

# Waste Oils Management System in Poland on the cross-roads.

Polish Organisation of Oil Industry and Trade

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## Global conditions I

- There is no an ideal system for all market players
- There is a **regeneration's priority** for lubes in Poland (art. 3 p. 1 of EC Waste Oils Directive 75/439/EEG from 16 June 1975, amended by EC directive 87/101/EEG from 22 December 1986, implemented in Poland by the law from 27 April 2001 *on waste*)
- Experience of other countries and the EU legislation show that the complete exemption from the responsibility for the waste oils must be considered as unrealistic and illogical. There could be, however, a shared (contrary to an individual one) responsibility of the oil companies introduced. Added to this, the generator of waste, as well as, other subjects involved (i.e. automotive industry), should share the responsibility too.
- In developed countries local variations basing on the Italian model gained on popularity.
- The only one identified alternative for the Italian model is a free market solution known in Germany. This is, however, sustained by massive state aid for regeneration.
- The main elements of the Italian system: **regulator** and **product fee** (levy on lubricants), which finances the whole system's functioning

## Global conditions II

- Three main variables in Italian system:
  - The extent, to which state administration is involved (great in France, small in Spain)
  - The subsidising rules (subsidy for collectors, subsidy for the lubricating oils containing base oils from regeneration)
  - Amount of levy / subsidies (i.e.: 0,06 EUR/kg in Spain)
- By choosing between the system's alternatives the following European legislation must be considered:
  - Waste Directive (75/442/EEG)
  - Waste Oils Directive (Waste Oils Directive 75/439/EEC amended by the Directive 87/101/CEE)
  - Hazardous Waste Directive (91/689/EEG)
  - Draft of new Waste Directive – if no amendments made (2 reading in EP) it will introduce extended producer responsibility rule and maintain regeneration priority
- 3 real alternatives for the POPiHN's proposal:
  - To continue with the present state of affairs
  - Carrying Jedlicze Consortium's proposal on grounds of the lack of any other, developed alternative
  - French modification of Italian system (where the regulator is an administrative body – ADEME)

