Heads and tails: both sides of the coin: an analysis of hybrid organizations in the Dutch waste management sector
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5. Hybrid organizations in Dutch waste management

5.1 Introduction

In order to answer my general research question, How do hybrid organizations look like in practice and what are the effects of their hybridity?, I conducted three case studies at hybrid organizations in the Dutch waste management sector. In this chapter I describe this sector and the organizations that inhabit it. By doing so I set the scene for my case studies, which will be described in chapters 6-8.

In this chapter I describe the waste management sector as it looked like at the time I conducted my case studies (2006/7). It obviously has not stood still since: the general economic downturn has also affected waste management organizations and just before the financial crisis hit private equity funds discovered waste incineration plants as lucrative objects for investments. In general the waste management sector has not changed that much though. It still remains a hybrid market place in which public and private organizations compete for market shares.

This chapter consists of the following parts: I first describe the public and private interests at play in waste management (5.2 and 5.3) and the changes in Dutch waste policy over the last years (5.4). I then give an overview of the organizations active in the market segments of waste collection and disposal (5.5) and describe the discussions concerning commercial activities by hybrid organizations (5.6). Section 5.7 offers a short summary of this chapter.

5.2 Public interests in waste management

Waste management organizations fulfil very important tasks: the quality of their services bears a direct connection to the state of our economy and our quality of life. This becomes painfully obvious when waste management is suddenly not taken care of anymore, like during a strike of Amsterdam and Utrecht garbage men in 2010, 61 or – more dramatically – during Britain’s Winter of Discontent in 1978 / 197962 and more

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61 Waste workers were on strike as a protest against the collective work agreement (CAO).
62 When waste workers were on strike during this remarkable phase in British politics, rubbish was piled high in the streets of London, like on Leister Square. However, the most notorious action during this labour conflict was the unofficial strike by gravediggers, which lead to coffins piling up.
recently in the Italian town of Naples. There are several public interests at stake in waste management (Afval Overleg Orgaan, 2002, based on Ministerie van Economische Zaken, 2000):

- Universal provision: waste management is generally considered to be a an essential service to society. Therefore it is considered desirable that everybody should have access to waste management facilities on a non-discriminatory basis under transparent conditions. The prices for the collection and disposal of waste are expected to be directly related to the costs of services delivered.

- Continuity of sufficient capacity: there will always be waste that can not be recycled and therefore has to be either disposed at landfills or has to be incinerated. It is in the public’s interest that a sufficient amount of landfill and incineration capacity is available and that the continuity of these installations is guaranteed.

- Protection of captive customers: there are several captive customers in waste management. For example, individual households generally can not choose the company that empties their containers. It is in the public interest to protect these customers from paying too much for the provision of waste services.

- Environmental, public safety and health concerns: proper waste management has a positive effect on the environment, public safety and health. Government is therefore expected to employ an active waste management policy to guarantee this.

- Efficient markets and functional regulation: waste management takes place in a regulated environment. Due to environmental, public safety and health concerns it is not in the public interest to deregulate this market. Government decides which installations are allowed to be build and controls prices by levying high taxes for certain services (e.g., landfilling).

Because of these public interests, governments traditionally play a variety of roles in the waste management sector (Ministerie van Volkshuisvesting, Ruimtelijke Ordening en Milieubeheer, 2003, pp. 69-70). National government draws up regulations (like the National Waste Plan every four years), implements European waste policies and supports and controls regional and municipal governments in their waste management

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63 Due to a shortage of landfilling capacity waste piled up high on the streets of Naples during the summer of 2007. The army had to be called in to help get rid of all the trash.

64 ‘Maatschappelijke basisvoorziening’ in Dutch. See more about this special character of waste management in the Dutch national waste management plan LAP (Ministerie van Volkshuisvesting, Ruimtelijke Ordening en Milieubeheer, 2003, pp. 71-3).

65 This is due to the negative value of waste. Waste does not have any value for its owner, he has to pay to get rid of it. Unchecked, this would be an incentive to dispose of it as cheaply as possible with negative effects for the environment as well as public health and safety.
activities. Regional governments (the twelve Dutch provinces) grant licenses for installations and support municipalities in their activities. Municipalities finally ensure that household waste and waste water are adequately collected and disposed of.

