

Submission on the Waste Reduction and Recycling Amendment Bill 2017



3 July 2017



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Committee Secretary
Agriculture and Environment Committee
Parliament House
George Street
Brisbane Qld 4000

(by email: aec@parliament.qld.gov.au)

Dear Agriculture and Environmental Committee

Submission on the Waste Reduction and Recycling Amendment Bill 2017

We are pleased to provide feedback to the Agriculture and Environmental Committee on the elements of the *Waste Reduction and Recycling Amendment Bill 2017* (the **Bill**) that introduces a Container Refund Scheme (**CRS**) for Queensland.

About Exchange for Change

Exchange for Change is a group of five beverage companies – Asahi Beverages, Carlton & United Breweries, Coca-Cola Amatil, Coopers Brewery and Lion – who collectively represent over three quarters of the total containers which will be subject to the proposed CRS.

Our group has unmatched experience in the operation and coordination of container refund schemes in Australia. Members of our group have operated the largest existing Australian scheme in South Australia for decades. Members of the group also operate within the Northern Territory scheme, and our broader corporate relationships provide us with best practice from overseas.

Our vision for the QLD CRS is closely aligned with the objectives of Government as set out in the Bill. In particular, our vision for the CRS includes:

- The full achievement of environmental outcomes, including a reduction in litter and an increase in the volume of collected and recycled materials;
- Manufacturers of beverage products fulfilling their corporate and product stewardship responsibilities;
- Operating the CRS as effectively and efficiently as possible to minimise the cost imposed on the community and consumers;
- Opportunities for social enterprises and community groups to benefit from the participating in the Scheme; and
- Robust and transparent governance arrangements to enhance confidence in the scheme for all parties concerned (including Government, environmental groups, industry and the broader community).



Response to the Bill

We wish to provide the following specific comments for your consideration in respect of the Bill:

- 1 **CRS legislative framework** – The CRS must be operated as effectively and efficiently as possible to minimise the cost imposts of the scheme on the community. The final legislation should be principles-based and outcomes-focused, with minimal restrictions placed upon how the objectives of the scheme are to be achieved by the Producer Responsibility Organisation (**PRO**). We expect that many innovative and effective solutions will be proposed during the Application process for the appointment of the PRO and the PRO's subsequent process to appoint the Container Refund Point Operators and other logistics, processing and recycling partners. We also believe it is important to allow for innovation and optimisation after scheme commencement, throughout operation. **It is therefore critical that the legislative and regulatory framework is not overly prescriptive with respect to the way the CRS should be formed or operated by the PRO.**
- 2 **Role of the PRO** – We support the proposed role and responsibilities of the PRO articulated in the legislation. Furthermore, **we agree that the PRO should have overall responsibility for the operation of the scheme, including achieving state-wide access, coverage and recovery targets.**
- 3 **Formation of the PRO** – We support the Government's desire for the Scheme to be operated by a PRO. We note that we:
 - Fundamentally believe that **the PRO must be operated by beverage manufactures;**
 - Support Government's requirements for the Minister to appoint an independent board chair and director representing the interests of the community; and
 - We suggest that the composition of the PRO's board, beyond those two roles, should not be enshrined within legislation as this may hamper the PRO establishment process (including ability to access sufficient capital to fund the PRO mobilisation activities). **The composition of the board should be a matter to be agreed between the entity making an Application to be the PRO and the Minister as part of the Application process.**
- 4 **PRO capital** – **The establishment of the scheme will require significant investment and working capital from the PRO to provide for the development of systems and infrastructure, payment of refunds, handling fees and the scheme operating costs.** We therefore suggest that the Government does not seek to mandate through legislation how this working capital requirement will be satisfied to fund the scheme; we instead recommend that the Government allows the PRO to propose a solution through the PRO Application process.
- 5 **Development of standardised contracts** – Contracts should be standardised where possible. Standardised contracts should include those between:
 - The PRO and the Container Refund Point Operators (Container Collection Agreement); and
 - Suppliers and the PRO (Container Recovery Agreement).

To allow innovative system design, **we recommend that the development of these contracts be the responsibility of the PRO** (with Government review and approval). While this increases the onus on the entity applying to be the PRO, any fixed contract structure issued by Government may lead to a more constrained system design solution and therefore a potentially sub-optimal



outcome. This also ensures equity of treatment between Scheme Participants which should be a fundamental objective of the PRO.