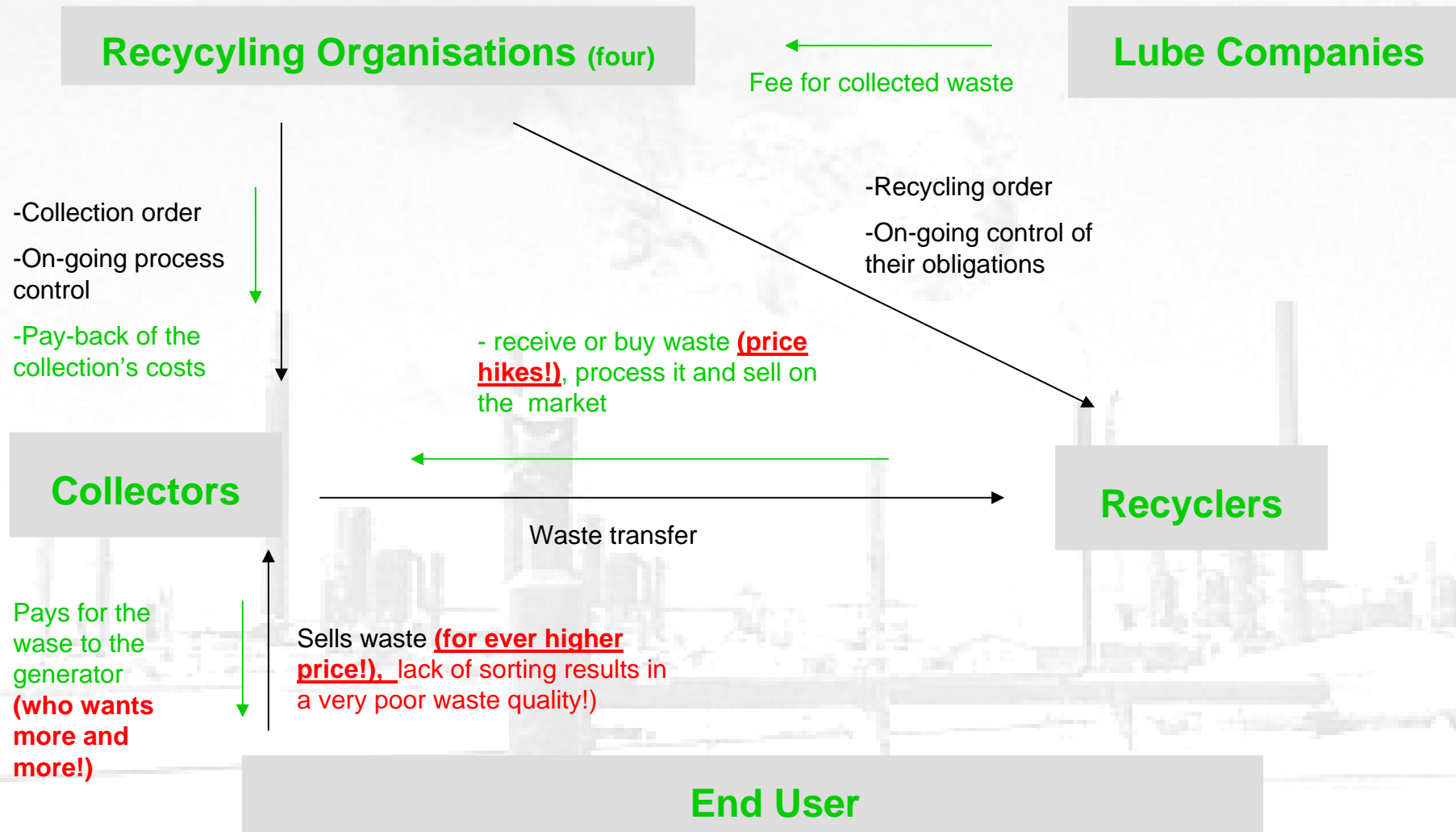
## Domestic conditions I

- There is app. 220 000 tons of lubes sold in Poland yearly → 100 000 tons as feasible to collect → the legislation orders the collection of 80 000 tons → 85 000 tons are actually collected
- Now a days, the only Polish re-refiner is Jedlicze Refinery (with 80 000 tons capacity)
- It owns its Recycling Organisation (Jedlicze Consortium), in which participate also Orlen, Fuchs and Statoil (as Lube Companies)
- Apart from Jedlicze Consortium also 3 other organisations are present on the market
- Refinery has a modern installation (group II) but it's underused as it requires well sorted waste
- Waste oils are treated as a *good* in Poland and are sold by their generators → waste oils prices hikes (even auctions are organized!)
- Competitive way of dealing with waste is its „export” to Germany (mainly Schwedt refinery)

## Domestic conditions II

- **Jedlicze Refinery and Lube Companies** fear of waste oils price hikes (waste generator is on the privileged position, sells generated waste and dictates prices – market pathology)
- **Jedlicze Refinery** needs a proper **quality** of the supplied waste oils (the condition of producing base oils of the quality accepted on the market)
- **Jedlicze Refinery** needs a proper **amount** of waste to be supplied (fear of the waste export to Germany)
- **Lube Companies** fear of the failure to achieve the recycling level and paying fines (if a recycling organisation collapses then financial burden is back on the Lube Companies)
- **Lube Companies** fear the emergence of Jedlicze Consortium's **monopoly** (in case of their proposal's approval)
- **Lube Companies** don't want to bear the whole burden of the system (levy, product fee, logistics, compulsory recycling level, etc.)
- **The Ministry of Environment** expects the new system will be stable, bring ecological efficiency and educate the society through public campaigns

# Present system



## Jedlicze Consortium's proposal

- The Marshal of Voivodship chooses a single company for a limited time-period which has exclusivity for the waste management in the whole Voivodship → **exclusivity**
- Creating a single, dominant organisation (on the basis of Jedlicze Consortium)
- Limits on export of waste oils to promote re-refining in Poland
- The proposal meets resistance of the Lube Companies fearing the emergence of the monopoly which, in longer run, can lead to price hikes and price dictatorship
- Lube Companies don't want to participate in Jedlicze Consortium since:
  - The refinery is badly located
  - It is too big for the Polish re-refining market
  - Unwillingness to participate financially in the installations' costs



**SYSTEM**

## Main assumptions of the system

- Regeneration's priority
- Waste management financed by waste generator – a separate levy on fresh lubes financing the whole system's performance
- Lube Companies (producers, importers and other involved in the market) assure the transfers of the income from the levy to the regulator (or Recycling Organisation) - proportionately to the amount of fresh lubes *brought* to the market or its proper management (code of good practice) by them-selves
- Duty of handing the waste oil *free of charge* or its proper management (code of good practice) on the waste generator (fresh lubes' end user)
- **Initiative of POPiHN and Lube Companies:** forming of a regulator – a legal entity in charge of the general system management
- Joint responsibility of Lube Companies for the system's functioning
- *Setting a binding level for domestic regeneration?*

