



Australian Hotels Association

Submission in relation to:
**Packaging Impacts Consultation
Regulatory Impact Statement**

Standing Council on Environment and Water Secretariat
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Summary

The Australian Hotels Association (AHA) strongly opposes the introduction of a mandatory container deposit scheme (CDS) as a strategy to address litter from beverage containers. A CDS would impose damaging and unnecessary costs on the hotel industry, threatening their viability as businesses and their ability to continue to provide employment opportunities, entertainment options and services to their local communities.

The hotel industry is highly competitive and operates on tight margins. It is particularly sensitive to cost pressures and increases in the cost of living of Australian consumers. The AHA also strongly supports the continuation of existing co-regulatory arrangements through the Australian Packaging Covenant that have efficiently and effectively driven improvements in Australia's recycling performance over the past decade.

The AHA submits that options 1, 2A & 2B are clearly the best policies amongst those presented in the PICRIS as they deliver the highest reported Benefit Cost Ratios (BCR) by a significant margin. They also have the potential to deliver fully against COAG's policy objectives. We would support further consideration of these options, particularly in the context of the \$100 million funding pledge from members of the beverage and packaging industry in support of its proposed co-regulatory initiative the National Bin Network.

The hotel industry is sensitive to government interventions that impact on cost structures and consumer spending and urges Ministers to reject the proposed mandatory Container Deposit Schemes (CDS) modelled in Options 4A and 4B and not give any further consideration to these discriminatory, outdated and extremely expensive options. We note the PICRIS findings that the costs outweighed the benefits of the CDS by between \$1.4 and \$1.8 billion.

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About the AHA

The Australian Hotels Association (AHA) is an organisation of employers in the hotel and hospitality industry registered under the *Fair Work (Registered Organisations) Act 2009*. Its membership of more than 5,000 licensed hotel businesses includes pub-style hotels plus three, four and five-star accommodation hotels located in each state and territory. The AHA's accommodation hotel members are serviced by Tourism Accommodation Australia, a division of the AHA. The AHA has branches located in every Australian capital city and a Canberra-based national office.

About the hotel industry

The hotel industry is a significant employer, with more than 278,000 persons employed between the pub sector (188,000)¹ and the accommodation sector (90,000)², and an annual wages and salaries contribution of \$5.41 billion. In addition there are an estimated 20,000 employees in the casino sector³. Although some hotels are large-scale operations with hundreds of employees which form part of national or international chains, the majority of AHA members are small, locally-owned businesses serving their surrounding communities. In 2005-06 only 145 of 65,197 businesses in the ABS Accommodation, Cafes & Restaurants sector employed more than 100 people.⁴

More than 60 per cent of the revenue of AHA members comes from the sale of beverages⁵, a majority of which are sold in containers both on-premise and also through retail bottle shops.

The hospitality industry is highly competitive, and competition on price results in "relatively low profit margins... of 5.5 per cent, compared with 10.8 per cent across all industries in the economy."⁶ As a result the industry is sensitive to government interventions that impact on the cost of goods sold or on operating costs.

While the industry has developed an excellent track record of reducing its environmental impact, the AHA advocates the need to look to achieve objectives in this area in a way that minimises the economic and financial impact on business.

Hotel sensitivity to changes in cost structures and consumer spending patterns

Many of the AHA's members face a lengthy period of uncertainty in their business and trading environments as a result of regulatory interventions from governments at state/territory and Federal levels. Issues such as gambling pre-commitment schemes, liquor licensing reviews, smoking bans and the harmonisation of work health and safety laws are all current or emerging issues requiring compliance and attention from hoteliers.

The continued high value of the Australian dollar is having a significant effect on tourism, with the latest Tourism Forecasting Committee (TFC) figures showing Australia's tourist deficit continued to

¹ PricewaterhouseCoopers (2009) *Australian hotels: More than just a drink and a flutter*

² Australian Fair Pay Commission (August 2008), *Accommodation, Cafes and Restaurants Industry Profile, Research Report No. 1/09*

³ Australasian Casino Association, *Submission to the Parliamentary Joint Select Committee on Gambling Reform*, 31 January 2011

⁴ Australian Bureau of Statistics (2007), *Australian Industry 2005-06*

⁵ PricewaterhouseCoopers (2009: *Australian Hotels: More than just a drink and a flutter*, p16

⁶ *Ibid*, p40

grow in 2011. With arrivals stagnating and ABS data for the first 11 months indicating 1.7 million more resident departures than foreign arrivals, the TFC expects international arrivals to grow by only 0.4 per cent for 2011, with an improved forecast of 2.7 per cent growth for 2012. Domestic travel, meanwhile, is expected to end 2011 in the red, with nights down 0.3 per cent. A soft recovery is anticipated in the year ahead, with forecast growth of just 0.5 per cent.⁷

