AUSTRALIAN
Grape & Wine

Submission in response to the scoping paper to review SA's container deposit scheme

February 2019

Executive Summary

Australian Grape & Wine, the national association of winegrape and wine producers, welcomes the opportunity to make a submission to the review of South Australia's Container Deposit Scheme (CDS). The Australian wine sector is committed to environmental sustainability. Indeed, as an agricultural industry, the continuing success of our winegrape growers and winemakers depends on sustainable environmental practices and strong environmental policies based on sound evidence and thorough consultation processes. Recognition of the importance of recycling wine bottles is part of this commitment.

We support maintaining the *status quo* of South Australia's CDS on the basis that no compelling objective evidence has been presented to support change, and that the cost to South Australian wine businesses would outweigh any environmental benefits that may accrue from such a change (although these potential benefits have not been articulated either).

Australian Grape & Wine recognises that the CDS has been successful in achieving its primary objective of reducing the number of beverage containers in the public litter stream, and that this should remain its primary focus. Glass wine containers have been excluded from the South Australian CDS since its inception in 1977 on the basis that these containers make up a negligible proportion of the litter stream (wine *and* spirits bottles make up 0.07% of the public litter stream in South Australia)[1]. This approach has also been taken in the other Australian State and Territory schemes. This low impact on the public litter stream reflects the fact that bottles of wine are almost always consumed either in the home, or in licensed premises, with the majority of these containers entering the kerbside recycling collection system afterwards. Given this, there is no compelling evidence to support including wine bottles in the CDS for the objective of reducing public litter rates.

While the kerbside collection scheme provides a convenient and reliable mechanism for recycling wine bottles, we understand some parties have called for the inclusion of wine bottles in the CDS on the grounds that it would improve the quality of bottles recovered for recycling. Australian Grape & Wine has not seen evidence to support this claim. However, if this is an unstated objective, we question whether the CDS is the best or most appropriate mechanism to achieve it. Again, no evidence has been presented to support this approach. A comprehensive assessment and analysis of global best-practice arrangements should be undertaken as part of this review, including alternatives such as glass-specific kerbside collection systems and public education campaigns encouraging recycling and informing people how they can do it most effectively.

Indeed, education and the provision of information is a key element of almost any public policy initiative. We are concerned that the review of the CDS asks a range of leading questions, without providing adequate information to respondents about who pays for the scheme and why containers like glass wine bottles have traditionally been excluded from the CDS. It is essential that the South Australian Government takes a balanced, evidence-based approach to this review.

Australian Grape & Wine recognises the Minister for Environment and Water's desire to ensure "South Australia continues to lead the nation in waste management and litter reduction"[2]. However, the South Australian Government should not jettison the principles of good public policy development for the sake of moving beyond the *status quo* it and other states and territories have set in existing CDS schemes. Good public policy is built

[1] "Litter Strategy Monitoring Wave 75 – May 2018 Report, KESAB Environmental Solutions, July 2018; http://www.kesab.asn.au/wp-content/uploads/litter-research/KESAB-LitterStats-Wave75-May2018.pdf

[2] "Improving South Australia's Recycling Makes Cents: A scoping paper to review SA's container deposit scheme", page 1.

upon a strong evidence base, thorough consultation and a proper weighing-up of costs and benefits. We encourage the South Australian Government to follow these principles in this review.

Further to this, the Minister is committed to increasing economic activity and creating jobs in South Australia. The wine industry is a significant contributor to the South Australian economy and is the highest single export sector. South Australia accounts for almost half of Australia's vineyards, with the vast majority of South Australian Wine businesses being small, family owned enterprises. As an agricultural product, these businesses provide direct and immense economic benefits in rural and regional South Australia, driving growth in not only the wine sector, but also in employment, tourism, hospitality, transport and services. The South Australian Government is rightfully proud of the state's wine industry and has traditionally been a great supporter. However, a change to the CDS to include wine bottles has the potential to jeopardise the financial sustainability of South Australian wine businesses, which could have dramatic flow on impacts throughout the supply chain including an impact on regional employment. In short, this is no way to increase economic activity and create jobs in South Australia.