- 6 **No regional monopolies** – We understand that members of the waste industry are likely to argue for the inclusion of a regional zone model similar to the model proposed to deliver the NSW CDS. **We strongly advise against the introduction of arbitrary zones or monopoly Container Refund Point Operator roles**, as these will result in:
- **Decreased competition** – The utilisation of a regional or zone model will result in only a small number of Container Refund Point Operators having the ability to contract with the PRO. This creates significant risk for smaller potential Container Refund Point Operators that wish to operate within a region controlled by the monopoly Container Refund Point Operator, especially because their operations are likely to compete with the incumbent Container Refund Point Operator for container volumes. The appointment of regional or zonal monopolies will serve to consolidate market power and decrease competition within the system.
 - **Decreased innovation** – Regional monopolies will likely reduce innovation. Under an “open market” model, Container Refund Point Operators will be free to enter components of the market or scheme where they have a competitive advantage through the use of innovative or disruptive technologies without the need to partner with existing Container Refund Point Operators (who may be unwilling to cooperate given that the new entrant may disrupt their existing businesses).
 - **Reduced ability for community groups and local solutions to participate** – Where a monopoly Container Refund Point Operator operates their own Container Refund Points in the area, local and community based organisations are likely to be denied the opportunity to participate in the CRS by operating their own Container Refund Points. We are already receiving feedback in NSW that this is an outcome of the regional monopolies.
 - **Increased cost** – The complexity and potential lack of competition referred to above will ultimately result in additional cost being added to the CRS system as a whole. In South Australia, the metropolitan and regional Container Refund Points contract directly with the PRO. This has been a successful model with informal “networks” developing where that is a logical and effective market outcome.
 - **Regional and rural coverage** – We have visited and spoken with potential Container Refund Point Operators in regional areas. The infrastructure to operate collection depots already exists or can be easily added to existing businesses or at regional MRFs and waste facilities. Having a local owned and operated Container Refund Point will be a cost efficient way to implement the scheme throughout regional and rural QLD. To the extent a Container Refund Point Operator could not be found, the PRO should be accountable to accept the coverage risk in these regions.
- We strongly recommend that Government does not include regional zones or monopolies in the CRS legislation or regulations, rather the Government requires the PRO to deliver appropriate access and coverage.**
- 7 **Ownership of collected containers** – We suggest that a decision in relation to the ownership of collected containers should not be made in the legislation or regulations, rather it should be left to the PRO to ensure the scheme design is efficient and effective. The PRO may wish to



retain ownership of collected containers (as opposed to ownership vesting with the Container Refund Point Operators) or approve a limited number of material brokers who will compete to buy the material and sell it to recyclers, as it will:

- Enable the PRO to verify container counts and volumes more accurately through being involved in the ultimate recycling or sale;
- Facilitate improved recycling and resource recovery outcomes, with the associated environmental and energy benefits, as a result of consolidating scrap volumes and allowing for efficiencies within Australia’s broader recycling networks;
- Enable the PRO to reconcile the inputs in to the CRS from the manufacturers’ declarations with the sale and exit of the material to recyclers. In the absence of the PRO having the ability to reconcile the material leaving the system there will be an increased risk of systemic fraud as material “loops” within the CRS;
- Maximise the value of scrap which can then be applied to offset the cost impact of the CRS on end consumers. The PRO can establish appropriate sale procedures and aggregate higher volumes to take to the recyclers / market in single allotments;
- Simplify the structure and calculation of handling fees. Handling fees will not need to include an offset for scrap value, which will fluctuate with commodity values of scrap;
- Limit Container Refund Point Operator exposure to commodity risk. Fluctuations in scrap value could instead be borne by suppliers through their contracts with the PRO. Suppliers are naturally hedged against movements in rates for scrap value (i.e. if the cost of aluminium in new beverage cans increases, the value of scrap will also increase in value and vice versa). This allocation of risk in our view represents the best value for money as risk rests with the parties best able to bear it;
- Allow Container Refund Point Operators to focus on the management of Container Refund Points and associated logistics as opposed to market operations (which the PRO can manage more efficiently centrally or through the material brokers), opening the Container Refund Point Operator market to greater competition as scrap trading is not a required capability or part of the risk profile; and
- Provide better working capital management for Container Refund Point Operators (as the PRO can pay them for collected containers progressively, as opposed to only receiving payment on presentation of large batches of containers to recyclers / the market).

- 8 **Access / coverage targets** – We consider that setting access and coverage targets requires careful consideration as these will have a large impact on the level of cost in the system, may vary region to region (and by Container Refund Point type) and will be difficult to define in advance.

