

Chapter 3

Discussion of key issues

3.1 The committee found that there is both support for and opposition to container deposit schemes. Environmental and community organisations believed that the schemes are effective at keeping containers out of the litter stream and encouraging recycling.¹ For example, Keep South Australia Beautiful (KESAB) submitted that:

Beverage container recycling rates in South Australia outstrip all Australian jurisdictions...receive a very high level of community support...and achieves the lowest beverage container litter rate.²

3.2 Beverage manufacturers and representatives of the food and beverages industry submitted their opposition to the scheme, arguing that it is an out-dated and costly method of recycling.³ For example, the Australian Beverages Council stated:

It is the Beverages Council's concern that a [container deposit scheme]...that addresses *just* beverage containers is an antiquated approach to litter reduction and recycling, and believe that in 2012 and beyond, a more integrated and broader approach to these issues is possible.⁴

3.3 Whilst noting submitters' general comments about the merits of container deposit schemes, the committee's inquiry has focused on the matters dealt with in its terms of reference. More specifically the committee has examined the cost structure of container deposit schemes, issues surrounding unredeemed deposits and rates of return, issues of transparency to ensure unreasonable costs involved in operating the schemes are not passed on to consumers and one other related matter concerning small containers.

The pricing of beverages in container deposit schemes

3.4 Boomerang Alliance, a collective of environmental groups committed to achieving zero waste in Australia, submitted that it had concerns that beverage manufacturers could use container deposit schemes as a means to overcharge for products sold in states that operate container deposit schemes.⁵

1 For example see Keep South Australia Beautiful (KESAB), *Submission 3*, p. 2; Total Environment Centre, *Submission 6*, p. 1; and Conservation Council of South Australia, *Submission 11*, p. 1.

2 KESAB, *Submission 3*, p. 2.

3 For example see Australian Food and Grocery Council (AFGC), *Submission 1*, p. 4; Australian Beverages Council, *Submission 5*, p. 1; National Packaging Covenant Industry Association (NPCIA), *Submission 8*, p. 1; and Winemakers' Federation of Australia, *Submission 18*, p. 1.

4 Australian Beverages Council, *Submission 5*, p. 1.

5 Boomerang Alliance, *Submission 23*, p. 1.

3.5 Boomerang Alliance argued that beverage manufacturers may be increasing the price of their products sold in South Australia and the Northern Territory above what is needed to fund the container deposit schemes.⁶

3.6 The cost of operating container deposit schemes in South Australia and the Northern Territory involve:

- a 10 cent deposit paid to consumers on return of containers;
- a handling fee paid to collection depots for handling containers;
- a fee paid to super collectors for administering the scheme and transporting containers from collection depots.⁷

3.7 Handling costs may be offset by the sale of recovered scrap materials (such as aluminium, PET and HDPE).

Claims made by Boomerang Alliance

3.8 Boomerang Alliance submitted that it believed the current costs involved in operating the South Australian scheme are 60 cents per dozen containers paid as a 'handling fee' and 0.05 cents per dozen containers paid as an administration and transportation fee.⁸ These costs are offset by the sale of recovered scrap materials of approximately 2 cents per container. According to Boomerang Alliance, 'at a current recycling rate of 80% this represents a total net cost per container sold (i.e. where the CDS cost is passed into the price) of 10.72 cents per container'.⁹

3.9 Boomerang Alliance therefore asserted that:

This means prices could increase by a maximum of 11 cents per container and the net impact on consumers is 1 cent (net of deposit) when they return their containers.¹⁰

6 Boomerang Alliance, *Submission 23*, p. 5.

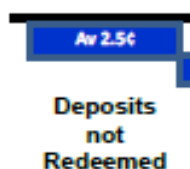
7 Environmental Protection Authority (SA), *Container deposit legislation—a South Australian success story*, May 2010, pp 2–3, available at: http://www.epa.sa.gov.au/xstd_files/Container%20deposit/Information%20sheet/info_cdl.pdf (accessed 14 November 2012).

8 Boomerang Alliance, *Submission 23*, p. 3.

9 Boomerang Alliance, *Submission 23*, p. 3.

10 Boomerang Alliance, *Submission 23*, p. 3.

*Boomerang Alliance's estimation of the South Australian container deposit scheme costs per container*¹¹



3.10 In the Northern Territory, Boomerang Alliance used regular data reporting provided by beverage manufacturers and super collectors to the Northern Territory government on the container deposit scheme to estimate that the cost of the scheme at 3.8 cents per container:

From January to June 2012, 70.4 million beverage containers were sold in the NT and depots collected a total of 20.1 million containers. This means bottlers paid out a total of \$2.01 million in refunds and no more than \$684,000 in handling fees—a total cost of \$2.694 million. Spread across sales of 70.4 million this represents a cost (including deposits refunded) of 3.8 cents per container.¹²

3.11 Following on from its estimation of the cost per container of operating the container deposit schemes, Boomerang Alliance submitted that it conducted an analysis of the price of beverage items sold by a major supermarket retailer in the central business districts of Adelaide, Darwin, Perth and Sydney.¹³ The purpose of this study was to identify cost increases in beverages in those cities that operated the container deposit schemes (Adelaide and Darwin) as compared to those cities without the schemes (Sydney and Perth).

