

# Australian Food and Grocery Council SUBMISSION

30 MARCH 2012

**TO:**  
STANDING COUNCIL ON ENVIRONMENT AND WATER  
SECRETARIAT

**IN RESPONSE TO:**  
PACKAGING IMPACTS CONSULTATION REGULATION  
IMPACT STATEMENT



## 1. PREFACE

The Australian Food and Grocery Council (AFGC) is the leading national organisation representing Australia's food, drink and grocery manufacturing industry.

The membership of the AFGC comprises more than 150 companies, subsidiaries and associates which constitutes in the order of 80 per cent of the gross dollar value of the processed food, beverage and grocery products sectors.

With an annual turnover of \$108 billion, Australia's food and grocery manufacturing industry makes a substantial contribution to the Australian economy and is vital to the nation's future prosperity. The industry is similar in size to the mining sector.

Manufacturing of food, beverages and groceries in the fast moving consumer goods sector<sup>1</sup> is Australia's largest and most important manufacturing industry. Representing 26 per cent of total manufacturing turnover, the sector the second largest industry behind the Australian mining sector and accounts for over one quarter of the total manufacturing industry in Australia.

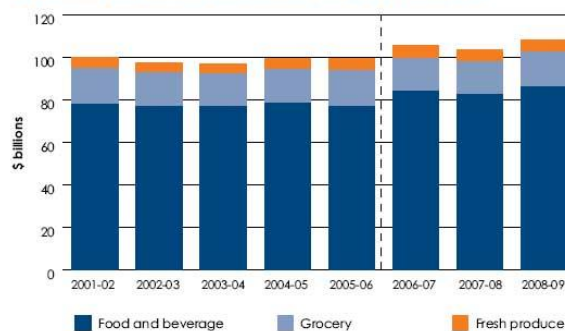
The growing and sustainable industry is made up of over 30,100 businesses and accounts for \$46 billion of the nation's international trade. The industry spends \$368 million a year on research and development.

The food and grocery manufacturing sector employs more than 312,000 Australians, representing about 3 per cent of all employed people in Australia, paying around \$13 billion a year in salaries and wages.

Many food manufacturing plants are located outside the metropolitan regions. The industry makes a large contribution to rural and regional Australia economies, with almost half of the total persons employed being in rural and regional Australia<sup>2</sup>. It is essential for the economic and social development of Australia, and particularly rural and regional Australia, that the magnitude, significance and contribution of this industry is recognised and factored into the Government's economic, industrial and trade policies.

Australians and our political leaders overwhelmingly want a local, value-adding food and grocery manufacturing sector.

Figure 4.1: Composition of the industry's turnover (\$2008-09)



Source: ABS, catalogue number 8221.0 and 8159.0

<sup>1</sup> Fast moving consumer goods includes all products bought almost daily by Australians through retail outlets including food, beverages, toiletries, cosmetics, household cleaning items etc.

<sup>2</sup> About Australia: [www.dfat.gov.au](http://www.dfat.gov.au)

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## 2. EXECUTIVE SUMMARY

The Australian Food and Grocery Council (AFGC) welcome the opportunity to respond to the Packaging Impacts Consultation Regulation Impact Statement (PICRIS). The AFGC is a member of the National Packaging Covenant Industry Association (NPCIA) and accordingly is supportive of the NPCIA submission to the PICRIS.

The AFGC maintains strong support for the continuation of the APC as the primary product stewardship scheme for managing the environmental impacts of packaging within Australia.

The AFGC is of the view the PICRIS does not make a clear and robust case for further government regulation in relation to packaging waste management. Similarly, AFGC considers the PICRIS does not align with COAG requirements in assessing the cost implications on businesses in the supply chain. Specifically in relation to the impact of increased regulatory measures and the negative effect of increased costs on the competitiveness of the Australian food and grocery (and other) manufacturing sectors at a time when they are already facing substantial challenges just to remain viable.