In general, to the extent that access and coverage targets are defined in legislation or regulation, they should be set such that:

- A cost-effective scheme can be established and maintained over the long-term; and
- The scheme is sufficiently convenient to motivate consumer uptake and the achievement of the target redemption rates.

One example of how general accessibility targets could have adverse consequences, despite an intention to improve consumer access, is in relation to opening hours. If Container Refund Points



were required to operate a certain number of hours a day (e.g. 35 hours a week and up to 8 hours a day), this could potentially **prevent the establishment of Container Refund Points where volumes could not sustain an operation for that mandated opening hours requirement.**

Prescribed operating hours will have the potential to severely limit access to participate in the CRS for Social Enterprise and Community groups which are traditionally operated by a combination of staff and volunteers (for example scout groups and other community groups often have “natural” opening hours that may not align with mandated opening hours). In South Australia, for example, there are depots that advertise shorter hours and the local residents know when to drop off their containers – under that scheme, each operator is free to optimise their opening hours.

Following this particular example, **Container Refund Point Operators should have flexibility in determining appropriate operating hours.**

In South Australia and the Northern Territory businesses have naturally established to take advantage of opportunities arising from the Container Deposit Scheme. Over the course of the many years that the Scheme has been in place, businesses have entered and competed as container refund points and offered residents a great level of convenience. The distribution of container refund points has naturally established to match the relative local demand. The open competition means that there is a natural incentive for the container refund points to operate efficiently at the price per container offered by the supercollectors (scheme coordinators). Container Refund Points will develop around population and community centres. In regional areas Container Refund Points are added onto existing businesses to supplement income for the business owners. **These jurisdictions have not prescribed a certain number of Collection Points as is proposed in NSW, which risks the volume of containers per refund point dropping to non-viable levels with the potential resultant inflation of Scheme cost / failures of Container Refund Point businesses.**

It is anticipated that latent demand, along with adequate handling fees, will ensure that the market delivers appropriate coverage and accessibility.

Access/coverage targets, if used, should be flexible, and allow sustainable operations in the competitive Container Refund Point market.

- 9 **Use of technology** – The legislation or regulations should not prescribe the use of specific technologies or systems (e.g. RVMs or automated counting technologies), rather the use of these technologies should be at the discretion of the PRO and Container Refund Points. We anticipate that these types of technology will be utilised where they are appropriate (without the need for them to be prescribed) in response to customer demand and achievement of efficiencies within the CRS.

- 10 **Recovery targets** – Different jurisdictions will have different inherent levels of recovery.

An initial recovery target should be set with reference to 12 full months of data (to capture seasonality) to the measured recovery rate once the scheme has fully “built-up” (estimated in our response above to be achieved after 18-24 months) as opposed to being mandated in legislation or regulation. **We do however agree that the State should set an end state target for the recovery rate that the Scheme should deliver and for which the PRO will be accountable.**



We anticipate that recovery rates will change over time as a result of:

- Hoarding of containers pre scheme commencement;
- Container redemptions driven by MRF volumes;
- Growth in the Container Refund Point network (and volumes transferring from MRFs to Container Refund Points);
- Changes in consumer behaviours; and
- Once the initial target has been set we propose that recovery rates be regularly recorded and reported, and that targets be periodically reviewed to ensure that they reflect changing dynamics of the scheme.

- 11 **Handling fees** – In principle we believe that fees paid to Scheme participants should be structured to reflect the functions that need to be efficiently performed to collect, process, transport and ultimately recycle containers.

At this stage we suggest that Government does not seek to mandate a fee structure; rather, we suggest that the Government provides the PRO with the ability to develop an appropriate handling fee structure which will sustain the Container Refund Point network.

- 12 **Payment of Refund Amounts** – **We suggest that the form of payment for Refund Amounts is not mandated in the legislation or regulation.** We suggest that Container Refund Point Operators should be responsible for determining how they offer refunds. Container Refund Point Operators will be competing for volume and therefore should generally be aiming to make their refund options convenient and desirable to customers. Many community groups and social enterprises will be encouraged to participate if non-cash payments are allowed within the framework. We would recommend the use of innovative and flexible refund payment options. Additionally, to support the involvement of community groups and social enterprises in the CRS, we suggest that customers be able to elect to “gift” eligible containers to a Refund Point operated by a community group or charity. Consideration should be given to the State pursuing, with the Federal Government, the opportunity to make donations of containers to charity groups tax deductible.

