



Recyclers of South Australia Inc.

Submission

To

**Senate Standing Committee
Parliament of Australia**

Inquiry into Container Deposit Schemes

October 2012

Submission from Recyclers of South Australia Inc.

**Prepared by:
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RECYCLERS OF SOUTH AUSTRALIA INC**

26th October, 2012

Inquiry into Container Deposit Schemes

Terms of Reference

The pricing and revenue allocation practices of the beverage industry in the container deposit schemes operating in South Australia and Northern Territory, including:

- a. management of the operation of container deposit schemes in South Australia and the Northern Territory;
- b. the cost structure of the beverage industry's involvement in these container deposit schemes;
- c. the use of unredeemed deposits and unused handling and transport fees;
- d. alternative scheme structures which ensure beverage producers cannot pass unreasonable costs from these recycling schemes if such schemes are implemented in additional states or nationally;
- e. structures to ensure schemes managed under the Product Stewardship Act 2011 do not result in producers passing on unreasonable costs; and
- f. Any other related matters

About Recyclers of SA

Recyclers of South Australia (RSA) welcomes the opportunity to respond to the Senate Standing Committee on their inquiry into container deposit schemes.

RSA is an Industry Association representing 110 container deposit collection depots located throughout South Australia (SA) that operate under the State Container Deposit Legislation.

The executive and membership of this Association have over 30 years collective experience in operating a Container Deposit System (CDS). RSA has been active in promoting continual improvement and efficiency gains in the SA system.

RSA has sponsored overseas study tours in Europe and North America to better understand CDS and technology that will improve the performance of the South Australian system.

This brief submission responds to some of the terms of reference of this inquiry and RSA would be willing to appear before the Committee if invited.

Response to Terms of Reference

a) Management of the operation of container deposit schemes in South Australia and the Northern Territory;

RSA through its members has an intimate knowledge of the South Australian system and the relatively new Northern Territory (NT) CDS.

The legislation in SA and NT deals with the type and value of containers that must have label approval to be marketed in the jurisdiction. It does not control the Coordination of the system indeed both the systems rely on the market to make the arrangements for the sale and return of containers by the public to redeem their 10c deposit.

The key function of any CDS is the Coordination role. The Coordinator has the responsibility to set up a return system for containers and to ensure that manufacturers pay a fee for the cost of compliance with the legislation. The Coordinator also liaises with the Government to achieve product approval under the legislation. If there is more than one Coordinator then the complexity of the system is increased.

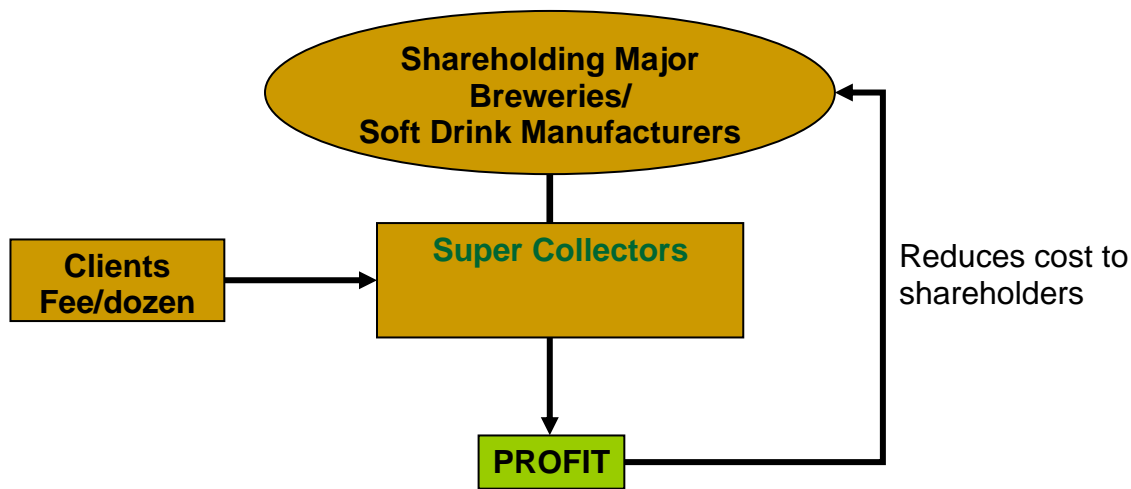
In SA the Coordination role is referred to as a Super Collector, in the Hawaii and Californian systems the Coordinator is the Government, and in the Canadian system the Coordinator is an industry association called Encorp.

