

## OPINION

# Tax proposals threaten recycling

By Doug Koplow

Though attracting far less press attention than proposals to drill for oil in the Arctic, new tax breaks for landfilling and virgin material production have been included in a host of energy bills introduced by Democrats and Republicans alike.

Under the banner of increasing the use of existing domestic energy resources, these provisions pose a significant long-term threat to the economic viability of recycling and composting programs.

Many of the bills expand Section 45 tax credits (currently worth roughly 1.7 cents per kilowatt-hour) to include steel cogeneration and a wide range of biomass sources. Originally, these credits were limited to wind power and biomass grown exclusively for energy production. Some of the bills may also provide incremental tax credits for investing in industrial cogeneration equipment at these very same plants.

Current proposals (e.g., S. 389 and S. 596) exclude only unsegregated municipal solid waste, paper "destined for recycling," and old-growth timber from their list of eligible biomass. Questions regarding how much sorting of MSW is needed to obtain the credits, or of how one defines which paper is "unrecyclable," are left unanswered. If ferrous removal turns MSW "segregated," for example, most waste-to-energy plants in the country would get the subsidy.

The bills provide rather bizarre incentives. Old pallets are subsidized if burned rather than recycled; crop residues and animal wastes are subsidized if burned for energy rather than composted. Byproducts of virgin paper production, including mill residues, all receive tax breaks. S. 389 and possibly S. 596 extend eligibility to any facility recovering energy from biomass, even if the plant is already in operation. This means that virgin paper mills can likely claim tax credits for energy recovery systems that have been in use for decades. Subsidies to steel also skew the market: 90 percent of all steel cogeneration occurs at integrated mills that use relatively little steel scrap.

Determining the aggregate value of proposed subsidies to all the industries that compete with recycling is difficult. However, because provisions often extend eligibility for tax breaks to publicly owned facilities (allowing them to sell tax credits that would otherwise be of no value to a tax-exempt entity)

and to energy recovery facilities already in operation, total subsidies are likely to be quite high.

The Joint Committee on Taxation estimated the revenue loss from analogous proposals included in H.R. 2511 at an average of \$235 million per year, a value that seems far too low. A detailed examination of landfill gas credit

proposals suggests that they alone are worth more than \$250 million per year. Since one ton of waste in place at a landfill continues to generate landfill gas (and tax credits) for many years, the present value of the new subsidies to landfills could reach \$2 billion to \$4 billion. The pulp and paper industry also stands to gain a great deal. As the

largest industrial producer of biomass-based, self-generated electricity, access to Section 45 tax credits could be worth upwards of \$750 million per year. The vast majority will go to virgin mills.

Recovery of waste energy from whatever source makes sense. Many plants already do so without taxpayer support, and more will move in this direction given the rise in energy prices. Over the long term, however, it is changes in how we make and use our basic

materials that will have the greatest environmental benefit. Subsidizing disposal and energy-intensive virgin production undermines the economic benefits of recycling and composting at a time when these programs are already struggling. The recycling community should fight these proposed subsidies as if its future depended on defeating them. It may. ■

*Koplow is president of Earth Track Inc., Cambridge, Mass.*

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### A LOOK BACK

1916: Thomas Jasperson obtains a patent for making paper from deinked wastepaper.

Five years ago this week: New Jersey officials say they will appeal a federal judge's decision to throw out the state's flow control-based waste management system.

A year ago this week: Voters in Kansas City, Mo., reject a proposed citywide curbside recycling program by a margin of 54 percent to 46 percent.