- 13 **Audit and Verification** – **The PRO should be charged with ensuring the integrity of the CRS.** The PRO should implement a robust and transparent audit program spanning Container Refund Points, container processing and logistics services, container recycling facilities, MRFs and also the appointment of independent auditors to verify beverage manufacture declarations (to ensure that the costs of the CRS are fairly shared). The audit and verification activities should **include activities to reconcile the volume of containers “entering” the CRS from the beverage manufacturers or suppliers and the volume of containers “exiting” the CRS to be recycled.**

- 14 **Material Recovery Facilities** – The participation of MRFs in the CRS raises a number of considerations:

- Assuming that eligible containers collected by MRFs from the kerbside must be eligible for redemption of the refund amount, the refund amount should be shared with the council to avoid MRFs receiving a windfall gain at the expense of rate payers and the community more broadly.



- **MRFs should be specially prohibited from taking containers received from kerbside collections to a Container Refund Points** to access refund amounts in respect of these containers (to avoid “double dipping”).
 - MRFs should assume responsibility for ensuring that eligible containers are recycled in accordance with the requirements of the scheme and provisions should be included to enable the EPA to audit / enforce such requirements.
 - **The PRO should have input into the development of the Recovery Amount Protocol.** Given the potential volumes involved the Recovery Amount Protocol is critical to the integrity of the system.
 - **The PRO, in partnership with the EPA should play an active role in the audit and inspections of MRF processes.** This will ensure that the PRO is well placed to detect fraud or discrepancies across the entire scheme, through this and the other data it will receive through its relationships with the Container Refund Point Operators and beverage manufactures.
 - MRFs should reimburse the PRO and the EPA for costs incurred auditing MRF processes, to encourage efficiency and also in recognition for the benefits the MRFs will gain from the scheme. Audits should be conducted regularly enough and in such a way as to take account of seasonal changes, promotional or special events, geographic and demographic factors and growth of depot network. Cadence of audit frequency in the ramp-up period must be more intensive as baselines are determined. As there is greater take up of Container Refund Points, the proportion of containers in the MRF input stream will decrease.
- 15 **Supply of containers** – We suggest that beverage manufactures or other parties should contribute to the cost of the CRS based on the volume of containers they “first supply” into the State of Queensland. Exchange for Change has detailed thinking on how this model could be implemented (and the operational and financial benefits for the CRS) which it would be happy to share in due course.
- 16 **Container approvals** – We endorse and support the current legislative requirements for the PRO to have the responsibility to manage and maintain the product registration database. We also endorse the ability for the PRO to work in conjunction with the State on container approvals to the extent new material or package types could be introduced that could undermine the scheme or the recycling opportunities.
- 17 **Refund marks** – We suggest that industry will require a period of 2 years to fully meet the requirement for the refund mark (due to the lengthy supply chains for some imported products). A shorter transition period will be operationally difficult and will result in significant additional cost to industry.

We strongly request that the refund mark is consistent across all jurisdictions that have implemented or are planning to implement a container deposit scheme. At the current time this will need intergovernmental agreement between QLD, NSW, ACT, SA, NT, and WA.

To alleviate the risk of needing to change the refund mark multiple times as additional jurisdictions implement CRSs, the best solution for a refund mark would be a logo.



Alternatively, we propose a generic refund mark such as “10 cent refund at collection depots in participating state/territory of purchase” with an accompanying website that provides information on participating states and territories and potentially eligible containers and depot locations. **To the extent this harmonisation is achieved the transition period could be reduced.**

18 **Harmonisation between jurisdictions** – We encourage Government to seek harmonisation with the NSW CDS where possible, including:

- Ensure that legislation and regulations in QLD are optimised to deal with any inter-jurisdictional issues. Subsequent changes to legislation and regulations may be challenging and create additional cost imposts on the Beverage Industry, Container Refund Points, Waste Industry and consumers;
- Promoting consistency across the jurisdictions (minimising system costs and cross-border risks – which is of particular concern given the population size and density in South East Queensland);
- The standardisation of how the costs of the CRS are shared amongst suppliers;
- The standardisation of container scope within the CRS;
- The ongoing maintenance of a standard deposit rate; and
- The agreement of an appropriate refund mark to be used across jurisdictions.



Conclusion

We hope that you find our submission useful and look forward to working with Government to deliver this important initiative. Please do not hesitate to contact us if you have any questions in relation to our submission.

Yours faithfully

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