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ARA CODE OF PRACTICE FOR THE MANAGEMENT OF PLASTIC BAGS

2004 End of Year Report

This report describes the progress of Group One (supermarket) retailers in implementing the Code for the period of June to December 2004, and includes aggregated audited results as well as descriptions of activities.

The report also contains information regarding the activities of the ARA regarding Group Two (non-supermarket) retailers with respect to the Code.

This report is provided to the Environment Protection and Heritage Council and its contents may be used publicly.

The detailed audit results of individual retailers are confidential and will remain with the ARA.

Presentation of Results

The results from Group one signatories to the Code are presented as an aggregated figure as described in the Code.

Several Group One retailers have raised concerns with the current auditing methodology (including the calculation of the annualised rate) in that in comparing the December figures against the 2002 baseline it actually inflates the overall usage numbers and does not reflect the actual rate of reduction.

Some Group One retailers have provided qualifications in their audit statements that highlight this problem. The ARA and retailers, as part of the ongoing operation of the Code, will conduct a review of the Audit and calculation methodology with KPMG to allow a more accurate reflection of future report results. The ARA would also offer as part of this process to lodge interim quarterly progress reports to assist, with the possible inclusion of state breakdowns. The current reporting methodology does not effectively allow for this at present.

ARA Operational Issues

During the last six months of 2004, the ARA underwent major structural change. The changes have had a deleterious impact on the ongoing management of the Code with respect to Group Two retailers. These effects are reflected in the Group Two results later in the document.

Summary of Progress

Since the inception of the Code, Group One retailers have implemented the initiatives outlined in the Code. The Industry has been committed to meeting the reduction targets specified despite the logistical challenges of doing so.

Bag Reduction and Recycling

The audited results of those Group One retailers that have submitted audited figures (Coles, Woolworths, Franklins, FAL) show they have achieved a reduction in the annualised rate of HDPE plastic bags issued (against the December 2002 baseline) at 31 December 2004 of **26.9 percent**.

As noted in the June 2004 interim report, the severe trading spike created by December has an overall effect on the annualised rate of reduction. The effect is increased as stores "over order" bags for December, overestimating the number of bags they may require for the Christmas trading period. These bags may not actually be used during this period, and will be spread out over the first months of 2005.

The effect of December trading on the figures has caused the seemingly lower figure (when compared to the June report) however the Group One retailers have exceeded the reduction target set down in the Code.

The industry sees a much greater challenge in reaching the 2005 reduction target of 50%. The public education campaigns conducted so far have been enormously successful in changing the public's attitude towards the use of lightweight HDPE plastic bags. The main thrust of ongoing education in 2005 will be to ensure that the public do not accept that the problem has been "solved" and no more needs to be done. The ARA believes the next twelve months will be a much greater challenge than the preceding twelve.

The community has responded strongly to the initiatives, as evident in the strong rate of reduction, and the challenge is now to ensure reasonable momentum is maintained. It is particularly important that customers remember to bring back their reusable bags and it will be important that this year's education campaign has a focus on this important element.

The recycling rate for HDPE bags returned in store as a percentage of total HDPE bags issued for the period June to December 2004 was **3.2 percent**. The Code sets the target for a recycling rate of 15 percent of bags issued by the end of 2005. This figure has actually reduced from June 2004.

The ARA is convinced the reduction in these rates is due to an increased desire by consumers to “hold on” to the bags for secondary uses such as bin liners, etc. As stated in the interim report in June, one of the challenges for increasing recycling rates is the provision of viable alternatives for domestic uses like bin-liners and dog litter clean up bags. Recycling rates will probably not fall in line with the reduction in plastic bags issued until alternatives for these uses are found, as people are not likely to be motivated to bring back bags for recycling when they have a use for them at home. As the supply of these “free” bags dwindles, the laws of supply and demand will ensure they do not appear in recycling bins at store level at an increasing rate. This view is supported by the public education campaign, point 3 as outlined below.