The preceding National Packaging Covenant (NPC) and the current Australian Packaging Covenant (APC) increased packaging recycling, reduced packaging litter and reduced packaging waste sent to landfill. The existing arrangement under the Covenant, as the primary product stewardship arrangement for managing the environmental impacts of packaging, has led to a significant improvement in the overall packaging recycling rate of 63.1% in 2011, up from a baseline of 39% in 2003.<sup>3</sup>

The AFGC's position on the options modeled in PICRIS can be summarised as follows:

- **Support for sub-option 2A** as the only option modelled by PICRIS which demonstrates a positive cost-benefit to the Australian economy, while significantly increasing recovery rates and reducing litter.
- **A willingness to consider support for sub-option 2B and option 1** as these options are demonstrated to achieve outcomes at a moderate cost to the Australian economy.
- **Does not support sub-option 2C, option 3 and sub-options 4A and 4B** as these options emerged as significantly less cost-effective. Options 1, 2A and 2B achieve similar outcomes, in terms of recovery and litter reduction, at significantly less cost to the Australian economy.
- The AFGC support/willingness to consider support for the above options )Options 1, 2A and 2B), is contingent on:

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<sup>3</sup> APC, 2011, 24th November 2011. STATEMENT – 2011 RECYCLING DATA. Accessed 16th December 2011 from <http://www.packagingcovenant.org.au>.

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- The APC, in transitioning to the Product Stewardship Act 2011 (PS Act), being the sole product stewardship scheme for managing the environmental impacts of packaging in Australia.
- That the implications for, and definition of, “brandowners” remains consistent to provide certainty and security for business.
- That any change does, in practical terms, deliver national consistency and co-ordination and minimise the implementation of duplicative and inefficient regulation governing packaging that will undermine the effectiveness of a national approach.

### 3. FUTURE OF PACKAGING

AFGC has recently completed a *Future of Packaging White Paper* to guide the industry to a more strategic and proactive role in packaging sustainability. The White Paper presents an ambitious vision for packaging, including widespread adoption of packaging design for sustainability principles.

The retail and packaging industries have experienced periods of rapid change and innovation in the past and this is expected to continue. The challenge for the packaging supply chain and its stakeholders is to direct change in positive directions for sustainability.

The White Paper has been developed after an extensive consultation involving packaging manufacturers, recyclers, local governments and other relevant industry associations. The paper outlines various projects which can be undertaken in next 1-3 years. Key initiatives include:

- Role and Value of Packaging
- Packaging Sustainability Metrics
- E-Learning module for communications and marketing professionals
- Life Cycle thinking case studies and training module
- Design and procurement for accessibility
- Labelling for recovery
- Flexible Plastic recovery scheme

The White Paper will be publicly released in April 2012.

#### PACKAGING DESIGN TRENDS

The White Paper found that the ratio of packaging consumption to population is expected to fall slightly over this period due to further light weighting of materials. Light weighting is being driven by cost pressures as well as environmental design (e.g. the Sustainable Packaging Guidelines) but this has implications for recyclability. For example, lightweight glass bottles are more likely to break during collection and sorting processes and crushed glass is more difficult to recycle back into glass packaging. Rigid plastic bottles are being replaced by thin flexible packs, which are not collected for recycling in most areas.

Companies are focusing on serving sizes that cater for different demographics and the importance of this will only increase. Packaging design can be used in other ways to reduce waste. For example, supermarkets in the UK (Tesco and Marks & Spencer) are trialling new packaging to extend the life of fresh produce. A strip in the packaging absorbs ethylene, the gas that causes fruit to ripen and turn mouldy. Trials by Marks & Spencer have shown that the improved packaging can cut strawberry waste by a minimum of 4%.<sup>4</sup>

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<sup>4</sup> The Guardian. Tesco trails new packaging to reduce food waste. 2012; Available from: <http://www.guardian.co.uk/environment/2012/feb/07/tesco-new-packaging-food-waste?newsfeed=true>.

While the percentage breakdown by material is expected to stay relatively stable, many new packaging materials and formats cannot be recovered through existing collection and reprocessing systems. These include:

- multi-layer plastic films with specific barrier properties (e.g. meat and dairy packaging)
- modified atmosphere packaging
- flexible plastic pouches and sachets
- compostable plastics.