3.12 For each city, Boomerang Alliance viewed the price of beverages via the supermarket's online shopping system and its shopping catalogue.¹⁴ Five products that did not attract a deposit were also checked for price variations to determine if there was a general variation in price across cities.¹⁵

3.13 In examining prices of beverages in South Australia and the Northern Territory, Boomerang Alliance stated that they were motivated by claims made by the Australian Food and Grocery Council (AFGC) that beverage prices in South Australia and the Northern Territory were high due to the container deposit schemes.¹⁶

11 Boomerang Alliance, *Submission 23*, p. 3.

12 Boomerang Alliance, *Submission 23*, p. 4.

13 Boomerang Alliance, *Submission 23*, p. 4.

14 Boomerang Alliance, *Submission 23*, pp 4–5.

15 Boomerang Alliance, *Submission 23*, p. 5.

16 Boomerang Alliance, *Submission 23*, p. 4.

3.14 According to its analysis, Boomerang Alliance found that prices in Adelaide are 9.7 cents higher than in cities without container deposit schemes and prices in Darwin are 12.8 cents higher.¹⁷ Boomerang Alliance also believed that three major bottlers in South Australia and the Northern Territory 'had increased prices across most of their brands and were charging customers more than 100 per cent over the costs they incurred'.¹⁸ This is in contrast to the rest of Boomerang Alliance's findings that 'most leading beverage brands have absorbed some of the cost or are passing on (at most) the deposit cost'.¹⁹

3.15 In presenting its argument to the committee, Boomerang Alliance highlighted that its research indicates how container deposit schemes could be exploited and highlights the concerns of community groups regarding the schemes, while acknowledging the limitations of their research:

...to use our evidence on the basis of whether there is misconduct, negligence and profiteering we do not think is reasonable. It is not the community sector's job to do that sort of investigation into this matter; it is our job to act as a representative of the community and highlight issues which are of concern to us.²⁰

Beverage industry response to claims made by Boomerang Alliance

3.16 The beverage and grocery industry strongly refuted the claims made by Boomerang Alliance that container deposit schemes provide an opportunity for beverage manufacturers to increase prices above what is required to operate the scheme.²¹

3.17 The AFGC submitted that it believes the claims made by Boomerang Alliance to be 'ill-founded and without substance'.²² The AFGC argued that beverage companies do not set retail prices—retailers do:

When, and if, the container deposit and handling fees are added to the wholesale price of containers sold into markets in the Northern Territory and South Australia by beverage containers, local retailers will then apply their retail margin plus GST.²³

3.18 The AFGC was also concerned that the Boomerang Alliance methodology did not take into account the fact that regular retailer discounting and product promotions

17 Boomerang Alliance, *Submission 23*, p. 5.

18 Boomerang Alliance, *Submission 23*, p. 5.

19 Boomerang Alliance, *Submission 23*, p. 5.

20 Mr David West, National Policy Director, Boomerang Alliance, *Proof Committee Hansard*, 7 November 2012, p. 2.

21 For example see AFGC, *Submission 1*, p. 7; Coca-Cola Amatil, *Submission 4*, pp 1–2; Australian Beverages Council, *Submission 5*, p. 2; and Lion, *Submission 7*, p. 2.

22 AFGC, *Submission 1*, p. 7.

23 AFGC, *Submission 1*, p. 7.

occur constantly.²⁴ As such, the AFGC argued that a substantial survey of beverage prices in South Australia and the Northern Territory would need to be monitored over a long period of time and across a broad range of retailers.²⁵

3.19 The AFGC also provided the committee with a report it commissioned into the claims made by Boomerang Alliance.²⁶ The commissioned report, conducted by ACIL Tasman, found that the Boomerang Alliance report was based on 'a flawed premise and the data used are inadequate to support meaningful analysis'.²⁷

3.20 The report also went on to state that there are many factors that contribute to rises in beverage prices, including local factors and retail competition:

...there is no reason to assume that retailer and wholesale prices will automatically move in parallel with one another, with retailers simply passing on changes in wholesale price to their customers.

Retail pricing is a complex process. Retailers routinely 'fine tune' prices with regard to local demographics and a range of factors including competition from other retailers.

The result is that the retail price of the same product can vary across relatively small distances within the same supplier. This has been shown by the ACCC in Australia and is documented in economic literature in other countries.²⁸

3.21 In summarising its analysis of the Boomerang Alliance claims, the AFGC contended that it:

...fails on all counts: firstly, by failing to take account of local factors and retailer promotions, which the ACCC found to have the greatest influence on retail grocery prices; secondly, by its inadequate data sample and inconsistencies in the data that is presented; and thirdly, by their lack of understanding of how the retail sector works. If prices are increased at the wholesale level, retailer margin and GST will increase those prices, forever, in most instances...²⁹

3.22 However the AFGC did concede that their study to counter the claims made by Boomerang Alliance was based on a similar methodology to that used by

24 AFGC, *Submission 1*, p. 7.

25 AFGC, *Submission 1*, p. 7.

26 See AFGC, Tabled document (7 November 2012), *Beverage pricing under container deposit schemes*.

27 AFGC, Tabled document (7 November 2012), *Beverage pricing under container deposit schemes*, p. 2.

28 AFGC, Tabled document (7 November 2012), *Beverage pricing under container deposit schemes*, p. 2.

29 Ms Jenny Pickles, General Manager, Packaging Stewardship Forum, Australian Food and Grocery Council (AFGC), *Proof Committee Hansard*, 7 November 2012, p. 8.