The introduction of a price on carbon is expected to have a significant impact on cost structures in the hotel industry from July this year. Treasury modelling shows that carbon price will lead to a 7.9 per cent increase in electricity costs. In addition to this electricity costs are forecast by leading energy consulting firm Trans Tasman Energy Group to rise a further 10 to 15 per cent in 2012. The AHA also notes media reports suggesting electricity prices in NSW could increase by as much as 64 per cent over a three year period.⁸

The AHA has noted that Treasury modelling suggests carbon price-related increases in costs for food and beverage is expected to be around 1 per cent. This would appear to be inconsistent with projected figures from some AHA suppliers of increases of more than 5 per cent. Research from the Australian Chamber of Commerce & Industry (ACCI) indicates that the food and grocery manufacturing industry have calculated carbon price to cost 4.4 per cent of operating profits before tax in 2012-13. Certain sub-sectors are expected to be more significantly impacted, such as dairy product manufacturing (11.5%) meat and meat product manufacturing (11.6%) paper stationery and other converted paper product manufacturing (15.6%). Many of these sub-sectors are major suppliers to the hotel industry which indicates a high exposure of hotels to increased operating costs as a result of the introduction of a carbon price.

The AHA points out that information from suppliers has been difficult to obtain following warnings issued by the Australian Competition and Consumer Commission regarding penalties for providing misleading information on carbon price cost impacts. As a result of these warnings suppliers have been reluctant to provide details around anticipated price changes.

Despite the lack of forthcoming data, the AHA believes the impact of the carbon pricing scheme on the hotel industry will be more severe than suggested by Treasury's modelling, meaning the industry will be less able to cope with additional cost pressures arising from expensive container deposit schemes.

Addressing waste from beverage containers

Recycling rates are already strong and continually improving

Australian attitudes towards waste management and recycling continue to trend towards a willingness to accept greater levels of personal responsibility.

Over 90 per cent of homes use kerbside recycling⁹, which operates in the vast majority of towns and regional areas, as well as in every major population centre. Kerbside recycling allows consumers to dispose of beverage containers with minimal effort. Evidence shows that recycling rates are already high and will continue to improve without a CDS.

⁷ Tourism Transport Forum (Feb 2012) *Tourism Industry Update*, p2

⁸ Sydney Morning Herald (18 March 2010) *NSW electricity prices to soar*, via <http://www.smh.com.au/nsw/nsw-electricity-bills-to-soar-20100318-ggiw.html>

⁹ Australian Bureau of Statistics (2011) *1301.0 – Year Book Australia 2009-10*

52 per cent of beverage containers are recycled (not the 38% claimed by the Boomerang Alliance which wrongly includes containers stockpiled in warehouses not in circulation) according to a study undertaken by Equilibrium for the Packaging Stewardships Forum of the Australian Food & Grocery Council.¹⁰

The AHA points out that waste from beverage containers comprises less than 3 per cent of all waste.¹¹ At a time when many sectors of the Australian economy (including parts of the hotel industry) are struggling with the impact of declining tourist numbers, rising cost pressures and flat consumer sentiment, it makes no sense to impose \$1.4 billion to \$1.8 billion in CDS related cost to address such a small part of the litter stream when there are other more effective options available at lower cost.

Container deposit schemes must be rejected

A CDS will have a significant impact on hotel revenues, both from takeaway bottleshops and on-premise bar sales. As noted above, the industry is facing a number of external cost pressures already and many regions remain mired in poor trading environments.

A 2011 study by ACIL Tasman for the Australian Food & Grocery Council modelled the impact of container deposit schemes at various points ranging from 11 cents to 26 cents per container (including the deposit and handling fee). The AHA is concerned to note that the expected impact on the following products sold by hotels:

Table 1: Estimated retail price impact of a National CDS by category (% change)

Product	CDS \$0.11	CDS \$0.14	CDS \$0.16	CDS \$0.24	CDS \$0.26
	%	%	%	%	%
Packaged Beer	7.17	9.12	10.43	15.64	16.94
Wine	0.96	1.22	1.39	2.09	2.26
Cider	4.23	5.39	6.15	9.23	10.00
RTDs	3.80	4.84	5.53	8.29	8.98
Spirits	0.37	0.47	0.54	0.8	0.87

Source: ACIL Tasman (September 2011) 'National Container Deposit Scheme Impacts'

Table 1 above indicates that even at the lowest end of the CDS price spectrum, the impact on packaged beer, cider and RTDs (pre-mixed spirit-based beverages) is likely to be significant enough to cause a drastic impact in sales. The sale of beverages produces more than 60 per cent of hotel industry revenue, or \$6.7 billion per year¹², meaning even a 5 per cent decline in sales would represent a loss to the industry of around \$335 million before factoring in additional flow-on impacts on revenues from gaming and food sales.