Companies in the packaging supply chain, consumers and other stakeholders need to understand that sustainability is not just about recycling. The successful implementation of design for sustainability requires a shared understanding of life cycle impacts, appropriate knowledge and skills within the supply chain and informed consumption. Packaging recovery systems will need to expand to accommodate new packaging materials and formats.

### **A CHANGING RETAIL ENVIRONMENT**

The retail environment for food and grocery products is becoming more challenging. A recent report by the AFGC and AT Kearney<sup>5</sup> highlighted a number of retail trends that have implications for packaging:

- growth in private label products, which are forecast to reach 40-50% of supermarket sales by 2010 (compared to 25% in 2010)
- increasing imports of lower cost products, linked to the strength of the Australian dollar and growth in private labels
- consolidation within the industry in response to increasing cost pressures through a combination of mergers, site closures and shifting some production off-shore
- increasing market concentration in the supermarket sector, with some evidence that this has given Coles and Woolworths more control over commercial terms including prices.

All of these trends are putting pressure on prices and profit margins in the food and grocery sector. The increase in imports means that there is less local capacity for design and procurement of packaging.

Shelf ready packaging is being driven by retailers, who are requiring manufacturers to supply products in a shelf ready packaging format. Suppliers may be required to reduce the amount of units in an outer pack, which would lead to an increase in packaging. Intuitively, shelf ready packaging objectives appear to be in conflict with commitments to improve the overall sustainability of packaging (including volume) where brand owners are seeking to reduce waste and improve the efficiency of packaging.

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<sup>5</sup> AFGC and A.T. Kearney Australia, 2020: Industry at the crossroads. 2011, Australian Food and Grocery Council (AFGC): Canberra.

## LOW CARBON ECONOMY

Legislation to introduce a carbon tax in Australia (converting to an emissions trading scheme in 2015) was passed by the Senate in early November 2011. The tax will apply to the 500 biggest emitters of greenhouse gases in Australia.

Research by the AFGC has estimated that the scheme will cost the food, beverage and grocery industry the equivalent of 4.4% of operating profits before tax in 2012-13.<sup>6</sup> In the longer term many companies will reduce their energy and emissions intensity in order to reduce costs.

Packaging also has a role to play in reducing carbon emissions from other industry sectors, for example by reducing food waste. Food accounts for approximately 30% of an average individual's CO<sub>2</sub>e emissions in Australia<sup>7</sup> and, assuming that Australian food waste patterns are similar to that in the UK, approximately one third of purchased food is wasted<sup>8</sup>.

## AN AGING POPULATION

Australia's population is expected to increase from around 22 million in 2010 to 35.9 million by 2050.<sup>9</sup> The population in all age groups is projected to increase, but there will be higher growth in the proportion of older people. The proportion of people over the age of 65 is expected to increase from 13.5% in 2010 to 22.7% in 2050. This is equivalent to:

- An additional 5.9 million people between the age of 65-84
- An additional 3.3 million people 85 and over.

Older Australians are more likely to suffer from some form of disability or ill health. The increasing number of Australians in this age group is likely to increase demand for packaging designed for easy opening and labels that can be read by consumers with poor visibility.

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6 AFGC and AT Kearney, Impact of carbon pricing 2011: potential impacts across the supply chain. 2011, Australian Food and Grocery Council: Canberra.

7 Dey, C., et al., Household environmental pressure from consumption: an Australian environmental atlas, in Water, wind, art and debate: How environmental concerns impact on disciplinary research 2007, Sydney University Press: Sydney.

8 WRAP. Minimisation of Household Food Waste. 2007; Available from:

[http://www.wrap.org.uk/downloads/WRAP\\_Food\\_Waste\\_Minimisation\\_adp\\_-\\_27\\_10\\_071.7aaf9619.4672.pdf](http://www.wrap.org.uk/downloads/WRAP_Food_Waste_Minimisation_adp_-_27_10_071.7aaf9619.4672.pdf)

9 Commonwealth of Australia, Australia to 2050: future challenges. 2010: Canberra, p. 5.



## **PACKAGING DESIGN FOR LIFE CYCLE IMPACT**

The primary and critical role of packaging is to contain and protect the packaged product through the various stages of the supply chain such as filling, distribution, retail and end use. This includes extending the shelf life of the product to reduce product waste. By extending shelf life the product waste going to landfill can reduce the overall life cycle impact of the product.

