COAG Standing Council on

Environment and Water

Packaging Impacts

Consultation Regulation

Impact Statement

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# Executive Summary

Australian winemakers are highly concerned about Option 4 – consideration of a mandatory Container Deposit Scheme (CDS).

Such a Government intervention would be a significant industry burden and consumer cost for little environmental gain.

All evidence shows Container Deposit Schemes are costly and poorly designed and that there are much better ways of reducing litter and increasing recycling rates.

Additionally, wine bottles are demonstrably not a contributor to waste or litter streams, yet a deposit on wine bottles has the potential to dampen sales in an industry that is already in crisis and is unable to increase prices without even further damaging sales.

Depending on the amount of the deposit, ACIL estimates retail prices will increase by 12-28 cents per litre, generating a volume hit of 3.48-8.07% for wine beverages.

ACIL also estimates that 767-1,695 direct jobs will be lost as a result of any national container deposit scheme. Around 877 of these would come out of wine production, hitting regional areas in particular.

A CDL is not the best way forward in managing container litter problems.

Over 66% of wine is produced by companies that are signatories to the National Packaging Covenant (NPC). Signatories report annually against the goals, targets and KPIs of the Covenant and also submit their own aims and achievements. It would therefore be unnecessary, and put additional strain on wine producers, if wine bottles were included in any container deposit legislation.

The Australian wine sector has a strong commitment to recycling and waste management. However, punitive and retrograde solutions such as a CDS will encumber wine producers for no material environmental or consumer beneﬁt.

# 1. Introduction

The Winemakers’ Federation of Australia (WFA), the peak representative body for the nation’s winemakers, welcomes the opportunity to respond to the *COAG Standing Council On Environment And Water Packaging Impacts Consultation Regulation Impact Statement*, December 2011.

The following response addresses the discussion in the consultation paper with issues relevant to the Australian wine sector.

WFA strongly supports an evidence-based approach to policy development and we believe that efforts to improve packaging resource recovery rates and decrease packaging litter should recognise and incorporate current schemes such as the Australian Packaging Covenant (APC). The APC is underpinned by National Environment Protection Measures (NEPM) legislation that varies from State to State. Where such a scheme exists, efforts towards nationalising the underpinning existing State-based legislation are welcomed for the consistency and certainty they will provide to manufacturers.

## Australian Packaging Covenant

The APC (previously the National Packaging Covenant) is a whole-of-life strategy to minimise waste and improve resource recovery and has the following specific goals:

* Design: packaging optimised to achieve resource efficiency and reduced environmental impact without compromising product quality and safety.
* Recycling: the efficient collecting and recycling of packaging
* Product Stewardship: a demonstrated commitment to product stewardship by organisations in the supply chain and other signatories.

Outcomes of the Product Stewardship goal are: for signatories in the supply chain to work with others to improve packaging design and recovery; and an overall reduction in litter.

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### Threshold

Companies with an annual turnover of sales in Australia greater than $5 million are required either to be a signatory to the APC or to conform to the NEPM legislation in each State in which they do business.

Of Australia’s 2420 wine companies, around 2200 are small (crush less than 1000 tonnes) and the cost of compliance would be significant. The threshold at which a scheme would apply to a company needs to be considered carefully and industry consultation undertaken.

#### Table 1: Number of producers by tonnes crushed

|  |  |
| --- | --- |
| **Tonnes Crushed** | **Number of Producers** |
| < 1000 tonnes | 2196 |
| 1000 – 5000 tonnes | 97 |
| 5000 – 1000 tonnes | 21 |
| > 10,000 tonnes  | 25 |

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# 2. State of Play

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## Current regulations

In South Australia a mandatory container deposit scheme (CDL) requires the consumer to physically take bottles to a recycling depot to gain the refund. Wine bottles are exempt as they contribute very little to the waste stream.

Currently brand owners are exempt from the NEPM (and therefore the APC) if they have a program in place that produces “equivalent outcomes” to those sought through the APC. The NEPM aims to not place obligations on brand owners of products that do not “significantly” contribute to the waste stream.