This function is the singularly most important function in setting up a CDS if the objective is to have the most efficient system that achieves the highest return rates at the least cost to the consumer.

The role of the Coordinator is to set and collect fees from distributors and/or producers usually based on a fee per container for the number of containers distributed each month. The Coordinator also needs to establish a network of depots and contract with operators in these facilities so that the consumer can be paid their deposit on each container. The operator is then paid the deposit and handling fee for the containers to be recycled in accordance with the Coordinator's return system. This often involves the containers being returned to a central facility managed by the Coordinator to audit the product, consolidate for market and transport to recycling processing facilities.

In the SA system there are four super collectors (Coordinators) that fulfill the above role. One of the approved Coordinators does not currently operate in SA. As is often the case, Coordinators can be private companies with shareholding dominated by major soft drink or brewing interests. This has led to inefficiencies in the SA system such that aluminium cans are still required to be sorted by brand name rather than packaging type, because the Coordinators are aligned to major sectors of the market rather than the efficient administration of the system. For the SA system this is illustrated in the following diagram:

LEVEL PLAYING FIELD V CROSS SUBSIDIZATION



It is easy to see that the structure, objectives and management of the Coordinator for a CDS is vital. As the number of Coordinators for CDS is increased, so is the potential for duplication, inefficiency and added complexity.

A single Coordinator model for Australia would:

- promote efficiencies in the system by bulking all packaging by type rather than brand and reduce the overall cost of the system to the producers and distributors and hence the community;

- remove the duplication between central processing by Coordinators with the more efficient direct market model by depots, ie, no need to pack, transport and re-count at the Coordinators. All commodities are handled from the consumer to the recycler;
- allow for an information system and sorting and counting technology to be used that audits the system direct on-line to promote efficient handling and logistics and provide information on the performance of the system to all stakeholders including the Government;
- allow for national branding of a system that is instantly recognizable throughout Australia for containers covered by the legislation;
- facilitate the common promotion, education and marketing to the community across the whole system;
- allow fees to be set for each container type payable by all distributors and producers, ie, no cross subsidization (level playing field for all competitors);
- allow the system to be transferable to other suitable products such as e-waste, batteries, paint, etc, as is the case in Canada.

The SA system has evolved to a reasonably efficient model because RSA has minimised the sorting requirements by negotiating with Super Collectors when contracts have been modified or renewed. This must be contrasted with the system that has evolved in NT. The Government by allowing several approved Coordinators has created a situation where a depot is required to recognise brands and sort into 22 different categories.

The NT system desperately needs to be rationalised so that the overall system is workable and cost effective.

b) The cost structure of the beverage industry’s involvement in these container deposit schemes;

A model of the costs for the SA CDS is tabulated below:

**Average Cost Model for CDL All Products
(50 million dozen containers returned annually)**

Depot handling fee and 10c deposit	\$1.80
Transport, processing and administration cost	\$0.05
Total cost of 100% returns	\$1.85
Value of recycled product (scrap value)	(\$0.20)
Total cost for 100% return of containers	\$1.65
Total cost of a dozen containers returned at average return rate of 80%	\$1.32

All prices are per dozen and GST exclusive

These costs are indicative only and relate to the cost of the system in SA before any profit made by the Super Collector. If profit is ignored then the cost for each unit is approximately 11 cents

and if the consumer chooses to redeem that deposit then the cost to the consumer is 1 cent per item.

