

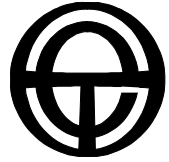
TOTAL ENVIRONMENT CENTRE INC.

LEVEL 4, 78 LIVERPOOL STREET, SYDNEY, NSW 2000

Mailing: PO BOX A176, SYDNEY SOUTH. 1235

Ph: 02 9261 3437 Fax: 02 9261 3990

www.tec.org.au



Submission to

**Senate Inquiry into Environment Protection
(Beverage Container Deposit and Recovery
Scheme) Bill 2009**

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Further information:

Jeff Angel
Executive Director

P 02 9261 3437

F 029261 3990

jeff.angel@tec.org.au

www.tec.org.au

Introduction to this submission

Australia is at a critical point in its decision on whether to introduce container deposits (CD). To do so would be environmentally responsible; create many hundreds of jobs; be an investment in the future for more sustainable recycling; help local government finances¹; increase state and federal revenues (approx \$81million pa); reduce the use of finite resources; and have minimal impact on consumers who redeem deposits.

A literature review in the recent published DEPHA feasibility study for CD in Tasmania, states that, where kerbside recycling exists, the benefits of CD would be minimal. Such statements are flawed when we consider that kerbside collections are run at a substantial loss to local government.

CD provides a positive incentive for individuals and businesses to support Australia's resource recovery, and to address the away from home waste stream that currently has little to no sustainable support. CD is the only policy choice that addresses these issues.

In this submission, we focus on critiquing the recent report that was commissioned by the EPHC and undertaken by BDA and Wright Corporate Strategy, and the alternatives to CD that are proposed in that report.

The national beverage container investigation

The EPHC commissioned Beverage Container Investigation (20 March 2009) undertaken by BDA and Wright Corporate Strategy contains some important information, is a complex and sometimes confusing document and needs correction in a number of areas:

1. It applies the **inconvenience cost** only to CD, not the various public and work space programs funded by an Advance Disposal Fee (ADF). On the other hand, if you remove the inconvenience costs from the assessment the net economic cost of CD is reduced by 45%. Importantly, most container returns are undertaken as part of existing travel habits, and thus, the inconvenience costs arrived at in the investigation are major exaggeration. There is a strong argument to ignore or massively discount inconvenience costs as these are transitional - people quickly absorb the new container returning behaviour into their regular habits and in many cases already have a strong willingness to participate. Inconvenience costs are effectively an economic illusion.

2. A CD system sets up and financially sustains a massive expansion in drop-off centres that could be used to receive other recyclables such as batteries and electronic waste. Further analysis through a consultation RIS will assist in clarifying these issues as well as job creation. The BDA assessment does not include the significant **benefits of the CD hub collection system**. The benefits include less contamination of other recyclables (like paper) and increased recovery of a range of materials.

¹ Councils gain a net financial benefit from - reduced kerbside collection costs, reduced waste levies/gate fees; and unredeemed deposits.

South Australia estimates the other non-CD materials collected by recyclers at their depots to be 24,732 tonnes pa. If the value of other materials that will be collected by CD collection centres is nationally proportionate to that of South Australia, the volume of recyclate would be increased by some 494,000 tonnes per annum with the additional sale of scrap offsetting the costs of a CD system by a further \$102million pa.

3. The BDA report increases the estimated costs of a CD system to a figure substantially higher than the fees charged by collection centres in South Australia. SA responded to the report with: 'South Australia considers that the consultants' estimate is inaccurate primarily because of two incorrect assumptions:

- that revenue from sales of recyclate is profit to Super Collectors, when in fact it is used to offset running costs; and
- a substantial overestimate of the proportion of deposit containers that are collected via kerbside recycling.'

4. The **increased revenues to state and federal governments** arising from the increased business and employment activity produced by a CD system have also yet to be revealed. The report does not show the revenue flow to state and federal governments, it only exposes the costs at \$23mpa. Our information shows far greater annual tax revenue to government from the increased economic activity created by a container deposit system, than cost to government. The only positive revenue flow to government shown is for local government which gains \$75m a year.

Our calculations show that **government will earn an estimated \$81million pa** (excluding positive local government returns). It should also be noted that the private sector will be called upon to invest in the CD system – not government.

Regarding the cost of rolling out the collection infrastructure, such as Reverse Vending Machines (RVMs), the recent CD DEPHA study in Tasmania, by Hyder, found that there will be no cost: '...recent RVM industry representations are that RVMs could provide 'zero net system cost' or result in a system surplus if unredeemed deposits and handling fees are used to support RVM implementation. These representatives have also flagged a potential \$50 million investment in an RVM network for CDS.'

