



BDA Group
Economics and Environment

Mr Ian Newbery
NEPC Service Corporation
Level 5, 81 Flinders St
Adelaide SA 5000

Beverage Container Investigation Peer Review
by Covec Ltd March 2009

Dear Mr Newbery,

A peer review of the beverage container investigation final report presented to the Beverage Container Working Group (BCWG) by BDA Group and Wright Corporate Strategy has recently been undertaken by Covec. Our brief response to the issues raised in the peer review is at attachment 1.

Most notably, the review provided by Covec suffers from a misunderstanding as to the purpose of the beverage container investigation. Specifically, the intent (and resourcing) of the investigation was to provide a preliminary scoping of potential measures rather than a definitive analysis to guide EPHC decision making. Most of Covec's comments are in relation to a wider scope or depth of analysis than was sought in the investigation.

It is regrettable that Covec failed to take up our invitation to discuss their findings with us prior to submitting their review. This has significantly limited the contribution of the review. This misunderstanding does however emphasise the importance of the EPHC providing supporting commentary to make clear the purpose of the investigation when our final report is publicly released.

We would be happy to expand on our response if sought by the BCWG

Yours sincerely,

Drew Collins
Managing Director

14 April 2009

MELBOURNE
PO Box 6009
Hawthorn West, VIC 3122
Ph 041 268 7712

CANBERRA
PO Box 4022
Manuka ACT 2603
Ph (02) 6282 1443

ABN 97 114 319 961

Attachment 1: Response to the issues raised in the Covec peer review of the beverage container investigation final report.

Covec acknowledge the significant amount of material brought together by BDA / WCS to address a complex issue and to provide a clear and useful report that presents the advantages and disadvantages of the different policy options.

In their executive summary Covec raise three key points:

- The merits of the project objectives, and subsequent cost-effectiveness approach taken, have limited the contribution of the report to the debate;
- The impact analysis has not fully valued upstream impacts and consumer benefits; and
- Some of the analysis of instruments is poorly undertaken and not all assumptions are clearly set out.

Our response to each of these points is provided below.

1. Project objectives and approach taken

There was less 'confusion' over project objectives than assumed by Covec. As a preliminary analysis, the terms-of-reference specifically sought a scoping document which could guide a more detailed assessment of options in the future should EPHC decide further analysis is required. Further it directed the consultant to clarify the scope of works with the BCWG and with input from the SRG.

Significant time was spent working with the BCWG and SRG in determining the assessment objectives and boundary for the analysis, with the BCWG's final direction for the analysis cited in the final report and as noted by Covec.

The three issues identified by Covec (on page 5 of their review) that were not addressed in the final report which they argue limits the contribution of the report are, *as noted by Covec*, outside of the agreed project scope and are matters that EPHC would consider if and when a more detailed assessment of options in the future was undertaken. Covec has failed to recognise that these additional matters are significant research undertakings in their own right and it is prudent for EPHC to justify such investment through the preliminary study.

2. Impact analysis

Covec argue that the impact analysis has not fully valued upstream impacts and consumer benefits. Covec note their frustration that physical estimates are provided and valuation issues discussed, but final determinations on values not presented.

As noted above, the valuation of benefits was outside the agreed terms-of-reference and the cost-effectiveness analysis undertaken. However the terms-of-reference note that the study may be followed by '*a more exhaustive assessment approach, such as a formal regulatory impact assessment*', and we have therefore attempted to illuminate the nature of the key valuation issues that EPHC will need to address in such an assessment.

3. Analysis of instruments

Most of the issues raised by Covec seek greater clarification of assumptions or to tease-out issues they believe would be 'useful' to subsequent EPHC deliberations. As already noted above, EPHC will have the opportunity to further investigate pertinent issues, including those Covec and others believe would be useful.

Attention was specifically paid in finalising the report to document key data and assumptions. However given the breadth of analyses undertaken and extensive datasets compiled to support the analysis, differences of opinion as to which constitute the critical data and assumptions is inevitable.

The instances where Covec call for more extensive documentation of data and assumptions lies primarily with the 'program-based' options, such as extended kerbside recycling, improved recycling at core consumption centres and workplaces. We note in the report that in relation to these options *'there remains a significant shortage of reliable and meaningful data on recovery quantities, even less on costs'*.

We have drawn on (and cited) available studies where possible (such as Hyder 2007, *Independent Assessment of Public Place Recycling*), but have had to supplement this information with data collected from discussions with industry and local government officers, and with information collected from a range of studies conducted by the project team over recent years. Much of this information is commercial-in-confidence. Moreover, our final data estimates generally involve some level of subjective extrapolation of available information which does not lend itself to simple citations.

Accordingly we note in the summary assessment of options that *'the data is uncertain and there are large confidence intervals'* and investigate the robustness of findings to a 20% variance in these costs. Importantly, these options were found to be *'an order of magnitude cheaper'* than other options and so small variations in assumed costs are of no significance.

Nevertheless, in our presentation of the final report to the BCWG, we emphasised that any subsequent assessment by the EPHC in relation to these programs should include a more extensive data collection phase to confirm costs.

Comment on specific points raised by Covec in relation to capital costs

(a) Straight-line depreciation of capital costs of 'program-based' options

Covec has noted that straight-line depreciation over 5 years has been used in some instances to cost capital items, and this approach is inconsistent with economic assessment principles. Covec also note that this assumption will not have significantly impacted estimated economic costs but use it to cast doubt over the broader analysis.

The financial approach to capital costs was initially used when examining the 'program-based' options as the financial viability of the options is of paramount importance to their likely take-up. For example, it is indicated in the final report in relation to workplace recycling:

Initial seed support (capital) would be provided to kick-start the collection of additional recyclables and to build collection runs into financially viable and productive services, such that in a relatively short period of time the services become sustainable and self-funding and do not require on-going subsidy from government

The critical issue in designing the option was in identifying the level of capital needed for the program to be financially viable. The minor estimation error in using this data in the economic analysis is inconsequential relative to the broader level of uncertainty surrounding the data.

(b) Extrapolating 'sunk' costs under the SA CDS to a national scheme

Covec have misunderstood that references to the SA CDS scheme relate only to its financial performance, and that the economic performance of the SA scheme has neither been estimated nor used to extrapolate to a national scheme.

Covec appear to agree with our observation that capital costs under the SA CDS scheme have been fully depreciated and the estimated financial cost of running the scheme – as estimated in consultation with stakeholders - largely ignores capital costs. Covec then raise concern that ignoring capital costs would be inappropriate in estimating the cost of a national CDS. We agree. Our estimated cost structure for a national scheme is not directly extrapolated from the SA experience (rather it draws on wider experiences) and it does include full capital costs which are amortised over the lifetime of the assets when estimating the economic cost per tonne of containers recovered.