‘Say No to Plastic Bags’ - Behavioral Change Campaign

During 2004 Clean Up Australia spearheaded a community behavioral change campaign in support of the Code's initiatives, with the key message of 'Say No to Plastic Bags'. Campaign funding was primarily provided by Group One signatories.

The campaign commenced in late January 2004. Television, radio and outdoor advertising form part of the campaign, as does public relations, direct marketing and a campaign website.

A retailer pack was developed and made available to all Code signatories at a cost of \$45. Since the Kit was launched in 2004, 213 kits have been ordered from Clean up Australia. Overall this number is lower than anticipated however the kits are continuing to be promoted.

A new campaign is scheduled for 2005 to keep the awareness levels high. The new campaign will focus heavily on the under 40's as it is believed they are the biggest challenge. The campaign will primarily be delivered via television, with increased representation in regional areas.

The key points outlined in the campaign are:

- 1) Say NO to plastic shopping bags
- 2) Switch to reusable bags
- 3) Use them more often, and not just in supermarkets!
- 4) Encourage recycling of unused/old plastic bags
- 5) Get involved and take responsibility

The campaign is scheduled to commence in March / April 2005.

Audit Process

KPMG was appointed by the ARA, on behalf of its key supermarket members, to devise audit guidelines to outline the methodology for conducting audit procedures on selected information reported by large retailers as required by the Code.

The guidelines specify audit procedures on the systems and controls in place for collecting and reporting data and the reliability of data itself, and obtain evidence to support findings.

The outcome from each retailer is a report of factual findings detailing the results from the procedures carried out. The reports cover:

- Systems and controls in place at the retailers for collecting and reporting data on HDPE bags;
- Reliability of the resulting data reported by the retailers; and
- Evidence of retailers' achievements under other specific commitments in the Code.

The guidelines are broken into two parts:

- Head Office checklist – outlines the procedures to be conducted at Head Office for selected information, and serves as the reporting document and provides a template for reporting factual findings to management and the ARA; and
- Individual Store checklist - outlines the detailed procedures to be conducted at individual stores for selected information.

Internal auditors are required to document findings from procedures in the space provided within the checklists, and provide extra information as necessary.

The guidelines stipulate that by the end of 2004, Group One's internal audit departments must have audited 15 percent of their stores based on bag usage, and then Group One's own external auditors need to audit 10 percent of those stores.

Group Two signatories are not required to follow the audit process.

As mentioned earlier in the report, the code signatories will commence a review of the audit process in line with the experiences of 2004 in co-operation with the EPHC. It is believed the current methodology can be enhanced to provide a more consistent and accurate representation of figures throughout the year.

Audited Results – Aggregated results of Coles Myer, FAL, Franklins and Woolworths

In summary, for the period July to December 2004 the Group One retailers have successfully met the six key commitments of the Code.

The summarised results are described below. This summary is taken from the Head Office checklist reports. Part of the detail for these reports comes from the Individual Store audit reports.

1. Reduction in the annualised rate of plastic bags issued (against the 2002 baseline)

A reduction of 26.9 percent was achieved in the June to December 2004 period. This figure is an aggregation of the four Group One retailers results, adjusted for market share.

2. Undertake active development and implementation of viable and environmentally acceptable reusable options to support reductions

All four Group Ones have developed and implemented reusable options as described.

3. Make available in stores of multiple use bags and make available customer information on reusable options

All four retailers have multiple use bags available and offer customer information on reusable options available.

4. Use of HDPE bags containing domestic recycled content and through recycling programs, maximise the recovery of quality feedstock for such bags

All four retailers use HDPE bags containing recycled content, with three out of four using bags with domestic content. Limited feedstock of domestic recycled materials restricts use.

5. Easily accessible and clearly identified recycling stations are offered to customers

All four retailers provide recycling stations to customers.

The retailers achieved a recycling rate for HDPE bags returned in store as a percentage of total HDPE bags issued of 3.2 percent.

6. Train checkout staff to build and maintain awareness of, and support the promotion of alternatives

Three retailers provided training to staff as described in all stores and one provided training in some of the audited stores.