These two exemption principles – for wine bottles due to low waste-stream contribution and “equivalent outcomes” – should flow into any considerations of a national scheme.

## Current initiatives

The Australian wine sector and its suppliers have a strong commitment to recycling and waste management. Currently OI-Asia Pacific, a major supplier of wine bottles, includes 35-40% of recycled glass in its production, with the goal of increasing this proportion continually.

This glass is provided through local recycling depots, council recycling programs and local community organisations such as Scouts and charities.

Any consideration of a national scheme should ensure community initiatives are incorporated so that while recycling becomes more efficient, communities do not lose the spirit of helping local organisations.

Lightweighting of glass bottles is an ongoing process, with continual dialogue between bottle manufacturers and wine companies. These advances and proactive outcomes are occurring free of Government intervention or legislative pressures.

Legislative or regulative mechanisms to force environmental outcomes should only be a last resort, especially for industries already putting initiatives such as these in place.

Although the threshold for inclusion in the Australian Packaging Covenant is $5 million of Australian sales, many wine companies which operate below this level are signatories voluntarily because they have a commitment to product stewardship and waste management. They have aspirational reasons for complying. These should not be underestimated and any regulations should encourage this behaviour and emphasise the positives rather than imposing purely punitive measures.

In comparing the successful NPC with a poorly designed and ill-considered CDS, the parallels are stark. For example, the NT scheme has proven to be, in its short life, a costly exercise for almost no environmental gain.  Of an original six collection depots, only one still operates in Darwin. The lack of success of the NT Scheme shows how much has moved in the 40 years since SA adopted its CDS, which preceded kerbside collections, away-from-home consumption, one-way bottles, etc.

# 3. Cost to Industry and Consumers

It is expected that the point of liability of a CDS will rest with the manufacturer or brand owners of the packaging.

In the case of cartons or glass, the responsibility will then rest with the manufacturer or the brand owner (the wine company). When including a product in the legislation, the point of liability will be a crucial factor and should be a major point of consultation and discussion.

## Pass on of costs

The ability for certain primary producers, suppliers, manufacturers, and retailers to “pass on” the costs of their liability is limited by market power, economies of scale, and level of competition.

The wine sector has significant challenges in passing CDL costs on to the consumer as it is between significant oligopoly markets:

* Packaging suppliers – glass manufacture and cardboard cartons manufacture are controlled by a concentrated number of companies
* Customers – Coles and Woolworths are estimated to control over 70% of retail wine sales.

The Australian wine sector is presently faced with a set of once-in-a-lifetime sustainability challenges and cost of business pressures.

Adding the costs of a CDS to these existing pressures is not in keeping with the intentions of the RIS process. While it is not known exactly how much of the CDL costs will be passed through or absorbed, it is in inescapable conclusion from the existing Northern Territory and South Australian schemes that consumer will be the ones who ultimately have to pay.

Whether the costs hit mainly consumers or a mix of consumers and suppliers, CDL is inescapably a big cost to the economy.

At a time of significant rises in the cost of living, a CDL would be an unjustifiable consumer levy for the negligible environmental return.

### Cost of compliance

Manufacturers or brand owners have two choices in regard to the additional cost of compliance; either pass it on to the customer or absorb it. Currently the wine sector is in oversupply, the value of export sales is declining and exchange rates have reduced competitiveness.

An example of the difficulties in remaining economically sustainable is the sharp increases in taxes in the UK, which have not been passed on to the consumer. The UK retailers have passed the increased cost back to the producer, who has had to reduce prices in accordance with the tax increases.

Most challenging is the retail market power in Australia of Coles and Woolworths, which now control an estimated 70% of wine sales.

ABS[[1]](#footnote-1) figures demonstrate the difficulty of increasing wine prices. The wine price index shows that the price of wine only increased by 9% between December 2001 and June 2010 compared with 27% for the CPI and 48% for beer.

Any additional cost burden on brand owners decreases their economic sustainability.

We know from applying price elasticities[[2]](#footnote-2) that an increase in price will result in loss of sales volume overall and an accompanying reduction in employment in regional areas where the wine industry is a significant contributor.

