Australian Food and Grocery Council

SUBMISSION

OCTOBER 2012

TO:
SENATE ENVIRONMENT AND COMMUNICATIONS REFERENCES COMMITTEE

IN RESPONSE TO:
INQUIRY INTO CONTAINER DEPOSIT SCHEMES

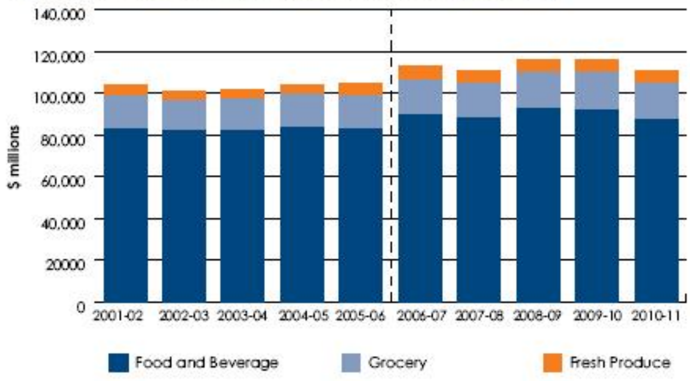
Australian Food and Grocery Council

1. PREFACE

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, drink and grocery manufacturing industry.

The membership of AFGC comprises more than 150 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors.

Figure 4.1: Composition of the industry's turnover ($2010-11)[4]



Source: Based on ABS, catalogue number 8221.0 and 8159.0

With an annual turnover in the 2010-11 financial year of $110 billion, Australia's food and grocery manufacturing industry makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity.

Manufacturing of food, beverages and groceries in the fast moving consumer goods sector[1] is Australia's largest manufacturing industry, representing more than one quarter of total manufacturing turnover. For Australian consumers, the industry produces around 24 million affordable, nutritious meals every day.

The diverse and sustainable industry is made up of over 22,600 businesses and accounts for over $49 billion of the nation's international trade. These businesses range from some of the largest globally significant multinational companies to small and medium enterprises. The industry spends $466.7 million a year on research and development.

The food and grocery manufacturing sector employs more than 296,300 Australians, representing about 3 per cent of all employed people in Australia, paying around $11.3 billion a year in salaries and wages.

Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost half of the total persons employed being in rural and regional Australia[2]. It is essential for the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Australians and our political leaders overwhelmingly want a local, value-adding food and grocery manufacturing sector.

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[1] Fast moving consumer goods includes all products bought almost daily by Australians through retail outlets including food, beverages, toiletries, cosmetics, household cleaning items etc.

[2] About Australia: www.dfat.gov.au

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2. INTRODUCTION

The Australian Food and Grocery Council (AFGC) welcomes the opportunity to make a submission to the Senate Environment and Communications References Committee's Inquiry into Container Deposit Schemes (CDS).

The AFGC strongly supports the objective of reducing litter and increasing recycling rates as part of a broader commitment to sustainable practices in the food and grocery sector. The AFGC has had sustainability as a main activity in its portfolio for 15 years, working collaboratively with government and other stakeholders in key areas of energy, water and packaging use minimisation.

In making this submission to the Senate Inquiry, the AFGC is unable to provide comment on the commercial arrangements relating to the operations of the current container deposit schemes in South Australia and the Northern Territory. Instead we will provide supportive evidence, based on independent commentary and analysis, to demonstrate the reasons why beverage prices would rise under a CDS.

The AFGC views CDS as a very expensive option for increasing recycling rates and reducing litter compared to lower cost, yet equally effective, options such as the Australian Packaging Covenant (APC). This view is supported by analyses of the costs of various options, including those undertaken recently for the COAG Standing Council on Environment and Water.

3. BACKGROUND

CDS has been a contentious area of public policy for many years. Over the past 3 years alone, at both state and federal level, a number of private members' bills have been introduced to establish either state or national based CDS.

In 2009, a Senate inquiry into a private member's bill introduced by The Australian Greens Party (The Greens) to Federal Parliament found that while there was some support for CDS, debate around the bill and the disagreement from various groups, including the former Environment Protection and Heritage Council (EPHC), highlighted how complex this area of policymaking can be[3]. Earlier this year, the report of the Victorian Parliament's Environment Planning and Legislation Committee, in considering a further private member's bill introduced by The Greens, noted "… the inquiry process revealed a raft of complex policy and implementation issues and obstacles"[4].