Australian Grape & Wine estimates the costs to South Australian wine businesses would be around $5 million per year, coming in the form of direct costs including paying the deposit fee and the handling fees for the recycling depots. Apart from these costs, winemakers would also have to bear label registration costs, and indirect costs in the form of extra administration of quarterly state sales reporting, processing of accounts payable and managing EPA label registration requirements. These costs would be felt most keenly by many small businesses.

Finally, Australian Grape & Wine notes that the timing of this consultation process comes at the busiest time of the year for Australian winemakers. Vintage runs from January through April, and wine business staff work extremely long hours during this period, seven days a week. Unfortunately, this means many wine business people may not have time to lodge a submission under these circumstances. We hope the South Australian Government takes this into account during its review and undertakes necessary supplementary consultation as appropriate.

Australian Grape & Wine would be happy to liaise further with the South Australian Government on the review as it progresses.

Tony Battaglene

Chief Executive

Australian Grape & Wine

Who we are

Australian Grape and Wine Incorporated (Australian Grape & Wine) is Australia's national association of winegrape and wine producers. Our activities focus upon the objective of providing leadership, strategy, advocacy and support that serves Australian wine businesses now and into the future.

We represent the interests of the more than 2,500 winemakers and 5,000 winegrape growers working in Australia. Our role is to help forge a political, social and regulatory environment - in Australia and overseas - that enables profitable and sustainable Australian wine businesses. These businesses make a significant contribution to growing regional economies by driving growth in jobs, regional exports and food and wine tourism.

Australian Grape & Wine's voluntary membership represents over 75% of the national winegrape crush. We represent small, medium and large winemakers and winegrape growers from across the country. Policy decisions by the Australian Grape & Wine Board require 80% support, ensuring no single category can dominate the decision-making process and guaranteeing policy is only determined if it provides significant industry benefit. In practice, most decisions are determined by consensus.

Australian Grape & Wine is recognised as a representative organisation for winegrape and wine producers under the *Wine Australia Act 2013,* and is incorporated under the *SA Associations Incorporation Act 1985.* We work in partnership with the Australian Government to develop and implement policy that is in the best interests of winemakers and winegrape growers across Australia.

Key Facts: The South Australian Wine Industry

- The South Australian wine industry is worth about $2.15B to the state's economy.
- There are approximately 695 wineries (593 processing facilities, 342 cellar doors) and 3,326 vineyard owners in South Australia, employing some 8,440 people. If one also considered associated occupations like tourism, services, research and hospitality workers, the number of those employed as a result of the wine industry is much higher.
- Winegrape plantings total 75,566 hectares, spanning across 18 distinct wine regions from the South East of the state to the Southern Flinders Ranges. These plantings represent about 56 per cent of Australia's total vineyard plantings.
- The total winegrape crush in 2018 in South Australia was 747,361 tonnes, representing 42 per cent of Australia's total crush. This represented a 13 per cent decrease compared to the above average 2017 crush, but was just above the state's ten-year average.
- South Australian wine regions are responsible for producing about 530 million litres of wine, the equivalent of 707 million bottles. This represents about 45 per cent of Australia's total wine production.
- Wine is South Australia's single largest export sector. In the twelve months to December 2018, South Australia exported 411 million litres of wine at a value of $1.758 billion. This represents approximately 62 per cent of Australia's total exports. Major markets are China, the United States, the United Kingdom and Canada, echoing Australia's major export markets more broadly.

Submission

Australian Grape & Wine welcomes the opportunity to make a submission into this review of South Australia's Container Deposit Scheme (CDS). We are committed to working with the South Australian Government on this review, including through the provision of evidence and wine industry statistics where required.

This submission offers general comments on the scoping paper, the CDS and the wine sector. Furthermore, the submission provides responses to the specific questions raised in the Scoping Paper.

General comments

The Scoping Paper fails to articulate a problem.

Australian Grape & Wine recognises the South Australian Government's choice to review the CDS. Indeed, it is a sound public policy decision to review such initiatives from time to time, to consider evidence in a contemporary light and ensure the initiative continues to be fit for purpose.