## Legal changes

### Main legal changes:

- Duty of handing the waste oil free of charge **or its proper management by yourself (code of good practice)** on the waste generator (fresh lubes' end user)
- **Exclusion of state administration** (Marshals of Voivodships) from the participation in the system's financial operations
- The duty of regular, *physical* transfers of the income from the levy to the **regulator (or Recycling Organisation) on the Lube Companies**
- The amount of levy is fixed by the system's participants (with no involvement of state administration's)
- Levy on fresh lubes must be every time specified as a separate position on the invoices (throughout the whole chain of distribution)

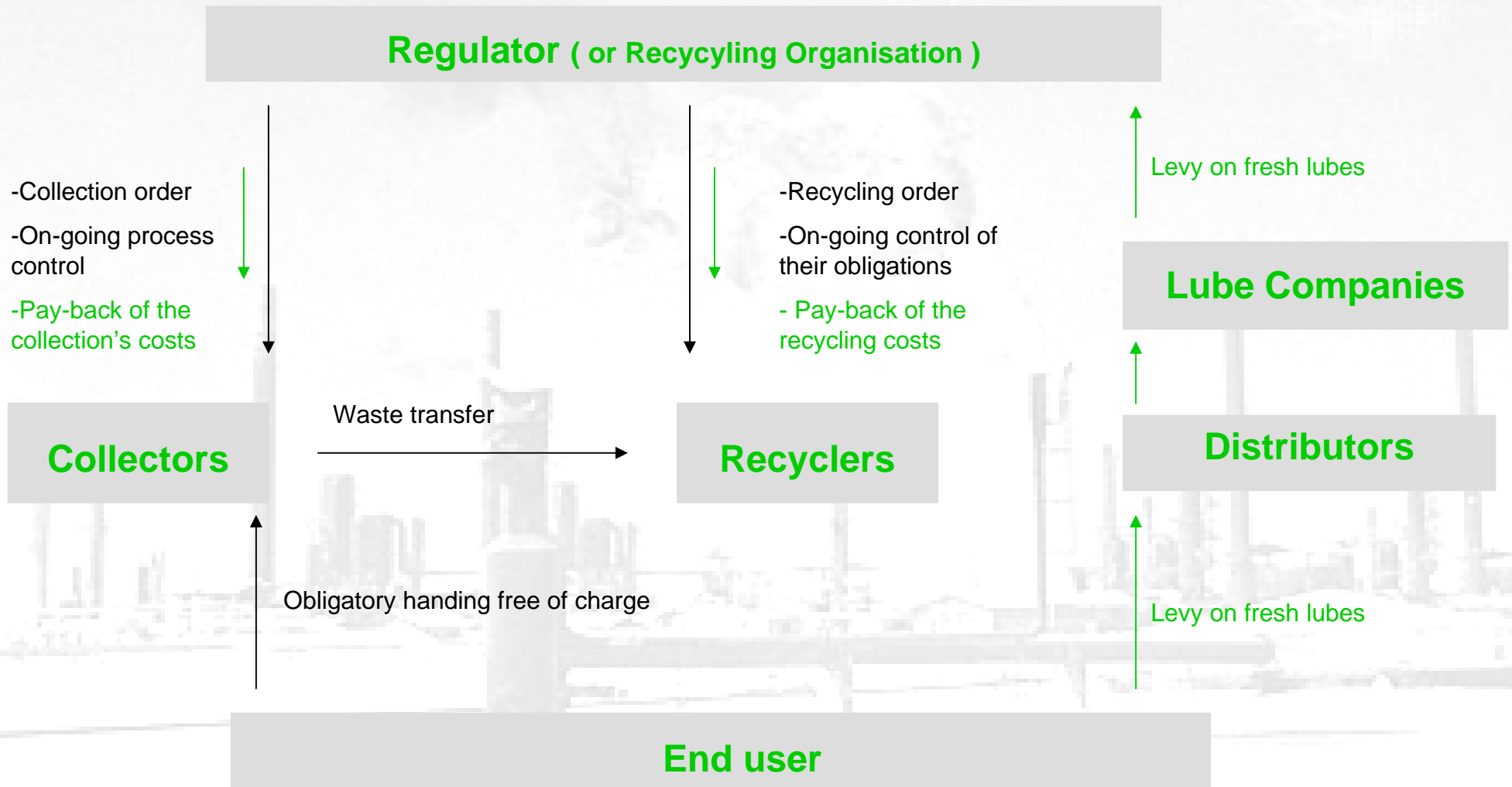
### What does not change:

- There is still room for *independent* Recycling Organisations
- In principle, the responsibility for the proper management of used oils is still on the Lube Companies