The EPHC's own investigations in 2010 found that the economic cost of national CDS (at a deposit level of 10 cents per container) would be $680 million[5] a year. More recently, cost benefit analysis undertaken in the development of the COAG Standing Council on Environment and Water's Packaging Impacts Consultation Regulation Impact Statement found that a national CDS would cost between $1.4 and $1.76 billion dollars[6] over 25 years, far in excess of a range of other options that would deliver essentially the same outcomes for recycling and litter reduction, at up to 28 times less cost.

The AFGC supports the current co-regulatory arrangements for the management of the environmental impacts of packaging, the Australian Packaging Covenant (APC), as a comprehensive national

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[3] See: http://www.aph.gov.au/Senate/committee/eca_ctte/environment_protect_09/report/report.pdf

[4] Inquiry into the Environment Protection Amendment (Beverage Container Deposit and Recovery Scheme) Bill 2011, Report No. 1,Victorian Legislative Council Environment and Planning Legislation Committee, February 2012

[5] See: http://www.scew.gov.au/archive/product-stewardship/pubs/bevcon__rpt__bci_revised_report_apr_2010_2010_06_28.pdf

[6] See: http://www.scew.gov.au/publications/pubs/packaging-impacts/att-c-cost-benefit-analysis-report.pdf

approach that encompasses **all** packaging, not just beverage containers. By contrast, a narrow focus on beverage containers through a CDS:

- adds to the regulatory and administrative burden on industry;
- imposes additional unnecessary costs and inconvenience on consumers;
- increases costs to government, business and the community; and
- undermines a successful co-regulatory APC.

4. CONTAINER DEPOSIT SCHEMES – COSTS AND IMPACTS

4.1 Northern Territory

The Senate Inquiry should note that the issue of price impacts of CDS on consumers was investigated by the Northern Territory Consumer Affairs Commission in May 2012, nearly five months after the commencement of the Territory's scheme in January. The Commission's investigators found no evidence of retailers excessively putting up prices under the guise of the Territory's CDS.

Further, ACCC NT Director, Derek Farrell stated on ABC News on 5 January 2012 that "beverage sellers have a genuine reason to raise prices. It is perfectly legal for traders to set prices as they see fit and we recognise that remote communities are in a very difficult position"[7]. Further, in relation to suggestions of collusion, Mr Farrell was quoted in the same article that, "There is no suggestion in this instance that it [collusion] is occurring."

Implementation of the NT's CDS is expensive. There are currently **<u>no</u>** processing facilities in the NT that can accept and reuse the materials collected through the CDS system. This means that materials collected have to be transported thousands of kilometres to either Brisbane or Adelaide, adding significant costs to the operation of the scheme, which are ultimately passed on to consumers. In contrast, South Australia has major glass bottle making plants that can reuse some of the collected materials, though significant tonnes of non-glass materials are also exported for reprocessing in Victoria.

4.2 South Australia

For many years drink manufacturers spread the costs of operation of the SA CDS across national pricing - that is, all Australian families paid for the SA scheme. In recent years, following the mandated increase of the deposit from 5 cents to 10 cents per container, some major beverage manufacturers have passed on the deposit plus system running costs to SA retailers.

Whether these costs will always be reflected in retail prices is something that retailers will ultimately decide, but the fact is that in most instances, SA consumers are paying more for beverages to fund their deposit scheme.

4.3 National

A range of independent reports have identified a national CDS as a high cost scheme. As mentioned previously:-

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7 See: http://www.abc.net.au/news/2012-01-05/20120105-cash-for-containers-criticism/3760256

- **2010 Beverage Container Investigation Report - $680 million per annum.** Report to EPHC by BDA Group and Wright Corporate Strategy. CDS cost of $2,040 per tonne to collect and recycle, compared to a range of other options that could deliver the same outcomes for between $13 and $70 per tonne.

- **2011 Packaging Impacts Cost Benefit Analysis Report - $1.4 to $1.76 billion over 25 years.** Report to COAG Standing Council on Environment and Water by Pricewaterhouse Coopers and Wright Corporate Strategy. Figure 1 below illustrates the range of options modelled - Options 4(A) and 4(B) are the CDS options. Again, all options other than the CDS options would deliver the same outcomes, at much less cost to the community.