It is reasonable to assume that the cost structure in NT is similar, although the sorting and transport requirements are more expensive than SA. The published return figures for NT are approximately 45% which means the cost of the system before profit to Coordinators is in the order of 82 cents per dozen or 7 cents per unit. Even allowing for additional sorting and transport the cost is below the deposit value currently in the NT.

c) The use of unredeemed deposits and unused handling and transport fees;

The practice in both SA and NT by the Coordinators is to invoice manufacturers monthly on declared sales in that jurisdiction. In other words, the industry practice is to invoice on the distribution figures of each client. This rate is normally varied every three months based on the return rate for the preceding quarter, the scrap value of the packaging type in that quarter and other cost drivers for the system. The difficulty is the lack of transparency in how these prices are varied. While the factors taken into account are valid, there is no transparent calculation by Coordinators or Super Collectors on how the rates are varied from quarter to quarter.

This situation again emphasises the key for a successful CDS is how the Coordination role is structured. The environmental objectives of the legislation can only be met if this role is transparent so every manufacturer of containers caught by the legislation pay the same fee that covers the reasonable cost of the system as it relates to each packaging type.

d) Alternative scheme structures which ensure beverage producers cannot pass on unreasonable costs from these recycling schemes if such schemes are implemented in additional states or nationally.

The Committee is referred to Appendix I of this submission which is the RSA submission to a previous Senate Inquiry, dated the 27th of May, 2008. This submission has been referenced in the preparation of our response to the current inquiry and the *Vision For a National Container Deposit Scheme* section of that paper sets out clearly RSA's preferred model for a national CDS.

e) Structures to ensure schemes managed under the Product Stewardship Act 2011 do not result in producers passing on unreasonable costs; and

No response.

f) Any other related matters

Technology

The technology for high speed counting and sorting is being used more and more in Europe and North America. This technology has the potential to reduce costs of a CDS system and provide a robust auditing function, which is essential to a successful CDS. Any CDS legislation should reference technology to ensure that the product that is returned under the scheme can be sorted

and counted by these systems. It usually is as simple as specifying a whole container with the label intact so the barcode can be scanned.

These systems are improving all the time and will be more and more portable, allowing the technology to be located in built up or remote areas so that product can be counted and sorted before consolidated for sale and recycling.

CONCLUSION

RSA thanks the Senate Committee for inquiring into CDS systems already operating and exploring the opportunities for a national system. CDS is the ideal producer responsibility model that would see in excess of 80% of all containers returned to be recycled across the country. It is hard to believe why a country like Australia does not embrace a nationwide Container Deposit System.

As stated previously, RSA would be prepared to present to the inquiry in Adelaide or elsewhere.



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27 May 2008

The Secretary
Senate Standing Committee on Environment, Communications and the Arts
PO Box 6100 Parliament House
CANBERRA ACT 2600

Dear Secretary

**RESPONSE TO THE SENATE STANDING COMMITTEE
INQUIRY INTO MANAGEMENT OF AUSTRALIA'S WASTE STREAMS
AND IN PARTICULAR
CONSIDERATION OF THE
DRINK CONTAINER RECYCLING BILL 2008**

Recyclers of South Australia Inc (RSA) welcomes the opportunity to respond to the Senate Standing Committee Inquiry into Australia's waste streams, concentrating mainly on the proposed Drink Container Recycling Bill 2008.

RSA is an industry association representing 110 container deposit collection depots located throughout South Australia (SA) that operate under the State Container Deposit Legislation.

The executive and membership of this association have over 30 years' collective experience in operating a Container Deposit System (CDS). RSA has been active in promoting continual improvement and efficiency gains in the SA system.

In March last year RSA hosted a study tour to the Pacific North West - USA and Canada. The tour party consisted of representatives from the SA and Western Australia Governments. The objectives of the tour were to:

- identify new ideas and opportunities as they relate to CDS:
 - notably reverse vending technology
 - regulatory environment
 - collection systems;

- interrogate Extended Producer Responsibility (EPR) and product stewardship systems:
 - e-waste
 - hazardous wastes
 - tyres, oil, batteries etc;
- organic waste collection from households and industry:
 - collection systems
 - composting approaches;
- identify new approaches to waste policy.

RSA believes it is ideally placed to provide advice and information on establishing a cost efficient and environmentally sustainable national CDS.

RSA has tailored this submission to concentrate on the high level policy objectives required to introduce a CDS that will achieve the most efficient resource recovery from the targeted packaging streams.

