

Environment Protection & Heritage Council

Beverage Container Investigation

**Beverage Container Working Group
Covering Statement**

The Beverage Container Working Group (BCWG) would like to acknowledge the work undertaken by BDA Group (BDA) and Wright Corporate Strategy (WCS) in preparing the Beverage Container Investigation Final Report.

Due to the highly divergent opinions around management options for packaging wastes and, in particular beverage containers, and the potentially contentious nature of the work, the BCWG agreed to commission a peer review of the final report. In March 2009, Covec Limited was commissioned to undertake a peer review of the BDA/WCS Beverage Container Investigation Final Report.

The peer review acknowledges that: *BDA/WCS have brought together a significant amount of material to address a complex issue and that much of what they have produced is both clear and useful. They have organised data and other information into useful tables and found ways to compare very different policies against a consistent set of criteria in a way that provides a clear way to discuss the advantages and disadvantages of the options.*

The BCWG concurs with this assessment.

In conclusion, the peer review states that:

The BDA/WCS report provides some useful analysis as an input to discussion at the national level of the best instrument to use to address resource recovery, environmental and litter impacts of beverage containers.

However, there are a number of shortcomings. Chiefly this includes:

- 1. The limited scope of the study that, in turn limits the contribution that it can make to some of the big policy questions. And note, this is a limitation of the terms of reference, not of the BDA/WCS report in response.*
- 2. The paucity of supporting material to validate many of the assumptions used in analysis.*
- 3. Wrong approaches, particularly the way in which annuities are calculated to spread capital costs over time.*

This covering statement responds to point 1, regarding the limited scope of the study. BDA has responded to the other issues and their response forms part of the package of documents prepared for this project.

The purpose of the investigation was to undertake a cost effectiveness assessment that could place the Environment Protection and Heritage Council (EPHC) in a position to determine whether there is a need to commence a more extensive assessment process, including regulatory impact work, if required. The consultant was not required to undertake a detailed cost benefit analysis or provide a net community benefit analysis.

The BCWG emphasises that BDA/WCS has satisfactorily addressed the terms of reference and scope of works of the study. Any limitations of the study were placed on the consultant by the scope of works endorsed by EPHC.

Separate to the peer review process, South Australia additionally has raised several issues with the final report. These are set out in Attachment 1. Other jurisdictions acknowledge South Australia's opinions and points but consider that they do not substantially affect the work undertaken by BDA/WCS.

The BCWG believes that the Beverage Container Investigation Report provides a useful contribution to the debate around investigation of potential measures to manage the impacts of used packaging in Australia.

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Documents in the package

- *Beverage Container Investigation Final Report*
- *Peer Review*
- *BDA Response to Peer Review*
- *BCWG Covering Statement*

ATTACHMENT 1

South Australia's Assumptions and Analysis

Additional issues

1. Inaccurate assessment of the costs of the South Australian Container Deposit Legislation (CDL) scheme.
2. Underestimation of savings for the kerbside system of a national scheme.
3. Incomplete consideration of the issue of unredeemed deposits under a national container deposit system.
4. Inconsistent analysis regarding policy options with the subsequent findings being presented in Table KP1 'Summary of Costs and Effectiveness of Packaging Recovery Options' without any caveats being provided regarding important differences in the analysis of the policy options.

1. Economic cost of CDL in South Australia

With regard to the costs of CDL in South Australia, the Beverage Container Investigation Report estimates the cost of the South Australian CDL system at about \$550 per tonne. Analysis undertaken by South Australia based on close consultation with industry, including Super Collectors, and use of kerbside audit data indicates that the economic cost is less than \$300-\$400 per tonne, dependent upon the type of container, with the lower estimate applying to a high proportion of deposit-bearing containers. South Australia considers that the consultants' estimate is inaccurate primarily because of two incorrect assumptions:

- that revenue from sales of recyclate is profit to Super Collectors, when in fact it is used to offset running costs; and
- a substantial overestimate of the proportion of deposit containers that are collected via kerbside recycling.

The cost estimate is less than \$300-\$400 per tonne because this estimate does not allow for the benefits of reduced beverage container litter, reduced litter collection costs and the value of other recyclable material that is recovered via an extensive network of collection centres underpinned by CDL. It is noted that the role of CDL in facilitating the recovery of other recyclable material was not considered in the consultants' report.

In discussing CDL in the report, the consultants based the estimate of \$550 per tonne on information provided to the Senate Inquiry into Management of Australia's Waste Streams and the Drink Container Recycling Bill. However, this information excluded benefits of the scheme such as avoided landfill costs and reduced kerbside costs, while these benefits were reflected in the cost effectiveness assessment of the base case national CDS.