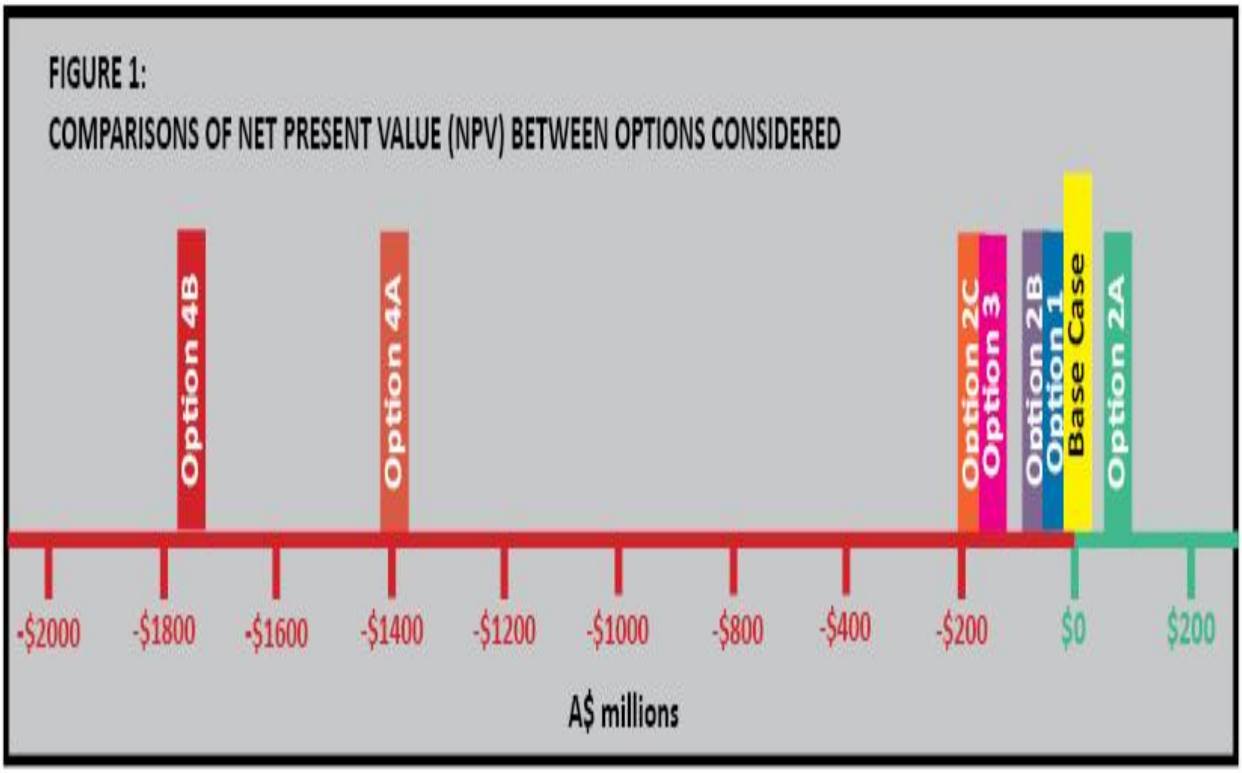

FIGURE 1:
COMPARISONS OF NET PRESENT VALUE (NPV) BETWEEN OPTIONS CONSIDERED

Base Case	Co-regulatory - current arrangements, ie APC
Option 1	Non-regulatory - National Packaging Waste Strategy
Option 2A	Co-regulatory - APC replaced by co-regulation under the *Product Stewardship Act 2011*
Option 2B	Co-regulatory - Industry Packaging Stewardship (ie the National Bin Network)
Option 2C	Co-regulatory - Extended Packaging Stewardship
Option 3	Mandatory - Advance Disposal Fee
Option 4A	Mandatory - Boomerang Alliance CDS
Option 4B	Mandatory - Hybrid CDS

For a detailed outline of each of the options modelled see Attachment 1 to this submission.