RSA understands that other submissions will deal with the environmental benefits of EPR systems including CDS, and provide all the relevant information on the SA system. RSA is available to provide its perspective on the SA system to the Standing Committee.

RSA obviously supports a national CDS that builds on the infrastructure and knowledge developed over 30 years in SA.

A Vision for a National Container Deposit System

To gain an appreciation of an efficient sustainable CDS it is helpful to look from the perspective of each stakeholder and to understand what they want from the system.

The Government

The Government is looking for a fair and transparent system that will achieve the targeted recovery rates for each packaging stream. The system must be easy to control, monitor and administer and be broadly accepted by the consumer.

The Consumer

The consumer purchases a beverage container that is labelled to clearly identify that the used packaging is recyclable and has a deposit which will be refunded when returned to a container redemption facility (“depot”). The consumer behaviour is influenced by the amount of the deposit, their perception of the scheme, ie, the success of the marketing and communication plan, and whether or not the location and operation of the container redemption facilities is convenient.

The Producer and/or Distributor

The producer and/or distributor, while in most cases resenting Government Regulation, will expect a level playing field such that the fee structure for the CDS is the same for each category of container. The overall cost of the system to the producer and/or distributor is minimized by ensuring efficiencies within the return system, ie, sorting only by container category which is more likely to be achieved by having a single coordinator of the system.

Container Redemption Facility

The operator of a depot is primarily concerned with efficiently handling the consumer and the returned containers. A system that provides for stock control, payment by weight and cashflow management is essential.

The complexity and duplication in operating a depot is greatly reduced if the operator has a contract with one system coordinator covering all categories of containers.

Model Container Deposit System

An Independent Single Coordinator

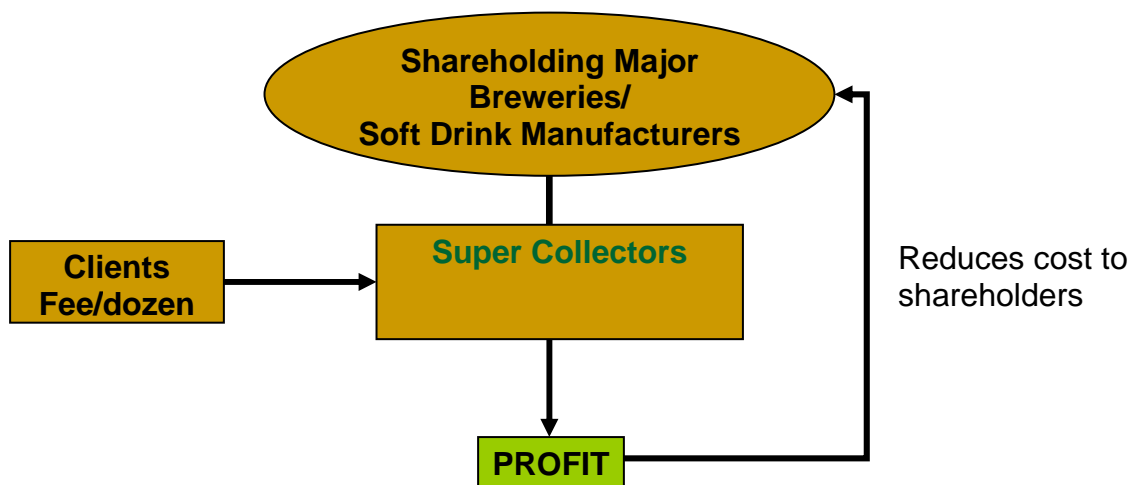
Any CDS requires a coordinator of the system. This function has many names and in SA it is referred to as a “super collector”, in the Hawaii and Californian systems the coordinator is the Government, and in the Canadian system the coordinator is an industry association called “Encorp”.

This function is the singularly most important function in setting up a CDS if the objective is to have the most efficient system that achieves the highest return rates at the least cost to the consumer.

The role of the coordinator is to set and collect fees from distributors and/or producers usually based on a fee per container for the number of containers distributed each month. The coordinator also needs to establish a network of depots and contract with operators in these facilities so that the consumer can be paid their deposit on each container. The operator is then paid the deposit and handling fee for the containers to be recycled in accordance with the coordinator’s return system. This often involves the containers being returned to a central facility managed by the coordinator to audit the product, consolidate for market and transport to recycling processing facilities.