In South Australia some 1,200 people are employed in beverage container collection via CD. Nationally we estimate that there will be some 2,000 jobs created injecting approx. \$100mill p.a. into the economy and increasing the Australian tax wedge by some \$36million p.a.²

The BDA report also fails to show the GST benefit to the states from the sale of scrap and reprocessed recyclate which will generate another \$34million pa and a further \$11million pa in GST payments on unredeemed deposits.

² Using an estimated 24% 'tax wedge' based on treasury estimates.

4. In assessing economic benefits from the recovered materials it only uses 'scrap prices' when there is a much higher value in the materials when they are processed into new products. This leads to an understating of the benefits of the increased recovery of materials by a CD system. There is an increased value of about \$250million p.a.³

5. Sensitivity tests for various assumptions are relegated to a section B8 at the back when they should be upfront in the body of the report so the reader can effectively compare results.

6. The main report ignores the proven problem of contamination of newsprint and office paper from broken glass on the flawed assumption that a study commissioned by the Australian Food and Grocery Council found no such problem. However, the report by Industry Edge admits newsprint and office paper were not assessed.⁴

7. The report suggests all beverage consumers are hit by a \$250m cost, when it should only be allocated to those who don't return the containers (i.e. polluter pays) – thus giving a misleading impression of the impact on the majority of consumers who will participate by returning containers.

The cost to the vast majority of consumers is therefore very small. The \$250m is the total of the unredeemed deposits and it is only borne by those who litter or dispose of containers in other ways – it is a very targeted cost on a minority of people.

The 'financial' costs are those relating to collection and handling of the 11 billion returned containers. The net cost to business is \$55m a year which is passed onto consumers - equivalent to 0.4 cents a container. The impact is tiny because while the total cost of the system is \$305m, the unredeemed deposits of \$250m a year are ploughed back to support it.

The most recent study on CD (Feasibility Study of a Container Deposit System for Tasmania, by Hyder for DEPHA, May 2009) stated that a LCA on aluminium and glass showed that: 'Although marginal impacts would result from consumers returning containers to redemption depots (whether in metropolitan or rural areas), these impacts are relatively insignificant given the environmental benefits from increased recycling that result in reduced greenhouse gas emissions and energy and water savings.'

In summary the claimed net cost of a CD system posited by BDA represents a fundamental lack of understanding of how container deposits work. The actual true financial impact of a CD system is broadly as follows:

³ Based on a minimum doubling of value from scrap to reprocessed materials – this is conservative given plastics benefited is approx. 3 times the value of scrap plastic and reprocessed paper and steel is around 4 times the value of scrap.

⁴ A brief mention in the CD report of this issue in 'Sensitivity Testing' is of little assistance.

- BDA claimed economic costs of CDS at \$492million pa
- Less:
 - Reversal of inconvenience costs + \$223million pa
 - Additional scrap sales from collection of other materials + \$102million pa
 - Economic value of local reprocessing of beverage recycle + \$250million pa

Net impact of a national CD system is a benefit to the tune of at least \$83 million pa plus substantial environmental benefits, including the economic costing of greenhouse gas benefits.

The roll out of a national CD system will be an investment in 21st century green infrastructure that will serve the community and the environment for decades to come.

Alternatives to CD?

Advance Disposal Fee?

One alternative is a so-called 'advance disposal fee' – a tax on at least 450 businesses. This is unacceptable when times are tough and the National Packaging Covenant is proposing to seek industries cooperation in reducing the environmental impact of the packaging they use. It's also unfair and inappropriate to levy companies that are using high levels of recycled packaging, like Visy Industries, who already recycle some 150% of the materials they produce. The proposed ADF is based on ad hoc programs (like the National Packaging Covenant (NPC)) picking winners often leaving existing recycling programs effectively in competition with new subsidised recycling programs. This is not a reliable option to address recovery and recycling of packaging.

National Packaging Covenant?

Industry has recently promoted the National Packaging Covenant as the alternative, but the NPC's contribution to improved recycling is small. It was admitted in the mid-term review documents that many other more significant factors influence the rate of recycling which operate independently of the NPC. Further the industry talks about new projects with big recycling goals – very little of these are for beverage containers – and large projects included in the industry's figures (such as for glass) have recently collapsed and will not proceed.