Boomerang Alliance and only examined prices at a 'snapshot of time'.³⁰ According to the AFGC, it conducted '...some very quick analysis, certainly not for the purposes of demonstrating anything other than that prices had risen'.³¹

3.23 Beverage manufacturers Coca-Cola Amatil and Lion also raised objections to the argument put forward by Boomerang Alliance. Coca-Cola Amatil stated that its approach to pricing is to 'recover the costs of regulation from the region covered by that regulation'.³² Coca-Cola Amatil highlighted that beverage manufacturers have additional costs above and beyond the payment of handling fees to super collectors in order to participate in container deposit schemes, such as the printing of separate labels for South Australia and the Northern Territory, holding additional stock units with loss of warehouse capacity, additional line changing time and loss of production efficiencies, cost impacts of small volume runs and additional administrative and accounting work.³³

3.24 Further Coca-Cola Amatil informed the committee that competitive market forces prevent beverage manufacturers from charging excessive prices for products as consumers can choose not to purchase products that are too expensive. Coca-Cola Amatil stated:

In terms of the financial underpinnings of the scheme, or pricing, regulators and legislators have taken a view that we do not have prices justification tribunals anymore. There is a belief in the market operating to keep prices regulated. Should legislation be changed to bring in that sort of prices justification mechanism, if people are advocating that, we would comply with any regulations as such. Our view as a corporation is that that is not necessary where you have adequate operation of competitive markets.³⁴

3.25 Lion refuted Boomerang Alliance's argument 'on the basis of scant facts and incorrect assumptions'.³⁵ Lion informed the committee that:

In both South Australia and the Northern Territory, [container deposit loop] CDL systems are market based. Robust competition exists at each point in the supply chain, from beverage manufacturers and wholesalers, to retailers, container collectors (ie: depot operators), waste contractors and materials coordinators.

While the deposit amount in both jurisdictions is set by regulation, the handling fee and other system costs are determined by the market.³⁶

30 Ms Jenny Pickles, General Manager, Packaging Stewardship Forum, AFGC, *Proof Committee Hansard*, 7 November 2012, p. 12.

31 Ms Jenny Pickles, General Manager, Packaging Stewardship Forum, AFGC, *Proof Committee Hansard*, 7 November 2012, p. 12.

32 Coca-Cola Amatil, *Submission 4*, p. 2.

33 Coca-Cola Amatil, *Submission 4*, p. 2

34 Mr Alec Wagstaff, Corporate Affairs, Coca-Cola Amatil, *Proof Committee Hansard*, 7 November 2012, p. 14.

35 Lion, *Submission 7*, p. 2.

3.26 Lion further stressed that 'Australian food and beverage manufacturers are operating in a highly competitive domestic market, with an increasingly concentrated retail sector in which manufacturers' margins are experiencing unprecedented squeeze'.³⁷ According to Lion, pricing is a critical value driver and is approached carefully and strategically by the company.³⁸ Lion stated that 'pricing is reviewed periodically to drive our brand and business objectives, within the context of a highly competitive and price-sensitive market'.³⁹

3.27 Also of concern to Lion was what they perceived as Boomerang Alliance's lack of understating of the beverage supply chain. Lion submitted that in many jurisdictions, particularly in the Northern Territory, there is an additional party in the beverage value chain—a wholesaler—to whom Lion sells its products for on-selling to retailers.⁴⁰ Accordingly, each party in the value chain determines its own pricing which involves a range of factors.⁴¹

3.28 Both the beverage industry groups and beverage manufacturers highlighted to the committee that the Australian Competition and Consumer Commission (ACCC) has investigated claims of overcharging in the grocery sector and found that, overall, there are myriad reasons why prices will vary from retailer to retailer, place to place and over time.⁴²

3.29 Boomerang Alliance suggested that where legislation, such as that covering container deposit schemes, could have an impact on the price of products, special provisions be inserted to ensure that unreasonable charges are not passed on to consumers. Boomerang Alliance proposed:

Where it is a priority of the government to introduce legislation that has impacts on consumers—and the two most obvious examples are the goods and services tax [GST] and the carbon tax—it is common practice to put provisions on what is and what is not reasonable to charge a consumer and mechanisms to investigate that. The problem we have is that that does not extend into a variety of waste schemes.⁴³

36 Lion, *Submission 7*, pp 2–3.

37 Lion, *Submission 7*, p. 4.

38 Lion, *Submission 7*, p. 4.

39 Lion, *Submission 7*, p. 4.

40 Lion, *Submission 7*, p. 3.

41 Lion, *Submission 7*, p. 3.

42 For example see Ms Jenny Pickles, General Manager, Packaging Stewardship Forum, AFGC, *Proof Committee Hansard*, 7 November 2012, p. 8; Australian Beverages Council, *Submission 5*, p. 2; Lion, *Submission 7*, p. 5.

