper. If they become unprofitable for a long period, we will be forced to shut them down. We have shut down one mill in Michigan which operated two paper machines, one machine in Indiana, and one machine in our mill in Ohio because they were unprofitable.

We simply do not think this tax will increase recycling to any significant extent -- rather we think there will be a shift of waste paper utilization from the smaller recycling mills to the large mills who will want to avoid the tax or a percentage of it.

To increase recycling and reduce solid waste, we think there is a real opportunity to work with EPA to develop new waste paper collection systems that will generate waste paper supply on a steady flow basis, at stable prices and clean from contaminating materials.

We need a strong resource recovery section in EPA that is adequately funded and staffed. My company, as well as others,

have worked with EPA's Office of Solid Waste to start up new municipal collection programs. Over 200 cities in the U.S. have such programs but few of them are large cities. We need more cities and, specifically, more large cities collecting old newspapers. As new solid waste processing plants are built, we need to set up a priority for presorting recyclable waste prior to its being comingled with other waste.

We need to fund research on developing new technology for repulping waste paper and, particularly, technology to remove or disperse the contaminants in waste paper such as adhesives, inks, coatings and laminates. We think EPA can fund such research, and we can work with you to select the consultants and to write the objectives of this program.

We need to develop a communications program to alert the American people to make that extra effort to separate waste paper from other solid waste for recycling. In 1977, the API members who recycle waste paper will spend \$500,000 to ask the American people to recycle waste paper and also, to buy products made from recycled waste paper. We are on television, radio, in newspapers and magazines to get our message across, but if it is to be effective, we need a vastly expanded program to inform the American public on the importance of recycling more waste paper.

We want to increase recycling, but we need help on the supply side. We do not need the tax. We want to work with EPA. We

have done so in the past and want to continue to do so. I would like to suggest that we schedule a meeting at your offices at Waterside Mall in Washington where we can start to work in a positive way, rather than being here opposing a tax which we believe is a negative approach to solving the solid waste problem.



DuBOIS TOWER • CINCINNATI, OHIO 45202 • PHONE: (513) 762-6000

November 23, 1977

Ms. Susan B. Mann
Public Participation Liaison
Resource Conservation Committee (WH-563)
401 M Street SW
Washington, D. C. 20460

Dear Ms. Mann:

I attended your November 18, 1977, public meeting on the Solid Waste Product Charge and was shocked that there was such poor attendance and participation. That spurred me to write the following.

I have read your handouts in an effort to better understand the questions, but I still have difficulty in addressing your specific questions because they are probably too general for a short concise answer. Instead I will reflect on the proposed Product Charge and how it would affect DuBois Chemicals, our products and possibly our customers, the Motels, Hotels and Industrial plants across the United States. I have assumed that our packaging material would be subject to a charge even though your emphasis is directed toward consumer products.

DuBois Chemicals manufactures cleaners and detergents to clean dishes, glasses and kitchen utensils in the Institutional trade and steel, aluminum and finished appliances in the Industrial trade. Well over 600 products are marketed nationally with a sales volume of over \$130 million annually.

Each year we spend approximately \$5 million for packaging material: paper pouches and cardboard for powdered dishmachine products, plastic pails for liquid cleaners and floor polishes, new and used steel drums for powdered and liquid industrial products. The packaging cost varies from 1.7 cents per pound of product for the paper and steel containers to 4.2¢ per pound of product for the plastic containers.

The choice of packaging and amount of overpack given each product is dictated by the market served and the characteristics of the product being packaged. Institutional dishwashers want small packages of 2 to 10 pounds not 55 gallon drums, while industrial plants want 55 gallon drums not two pound paper pouches. Corrosive liquids require plastic or plastic coated steel containers.

DIVISION OF CHEMED CORPORATION



CABLE MISTERDU

We package with the most economical material we can use consistent with corrosion resistance, container failure rates, and container availability. As prices change, formulas are modified, and the used 55 gallon drum market fluctuates, we shift our packaging.

Our packaging is all in one way -- no return containers. The cost of return, accounting and cleanout are too high to justify any kind of a return program even with our truckload volume customers. Doubling or tripling the cost of packaging would still not justify a return program for most of our packaging. Some drums are re-used by recycling through a drum reconditioner, not directly by DuBois.

The best disposal for our used paper and plastic packaging is through incineration and heat recovery. Metal drums should be recycled through steel scrap programs or drum reconditioners, as they are presently.

A Product Charge on our various packaging would only increase its price to us and to our customers. Disposal cost factored in the new container cost would not be great enough to matter when compared with the other cost factors that must be considered. The cost of packaging, currently much higher than the projected Product Charges, is not sufficient to make a difference to our customers. Therefore, I conclude that the addition of a Product Charge would make no difference either.

I see the solid waste problem as a local problem that must be handled on the local basis. The cost of collection and disposal varies more widely than the cost of packaging material, from a high in New York to zero in rural areas. Recovery has proven economical in some cities but not in others because of local conditions and institutions. I do not think that a Product Charge will effectively attack or change the local conditions that determine waste recovery or disposal methods.

Federal efforts should address the question of making known to the public the institutional inhibitions we have built into our culture that act to inhibit salvage, reuse or heat recovery of waste.

The Congress is debating tax incentives or laws to push more utilities to coal, perhaps the same type incentives should be extended to burning mixed waste by utilities.

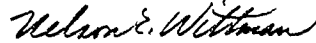
In conclusion, we are opposed to the concept of a Product Charge. The complications of equitably applying Product Charges and administering the program far outweigh the benefits. The Product Charge will be inflationary for most consumers. The Product Charge will probably not

have the desired effect on the critical factors that determine packaging on a national scale, just as it will have no effect on us or our customers choice of packaging material.

Thank you.

Very truly yours,

DUBOIS CHEMICALS
Div. of Chemed Corporation



Nelson E. Wittman
Ass't. Vice President
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