5.3 Waste management as big business

Not only public interests are involved in waste management. Taking care of our society’s trash is big business too. Processing waste accounts for about 35% of total environmental costs in The Netherlands. In 2006, annual turnover on the market was estimated at € 5.8 billion (SenterNovem, 2006, pp. 9-10). This amount could be broken down into collection by private companies (€ 1.8 billion), collection by public companies (€ 0.6 billion), recycling (€ 1.2 billion) and waste treatment (€ 2.2 billion).

In 2006 more than 650 companies were active in this market. Of them, about 340 operated in the market segment of waste collection, about 145 in the market segment of recycling and about 170 in the market segment for waste treatment, which covers landfilling, incineration and separation of waste (SenterNovem, 2006, p. 10).

Five large internationally operating companies dominated the waste management market in 2006. They were AVR, Sita Nederland, Van Gansewinkel, Essent Milieu and Shanks Nederland. Essent Milieu was a public company, all others are privately owned. Sita was part of Suez, a French based multi-national corporation active in the markets for environmental services and energy. Shanks Nederland was part of the British Shanks Group.

Together these five companies achieved one third of the total turnover on the waste management market in 2005 (SenterNovem, 2006, p. 10).

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66 Its mother, Essent, has in the meantime been bought by German public utility RWE, which on its part is owned by both public and private parties.
Figure 5.1 Five top-ranking Dutch waste management companies in 2005 (SenterNovem, 2006, p. 10)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>Turnover 2004 (mil. €)</th>
<th>Turnover 2005 (mil. €)</th>
<th>Shareholder</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>AVR*</td>
<td>507**</td>
<td>499**</td>
<td>Public</td>
</tr>
<tr>
<td>2</td>
<td>SITA Nederland</td>
<td>436</td>
<td>417</td>
<td>Private</td>
</tr>
<tr>
<td>3</td>
<td>Van Gansewinkel*</td>
<td>348 (521)***</td>
<td>354 (531)***</td>
<td>Private</td>
</tr>
<tr>
<td>4</td>
<td>Essent Milieu</td>
<td>414**</td>
<td>335</td>
<td>Public (several provinces and municipalities)</td>
</tr>
<tr>
<td>5</td>
<td>Shanks Nederland</td>
<td>289</td>
<td>297****</td>
<td>Private</td>
</tr>
</tbody>
</table>

* AVR was bought by a consortium of private equity funds in January 2008. One year later, it has bought Van Gansewinkel. AVR now has a share of 15% in the market for waste management.
** A (limited) part of the turnover of both AVR and Essent Milieu is achieved through activities abroad. The companies do not disclose how much turnover they achieve precisely with their international activities.
*** In brackets the full turnover of the organization, including her European activities.
**** Financial years of Shanks does not correspond to calendar years. The first column describes the turnover from July 2004 until June 2005. The second column describes the turnover from July 2003 until June 2005.

Following this top five there was a group of medium sized companies which were mainly active on regional markets. They shared 20% of the total market for waste management in 2005 and are mainly publicly owned (SenterNovem, 2006, p. 11). Members of this group were for example Afval Energie Bedrijf (AEB), the incineration company of the municipality of Amsterdam (€ 110.2 million turnover in 2005) and Omrin, a waste collection company in Friesland (€ 100 million turnover in 2005).

5.4 Dutch waste policy

Until recently the Dutch waste management sector was heavily regulated. Regional government monopolies dominated waste collection and waste disposal, aiming at regional self-sufficiency.67 This meant that until 2000 provincial borders were closed for the transport of waste. It was predominantly collected by government-owned collection services, which had to dispose of it at landfills or at incineration plants within each province. All those incineration plants and most landfilling facilities were owned by either regional or municipal governments, Their capacity was planned centrally, by the so-called Waste Management Council (Afvaloverlegorgaan or AOO in

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67 The market for recycling is another matter as it has been open to competition for quite a while already.
Dutch), which was made up of national, regional and local governments. Because of a moratorium on the construction of new incineration plants, which came into effect after the dioxin scandals of the 1980s and lasted until 2003, new players were prohibited from entering this market. This lack of competition lead to artificially high tariffs for the incineration of waste.