43 Mr David West, National Policy Director, Boomerang Alliance, *Proof Committee Hansard*, 7 November 2012, p. 1.

Committee comment

3.30 The committee acknowledges that a debate about the price impacts of imposing a container deposit scheme is inevitable.

3.31 The argument presented by Boomerang Alliance is reliant upon very basic and rudimentary price surveys that the organisation has undertaken. Beyond the deposit refund, handling fees and recycling material rebate, their data fails to separate out other factors that may contribute to the cost of container deposit schemes such as local conditions, promotional pricing and the cost of manufacturing containers intended for the container deposit scheme markets let alone other reasons for possible price rises or differentials.

3.32 Similarly, the AFGC's claims of price rises due to container deposits made in various examples of media commentary highlighted by Boomerang Alliance appear to be based upon similarly weak methodology and poor data.

3.33 The committee was not presented with any compelling evidence to support the argument put forward by Boomerang Alliance—that beverage manufacturers may be increasing their prices above what is needed to operate the container deposit schemes. The committee also stresses that the ACCC is the appropriate regulator to deal with matters of overcharging and price collusion and that if there is evidence of such claims, that evidence should be provided directly to the ACCC.

3.34 It is clear that there is a cost impact above and beyond the cost of the 10 cent container deposit, although the evidence as to the extent of that impact is varied. Where market conditions allow, companies have taken the decision to pass on those cost impacts to consumers. The committee acknowledges the competitive environment that manufacturers operate in and the role played in retail pricing by wholesalers and retailers too.

3.35 Nonetheless, the committee believes that if another state or territory was to adopt a container deposit scheme, or if a national container deposit scheme was to be adopted, there would be understandable consumer interest in ensuring that—as was the case with the GST and the carbon price—the imposition of such a container deposit scheme was not used as justification for price rises beyond those warranted by the scheme. While in no way suggesting this has been the case in South Australia or the Northern Territory, the committee believes it would be preferable to address such concerns up front, in the initial design of any further schemes.

Recommendation 1

3.36 The committee recommends that should a national container deposit scheme be agreed to and implemented through the COAG process, steps similar to those used during the GST and carbon pricing policies be taken to ensure it is not used as a justification for price rises beyond those warranted by the scheme.

Recommendation 2

3.37 The committee recommends that should any other state implement a container deposit scheme, they be mindful of taking steps to ensure it is not used as a justification for price rises beyond those warranted by the scheme.

Super collectors and pricing structures

3.38 The committee's inquiry had a particular focus on the transparency of the container deposit schemes and, in particular, on the role of super collectors in the setting of price structures and determining rates of return.⁴⁴ Questions were also raised over what occurs with deposits collected on unredeemed containers.⁴⁵

3.39 In the South Australian and Northern Territory container deposit schemes, beverage manufacturers are required to have in place a waste management agreement with a major recycler (the super collector) before their products are able to be sold.

3.40 The waste management agreement is established between beverage manufacturers and the super collectors, which in turn have contractual arrangements with smaller collection depots. The super collectors obtain funds from the beverage manufacturer to cover the refund value and handling fees, and reimburse collection depots for refunds paid to people who take containers to the depots. The super collectors subsequently seek end markets for the aggregated containers recovered from depots.⁴⁶

3.41 The waste management agreements take into account the refund value plus a service and handling fee to cover collection depot and super collector costs and profit margins.⁴⁷ The agreements also consider recovery rates of the various container types.

3.42 Waste management agreements are determined by the market under commercial terms and the content of individual agreements can vary, as does the handling fee for various container types.⁴⁸ Indeed two super collectors suggested to the committee that their businesses are not charities but are intent on 'providing the best possible service at the most competitive cost'.⁴⁹

3.43 In South Australia there are three approved super collectors: Marine Stores (owned by Coca-Cola Amatil), Statewide Recycling (owned by Lion and Coopers Brewery), and Flagcan Distributors.

3.44 In the Northern Territory there are five approved super collectors (also known as container deposit scheme coordinators): NT Coordinators, Statewide Recycling, Envirobank NT, NT Recycling Services and Marine Stores.⁵⁰

44 For example see Mr Tony Circelli, Deputy Chief Executive, Environment Protection Authority, South Australia, *Proof Committee Hansard*, 7 November 2012, pp 59–60; Mr David West, National Policy Director, Boomerang Alliance, *Proof Committee Hansard*, 7 November 2012, p. 2; and Mr Alex Wagstaff, Director, Corporate Affairs, Coca-Cola Amatil, *Proof Committee Hansard*, 7 November 2012, p. 18.

45 Boomerang Alliance, *Submission 22*, p. 1.

46 Environment Protection Authority (South Australia), *Submission 27*, p. 2.

47 Environment Protection Authority (South Australia), *Submission 27*, p. 2.

48 Environment Protection Authority (South Australia), *Submission 27*, p. 2.

49 See Mr Alex Wagstaff, Director, Corporate Affairs, Coca-Cola Amatil, *Proof Committee Hansard*, 7 November 2012, p. 18; and Marine Stores, *Submission 10*, p. 2.