Further, research undertaken by economists, ACIL Tasman into the cost impact of a national CDS on consumers, found that container deposits, if implemented nationally would cost Australian families over $300 per year in their shopping baskets.[8]

4.4 Boomerang Alliance Report

The Boomerang Alliance Report, "Beverage Company Pricing Behaviour under the South Australian and Northern Territory Container Deposit Schemes"[9], released in August 2012, is ill-founded and without substance. The report fails to recognise that:-

- beverage companies do not set retail prices, retailers do;
- when, and if, the CDS deposit and handling fees are added to the wholesale price of containers sold into markets in the NT and SA by beverage companies, local retailers will then apply their retail margins plus GST. Only the 10 cent deposit can be redeemed by consumers;
- some beverage companies may be spreading the costs of operation of the SA and NT CDS across national pricing (as noted earlier had been the case with the SA CDS) and this may reflect a lower pass through of system costs to SA and NT consumers. In this case, all Australian families would be paying for the SA and NT schemes;
- regular retailer discounting and product promotions happen all the time, as such, any analysis of price changes would need to be conducted over a much longer period of time and across a broader range of retailers than the week of analysis conducted by the Boomerang Alliance; and
- the costs of transporting **all** collected materials out of the NT to eastern states or Adelaide (as there are no reprocessing/reuse plants in the NT) would impact on the costs of system operation.

5. CONCLUSION

The AFGC strongly supports the objective of reducing litter and increasing recycling and has considerable experience and expertise based on many years working with the food and grocery industry on sustainable business practices.

In the area of sustainability, as in other policy disciplines, the AFGC advocates for evidence-based approaches informed by rigorous examination of the costs and benefits of policy options.

Tested against this principle the option of a national Container Deposit Scheme is found wanting. CDS is a very expensive option for increasing recycling rates and reducing litter compared to lower cost, yet equally effective, options currently under consideration. Detailed analysis of various options, including that undertaken recently for the COAG Standing Council on Environment and Water, demonstrate this conclusively.

The AFGC supports the current co-regulatory arrangements for the management of the environmental impacts of packaging, the Australian Packaging Covenant (APC), as a comprehensive national

[8] See: http://www.afgc.org.au/doc-library/category/9-packaging-recycling.html?download=770%3Anational-cds-shopping-basket-impacts
9 See: http://www.boomerangalliance.org.au/images/pdfs/final%20profiteering%20report%20282012-1.pdf

approach that encompasses **all** packaging, not just beverage containers. By contrast, a narrow focus on beverage containers through a CDS:

- adds to the regulatory and administrative burden on industry;
- imposes additional unnecessary costs and inconvenience on consumers;
- increases costs to government, business and the community; and
- undermines a successful co-regulatory APC.

We welcome the opportunity to provide a presentation to the Senate Inquiry in the near future.

Attachment 1: Report to COAG Standing Council on Environment and Water - Packaging Impacts Consultation Regulation Impact Statement – Summary of Options

Base Case

The base case or current arrangements include kerbside recycling in all states and territories, a CDS operating in South Australia and the Northern Territory from January 2012, and the Australian Packaging Covenant (APC) arrangement which has been the nationally consistent approach to managing the environmental impacts of packaging since 1999.

The proposed seven options are compared against a base case scenario with packaging recycling rate of 79 per cent by 2035 and litter reduction of 10 per cent by 2035.

Option 1: National Packaging Waste Strategy

Option 1 is a **non-regulatory** alternative. With funding from Government sources, this option proposes to develop a national packaging waste strategy to deal with all packaging materials. The strategy covers packaging materials, however there may be associated benefits for non-packaging litter and recycling under this option.

The initiatives implemented under this strategy would be funded by State and Commonwealth Governments and would be facilitated by a national body made up of representatives from Commonwealth, State, Territory and Local Governments. However, input from stakeholders such as industry and environment groups would be encouraged.

Some of the initiatives suggested under this option are:

- National education/advertisement aimed at increasing recycling and litter prevention.
- Development of a national litter methodology.
- Consistent labelling of recycling bins.

Option 2: Co-Regulatory Packaging Stewardship

Product Stewardship: The concept of shared responsibility by all sectors involved in the manufacture, distribution, use and disposal of products.