In the SA system there are four super collectors (coordinators) that fulfill the above role. As is often the case, coordinators can be private companies with shareholding dominated by major soft drink or brewing interests. This has led to inefficiencies in the SA system such that aluminium cans are still required to be sorted by brand name rather than packaging type, because the coordinators are aligned to major sectors of the market rather than the efficient administration of the system. For the SA system this is illustrated in the following diagram:

LEVEL PLAYING FIELD V CROSS SUBSIDIZATION



It is easy to see that the structure, objectives and management of the coordinator for a CDS is vital. As the number of coordinators for the CDS nationwide is increased, so is the potential for duplication, inefficiency and added complexity.

A single coordinator model for Australia would:

- promote efficiencies in the system by bulking all packaging by type rather than brand and reduce the overall cost of the system to the producers and distributors and hence the community;
- remove the duplication between central processing by coordinators with the more efficient direct market model by depots, ie, no need to pack, transport and re-count at the coordinators. All commodities are handled from the consumer to the recycler;
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- allow fees to be set for each container type payable by all distributors and producers, ie, no cross subsidization (level playing field for all competitors);
- allow the system to be transferable to other suitable products such as e-waste, batteries, paint, etc, as is the case in Canada.

One sure way to achieve a single coordinator is to introduce the Californian model where the Government undertakes this role. RSA realizes that this may not be supported by Government as it requires resources and expertise that is not necessarily a core function of Government.

If this is the case then there are other models that must be explored so that the national system is the most efficient it can be, and capitalizes on what has been learnt throughout the world with CDS. A not-for-profit organization, NGO, or a carefully structured industry association could also undertake the coordinator role.

However if the Federal Government is truly committed to a national CDS then setting up an independent body to coordinate the system ensures a transparent, fair and efficient system that is fully self funding.

The funding arrangements for the CDS are best illustrated by understanding the costs of the SA system. The table below sets out indicative costs for the CDS in SA.

**Average Cost Model for CDL All Products
(40 million dozen sold annually)**

Fee paid by distributor/producer	\$0.84
Depot handling fee and deposit	\$1.05
Transport, processing and administration cost	\$0.05
Total cost of 100% returns	\$1.10
Cost for average return rate at 76%	\$0.84
Value of recycled product (scrap value)	\$0.20
TOTAL PROFIT to super collectors or for environmental fund	\$7,000,000.00

All prices are per dozen, GST exclusive

Analysing the above table indicates that the coordinator can set fees to make a profit or break even by estimating the return rate. In other words, the fee can be set based on 100% return and any savings as a result of lower return rates (commonly referred to as unredeemed deposits) are retained by the coordinator. This is the method used by the Californian system and has led to over \$US400 million being held by the Government from administering the system. This money could be spent on other environmental initiatives or priorities of the Government, or fees reduced to break even, depending on Government policy.

Deposit Value and Branding of CDS

The amount of the deposit will have a significant influence on the success of the system and the recovery rates achieved. The SA Government has recently announced that it will increase the current 5¢ deposit to 10¢ some time later this year. This increase is the first increase and is as a result of a trend to reducing return rates in the SA system.

On 1 January 2003 the SA legislation was extended to cover flavoured milk, fruit juice, fruit juice drinks and ready to drink cordial marketed in liquid paperboard and plastic containers. The deposit on these containers is 5¢ and the return rates on these commodities continue to improve but are only around 50% after over five years of operation.

A national CDS requires the deposit level to be set with sufficient value to the consumer to influence behaviour so that the container is returned for the deposit refund. If the deposit amount is set correctly then community groups and other enterprising sections of the community will also become involved and ensure that the targeted return rates are achieved. In SA the Scout Recycling Association is an active participant in the CDS.

Surveys conducted by the SA Environment Protection Authority indicated a willingness from the community to pay an increased deposit to achieve the environmental and social benefits of the system.

RSA believes that the deposit level should be set at a minimum of 20¢ per container and be consistently applied across all the container categories.