## Regulator

- Signs, cancels and prolongs cooperation agreements with the collectors and recyclers
- Exercises day-to-day control on the way in which the agreements' stipulations are implemented and observed by collectors and recyclers
- Fixes the amount of levy on the yearly basis
- Responds for achieving recycling levels
- Allocates financial assets for the system functioning
- Conducts public campaigns
- Coordinates the policy of waste segregation
- Acts as an *independent* centre of the thinking in the categories of the whole market's good – above the interests of particular market players but always having them in mind

# New system's functioning



## Regeneration priority I

- The analysed material\* gives grounds to the conclusion that regeneration's priority is a right solution for the Polish market
- Jedlicze Refinery– as key domestic re-refiner – meets 2 main criteria to assure the priority is achieved an economically acceptable:
  - Production capacity for base oils is of 80.000 tons per year. That's economically sufficient scale (75 000 t/y as most optimal scale)
  - According to its management the refinery is capable (by properly segregated waste) of producing group I+ and, especially, group II (API) base oils. Strategically, this will have paramount importance in the longer run.
- Presently the view on the regeneration's advantages over energetic valorisation (alternative fuel and burning) is not unanimous. There are, however, tendencies that should give new arguments for regeneration:
  - Growing importance of synthetic base oils as the groups II end III
  - Further technological advancements in the base oils production process
  - Ever higher specialisation and energy usage in the base oils production process
  - Growing oil and energy prices (to some extent competitive applications)

## Regeneration priority II

- Some Lube Companies already declare their readiness to use re-refined base oils
- Industry as the main sphere of application (contrary to automotive branch)
- Example: significant market share of re-refined base oils in Italy (out of 300 000 tons of collected waste 30% is regenerated)
- Example: in the UK it is estimated that up to 75,000 - 100,000 tons of re-refined base oils can be sold without making 20% price reductions
- Out of this amount:
  - 25-35 000 tons for gear lubes
  - 25-35 000 tons other industrial applications (mainly: hydraulic oils, engines in industrial applications)
  - 2- and 4-stroke engines

## Outcome

- Bringing order to the system
- Better protection against the effects of failing to achieve the recycling levels
- **System's predictability** for the Lube Companies (no more anxieties over the emergence of the Jedlicze Consortium's monopoly)
- **Putting end** the waste oils prices hikes (obligation on end user to deliver generated waste oils to a specialised collector – **for free**)
- **Influence** of Lube Companies on the amount of the levy
- **The system should enforce** the cooperation of Lube Companies (joint responsibility for the outcome)
- **Better quality** of waste oils (promotion for waste segregation) → good quality of base oils from re-refining
- Better, pro-ecological image of the whole industry

## Weaknesses

- System requires an *initiative* and joint cooperation of the Lube Companies
- In case of failure of the regulator to fulfill its obligations the responsibility (including financial mandates) will be on the Lube Companies
- The Lube Companies will be obliged to include the levy in the product prices and to assure that the income from levy is correctly transferred to the regulator (or organisation)
- The system introduction means significant *changes* on the market
- Tentative to **price hikes** of fresh lubricating oils may arise
- The *criteria key* to divide the shares and votes in the regulator among the Lube Companies ( proportionately to the amount of oils on the market or everyone with single, equal participation?)
- Possible divergences between Lube Companies over the level of compulsory domestic regeneration

## SIGAUS – few facts

- Spanish system – in its present shape – introduced in 2006
- Respects the latest tendencies and legal developments (i.e.: the EU requirements)
- Inicial capital of 181 427 EUR divided into 13 firms which formed SIGAUS ( Agip Espana, BP Oil Espana, CEPSA, Chevron Espana, Fuchs Lubricantes, Galp Enrgia, Houghton, Krafft, Q8, Petronas, Repsol Lubricantes, Total Espana, Verkol)
- 7 of them joins Administrative Council (for 5 years), where every representative has single, equivalent right of vote
- Currently 90 firms representing 90% of the Spanish lubes market adhere to the system (i.e...: DAIMLERCHRYSLER ESPAÑA, S.A., DELPHI, EXXONMOBIL LUBRICANTS & SPECIALTIES EUROPE, SHELL ESPAÑA, S.A., TOYOTA ESPAÑA, S.L.U., TRW AUTOMOTIVE ESPAÑA, S.L.)
- Regulator employs 9 persons staff
- Levy on fresh lubes is of 0,06 EUR per kg (paid by: producers and importers)
- In the first year of functioning the system achieved the following results:
  - Out of 200 000 tons of waste generated in Spain 173.151 tons were collected out of which 73,6% was regenerated → fulfilment of the ecological obligations

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