Option 2 is a **co-regulatory** packaging stewardship arrangement under the *Product Stewardship Act 2011* (the Act). The Act provides for voluntary, co-regulatory and mandatory product stewardship approaches. The sub-options proposed are:

- Australian Packaging Covenant (APC) replaced by co-regulation under the Act;
- Industry Packaging Stewardship; and
- Extended Packaging Stewardship.

Under each of these sub-options, the current APC and the National Environmental Protection Measures (NEPMs) would transition to the co-regulatory provisions of the Act.

Under all the sub-options of this option, the administrators of the new arrangement would have flexibility to decide on how the requirements and outcomes are achieved which could foster innovation and lead to development of new waste management technologies.

A co-regulated arrangement under the Act would differ from the current APC framework, including in relation to liable parties, enforceable targets and penalties.

Option 2A: Australian Packaging Covenant replaced by co-regulation under the Product Stewardship Act

This sub-option would involve transitioning the current APC and NEPM arrangements under the co-regulatory provisions of the *Product Stewardship Act 2011*. Under this sub-option, packaging brand owners are liable parties, obliged to be members of an approved co-regulatory arrangement. An approved co-regulatory arrangement would in turn be required to meet enforceable recycling targets and other outcomes. Because of the constitutional limitations of the Act, state, territory and local Governments and non-Government organisations would be not liable parties, and are not eligible to join an approved arrangement. However, these parties would continue to contribute to the national packaging recycling and litter rates. This option is funded by contributions made by packaging brand owners to administrators of co-regulatory arrangements.

Outcomes the approved arrangement would be required to achieve could include:

- Demonstrated commitment to sustainable packaging design and production;
- Supporting improvements in the national packaging recycling rate and national litter through additional recovery and litter clean-up;
- Minimum recycling targets based on material type to ensure that recycling is not achieved by targeting one material type.

Option 2B: Industry Packaging Stewardship

This sub-option builds on option 2A, meaning it includes all the elements of option 2A in addition to targets proposed under this option. It also includes an enhanced focus on away-from-home beverage container recycling and all packaging litter reduction. Option 2B deals with all packaging materials, with targeted initiatives on beverage containers and glass market development. This option is based on the National Bin Network (NBN) proposal brought forward by leading companies in the beverage manufacturing and packaging sector which include Amcor Australasia, Coca-Cola Amatil, Lion, Schweppes Australia and Visy.

Based on the proposal put forward by industry, it is possible that projects supported could include the following:

- Infrastructure and systems to recover containers where beverages are consumed in commercial settings such as airports, shopping centres, entertainment centres, educational institutions and at workplaces;
- Improvements to kerbside recycling to ensure that what is collected is actually usable;
- Improved remote and regional recovery through back loading arrangements using beverage industry distribution networks;
- Provision of incentives for cleanup which could involve community organisations to run clean up days and then put in place the necessary infrastructure to keep sites clean.

The focus of these initiatives is on increasing the recycling of beverage containers, particularly of glass, polyethylene terephthalate (PET) plastics and aluminium, consumed away-from-home. To reduce litter, this option focuses on addressing the impacts from all types of packaging and all material types including quick service restaurant packaging, confectionary packaging, cigarette packaging and beverage packaging.

This sub-option involves the current APC and NEPM arrangements transitioning under the co-regulatory provisions of the Act. However, part of the industry would undertake additional action than that required by the current APC. The liable parties for the broader packaging outcomes would remain packaging brand owners, however particular class of products, beverage packaging, and brand owners contributing to the litter stream, would be subject to higher outcome targets to reflect the focus on problem areas.

Option 2C: Extended Packaging Stewardship

This sub-option is also based on the APC arrangement being transitioned under the Act. It deals with all packaging materials. It differs from sub-options 2A and 2B in that it involves substantially increased industry action across the packaging supply chain to achieve a significant improvement in packaging recycling and litter reduction.

A wide variety of interventions and projects could potentially be undertaken by the approved arrangements under this sub-option which includes support for:

- National extension of local council operated kerbside recycling opportunities to SMEs;
- The development of licensed recycling collection points servicing defined geographical areas;
- End market development support for materials types that are not necessarily reprocessed into their original product type, for example glass that is used in road construction and playgrounds and standard setting for end products.