Progress of Group 1 Supermarket Retailers Unable to Provide Audited Reports

The other Group One retailers (Food Works, Metcash IGA) whose systems and operations make using the audit guidelines infeasible have provided information on how they have implemented the Code.

These retailers act as cooperative banner groups and provide members with marketing services. However, stores are individually owned and operated which at times means store compliance and consistency cannot be guaranteed.

In relation to packaging this means that stores source their own suppliers. The banner group retailers provide reusable bag products but member stores are at a liberty to make their own choices as to what they offer customers.

These types of organisation lend themselves to an entrepreneurial spirit where many retailers take a leadership role within their local communities and value providing their customers with environmentally friendly packaging options.

The retailers have made their members aware of the Code and what they need to do to be compliant.

All these retailers offer a range of reusable options at the point of sale, such as green bags, calico bags, cardboard boxes, paper bags, string bags and heavy-duty plastic woven bags.

These retailers encourage their members to sell reusable bags, for example, by continuously updating members on availability and providing order forms in weekly mailbags. Retailers are encouraging customers to use reusables through activities such as advertising in weekly handbills.

All retailers make information available on reusable options and educate customers about bag issues.

All retailers have facilitated staff training to support the Code's principles. For example, bag issues have been incorporated into induction training procedures and information is made available in staff rooms, and staff seminars and awareness campaigns have been run.

It is believed that bags made of recycled material are used at most of the retailers' stores, though as many buy their own bags from various suppliers it is not certain if all of these bags contain recycled content.

Code Signatories

The ARA continues to encourage a wide range of bag-issuing businesses to sign to the Code.

Group One signatories

As defined in the Code, Group One retailers include the major and smaller supermarket chains and independent supermarkets sponsored by wholesalers or under banner groups.

There has been consolidation within the Grocery industry during 2004, with the merger of the Australian United Retailers (AUR) with the FoodWorks group.

Group One signatories are still highly committed to the Code and are striving to meet the ongoing target of 50% reduction by end 2005.

Group One signatories to the Code

- Bi-Lo
- Coles Supermarkets Australia Pty Ltd
- Foodland Australia Limited
- Australian United Retailers/Food Works (AUR)
- Franklins Pty Ltd
- IGA (including Ritchies)
- Officeworks
- Woolworths Supermarkets (including Safeway)

Group Two signatories

As defined in the Code, Group Two signatories are all retailers that issue lightweight HDPE plastic bags that are not in the Group One category.

The Code targets a 25 percent participation rate of ARA Group Two members by 31 December 2004, and an ARA commitment to campaign strongly to enlist as many non-ARA Group Two retailers as possible.

The ARA has promoted the Code through the available avenues, but at this stage there has been a limited response of Group Two retailers. Currently, **126 Group Two retailers have signed**. This represents only 4% of the estimated number of ARA members utilising HPDE plastic bags, well short of the 25% target as outlined in the Code.

Reporting Methodology

The ARA recently conducted an exercise to determine the level of plastic bag usage by its membership. This was done using a 3% sample of the ARA membership who were directly surveyed. The results were broken into key categories. Questions asked included the type of bags used and the number of bags issued to customers on a weekly basis. These numbers were then extrapolated against the entire database to ascertain the number of ARA members using bags and the level of bag usage. This was then compared with the number of category 2 signatories to determine the 4% figure.

The results were as follows:

ARA Members	% age Using HPDE	No Using HPDE	Avge Weekly Bags per Retailer	Bags Issued Per Week	Bags Issued Per Year
8476	41.9%	3552	246	872,264	45,357,775

It is difficult to determine if an increase in the sample size would have produced a higher or lower result, however it is clear the 4% sign up result is disappointing.

The ARA is aware of the EPHC's plans to incorporate reduction targets into the next version of the National Packaging Covenant, and the possible inclusion of Group Two reduction measures into the National Environmental Protection Measures (NEPM) on an ongoing basis. The ARA would seek to work with the EPHC to increase penetration into the Group Two retail sector, including a broad imposition of the Code to all ARA Group Two members with mandatory reporting requirements which are reasonable and achievable.

The ARA remains committed to the reduction of HPDE plastic bag usage.