AFGC recognises that landfill is no longer an acceptable waste management option for packaging at the end of its life and considers that managing the environmental impacts of packaging should include a full life cycle thinking approach rather than focussing on one element of the life cycle (eg design for recyclability). This is consistent with the principle of 'cradle to cradle' thinking promoted by William McDonough and Michael Braungart<sup>10</sup>. According to this principle, all products and materials should be recovered through either a 'technical' or a 'biological' metabolism, with care taken to avoid contaminating a technical recovery system with organic materials and vice versa. This is in contrast to the linear, one-way 'cradle to grave' model that has existed since the industrial revolution.

To achieve this goal, AFGC believes that alternative recovery technologies for packaging such as waste to energy, anaerobic digestion and composting should be explored.

There is the potential to recover a high proportion of the packaging currently going to landfill. Research in the Australian Capital Territory (ACT) found that 30-40% of commercial waste and 15-25% of household waste going to landfill comprises readily recyclable materials such as paper, plastics and glass.<sup>11</sup> This material could be recovered through alternative collection systems for material recycling (e.g. flexible plastics) and/or new recovery technologies.

As new landfill sites become more difficult to find and more expensive to operate, there is increasing interest and investment by local councils and the private sector in alternative waste facilities that recover recyclable materials in residual waste as well as the organic fraction. Thermal recovery technologies are also now being considered within an integrated waste management framework. Thermal recovery technologies convert low value wastes with high energy content into electricity and other products.

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<sup>10</sup> McDonough, W. and M. Braungart, *Cradle to Cradle: Remaking the Way we Make Things*. 2002, New York, USA: North Point Press.

<sup>11</sup> Department of the Environment Climate Change Energy and Water, *ACT sustainable waste strategy 2010-2015*, draft. 2010: Canberra.

## TRENDS IN SECONDARY PACKAGING – SHELF READY PACKAGING

The retail trade has escalated the introduction of shelf ready packaging (SRP) formats within their respective businesses. The term SRP is used to define secondary packaging which can be used to display products on a shelf without removing the product from the container. The implementation of SRP has been a slow process for both the supplier and retailers and has played a vital role in influencing the design of secondary packaging.

SRP supports improved operational efficiencies at store level through faster stocking of shelves, improved code rotation and ease of product identification leading to better on-shelf availability and increased sales and most importantly an enhanced shopping experience.

AFGC, through Efficient Consumer Response Australasia (ECRA), has identified determining the carton configuration and design as the most difficult elements in moving to SRP. ECRA through its “Retail Ready Packaging - Edition 3”<sup>12</sup> suggests that focus should be placed on developing a carton configuration and design that will assist in delivering improved shelf availability. Differing shelf dimensions across the retail trade; within individual retail stores; sales volumes variation by store and with store type; and the in-store replenishment requirements generate complexity when designing packaging options.

Ultimately the design of SRP is influenced by sales volume, shelf dimensions and cartons per shelf. These factors reflect the role of retailers in influencing the design of secondary packaging.

## TRENDS IN ON LINE SHOPPING, PACKAGING CONSUMPTION AND CHOICE OF PACKAGING

Online shopping is expected to grow rapidly with retailers offering a dedicated web portal for shopping and free shipping to attract customers.<sup>13</sup> A virtual grocery store was first set up in Korea by the UK retailer Tesco. Since then the concept of on line shopping has expanded with Woolworths setting billboards displaying products in Melbourne and Sydney.<sup>14</sup> This has further been taken up by a clothing and accessories retailer, SportsGirl which has set up a “Window shop” in Melbourne.<sup>15</sup>

This rapid expansion of virtual stores will affect the choice of packaging material. Amazon has introduced a “Frustration-free packaging” which is recyclable and comes without excessive packaging designed to be opened without a knife or cutter.<sup>16</sup>