50 Northern Territory Government, *Submission 28*, p. 1.

3.45 One of the super collectors, Marine Stores, informed the committee that the pricing structures used to refund and recycle beverage containers on behalf of manufacturers and importers has a number of variables.⁵¹ In both the South Australian and Northern Territory schemes there are a number of uncertainties, such as the rates of return of containers and the value of recyclable materials.⁵² Marine Stores explained the price structure involved in calculating their waste management agreements:

In general, the South Australian system is mature and predictable, allowing Marine Stores to set pricing annually with a high level of confidence. The cost components in our South Australian business include the deposits redeemed based on actual return rates, the handling fees negotiated with the RSA—or Recyclers of South Australia—the scrap value of recyclable materials, and Marine Stores' freight costs, infrastructure and overheads...

The Northern Territory scheme is not as mature, with inadequate infrastructure, conflicting legislative arrangements and still-emerging risks and costs, including increasing, although inconsistent, return rates. While handling fees paid to collectors are similar to those paid in South Australia we are incurring significantly higher risks and costs in the Northern Territory, which have necessitated pricing adjustments to make provision for these additional exposures.⁵³

Calculating rates of return

3.46 In calculating fees for their services to the manufacturers, Marine Stores indicated that they make an estimate of the rate of return of containers which are then measured against actual return rates.⁵⁴ The clients of the super collectors are then able to be charged for the correct amount of refunds of their product that is returned.

3.47 Marine Stores informed the committee that if beverage manufacturers have been incorrectly charged on their rates of return a credit is returned to them. Marine Stores stated:

...if we underestimate the return rates or the value of the material then the brand-owners need to compensate Marine Stores; similarly, if it goes the other way then a credit could be applied to the manufacturers. However, in the case of the Northern Territory, the prudent position has been taken that

51 Dr Timothy Cooper, AM, Chairperson of Directors, Marine Stores, *Proof Committee Hansard*, 7 November 2012, p. 48.

52 Mr Gary Bull, General Manager, Marine Stores, *Proof Committee Hansard*, 7 November 2012, p. 49.

53 Dr Timothy Cooper, AM, Chairperson of Directors, Marine Stores, *Proof Committee Hansard*, 7 November 2012, p. 48.

54 Dr Timothy Cooper, AM, Chairperson of Directors, Marine Stores, *Proof Committee Hansard*, 7 November 2012, p. 49.

provisions have been made for the likely increase in costs going forward, and the fact that more material will come back.⁵⁵

3.48 In order for super collectors to calculate the rate of return, containers need to be sorted, or 'split', into different products and brands. The Recyclers of South Australia, an association representing collection depots, informed the committee of the process to sort containers:

...the responsibility under the [Environment Protection] Act of an approved depot is to take back the label-approved products. That is the legislative part of it. The super collector is interested in the products they control and need to manage, so how they are handled and sorted and how the audit check is conducted are all matters [conducted] for the super collector and usually relates to a combination of count by declaration and/or a weight check and variation on weights.⁵⁶

3.49 The Recyclers of South Australia went on to state that the methodology for calculating return rates are specified in contracts and rates are based on a manual audit.⁵⁷ The Recyclers of South Australia stated:

...there is a methodology in the contracts. How that should evolve is currently up for debate. Essentially, there is a manual audit conducted. Plastic is probably the most sensitive. Cans are pretty well uniform—there are some different sizes but they are much more uniform, so less sensitive. PET bottles, which is a large slice of the market, vary from the 200-millilitre to two-litre size, and bigger with some containers. So there is a need to work out averages per kilogram in three different size groups: smalls, mediums and large. They are sorted into those sizes and then they are manually counted to come up with an average per kilogram so that depots can be paid that amount of money, whereas the act requires us to count and pay on individual items not by weight, so there is always that little bit of conflict between what we pay out and what those averages are.⁵⁸

3.50 The committee heard evidence that in South Australia the number of splits required in processing returned containers is much less than occurs in the Northern Territory.⁵⁹ The Recyclers of South Australia argued that the fewer number of splits in South Australia is the result of their association 'negotiating and using...contractual

55 Dr Timothy Cooper, AM, Chairperson of Directors, Marine Stores, *Proof Committee Hansard*, 7 November 2012, p. 50.

56 Mr Trevor Hockley, Consultant, Recyclers of South Australia, *Proof Committee Hansard*, 7 November 2012, p. 34.

57 Mr Trevor Hockley, Consultant, Recyclers of South Australia, *Proof Committee Hansard*, 7 November 2012, p. 34.

58 Mr Trevor Hockley, Consultant, Recyclers of South Australia, *Proof Committee Hansard*, 7 November 2012, p. 34.

59 Mr Trevor Hockley, Consultant, Recyclers of South Australia, *Proof Committee Hansard*, 7 November 2012, p. 35.

arrangements to make sure that we get efficiencies with our negotiations with super collectors'.⁶⁰

3.51 The committee considered evidence which suggested the number of different co-ordinators in the Northern Territory ensures that it has a higher number of splits. Mr Stewart Pritchard stated:

With the recognition of each [c]o-ordinator a whole new set of “splits” has been created. With each co-ordinator requiring separation of clear, green and brown glass, aluminium, liquid paper board, clear and coloured P.E.T. and H.D.P.E....with only a token effort to “bulk” product we have the totally ridiculous situation of separating the 8 different containers for the 5 different Co-ordinators.⁶¹

3.52 It was suggested that improvements in technology could help in the processing of returned containers and reduce the need for manual splits to occur. KESAB suggested that:

Clearly the number of splits that are required is an impost on the recycling depots when it comes to the physical handling of product.