Also landfilling was very expensive and therefore no real alternative to incineration. Based on the Dutch version of the waste hierarchy, the so-called Ladder of Lansink, landfilling was the last resort. In 1996 landfilling combustible waste was even banned, while a special landfill tax was instated for other types of waste. This tax has been increased over the years and is by now the highest one charged in any European country (Dijkgraaf, 2004, p. 7).

Discussion about the artificially high tariffs charged for the incineration of waste led to the installation of a government commission which advised the opening of regional borders for the transport of waste in 2000, creating a national market for waste treatment (Commissie Toekomstige Organisatie Afvalverwijdering, 1996). Transport of waste across national borders was still prohibited as Dutch government aimed at creating national self-sufficiency.

However, there was a loophole in this trans-national transport ban. European Union regulation made it possible for Dutch waste management companies to enter into contracts with foreign separation companies. Thanks to EU legislation aimed at increasing the amount of waste being reused, waste was allowed to be transported abroad as long as more than 50% of it was reused at its final destination. Waste collection companies used this loophole to evade high tariffs for incineration (due to the lack of competition) and landfilling (due to the landfilling tax). Most of the waste was transported to landfilling sites in Germany where no high taxes were levied.

From 1 January 2007 restrictions on the transport of non-hazardous combustible waste across national borders were eased. Regulation stayed in place for the landfilling of waste. The capacity of landfilling facilities is still planned centrally and there is a ban in place on the export of waste to be landfilled abroad.

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68 In 2005 the AOO merged with SenterNovem, an agency of the Dutch ministry for Economic Affairs (www.uitvoeringafvalbeheer.nl).
69 Dioxin, an allegedly carcinogenic substance, was found to not have been sufficiently filtered from the emissions of waste incineration plants.
70 The ‘Ladder of Lansink’ consists of the following seven steps, starting with the most desirable: (1) prevention, (2) recycling, (3) incineration and (4) landfilling.
5.5 Waste collection and disposal

The waste management sector consists of the following three market segments: (1) the market for waste collection, (2) the market for recycling and energy recovery and (3) the market for waste disposal. Because none of my three case organizations were big players in the market for recycling and energy recovery, I will only describe the other two in more detail.

5.5.1 Market for waste collection

This market segment can be divided into two subsegments, one concerning the collection of waste produced by households and the other one concerning waste that is produced by various industries.

Collection of household waste

Under article 10.21 of the Dutch Environmental Law (‘Wet Milieubeheer’) municipalities are obliged to ensure the collection of household waste. In the past many municipalities did so by providing collection services themselves but since then some have chosen to contract these services out to public and private companies or to enter into a public private partnership with a commercial waste management company.

There now is a wide array of organizations active in this sector with various forms of legal status (see Figure 5.2):

Figure 5.2 Types of organizations in the market for the collection of household and biodegradable waste with their market shares in 2006 (SenterNovem, 2006, p. 22)

<table>
<thead>
<tr>
<th>Type of organization</th>
<th>Municipalities (%)</th>
<th>Households (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal service</td>
<td>20</td>
<td>34</td>
</tr>
<tr>
<td>Municipal service of neighbouring municipality</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Local joint venture</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>Public company</td>
<td>24</td>
<td>26</td>
</tr>
<tr>
<td>Private company</td>
<td>36</td>
<td>25</td>
</tr>
<tr>
<td>Public Private Partnership</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

In 2006, public companies were employed by 61 % of Dutch municipalities. They are called ‘overheidsgedomineerde ondernemingen’ in Dutch (indicating that the influence by governments varies in such organizations) and come in three forms: (1) municipal services, (2) local joint ventures (‘gemeentelijke regelingen’) and (3)
autonomized public companies. Municipalities can also choose to use the collection services of neighbouring communities.

*Municipal services* were employed by 20% of all Dutch municipalities (among them the country’s three biggest cities) in 2006. Some of them are integral parts of the municipality’s hierarchy (the so-called ‘gemeentelijke diensten’). Others were internally autonomized using a management contract. In total there were 90 such services in The Netherlands in 2006.