Key Features of the CD Bill

We wish to highlight the key features & benefits of the bill under consideration:

- 10 cent deposit/return (a 2004 Newpoll showed that 89% of those polled were prepared to pay 10 cents);
- All containers under 4 litres will be captured – that is, every bottle, can, carton or composite container;
- The scheme will pay for itself, including all administrative costs, so there is no burden on the state;

- Government administration function will be at a minimum as existing transfer stations will do a lot of the on-ground administration of the scheme,
- The scheme will be entirely self funding. Unredeemed deposits will be used to self-fund the scheme's administrative costs and public education materials;
- The sale of recyclate is the second of the three funding streams for the scheme; – the sale of recyclate will generate some \$243million in revenues to offset costs and unredeemed deposits will generate another \$179million per annum – funding the roll out of 400 collections depots and around 2,000 convenience drop off points using RVMs;
- Reporting is carried out by the transfer stations who report to the Department on the number and types of empty beverage containers received and processed;
- Transfer stations will be expanded to service other EPR schemes for TVs, computers, compact fluorescent lights, car batteries, and tyres;
- The scheme will create around 2,600 jobs by diverting hundreds of thousands of tonnes of drink containers from landfill to recycling;
- This bill has the potential to deliver some \$573million of economic growth – a substantial contribution to Australia economic recovery;
- The scheme will leave government with a surplus of some \$89million a year.

The following table provides a summary of costs and benefits of container deposits system and other options.

SUMMARY OF COSTS AND BENEFITS OF CONTAINER DEPOSITS SYSTEM AND OTHER OPTIONS
 ('Key reference: 'Beverage Container Investigation', BDA Group, Wright Corporate Strategy 2009 – financial costs⁵)

Option	Consumer (hip-pocket) impact	Benefits to kerbside collections	Financial sustainability	Create new drop-off centres	Most recovery, most recycling	Revenue to govt	Help charity groups	Impact on business/jobs
CDS	<ul style="list-style-type: none"> 0.4 cent per container to those (~ 80% of consumers) who redeem deposit (\$55mpa).⁶ 10.4 cents per container to those who don't redeem deposit. (\$250mpa)⁷ \$55m total cost pa⁸ and \$75m savings to ratepayers from kerbside benefit = \$20mpa gain. 	<ul style="list-style-type: none"> \$75mpa to local government from unredeemed deposits, fewer truck trips and landfill levy savings Kerbside costs \$300/tonne⁹, comparable to CDS \$309/tonne¹⁰ (and CDS improves kerbside economics) 	Once established funding is recurrent and sustainable; only need to vary deposit	Yes – we estimate about 1,200 nationally – that will also receive other recyclables like computers, batteries - based on South Aust experience up to 494,000tpa	<ul style="list-style-type: none"> 11 billion containers pa (3.1b more than base case) In clean condition so more valuable for recycling Significantly reduces contamination of newsprint, office paper and increases value 	We estimate about \$45mpa in GST from sale of and reprocessed recycle and unredeemed deposits plus \$36mpa tax from new jobs. Cost of CDS to govt is \$23mpa ¹¹	Yes	<ul style="list-style-type: none"> \$55mpa passed onto consumers¹² We estimate 2,000 new jobs
Other ADF, kerbside	<ul style="list-style-type: none"> ADF - <1 cent per item¹³ Total cost, \$46mpa¹⁴ No offsetting gain for consumer 	No benefit to existing kerbside	ADF depends on ad hoc programs and complex tax on business ¹⁵	None	<ul style="list-style-type: none"> 1.6b containers pa, additional to kerbside ADF is a volume tax, penalising recycled packaging 	We estimate \$15mpa. Cost of ADF to govt is \$14.9mpa ¹⁶	No	<ul style="list-style-type: none"> \$46mpa passed onto consumers We estimate minimal new jobs

⁵ Note: BDA report also has 'economic' costs for macro impacts and includes 'inconvenience' costs which grossly inflate total economic costs to \$492mpa; and ignore additional drop-off centre and reprocessing benefits. 'Financial' costs are the specific money costs on various parties (additional drop-off centre and reprocessing benefits also ignored).

⁶ p97

⁷ Wright, T per comm., 20/5/09

⁸ p97, the \$250m pa of unredeemed deposits is put back into the system, leaving a net \$55m cost

⁹ p40

¹⁰ p95, 'financial' cost for 11 billion containers collected pa. Note: The BDA report suggests it will cost \$1,500/tonne but this is the entire CDS 'economic' cost of \$492mpa divided by the additional containers collected (3.1b pa) over the base case, NOT the total number that will be collected (11b pa) by the entire system and cost. Also see note 1.

¹¹ p99

¹² p97

¹³ p132

¹⁴ p134

¹⁵ Complexity = 450 + companies new tax, packaging types, SME threshold for application, annual changes in volume, annual returns, auditing, discounting for recyclables (?)

¹⁶ p134