Compliance will be an added impost on business and the cost of the regulatory framework should be borne by government

Depending on the amount of the deposit, ACIL[[3]](#footnote-3) estimates retail prices will increase by 12-28 cents per litre, generating a volume hit of 3.48-8.07% for wine beverages.

ACIL also estimates that 767-1,695 direct jobs will be lost as a result of any national container deposit scheme. Around 877 of these would come out of wine production, hitting regional areas in particular.

## Guidelines to be observed

The Office of Best Practice Regulation ensures that the impact of regulatory proposals and alternative options are explored and that regulation is well-designed so that the objectives of regulations are met and do not impose unnecessary costs on business or the community more broadly[[4]](#footnote-4).

When considering a CDS, the Australian Government Best Practice Regulation guidelines should be observed. These provide criteria to be considered in regulation impact statements such as market or regulatory failure, level of hazard and social goals.

Clearly there is no market or regulatory failure or failure to meet social goals of reduced waste and improved recycling due to the National Packaging Covenant already being in place.

## Wine bottles in waste stream is negligible

The increasing incidence of one-use beverage containers provided the impetus for the SA Government to introduce its container deposit legislation in 1975. The intent of the legislation was to increase recycling of these containers so their contribution to the waste and litter streams was reduced.

However, wine in glass containers does not contribute greatly to the waste or litter stream problem. This is recognised in the South Australian scheme, which currently exempts wine in glass, sachets greater than 250ml or casks.

Times have changed significantly in waste and litter management since 1975, with Keep South Australia Beautiful (KESAB) statistics[[5]](#footnote-5) showing that beverage containers contribute 2.58% to the waste stream nationally and in SA 1.88%. Of the 320 glass items counted in the latest KESAB Wave Report only six were wine and spirit bottles, down from eight in the previous period.

Of the 2.422m3 volume of litter collected from the 151 sites, glass items accounted for 0.059m3 in estimated litter volume and wine and spirits glass 0.005m3, down from 0.007m3 in the previous report – a miniscule amount accounting for only 0.02% of the total volume of litter collected.

As such, any move to impose a National Container Deposit would be a significant industry burden and consumer cost for little environmental gain.

# 4. Conclusion

The Australian wine sector currently supports the concept of product stewardship in principle but with strong reservations about the need to legislate a scheme.

COAG has agreed to a national waste policy, so existing State mandatory schemes should be assessed using the criteria for mandatory schemes in the new legislation.

The automatic assumption that the South Australian Container Deposit Scheme is a worthwhile model to highlight is inherently flawed when comparisons to alternate models are made, as Ministerial Council research has demonstrated.

The criteria for establishing a CDS cannot be met on the evidence and fail to meet the guidelines for legislation outlined by the Office of Best Practice.

It is equally important to ensure common sense prevails and that products that do not contribute to the waste stream in any way and do not pose any potential for environmental damage are excluded from potential capture in any legislation.

Using a polluter-pays principle to assign all the responsibility to the manufacturer or the brand owner is open to debate on issues such as alternative production materials, cost of production, efficiency of production and responsibility of consumers to also protect their environment.

The Australian wine sector has a strong commitment to recycling and waste management. However, punitive and retrograde solutions such as the National Container Deposit levy will encumber wine producers for no material environmental or consumer beneﬁt.

WFA submits that the Government should reject such a proposal, in line with evidence already presented to the Ministerial Council.

1. Australian Bureau of Statistics Catalogue No. 6401.0 Consumer Price Index [↑](#footnote-ref-1)
2. Fogarty, J. The demand for beer, wine and spirits: insights from a meta analysis approach, AAWE Working Paper No. 31, Economics, 2008 [↑](#footnote-ref-2)
3. National Container Deposit Scheme Impacts, Projected changes in Australian retail volumes and associated employment impacts by beverage category, ACIL Tasman, September 2011 [↑](#footnote-ref-3)
4. Best Practice Regulation Handbook, Commonwealth of Australia, June 2010 [↑](#footnote-ref-4)
5. KESAB Wave 46 Litter Stats Report – Sept 2009 and Wave 45 Litter Stats Report – June 2009 [↑](#footnote-ref-5)