...

I would have thought that in this day and age with technology and with companies working to a common system, the [container deposit loop] CDL system, it would not be that difficult for them to work through a cost centre to amortise their product volume that goes out into the retail market and that is returned based on a percentage and would not necessarily require the splits into brands...when you could just collect five million bottles. Amortised at five per cent based on market share would be one brand, seven per cent another brand, and then there would not be the requirement for splits. The glass is, after all, palletted and sent off to be remade, the aluminium is blocked and sent overseas or sent to a factory for reuse, and PET the same.⁶²

3.53 Marine Stores told the committee that the current system in South Australia of sorting products is manually intensive, but introducing technology to assist with sorting would be expensive.⁶³

Unredeemed deposits

3.54 Concerns were also raised about whether additional deposits were collected by beverage manufacturers on containers that were not returned.⁶⁴ The South

60 Mr Trevor Hockley, Consultant, Recyclers of South Australia, *Proof Committee Hansard*, 7 November 2012, p. 35.

61 Mr Stewart Pritchard, *Submission 17*, p. 2.

62 Mr John Phillips, OAM, Executive Director, Keep South Australia Beautiful (KESAB), *Proof Committee Hansard*, 7 November 2012, p. 15.

63 Mr Gary Bull, General Manager, Marine Stores, *Proof Committee Hansard*, 7 November 2012, p. 48.

Australian Environment Protection Authority (EPA) outlined the issue of unredeemed containers:

There are two potential situations here with unredeemed deposits...

If a beverage supplier comes to a super collector and the arrangement struck is that they will pay 100 per cent of their sales to that super collector to pass on, back through the system, to the collection depots and to the consumers, and then only 80 per cent of those goods on the right-hand side get returned to the collection depots, in that case the super collector would theoretically have kept 20 per cent of all the costs negotiated with that contract. So that is the handling fee, and the deposit...

On the other hand, as we have heard today from submissions, if the beverage manufacturers are paying on returns but passing on the deposit and the handling fee on 100 per cent, let us say, on all their sales, then indeed the beverage manufacturer would be collecting a tidy sum of 20 per cent of all those costs. We have said in our submission that if you assume that unredeemed deposits are occurring in the marketplace, then in South Australia alone it is probably about a \$20 million gain that one of these parties is making.⁶⁵

3.55 The Boomerang Alliance, in particular, was concerned with the potential for unredeemed deposits.⁶⁶ It is the opinion of Boomerang Alliance that a lack of transparency around the price structure of the container deposit scheme could allow either super collectors or beverage manufacturers to make profits above what is needed to operate the scheme. Boomerang Alliance contended:

That money, in every container deposit scheme around the world—except for South Australia and the Northern Territory—is clearly identified as a deposit. It is money held in trust, not money owned by the bottlers.⁶⁷

3.56 Boomerang Alliance was concerned that if there are any unredeemed deposits being held, who holds those deposits.⁶⁸ Boomerang Alliance stated that the unredeemed deposits could be sitting with the beverage manufacturer or the super collector.⁶⁹ Boomerang Alliance further contended that:

64 Mr David West, National Policy Director, Boomerang Alliance, *Proof Committee Hansard*, 7 November 2012, p. 2.

65 Mr Tony Circelli, Deputy Chief Executive, Environment Protection Authority, South Australia, *Proof Committee Hansard*, 7 November 2012, p. 59.

66 Mr David West, National Policy Director, Boomerang Alliance, *Proof Committee Hansard*, 7 November 2012, p. 2.

67 Mr David West, National Policy Director, Boomerang Alliance, *Proof Committee Hansard*, 7 November 2012, p. 2.

68 Mr David West, National Policy Director, Boomerang Alliance, *Proof Committee Hansard*, 7 November 2012, p. 2.

69 Mr David West, National Policy Director, Boomerang Alliance, *Proof Committee Hansard*, 7 November 2012, p. 2.

[the unredeemed deposit] is sitting in the hands of the bottler or the bottler's coordinator. We believe it is in hands of the bottler. Having read the submissions that have been made, it is as clear as mud exactly where that flows through, because the super collectors are owned by bottlers in the majority of instances. We would contend that making 4c cents on a bottle on that pricing scenario is somewhat outrageous.⁷⁰

3.57 The EPA informed the committee that it does not know if there is 'such a concept as unredeemed deposits or not'.⁷¹ The EPA stated:

We do not have any evidence—we do not sight the commercial contracts, in terms of what arrangements have been struck between the beverage manufacturers and the super collectors, and neither do we know how the cost arrangements occur on the pricing side between the wholesalers and the retailers. As we have seen, those prices fluctuate. They discount; they amortise costs across the country—or have done so, historically; perhaps that is not the case anymore. It is quite a difficult thing, and our economists are continually scratching their heads to figure out what they can assume, what sense they can make and whether the unredeemed deposits are actually occurring or not.⁷²

3.58 The EPA further stated that it believes that 'these concerns are currently subject to dispute between beverage container approval holders and super collectors, and can only be resolved by these parties without direct intervention by the EPA'.⁷³

3.59 Coca-Cola Amatil countered these claims in stating that it is not making profits from unredeemed containers.⁷⁴ Coca-Cola Amatil argued that the contracts that they negotiate with super collectors for the refunding and handling of containers are long-term agreements that take into account the projected rates of return for recycling containers. Coca-Cola explained that the refund they pay collectors:

...is not a set deposit, for a start. For instance, if the collection rate were 50 per cent and that were confident over a long period of time, then in fact we would collect 5c, not 10c...because we would only collect what we were going to pay out. If the deposit is 10c and half of it is being collected, we will only ever pay out the equivalent of 5c for every bottle we sell.⁷⁵

70 Mr David West, National Policy Director, Boomerang Alliance, *Proof Committee Hansard*, 7 November 2012, p. 2.

71 Mr Tony Circelli, Deputy Chief Executive, Environment Protection Authority, South Australia, *Proof Committee Hansard*, 7 November 2012, p. 59.

72 Mr Tony Circelli, Deputy Chief Executive, Environment Protection Authority, South Australia, *Proof Committee Hansard*, 7 November 2012, p. 60.

73 Environment Protection Authority (South Australia), *Submission 27*, p. 2.

74 Mr Alex Wagstaff, Director, Corporate Affairs, Coca-Cola Amatil, *Proof Committee Hansard*, 7 November 2012, p. 18.

75 Mr Alex Wagstaff, Director, Corporate Affairs, Coca-Cola Amatil, *Proof Committee Hansard*, 7 November 2012, p. 18.

3.60 Coca-Cola Amatil further pointed out that if claims that beverage manufacturers were pocketing substantial profits from unredeemed containers were true, it would be 'surprising that we would not be advocating the extension of that national scheme so that we could then pocket \$150 million additional profit nationally'.⁷⁶

3.61 Similarly Marine Stores stated that there is a readjustment of charges made by the super collectors depending upon the return rate of containers.⁷⁷

Transparency

3.62 Boomerang Alliance suggested that the container deposit schemes could be more efficient and remove the need for splits if there was more transparency in the pricing structure. According to Boomerang Alliance, if the money paid by consumers as the deposit for the container was itemised on their receipt and held by one independent body, there would not be the need for splitting the returned containers. Boomerang Alliance remarked that:

...the deposit is not transparent and is not levied. In every [container deposit] scheme around the world, once again, when you get a receipt the deposit is an item and any handling is an item on your grocery bill, which means the money is independently managed...What is inherently inefficient in South Australia and the Northern Territory is this idea that says, 'Each bottler will make their own arrangement.'...

In effect, that means that, if these containers are being recovered, they have to be managed by a brand, which means that the split or the sorting is magnified by every coordinator. The optimum is seven splits. In the Northern Territory, at the moment, they are managing 28 splits. That is about a 40 per cent loading on handling fees. It also means transport is duplicated.⁷⁸

3.63 In contrast to Boomerang Alliance's demands for more transparency in the setting of super collector costs, Coca-Cola Amatil (owner of super collector Statewide) argued to the committee that an adequate amount of transparency already exists in the container deposit schemes. Coca-Cola explained:

We have absolute transparency in what we charge an individual customer. A customer who is doing business with us clearly has transparency at the price we are charging. They can compare that price from alternate suppliers. In some cases that can be for an alternate brand of a similar product. In some cases it can be for the same brand through an alternate source—say, through a wholesaler, distributor or, in some cases of small businesses,

76 Mr Alex Wagstaff, Director, Corporate Affairs, Coca-Cola Amatil, *Proof Committee Hansard*, 7 November 2012, p. 19.

77 Mr Gary Bull, General Manager, Marine Stores, *Proof Committee Hansard*, 7 November 2012, p. 49.

78 Mr David West, National Policy Director, Boomerang Alliance, *Proof Committee Hansard*, 7 November 2012, p. 3.

through a supermarket as an alternate source. In that sense they have the transparency of knowing what they pay for.⁷⁹

3.64 Coca-Cola Amatil, on behalf of Statewide, also argued that for true competition to occur amongst super collectors, requiring further transparency may have the unintended effect of stifling competition:

We have no problems with transparency of regulatory schemes, absolutely. We think they definitely should be there...However where the regulators of the legislation decide to operate a competitive market, the need for transparency and accountability needs to be balanced against the benefits of competition. One of the very elements of competition is commercial confidentiality. In fact, if you are going to prevent cartel and collusive behaviour, you cannot have as much transparency. So in terms of the South Australian model and the Northern Territory model, they are both competitive models. You have a number of competitors actually vying for business and if you were to have open transparency of their cost structures et cetera, you could not operate a commercial operation.