*Local joint ventures* (based on the ‘Wet Gemeenschappelijke Regelingen’

were employed by 14% of Dutch municipalities in 2006. Examples are GAD (‘Gewestelijke Afvalstoffendienst’) in Bussum and AVRI (‘Afvalverwijdering Rivierenland’) in Geldermalsen. There were 12 such local joint ventures in The Netherlands in 2006.

*Autonomised public companies* were employed by 24% of Dutch municipalities in 2006. This group consists of larger companies, like Omrin in Leeuwarden and ROVA in Zwolle. Other members of this group are smaller municipal services which were autonomized as a public company (‘vennootschap’). There were 18 such autonomized public companies in The Netherlands in 2006. In the 1990s many municipal waste collection services were autonomized. In the new millennium this trend has stopped. In 2005 a survey found that about 80% of Dutch municipalities had no plans to change the legal status of their waste collection services (cf. SenterNovem, 2006, p. 21).

3% of Dutch municipalities contracted their waste collection duties out to the service of a neighbouring municipality. The municipal waste collection service of Groningen, for example, collects waste in a number of (smaller) neighbouring municipalities.

*Private companies* were employed by 36% of municipalities in 2006, mostly by those that were too small to make an own collection service economically viable. SITA, AVR and Van Gansewinkel were the biggest private companies collecting household waste. All in all there were 19 private companies active in this market segment.

*Partnerships* between a municipality and a private company were employed by only 3% of all municipalities. Examples of such constructions were HMS (AVR and the municipality of The Hague) and CURE (Van Gansewinkel and the municipality of Eindhoven).

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71 ‘Wet van 20 december 1984, houdende nieuwe bepalingen met betrekking tot gemeenschappelijke regelingen (Wgr)’. 

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Figure 5.3 gives an overview of the market shares in 2006 of the companies active in the market for waste collection based on the number of municipalities they were employed by. Companies with a market share below 1.6% and municipal services which were only employed by one municipality (like the ones of Rotterdam, Utrecht and Amsterdam) are omitted from this overview. The three biggest companies engaged in the collection of household waste are all private (Sita, Van Gansewinkel and AVR).

**Figure 5.3 Market shares of organizations in collection of household waste in 2006 (SenterNovem, 2006, p. 22)**

<table>
<thead>
<tr>
<th>Organization</th>
<th>Market share (in %)</th>
<th>Market share (# of municipalities)</th>
<th>Type of organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sita Nederland</td>
<td>10.5</td>
<td>75</td>
<td>Private company</td>
</tr>
<tr>
<td>Van Gansewinkel</td>
<td>7.0</td>
<td>36</td>
<td>Private company</td>
</tr>
<tr>
<td>AVR</td>
<td>6.1</td>
<td>23</td>
<td>Private company</td>
</tr>
<tr>
<td>ROVA</td>
<td>3.3</td>
<td>14</td>
<td>Public company</td>
</tr>
<tr>
<td>Twente Milieu</td>
<td>2.5</td>
<td>6</td>
<td>Public company</td>
</tr>
<tr>
<td>Omwin</td>
<td>2.4</td>
<td>17</td>
<td>Public company</td>
</tr>
<tr>
<td>RD4</td>
<td>1.8</td>
<td>9</td>
<td>Local joint venture</td>
</tr>
<tr>
<td>Circulus</td>
<td>1.7</td>
<td>3</td>
<td>Public company</td>
</tr>
<tr>
<td>GAD</td>
<td>1.6</td>
<td>9</td>
<td>Local joint venture</td>
</tr>
</tbody>
</table>

**Collection of industrial waste**

Municipalities are not obliged to collect industrial waste as well. Businesses have to take care of this themselves. Like municipalities in the collection of household waste, they can choose from an array of arrangements. They can contract out the collection activities to the municipal collector operating in their area, a private collector or a public company.

