



MARINE STORES PTY LTD

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Committee Secretary
Senate Standing Committee on Environment and Communications
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Parliament House
Canberra ACT 2600
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26 October 2012

Dear Sir / Madam,

Submission to the Senate Inquiry into Container Deposit Schemes in South Australia & the Northern Territory

As Australia's most experienced provider of container deposit (CDL) services, with a significant market presence in both South Australia and the Northern Territory, Marine Stores Pty Ltd is pleased to contribute to this Inquiry. Our continuous experience operating reuse and recycling schemes from the 1930s to the present day gives us unmatched insights into the cost drivers in CDL schemes as well as the broader market for CDL services in both South Australia and the Northern Territory.

It is our observation that much of the public commentary made in connection with the schemes betrays a limited understanding of the way they operate in practice. Marine Stores' submission therefore focuses on setting out their basic mechanics and features to facilitate informed, factual debate.

Marine Stores takes no position in the CDL policy debate. Marine Stores Pty Ltd is a standalone business that strives to deliver superior value and service to our customers, generate a sustainable commercial return and manage our business prudently for the long term.

The first principle to understand is that the schemes operating in South Australia and Northern Territory— while often assumed to be analogous – are in fact quite distinct in ways which influence their relative total system costs.

South Australia

The relevant South Australian legislation requires manufacturers or importers of beverage containers sold in South Australia to have an ongoing, effective and appropriate waste management arrangement in place with a "super collector". The super collector acts on their behalf to redeem 10c per container to the consumers, via contractual arrangements with in excess of 100 collection depots ("collectors"), as they return the containers to their depots. The super collector also prepares beverage container materials for recycling. Three super

collectors operate in South Australia: Marine Stores, Statewide Recycling Ltd and Flag Can Ltd. Marine Stores competes vigorously with these businesses for customers, who are highly price sensitive. Our focus is providing the best possible service at the most competitive cost.

- ***Upstream***

Marine Stores has agreements to provide services to around 120 beverage brandowners in South Australia (including retailers, for own-brand products). These agreements are individually negotiated, taking into account commercial risk and forecast costs including handling fees paid to collectors, freight costs and overheads. We also take into consideration projected scrap material values and an assumed return rate that is adjusted annually. In this way, any anticipated “unredeemed deposits” are factored into total system cost projections – much like scrap values - and are applied to keep net charges as low as possible. Suggestions that there is a “pool” of unredeemed deposits are simply not accurate in the case of Marine Stores’ business. Given South Australia’s system is a mature one, Marine Stores is able to project reasonably accurate costings each year and set our prices accordingly.

Under our service agreements, brandowners provide Marine Stores with monthly sales data for South Australia, which is used by us to generate invoices based on a per-container service fee. We have invested in infrastructure that allows Marine Stores to also process and sell the scrap materials for re-use.

In the case of South Australia, we subcontract PET and liquid paperboard processing to Statewide Ltd and Statewide subcontracts its’ customers’ glass processing to us. This reflects current cost advantages (in the case of PET and glass), although in the case of liquid paperboard we would prefer to process this ourselves. However, the Recyclers of South Australia (RSA), which represents collectors, has withheld its support for this change.

We continue to seek improvements and cost-efficiencies with collectors, the RSA and the South Australian Government Environment Protection Authority.

- ***Downstream***

As a ***super collector***, Marine Stores has agreements in place with the approximately 114 approved ***collectors*** in South Australia who provide services to us. Almost all collectors require us to negotiate terms through their association (Recyclers of South Australia - RSA) which sets an “industry standard” handling fee and negotiates contracts on their members’ behalf. Currently, the handling fee component is around 4.5 cents per container on average, with CPI increases built in to contracts.

Collectors accept prescribed containers from the public, pay the 10c per container, then forward those containers to an agreed site where they are measured / counted, examined for contamination and compliance. Marine Stores then refunds the collector the deposit, and pays the agreed handling fee per container, for their collection service.

The responsibility for freight costs for non glass containers rests with Marine Stores.

The Northern Territory

The Northern Territory CDS system is similar to the South Australian system but contains a number of critical differences in content and context. When CDS was introduced into South Australia in 1975, beverage manufacturers already had in place infrastructure or arrangements for the return of bottles as refillable bottles were standard. The CDS scheme was therefore able to utilise existing infrastructure, which ensured start up costs were modest.

However, the Northern Territory had no analogous system in place when CDS was introduced in January 2012, and all the required infrastructure, transport and handling systems have had to be built from zero base. The necessary infrastructure and systems has been slow to rollout and remains inadequate. Much larger costs are being incurred across a

significantly smaller and more dispersed population. It has therefore been Marine Stores' expectation from the outset – as was indicated to the previous Northern Territory government – that overall system costs would be substantially higher in the Territory than have been experienced historically in South Australia. This assessment was based on the legislation as provided, a physical review of infrastructure available in the Northern Territory and 37 years of operating experience within the CDL environment. Not, as some have suggested, a reluctance to embrace the scheme.