Option 3: Mandatory Advance Disposal Fee (ADF)

This option would involve the Government placing a mandatory ADF on all packaging materials. An ADF is intended to influence producer choices toward particular policy objectives by reducing consumption of packaging, increasing recovery of used packaging and source reduction by packaging manufacturers and brand owners.

An ADF provides a source of revenue for the end-of-life management of packaging or for other environmental initiatives. The revenues collected from industry would be used to fund recycling and litter reduction initiatives broadly similar to those covered in option 2C.

The ADF would be designed as a weight based fee per tonne of packaging materials. The fee would vary depending on material type, the cost of recycling the material or the cost of end-of-life disposal of that material. This option would require new legislation to authorise the imposition and administration of the ADF.

Initiatives undertaken as part of this option could include:

- National extension of local council operated kerbside recycling opportunities to SMEs;
- The development of licensed recycling collection points servicing defined geographical areas;
- Extension and improvement of the coverage of recycling opportunities throughout Local Government Areas (LGAs).

The key difference between this option and sub-option 2C is that the funds required would be collected and managed by the Commonwealth Government.

Option 4: Mandatory Container Deposit Scheme:

This option involves establishing a mandatory CDS to deal with beverage container packaging waste. This would be a deposit-refund arrangement under the co-regulatory and/or mandatory provisions of the Act. Under this option consideration could also be given to prohibiting the sale, import and manufacture of non-recyclable beverage containers.

Two sub-options are proposed under Option 4. One has been proposed by the Boomerang Alliance and the other is based on case studies of schemes operating internationally and from elements of the

South Australian CDS. The key difference between these sub-options is the configuration of collection facilities.

Options 4A and 4B are predicated on implementation of a national scheme which recognises the different infrastructure circumstances in the states and territories. Both options are assumed to build upon existing collection and recycling infrastructure in jurisdictions that do not have an existing CDS. Both options propose separate targets for packaging brand owners and beverage brand owners.

Option 4A: Boomerang Alliance CDS

The Boomerang Alliance has proposed a CDS sub-option which covers a broad range of beverage containers up to and including 3 litres, including wine bottles and milk containers, not included in the current SA or NT CDS. The liable parties would be all constitutional corporations that manufacture ready to drink product beverage containers covered by the scheme.

This option is based on a hub and spoke container redemption/collection model operated through a mandatory product stewardship scheme. It involves a $0.10 container deposit that can be redeemed by returning eligible containers to collection points, built on a hub and spoke model (around 200-250 hubs), 640 reverse vending machines (RVMs) and 1,000 collection depots at supermarkets and other retail outlets.

A CDS not-for-profit organisation would be established to manage the scheme and oversee the payment of receipts in and out of a Government operated fund. The scheme would be regulated under the *Product Stewardship Act 2011* and regulatory provision would be needed to require larger supermarkets to install RVMs in outdoor parking spaces, if there is not a public facility within a specified distance.

Option 4B: Hybrid CDS

Option 4B is a national CDS model based on case studies of schemes operating internationally and elements of the existing South Australian scheme. It is based on the development of an Australian-specific CDS, based on British Columbia's Encorp Pacific CDS and drawing on elements and data from the existing scheme on South Australia.

The scheme would cover all containers up to and including 3 litres. It would include wine bottles and milk containers, which are not included in the existing SA or NT CDS. The CDS also differs from the current SA scheme in that it involves a mix of collection infrastructure such as store front depots and RVMs. It assumes a deposit of $0.10 per beverage container, as in SA, but increased in $0.10 increments over time to keep pace with inflation.

Key features of this CDS include:

- A principally depot-based approach. Approximately 850 depots would be provided nationally. These would principally be store-front-style depots which would be complemented by RVMs. In less densely populated areas, where RVMs are less viable, collection centres would be provided;
- The depots would be operated by independent owners/operators who would be contracted by the program administrator and distributed geographically to ensure coverage and consumer convenience;
- Interested retailers, recyclers and other organisations, such as sporting venues and entertainment venues, could become approved to be collection centres.

This option would require consideration of transitional issues in SA and the NT. This option is proposed as an industry-driven scheme based on the *Product Stewardship Act*. Industry would establish a Product Stewardship Organisation (PSO) to operate the scheme and meet specified performance targets. This means that industry would be responsible for meeting the full costs of the scheme and providing incentives for the consumer to return beverage containers for recycling.

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