Redemption of Deposit by Count or Weight

To improve the efficiency and convenience of the system for consumers RSA would recommend that the deposit can be redeemed by counting or weighing the containers. In North America this option is available to consumers and an approved conversion rate for each container type is published on a regular basis. The option is maintained for a consumer to have each container counted, however most consumers are happy to be paid on a weight basis for the speed and convenience it provides at the depot.

Branding

The draft Bill requires a retailer who issues a receipt to identify the deposit separately on that receipt. RSA believes that this requirement is not necessary. The cost of CDS to the producer/distributor is set by the coordinator of the system and included in the normal wholesale cost for each product. The retailer is then free to set the retail price based on the wholesale cost that includes the cost of the CDS. The consumer pays the retail price and the labelling and branding of the product clearly indicates that there is a deposit payable if the consumer chooses to return it to a redemption centre. The separate tracking of a deposit on a receipt is an unnecessary complication, and emphasis should be placed on branding and labelling containers that are covered by the legislation.

In an ideal world, producers and distributors should be proud to display a brand indicating that they are participating in a sustainable recycling system for their packaging that allows consumers to return the product, be paid the deposit and participate in the recycling of that used container.

The success of the system and its recovery rates will relate to the deposit value and the resources dedicated to education, promotion and marketing of the system.

The brand should be instantly recognizable across Australia so that a consumer knows that they can take the used container back to a similarly branded depot and receive a deposit by counting or weighing each category of container.

A successful national CDS should be similar to a national franchise model where that brand is instantly recognizable and consumers know that they will receive a consistent level of service in all the franchisee outlets across the nation.

Point of Sale Return

As stated previously, the draft Bill contemplates an exemption on the deposit for containers for retailers where the product is consumed on the premises. This is not supported by RSA as the container should be branded to indicate that a deposit is redeemable at a depot. This exemption creates confusion as the containers will be nationally labelled indicating a deposit refund at depots and a consistent approach should be applied to avoid the potential for fraud within the system. This is the case in SA where containers covered by the legislation can be taken by the consumer or left for the retailer to redeem the deposit.

RSA believes this clause in the Bill relates to confusion with point of sale return of containers. Where point of sale return has been used in other parts of the world, the feedback is that retail space is too expensive to allow for the storage and handling of used containers. Retailers are projecting a clean image concentrating on selling product and do not want to be involved with the redemption of deposits and the storage and handling of used containers. It is not a core function of the retail environment.

Existing SA Infrastructure

Any national CDS should include the existing depot structure that exists in SA. The State has approximately 115 depots where deposits can be redeemed. This network represents over \$60 million of investment in depot infrastructure and 30 years' experience in handling deposit containers and dealing with the public. The SA CDL system has bipartisan support at State Government level, and universal acceptance by the SA community.

A new national CDS should be mandated to include the existing depot infrastructure already in place in SA.

Recommendations Specific to the Drink Container Recycling Bill 2008

RSA, having outlined a model CDS for Australia, provides recommendations to the Senate to consider in amending the Bill with a view to achieving the best possible Container Deposit System for Australia based on 30 years' experience of other systems across the world.

Recommendation 1

Consideration be given to establishing a single coordinator for a national CDS. Options in order of preference are:

- *statutory body to administer the national system*
- *NGO to coordinate national system.*

Recommendation 2

If Recommendation 1 is not supported then the stewardship plan must establish an independent coordinator that is not-for-profit and has the obligations to ensure a level playing field for all producers and distributors for each container type covered by the Bill.

Recommendation 3

The deposit amount be set at 20¢ per container for all categories of containers.

Recommendation 4

Stewardship plans include national branding and labelling consistent across all categories of containers. A detailed marketing and communication plan to be included.

Recommendation 5

The collection of a deposit by the retailer, point of sale return and the separate identification of deposit amount on retail receipts is not required.

Recommendation 6

The existing collection depot network in SA must be included in a national CDS.

Recommendation 7

Stewardship plans must include and detail an IT system to track all categories of containers so that the system can be audited and lessen the possibility of fraud.

Yours sincerely

Bob Naismith
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RECYCLERS OF SOUTH AUSTRALIA INC