ACIL Tasman also estimated the loss of between 767 and 1695 jobs in the beverage manufacturing sector as a result of a CDS¹³. This figure does not include an estimation of job losses in the

¹⁰ Equilibrium (2011) *Compilation of contestable data for 2010-11 on the consumption and recycling of glass, aluminium, LPB, HDPE and PET beverage containers, and in addition aluminium aerosol containers*, p3

¹¹ Keep Australia Beautiful (2011) *National Litter Index & Keep South Australia Beautiful (2009) Wave 46 Litter Stats Report*

¹² PricewaterhouseCoopers (2009: *Australian Hotels: More than just a drink and a flutter*, p16

¹³ ACIL Tasman (September 2011) *National Container Deposit Scheme Impacts*, p14

hospitality and retail sectors as a result of price increases and the actual impact on employment could be much more severe than estimated.

Container deposit schemes are extremely expensive 'band-aid' measures that address only a small component (beverage containers make up less than 3 per cent¹⁴ of all waste) of the total waste stream. They impose a cost on all consumers, the bulk of whom are already doing the right thing in recycling their empty containers in their kerbside bins and disposing of 'away from home' waste appropriately without littering. They fail to address source issues such as improving packaging design and production efficiency, addressing littering attitudes and behaviour, and building infrastructure to support better waste disposal habits.

Support for industry-funded proposal

The AHA supports the introduction of measures to reduce litter and waste that are proven to be efficient and cost-effective, and that allow for recycling of good quality raw materials that close the recycling loop.

The National Litter Plan proposed by members of the packaging and beverage industry is a comprehensive strategy (part of the National Bin Network) which aims to reduce the volume of litter by 10 per cent by 2016, and by 20 per cent by 2021. The industry proposal comes with a \$100 million funding pledge over five years and focus on education, infrastructure and enforcement as the three core pillars of effecting behavioural change.

This significant commitment aims to increase beverage container recycling rates to from 52 per cent to 70 per cent by installing over 30,000 new away from home recycling bins and increasing glass recycling rates.

The PICRIS notes that only option 2A was found through the cost-benefit analysis to produce benefits that outweigh market costs, while options 4A and 4B (CDS options) are the highest cost options and have the lowest BCRs (benefit-cost ratios) of all the options, indicating they represent the largest net cost to the economy.¹⁵

Current industry packaging initiatives

In addition to the industry support of the Australian Packaging Covenant and the National Bin Network proposal outlined above, the AHA is aware of several voluntary initiatives of beverage manufacturers to reduce the environmental impact of their products. The wine industry is sourcing bottles made increasingly from recycled glass. Coca-Cola Amatil is also investing \$500 million in new 'blowfill' technology to reduce the volume of plastic in packaging by 35 per cent while also reducing the carbon intensity from its bottling processes by over 20 per cent.¹⁶

These voluntary initiatives by the packaging industry will achieve significant reductions in packaging waste through a well-considered and comprehensive strategy which should be preferred to a costly, simplistic and ineffective CDS.

¹⁴ Keep South Australia Beautiful (2009) *Wave 46 Litter Stats Report*

¹⁵ COAG Standing Council on Environment and Water (December 2011) *Packaging Impacts Consultation Regulation Impact Statement*, xiii

¹⁶ National Bin Network Plan (October 2011), p16

Conclusion

The AHA supports the introduction of measures to reduce litter and waste that are proven to be efficient and cost-effective, and that allow for recycling of good quality raw materials that close the recycling loop. The discussion paper options 1, 2A and 2B are preferred ways to achieve these goals while minimising unnecessary and damaging cost on the economy.

The hotel industry is highly sensitive to additional pressures on cost structures and consumer spending as a result of government intervention. The AHA notes that available evidence indicates a container deposit scheme would have a significant damaging effect on the hotel industry, which relies on the sale of beverages for the majority of its revenues. The PICRIS also identified that the costs of a CDS would outweigh any benefits by between \$1.4 billion and \$1.8 billion, and unacceptable discrepancy when other effective options are available with far fewer costs.

The AHA urges Ministers to support the co-regulatory industry proposal for the National Bin Network and National Litter Plan put forward by the Packaging Stewardship Forum with a \$100 million industry funding commitment. The industry initiative will address the entire waste management stream, rather than focusing only on end disposal of beverage containers at enormous cost to the economy.