- **Upstream**

The Northern Territory legislation requires all beverage brandowners to have collection service agreements in place with a CDS **coordinator** (equivalent to a South Australian super collector) in order to sell into the Northern Territory market. CDS coordinators are approved by the government, and Marine Stores Pty Ltd is one of five approved CDS coordinators operating in the Territory currently. We compete vigorously for the business of brandowners, and much like South Australia, our customers are highly price driven and competition is robust.

The process by which Marine Stores determines its costs and fee structure for customers is similar to South Australia, with some significant extra factors. These include the need for investment in new infrastructure in the Northern Territory (normally undertaken by the collectors themselves, but in the Northern Territory requiring subsidy by Marine Stores to enable the collectors to remain viable), the lack of maturity in the system and the fact that it is only ten months old and will take time to establish a 'business as usual' level. In addition, redemption rates for prescribed containers have so far proved to be low and are unpredictable. While we have taken steps to adjust estimates down to reflect current trends, we must still act prudently to make appropriate provisions against the risk of stockpiling and a spike in future redemptions as the system matures. In addition, we factor in the impact of larger distances and higher recycling costs in the Northern Territory compared with South Australia. Marine Stores is also required to work within the Northern Territory to expand the collection process to more remote areas which will be considerably more expensive to operate and establish.

Overall system costs per container are therefore significantly higher in the Northern Territory than in South Australia, which must consequently be reflected in what we charge customers. Nevertheless, and given market pressures, we periodically review all charges and strive to keep them as competitive as possible.

- **Downstream**

In entering the Northern Territory market as a **CDS coordinator**, Marine Stores conducted an open and competitive tender to establish a reasonable, market price for collections services. On the basis of this tender, we have negotiated individual agreement with six of the nine approved collectors operating in the Territory. The average handling fee paid under these contracts is at the moment roughly comparable to the average paid in South Australia. However after 10 months of operations there is some pressure from a number of the collectors to review the handling fees upwards as the collectors seek to operate viable recycling businesses.

Collectors operate much like their counterparts in South Australia - accepting containers from the public, paying them the 10c refund per container, then forwarding those containers to an agreed site where they are measured / counted, examined for contamination and compliance by us or our agent under contract. Marine Stores then refunds the collector the 10c deposit, and pays the agreed handling fee per container, for their collection service provided by the collection depot.

In Marine Stores view a significant flaw in the Northern Territory legislation is that collectors do not have to have agreements in place with CDS coordinators before they provide them with services (ie: deliver containers to them). The effect of this is that Marine Stores has

been supplied with unsolicited services, without a price and operational agreement being in place and by parties with whom we had no commercial arrangements. The absence of a commercial agreement with certain approved collectors has led to disputes, increased business risk, decreased price certainty, and less overall competitiveness in the Northern Territory scheme. Section 20 of the Environment Protection (Beverage Containers and Plastic Bags) Act 2011(NT) facilitates this unsatisfactory arrangement whereby a collector with whom Marine Stores has no commercial arrangement may deliver containers to Marine Stores and then seek to recover as a debt its "reasonable costs" from Marine Stores. The unpredictability of such costs increases the difficulty in making accurate business projections. Additionally, certain collectors have intimated to Marine Stores that their current estimate costs are in the order of double or triple the perceived industry cost due to factors peculiar to industry in the Northern Territory. The Northern Territory Government was advised prior to the establishment of the scheme of the potential issues that could arise from the implementation of Section 20.

Summary

In summary, Marine Stores Pty Ltd is a standalone commercial business that operates in extremely competitive and price-sensitive markets for CDL services in both South Australia and the Northern Territory.

We are not involved in the CDL policy debate, but rather we strive to deliver superior value and service to our customers, generate a sustainable commercial return and manage our business prudently and professionally.

In general, the South Australian system is mature and predictable, allowing Marine Stores to set pricing annually with a high level of confidence. Major cost drivers in our South Australian business include the handling fee agreement agreed with the RSA, fluctuations in scrap values, the deposits of each container redeemed and Marine Stores freight costs, infrastructure and overheads. Cost drivers are transparent and well understood.

The Northern Territory scheme is very young, with inadequate infrastructure, flawed legislative arrangements and still-emerging risks and costs. In general, while handling fees we currently pay to collectors are similar to those we pay in South Australia, we are incurring significantly higher risks and costs and must consequently factor these additional exposures into our pricing in the Northern Territory. This is prudent commercial management and reflects our obligation to manage the business sustainably for the long term.

I trust this assists the Senate Committee in its deliberations, and look forward to the opportunity to appear before the Committee at its public hearings, should this be considered helpful.

Yours faithfully

Garry Bull

General Manager
Marine stores