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12 <http://www.ecraustralasia.org.au/toolkits/retail-ready-packaging-toolkit-edition-3.html>

13 <http://www.forbes.com/sites/lauraheller/2011/04/20/the-future-of-online-shopping-10-trends-to-watch/>

14 <http://www.ausfoodnews.com.au/2012/02/21/woolworth%E2%80%99s-new-%E2%80%9Cvirtual-supermarkets%E2%80%9D-in-sydney-and-melbourne.html>

15 <http://www.theage.com.au/technology/technology-news/virtual-shop-perfect-for-the-young-and-upwardly-mobile-20120215-1t6qa.html>

16 <http://www.amazon.com/gp/help/customer/display.html?nodeId=200285450>

## 4. THE AFGC'S POSITION ON PICRIS OPTIONS

### COAG PRINCIPLES

The AFGC supports the consideration of COAG Principles of Best Practice Regulation<sup>17</sup> in response to the PICRIS options. In particular the AFGC is of the view that the following Principles are of direct relevance:

**Principle 1** - *Establishing a case for action before addressing a problem.*

The AFGC is of the view that the PICRIS does not establish the case for action and ministers should examine more closely whether there is a problem and if further regulation is required and would be of benefit.

**Principle 3** - *Adopting the Option that generates the greatest net benefit for the community.*

Option 2A emerged the only option expected to provide a net benefit to the Australian economy. Subject to Principle 1, Option 2A should be a priority providing the APC is the sole product stewardship scheme for packaging in Australia and implications for brand owners are clarified.

**Principle 8** - *Government action should be effective and proportional to the issue being addressed.*

AFGC is of the view that there needs to be greater certainty and clarity in relation to the options presented. Options 1 & 2 provide flexibility which is important, however given the ongoing nature of packaging waste policy development and constant reviews of existing measures (at both national and state level) industry seeks improved surety and confidence in government policy to allow investment and innovation.

### AFGC POSITION ON OPTIONS PRESENTED IN THE PICRIS

**The AFGC supports sub-option 2A as the sole option modelled by the PICRIS which demonstrates a positive cost-benefit to the Australian economy while significantly increasing recovery rates and reducing litter. The AFGC considers this option will best achieve the outcomes identified in the PICRIS through the continuation of the APC.**

Notwithstanding this, the implications of bringing the existing APC arrangements under the PS Act require greater clarification from government. In particular, AFGC is concerned at the potential for states and territories to develop regulation governing packaging product stewardship that may undermine the effectiveness of a national scheme.

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<sup>17</sup> [http://www.finance.gov.au/obpr/docs/COAG\\_best\\_practice\\_guide\\_2007.pdf](http://www.finance.gov.au/obpr/docs/COAG_best_practice_guide_2007.pdf)

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Industry seeks assurance that the APC would be the sole regulatory mechanism for packaging stewardship nationally. Certainty is critical for business to remain competitive. In light of increased costs and a high Australian dollar, increased and inconsistent regulatory pressures will contribute to the challenges of remaining globally competitive. Currently there appears to be a level of ambiguity in the scope and impact of the legislation that allows for states to potentially develop regulation within that may undermine the effectiveness of a national and comprehensive approach provided by the APC.

In addition, the PICRIS process indicates that bringing the APC under the PS Act is likely to take considerable time, estimating one year to develop a Decision RIS (i.e. 2012) and two years to develop the scheme regulations and establish the Product Stewardship Organisation (i.e. 2013-14). AFGC is of the view that there is merit in considering the results of the review of the APC, scheduled for 2015, before progressing with any transition of the APC to the PS Act.

**The AFGC may be willing to consider support for sub-option 2B and option 1.** These options are demonstrated to achieve the desired outcomes at a moderate cost to the Australian economy. AFGC supports the continuation of existing arrangement under APC and is of the view that the implications of specific material and / or product specific arrangements on the existing APC should be considered in detail. In addition the AFGC notes that Option 2B is supported by the beverage industry specifically. The AFGC supports a comprehensive approach to packaging waste management. Further, the AFGC retains in principle support for a non-regulatory alternative as identified under option 1.