In 2006, this market segment was dominated by three private and internationally active players, Van Gansewinkel, Sita and Shanks. Together they held about 40 to 45% of this market segment. Municipal collection services had a market share of about 5%. The rest of this market segment was held by small, specialised companies (SenterNovem, 2006, p. 11).
5.5.2 Market for waste disposal

**Incineration of waste**

There are eleven waste incineration plants in The Netherlands, which were in 2006 owned by seven companies. (SenterNovem, 2006, p. 12). The biggest player in this market segment then was AVR with three plants (two in Rotterdam and one in Duiven). Based on this capacity, AVR had a market share of 36%. Essent Milieu, a public company, was the second biggest player in this market segment. It owned two plants and had a market share of 23% in 2006. Afval Energie Bedrijf (AEB), the waste incineration company owned by the municipality of Amsterdam, and Huisvuilcentrale, another public company with plants in Alkmaar and Dordrecht, had market shares of 15% each. Taken together these four companies had a market share of almost 90%. Twence (operating in Twente), ARN bv (operating in Nijmegen) and Sita ReEnergy together had a market share of about 10% (SenterNovem, 2006, p. 13).

**Landfilling of waste**

In 2005, 3.5 million tons of waste were disposed of at Dutch landfilling installations. There were 19 companies active in this market segment in 2006, which together owned 27 plants (of which only 25 were fully operational).

This market segment was dominated by public companies, which had a market share of 84% in 2006. The three biggest players in this market were Essent (36% of capacity), Afvalzorg (15%) and Twence (11%). Private companies had a market share of only 16%. The biggest private company active in this market segment was Amersfoort based Smink Groep (4% capacity).

5.6 Debate about hybridity

As in many other policy fields (see 1.3) there also is a fierce debate in the waste management sector about the commercial activities of hybrid organizations. Private waste management companies regularly suspect them of unfair competition. In an interview in 2008, Fred Knitel, CEO of private waste management company Shanks, for example complained about the lack of regulation and control and the use of cross-subsidies by hybrid organizations:

‘Public companies such as Dar, Avalex and Circulus are no public utilities anymore, but commercial institutions that compete with private companies without being hampered by any regulation. They did not acquire their funding on the normal capital market. Among other things their collection vehicles were paid for in the past with public means. Which costs do public companies link to their commercial activities and which not? In practice, they use rather unclear ways of costing, which allows them to tender with crazy prices. Add to that the fact that municipal regulators and politicians do their utmost best to protect public utilities. The
requirements for drop-off points run by public and by private companies used to differ for example. In my opinion, what’s sauce for the goose should be sauce for the gander.” (Van der Eijk, 2008)

Another criticism often heard, concerns the fact that no tender is needed when a municipality grants a contract to a public company it owns shares in. According to Han van Rijssen, staff member at the Vereniging Afvalbedrijven, the private waste management sector’s inter-trade organization, public companies often lure municipalities into contracts by offering them a small percentage of their shares. They defend this practice with granting the municipalities more control over the organization than they would have as mere customers but, Van Rijssen claims, in fact only do this to get around an otherwise obligatory tender (Van der Eijk, 2008).

Commercial waste management companies also argue that public companies use their protected status in their home markets (their own municipalities) to win tenders elsewhere. In 2007, Dar, the waste management company of, among others, the city of Nijmegen, for example won a tender to also collect waste in the region of Land van Cuijk in Brabant. According to Geerth Steeghs, manager governmental services at Sita they could only do this because of unfair competition:

‘Dar calculates lower costs for Land van Cuijk than for its home market Nijmegen, where it has a protected status. Tariffs are possibly higher in the protected area because there is no competition and because the company uses these revenues for unfair competition elsewhere. There is no transparency. We state that there is a difference in tariffs, but can not prove the use of improper public aid and cross-subsidies. [Public companies] overstep the mark – they run with the hare and hunt with the hounds. They act like commercial companies in the market place, while they benefit from a protected status elsewhere. These companies have to chose: either be commercial or only execute the statutory tasks of your shareholders.” (Van der Eijk, 2008)


73 In Dutch this passage reads: ‘Dar berekent voor het Land van Cuijk lagere kosten dan voor Nijmegen, waar ze een beschermde thuismarkt heeft. Mogelijk zijn de tarieven in het beschermde gebied hoger omdat er geen concurrentie is en gebruikt het bedrijf die verdiensten om concurrentievervalsing buiten het eigen territorium op te treden. Het ontbreekt aan transparantie. Wij constateren een verschil in tarieven, maar kunnen niet bewijzen dat er sprake is van
Managers from public waste management companies obviously do not accept this criticism. According to them there is no unfair competition and municipalities should be free to also employ their own collection services if they wish to do so. This, after all, has clear advantages for the municipalities involved, as Henk Knip, managing director of Circulus claims:

‘We are a public company and focus only on the statutory tasks of the municipalities Apeldoorn, Deventer and, since recently, also Epe. These municipalities have a clear influence on the management, strategy and course of our company. This is the essential difference with private parties and one of the reasons why a municipality such as Epe has decided for us. Many politicians still want to retain influence on the execution of their statutory tasks. I would find it strange should a government not be allowed anymore to chose by itself who executes its statutory tasks.’\textsuperscript{74} (Van der Eijk, 2008)

Managers of public organizations claim that their organizations pay more attention to the societal goals of the municipalities they work for compared to their private counterparts. They also argue that instead of ruining fair competition, the activities of hybrid organizations in the market for waste management actually stimulate it. Maybe, public waste managers often muse, their private companies are not that sure about their own performance and thus afraid of public competition? As a reaction to criticism by Ruud Sondag, CEO of the Van Gansewinkel Group, who wants to ban public companies from the commercial waste management market, public company HVC for example stated in a press release: ‘Maybe Mr. Sondag doubts the added value of commercial contracts and that is why he advocates limiting the possibilities for municipalities to be active in waste management.’\textsuperscript{75} (S. in ’t Veld, 2009)

Because of the criticisms hybrid waste management organizations often encounter, the Dutch Solid Waste Association (NVRD) has issued guidelines for how they should operate. These state that public and private financial streams should strictly be divided in a hybrid company’s accounts and that those departments that are involved in

\textsuperscript{74} In Dutch: ‘Wij zijn een overheidsgedomineerde onderneming en richten ons puur op de (zorgplicht)taken van de gemeenten Apeldoorn, Deventer en sinds kort Epe. Deze gemeenten hebben een duidelijke invloed op de bedrijfsvoering, de strategie en de koers van het bedrijf. Dat is een wezenlijk onderscheid met private partijen. Mede om deze redenen kiest een gemeente als Epe voor ons. Veel politici willen sturing houden over het uitvoeren van hun (zorg)taken. Ik zou het ook vreemd vinden als een overheid niet zelf mag beslissen wie haar zorgtaken uitvoert.’

\textsuperscript{75} In Dutch: ‘Wellicht twijfelt de heer Sondag aan de meerwaarde van commerciële contracten en pleit hij daarom voor inperking van de gemeentelijke mogelijkheden om actief te zijn op het gebied van afvalbeheer.’
commercial activities should have an independent position from the rest of the company. A company’s annual report should include a list of all commercial activities employed by an organization.

I find the debate about hybrid organizations in the Dutch waste management sector remarkable on two grounds. First, also in this sector hybridity is a rather controversial issue, with representatives of commercial and of hybrid waste management organizations at loggerheads with each other about the possible effects of hybridity. Many of the arguments they use seem to be based on hearsay and speculation but there are hardly any hard verifiable facts. Independent research on what is actually happening when hybrid organizations enter the market place seems to be needed.

Second, the old adage where one stands depends on where one sits, which I referred to already in chapter 3, is also true here. There are many arguments in this discussion about possible positive and negative effects of hybridity but they are all based on or tainted by the business interests of their proponents. It should be of no surprise that on the one hand representatives of commercial waste management companies warn against unfair competition as hybrid organizations make good use of the advantages they have on the market place. On the other hand, it also comes as no surprise that hybrid waste management companies try to underline their special links with governments which make them, in their opinion, capable to respond to their waste management needs in a more adequate way than their private rivals. Again, this makes independent research necessary about what really happens when hybrid waste management organizations enter the marketplace.

5.7 **Summary**

In this chapter, I described the Dutch waste management sector and the public, private and hybrid organizations that inhabit it to set the scene for my three case studies. I also described the arguments brought forward in the discussion about hybridity as it rages in this sector and what I find intriguing about it. In the three following chapters I will present my case studies in detail.