Under normal circumstances, such a review would present new evidence to the public, and the government would articulate any problems and provide options for managing these problems. In the Scoping Paper, however, the government has failed to identify a problem, or provide evidence to suggest there may be difficulties when it comes to wine bottles.

The only clear rationale identified for proposing changes to the current CDS arrangements is to drive improvements in recycling, and an expressed desire to recapture a leadership position in Australia. It is not clear, however, what "leadership" means in this context.

The EPA should undertake a more analytical assessment of its CDS and present robust evidence if it is proposing such serious changes to the current arrangements. The strong desire to be seen as a national leader in this space is not a replacement for evidence and rigorous analysis. This preparatory work would help identify any real issues to be dealt with and make for a much more informed public consultation process.

Furthermore, it is important that the government identifies the goals and improvements to recycling and resource recovery that it is seeking. What are the recycling improvement rates for each container type (CDS eligible or not) that the government is seeking? And what environmental outcomes do they deliver?

Wine bottles do not contribute to the public litter stream.

As noted in the executive summary, the South Australian Government has excluded glass wine containers from its CDS since its inception in 1977. The CDS was introduced with the primary purpose of reducing the amount of beverage container litter in the public litter stream, and it has been successful in meeting this objective.

Wine and spirits bottles were exempted from the CDS from the beginning, on the basis that they make up a negligible proportion of the public litter stream in South Australia (in total, wine and spirits bottles contribute 0.07 per cent to the litter stream. Given this, wine bottles make up less than this already small figure)[3]. This low figure reflects the fact that almost all wine bottles are consumed either at homes, or at licensed venues like restaurants, pubs and clubs. For this same reason, other states and territories have also chosen to exclude wine bottles from their CDS arrangements.

Page 3 of the scoping paper notes that one of its key objectives is to start "a conversation on how we can build on the success of the container deposit scheme (CDS) in South Australia and further improve recycling and litter

[3] ("Litter Strategy Monitoring Wave 75 – May 2018 Report, KESAB Environmental Solutions, July 2018; http://www.kesab.asn.au/wp-content/uploads/litter-research/KESAB-LitterStats-Wave75-May2018.pdf

reduction". Given the negligible impact wine bottles have on the public litter stream and the fact that wines consumed in the home or at licensed venues have access to the well-understood kerbside recyclables collection system, we argue there is no evidence to support including wine bottles in a CDS if the objective is to improve litter reduction outcomes. Indeed, the costs of doing so would far outweigh any foreseeable benefits.

The Scoping Paper notes a recent decline in beverage container return rates, but provides no analysis to explain this decline.

While the decline in beverage container return rates noted on page 7 of the Scoping Paper applies only to containers currently captured by the CDS, it is curious that the paper makes no attempt to explain why this is happening.

This is important information in the context of any call to increase recycling rates in South Australia by expanding the scope of the CDS, and we would welcome further analysis of this trend.

There are significant data gaps in relation to resource recovery.

The Scoping Paper notes that one of its objectives is to improve recycling rates in South Australia. However, the paper presents very little data in relation to the flow of materials through the waste recovery process, making it impossible to identify where there are problems or opportunities for improvement.

Australian Grape & Wine encourages the EPA to invest in a significant boost in data-collection and analysis to enable a comprehensive and rigorous review.

The Scoping Paper does not consider alternatives or complementary approaches to the CDS.

We recognise the purpose of the review is to consider ways to improve South Australia's CDS, Australian Grape & Wine is concerned that the CDS is being promoted as the only mechanism to solve undefined and potentially non-existent problems. In doing so, the Scoping Paper has presented no evidence to suggest the CDS is a better approach than other systems or ideas, and it pays no attention to the importance of public education campaigns as a means to driving better recycling habits.