**The AFGC does not support sub-option 2C, option 3 and sub-options 4A and 4B** as these options were demonstrated to be significantly less cost-effective options amongst all other options modelled. Options 4A and 4B, the container deposit systems (CDS) options, are isolated and narrowly focussed whose costs are inflated by the need to establish additional infrastructure and thereby duplicate existing collection arrangements (i.e. through kerbside recycling and drop off systems). The AFGC is in favour of a comprehensive approach to the issue of packaging waste management.

### 5. ADDITIONAL INFORMATION

The following information/reports are drawn to the attention of the COAG Council:-

#### 5.1 Impact of Container Deposit Systems on Local Councils

The PICRIS found a benefit **overall for local government** through the introduction of a CDS (options 4A and 4B). This benefit was found to arise through reduced transport, collection and recycling costs (kerbside recycling), reduced costs of processing materials (sorting costs) and reduced litter clean up.

However this finding masks the variations in individual kerbside recycling systems and contract arrangements that mean the impacts of a CDS will ultimately vary from local government to local government. A recent study completed by Equilibrium<sup>18</sup> has highlighted a range of value loss from a CDS for a metropolitan local government of between \$2,100 to \$8,300 per 1000 households per year. The study also found that regional and rural governments would benefit between \$2,700 and \$3,000 per 1000 households per year. Both metropolitan and local governments would benefit further through a reduction in costs of landfill (estimated at between \$1,800 to \$3,600 per 1,000 households per year).

The report<sup>19</sup> further stated that for local governments there would be a change to existing kerbside systems and a range of operational, commercial and management issues need to be considered. However, the report was unable to quantify (in \$ terms) whether a CDS would change the rate of contamination and thereby reduce collection and sorting costs, reduce kerbside collection cost efficiencies in the medium to long term or reduce litter clean up costs.

The report also noted that there would be increased costs associated with changes to sorting and processing operations in the short to medium term, but again, was unable to quantify this cost to local government.

### 5.2 Impacts of CDS on employment

The PICRIS has assumed that there would be no change in the total quantity of packaging material (and by implication the volume of beverage consumption) as a result of the impost associated with Option 4A.

Prior to the release of the PICRIS, in September 2011, AFGC's Packaging Stewardship Forum commissioned research on the impacts of a national container deposit system on retail volumes and employment. The report, by economists ACIL Tasman<sup>19</sup> found that a national container deposit system at 14 cents per container (ie including handling fee) would reduce employment levels in the industry nationally by 4,202 direct jobs and 5,164 indirect jobs.

Following release of the PICRIS in December 2011, the AFGC's Packaging Stewardship Forum commissioned further research to challenge the PICRIS assumption. The report by ACIL Tasman<sup>20</sup> quantifies the magnitude of impacts if the PICRIS assumption (i.e. no change) is relaxed and packaging volumes change in response to changes in beverage

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18 Equilibrium (2012). Impact of the introduction of a Container Deposit System for Local Councils with an established kerbside collection system at <http://www.npcia.org.au/images/stories/npciaccds.pdf>.

19 ACIL Tasman (2011) National Container Deposit Scheme Impacts – Projected changes in Australian retail volumes and associated employment impacts by beverage category

20 ACIL Tasman (2012). Broader Impacts of a National CDS – Estimated upstream impacts associated with option 4a considered under the PICRIS.

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consumption. The scope of the impact has been limited to Australian beverage producers and associated Australian packaging producers.

**The study found that a 14¢ (plus) GST per container on all beverage containers will result in:**

A loss of 33,456 employee years of full time equivalent employment from the Australian beverage and related packaging industry. This is equivalent to an average annual loss of 1,673 jobs per year between 2016 and 2035 or a change of -3.47 per cent in employment relative to the Reference Case causing a loss in cumulative labour incomes of \$2.56 billion, with a net present value of -\$1,041 million. It would cause a loss in cumulative Gross Value Added (production) of -\$6.32 billion with a net present value of -\$2.57 billion.

The incomes calculated above are in 2010-11 terms and the net present value has been calculated using a 7 per cent discount rate.

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