So as a listed company, we are subject to accountability in terms of financial reporting and in terms of competition practices through the ACCC, and we welcome all of those accountabilities. But in terms of where you run an environmental scheme in a competitive way, I think people need to realise that there is a trade-off between the transparency and accountability and the commercial reality of operating that sort of scheme.⁸⁰

Committee comment

3.65 The committee acknowledges that there are many complexities involved with the operation of the container deposit scheme and how the pricing structures are set. The waste management agreements that are made between beverage manufacturers and super collectors are conducted in an open and competitive market. As with any commercial operation, the super collectors are exposed to risks and market forces and as such will seek to make a profit when participating in the container deposit schemes.

3.66 There are complexities involved in super collectors determining price structures which are driven by a range of uncertainties, such as the return rates of containers and the value of recyclable material. It is important that the beverage manufacturers, and in particular the smaller manufacturers, have confidence in the cost models applied by the super collectors regarding rates of return. This is particularly important in light of a number of super collectors owned by fellow beverage manufacturers. It is vital that transparency is shown in the vertical integration of beverage manufacturers and super collectors to ensure that the public and small manufacturers have faith in the container deposit schemes.

79 Mr Alex Wagstaff, Director, Corporate Affairs, Coca-Cola Amatil, *Proof Committee Hansard*, 7 November 2012, p. 16.

80 Mr Alex Wagstaff, Director, Corporate Affairs, Coca-Cola Amatil, *Proof Committee Hansard*, 7 November 2012, p. 14.

3.67 The committee recognises that resolving some the issues raised by submitters in relation to increasing transparency and using technology to better improve the container deposit schemes would need to be correctly balanced. For example, while the implementation of technology to assist with the sorting of containers could increase efficiency, it could also increase the cost of processing containers in the short term.

3.68 In relation to unredeemed deposits and estimations of the rates of return, the committee acknowledges the evidence given by super collectors that credits are provided should overcharging occur. All super collectors indicated that the rate they charge manufacturers varies based on the experienced rates of return. Accordingly, the committee has seen no evidence that profiteering via unreturned containers is occurring as alleged.

3.69 The committee however has concerns that some manufacturers remain unhappy with the level of transparency surrounding the calculation of return rates and feel that they could be subsidising other manufacturers as a result. On the evidence available the committee feels that methods to address those concerns and provide transparency to such manufacturers may be inadequate.

3.70 The committee therefore recommends that should another state or territory adopt a container deposit scheme, or if a national container deposit scheme is to be adopted, there should be appropriate measures to ensure transparency in estimating and reporting return rates for various products and appropriate measures to assist in dispute resolution between any beverage manufacturers and super collectors.

3.71 The committee also recommends that the South Australian and Northern Territory governments should review their schemes to ensure confidence in estimating and reporting return rates for various products and that appropriate measures are in place to assist in dispute resolution between any beverage manufacturers and super collectors.

Recommendation 3

3.72 The committee recommends that should a national container deposit scheme be agreed to and implemented through the COAG processes, there should be appropriate measures to ensure transparency in estimating and reporting return rates for various products and appropriate measures to assist in dispute resolution between any beverage manufacturers and super collectors.

Recommendation 4

3.73 The committee recommends that should any other state implement a container deposit scheme, they be mindful of implementing appropriate measures to ensure transparency in estimating and reporting return rates for various products and appropriate measures to assist in dispute resolution between any beverage manufacturers and super collectors.

Recommendation 5

3.74 The committee recommends that the South Australian and Northern Territory governments should review their schemes to ensure confidence in

estimating and reporting return rates for various products and that appropriate measures are in place to assist in dispute resolution between any beverage manufacturers and super collectors.

Other related matters

3.75 As part of its inquiry the committee became aware that fermented milk products in containers less than 100 millilitres are included in the container deposit schemes. These products are intended for dietary health and must be refrigerated up until consumption.

3.76 Under the current South Australian and Northern Territory regulations, such containers must be included in the container deposit schemes with a 10 cent deposit.

3.77 The current South Australian regulations on the container deposit scheme do however exempt health tonics that are supplied with a label specifying that the tonic is for medical purposes and is a recommended maximum dosage.⁸¹ Similarly the current regulations also exempt containers containing milk from the container deposit scheme as they are almost always consumed in the home and do not contribute to the public litter stream.

Committee comment

3.78 The committee also notes that small fermented milk products are overwhelmingly consumed in the home and as such would be recycled via existing kerbside recycling schemes and their contribution to the litter stream would be negligible. The inclusion of such products in container deposit schemes is likely to provide a marginal benefit to reducing litter or increasing recycling rates at best.

3.79 The committee therefore recommends that the South Australian and Northern Territory governments give consideration to removing products that are sold in containers less than 100 millilitres and that need to be kept refrigerated from being included in their container deposit schemes.

Recommendation 6

3.80 The committee recommends that the South Australian and Northern Territory governments give consideration to removing products that are sold in containers less than 100 millilitres and that need to be kept refrigerated from being included in their container deposit schemes.



Senator Simon Birmingham

Chair

81 Environmental Protection Regulations 2009, regulation 42.