As the base case CDS modelled by the consultants differs considerably from the South Australian scheme, the cost of CDL in South Australia should not influence the assessment of costs of a national scheme and no conclusion about the costs of the SA scheme should be made on the basis of this report.

Information on the South Australian scheme was provided as context for resource recovery schemes currently operating in Australia but the analysis of CDL in the final report was based on only some of this more detailed data.

2. Savings to kerbside collection costs

In relation to the savings to kerbside systems, South Australia argues that the consultants have underestimated the potential kerbside collection cost savings that could be realised by a national CDS as a result of potential for greater compaction rates, and reduced load weights and volumes for kerbside collections. The Beverage Container Investigation Report estimates the potential savings for kerbside to be around \$24 million, while South Australian estimates place the savings at closer to \$40 million - changing the potential benefit from \$53 per tonne to \$69 per tonne.

As collection systems and kerbside costs differ between States and Territories, it is difficult to determine to what extent compaction rates could be improved and what affect this is likely to have on

kerbside collection efficiency. However, South Australia's experience suggests that less glass in kerbside collections produces a significantly greater compaction rate.

3. Unredeemed deposits

Although the CDS model selected for analysis specifically included the use of unredeemed deposits to offset system running cost at the request of the Beverage Container Working Group, the consultants' report did not highlight the fact that the analysis indicates that the use of unredeemed deposits to fund system running costs would reduce the financial cost to the beverage supply chain of running a CDS to about \$56 per tonne.

4. Inconsistent analysis of policy options

Inconvenience costs

Table KP1 'Summary of Costs and Effectiveness of Packaging Recovery Options' is likely to be used as the primary reference point of the report by readers. The Table present the options as though all policy options have been consistently compared. This is incorrect. With regard to dealing with inconvenience costs, South Australia believes it is important that inconvenience costs are factored into all the options assessed. However, the consultants' view is that inconvenience costs associated with other options such as an advance disposal fee or workplace recycling are inconsequential. This is generally because these options do not require a large shift in behaviour, unlike a CDS where, for people outside South Australia, kerbside recycling is the well-established container recycling scheme, with participation rates averaging between 83 and 95% for non-CDL states.

BDA/WSC addressed the issue of inconvenience costs by conducting a sensitivity analysis with inconvenience costs for CDS removed. The total economic costs of the CDS option are reduced by 30% to around \$563m. The net economic cost (after offsetting scheme benefits) is reduced by 45%. The net economic cost per tonne is reduced from around \$1,480 to \$800 per tonne. Without the inconvenience costs the CDS option is still at the higher end of the costs per tonne for the options considered and there was no change in the relative cost-effectiveness ranking of options.

In response, South Australia states that inconvenience costs are involved in all policy options to a measurable extent. There are inconvenience costs associated with participating in extended drop-off services and workplace recycling, which involves commercial time. Rinsing and storing of containers are aspects of inconvenience costs that the consultants consider relevant to consideration of container deposit systems, yet such actions are also a component of kerbside recycling.

South Australia also believes that both costs and benefits need to be considered in order to arrive at a balanced conclusion. Surveys conducted in South Australia and other studies indicate that the utility derived by consumers may well exceed any inconvenience costs associated with CDL and consequently the economic costs of such a system would be lower than suggested in the report.

Recycling at workplaces

In terms of informing decisions based on comparative costs, South Australia is of the view that the costs of recycling at workplaces have been significantly underestimated as the report only considered start-up government subsidies and very limited information has been provided to substantiate the estimated resource recovery potential of this option.

Enhanced recycling at workplaces was identified as the individual policy option that could achieve the greatest level of resource recovery at least cost. The report argued that this initiative is expected to be cost neutral for participating businesses. Whilst this may be the case in the longer-term, up-front investment (as with a CDS) will still be required by businesses. Zero Waste SA's experience with its 'Recycling at Work' initiative indicates that every \$1 of public sector investment requires additional private investment of \$4. This suggests that the likely cost of this initiative is at least \$30 million or \$68 per tonne of recovered material. These costs also do not include investment by waste generators and cleaning companies in implementing and running new recycling systems, part of which is an inconvenience cost, nor does it include the costs of establishing post-collection sorting infrastructure. Also, there is a much bigger variation in the range of recyclable material between businesses than there is between households that would necessitate the establishment of additional infrastructure.