Australian Grape & Wine understands that some advocates for including wine bottles in South Australia's CDS claim that glass fines contamination resulting from breakage of glass containers in co-mingled kerbside (yellow bin) collection process is a significant problem. However, neither they nor the government present objective evidence to support this claim. Furthermore, we have been made aware that some of those who manage resource recovery facilities have said this is a very minor problem, particularly when compared to contamination from other sources. This highlights the need for more objective evidence about resource recovery and recycling in South Australia; a greater understanding of the real problems and opportunities at hand; and a comprehensive review of all options to address any of the issues that may be identified. Public education would seem to be a clear avenue for addressing these contamination issues, for example.

In reviewing the CDS, it is essential that the South Australian Government considers best-practice approaches from around the world as part of its consideration of how the state can improve recycling rates. Furthermore, we encourage the government to consider the importance of public education as part of the review. These actions are critical, as they will help the government undertake a more robust cost-benefit analysis of changing the CDS and consider whether other initiatives could improve recycling outcomes more efficiently than the CDS.

Wine businesses cannot pass the costs of a CDS on to consumers.

On page 9 of the Scoping Paper, under the sub-heading "How does the Container Deposit Scheme work?", the reader is told the "Beverage supplier may incorporate these costs on to the consumer as part of the total price of the product", and that the "Retailer passes these costs onto the consumer as part of the total price of the product". These statements are inaccurate in the current business environment.

Winemakers face considerable issues relating to a very competitive retailer landscape in Australia. In 2013, an industry report[4] estimated that the combined groups of Coles and WLG were responsible for up to 77 per cent of all wines distributed and sold through retail sales channels. While the concentration of the two major retailers has brought a high level of competition to the market place, resulting in lower prices for consumers, it has also left winemakers with fewer options in terms of sales channels, and also smaller profit margins.

It is also important to understand that wine companies do not have long-term supply contracts with retailers, and in most cases have little ability to influence price. Retailers have many different wine brands to choose from and there are very few brands that are “must-have” for their businesses. Australian Grape & Wine understands that an average retail store carries around 2,000 stock-keeping units (SKUs)[5] from about 355 wine brands, while the largest stores can carry considerably higher numbers of wines. In the international market place, Australian retailers have the flexibility to quickly source product from a great variety of different countries, let alone suppliers, so there is a highly competitive market place in which retailers are in a position to place considerable price pressure on suppliers.

Given this, it is practically impossible to pass costs on to consumers via retail sales channels. This is a particularly significant issue for small, family owned wine businesses in South Australia, who often sell in small volumes to the major retailer chains. To introduce the costs of a CDS, in terms of paying for the deposit fee, handling fees, registration, relabeling and managing red-tape, would be putting South Australian wine businesses at a distinct disadvantage to their interstate competitors, and make a significant impact on cash-flow and profits.

Insufficient attention has been paid to commercial considerations.

While the Scoping Paper notes the importance of driving increased recycling rates and a move towards a “circular economy”, almost no attention is paid to commercial and market considerations. As noted in the Executive Summary to this submission, South Australia’s wine sector is a critical pillar of the South Australian economy, driving economic growth, jobs and prosperity across rural and regional South Australia.

Wine - arguably more than any other consumer product - is subject to a high volume of movement between state and territories, as well as internationally (particularly compared with other CDS products). Adding wine to South Australia’s CDS would require producers to track where their product is sold so that they can apply for refunds. Given that in many instances (such as selling through a national retailer) the producer would have little or no visibility of where their products are finally sold, the refund management of such a process for small businesses could be significant. Australian Grape & Wine understands that many small suppliers of products like orange juice, soft drinks and the like, who sell products on the eastern seaboard have faced major administrative complexities and challenges from having to managing the 'export' process to ensure that their products are purchased in the relevant jurisdiction at the correct volumes and that they get their money back.

Further to this complexity, the direct impact of including wine in a CDS would almost certainly create significant cash-flow problems for wine businesses. Based on the refund management process for other jurisdictions (and based on the assumption that, like most other states, South Australia would expect suppliers to float the scheme), these small suppliers would need to pay their reimbursement costs based on a forecast, manage the administrative complexities, and then wait up to six months to be reimbursed. For a small wine business, this has the potential to cause enormous problems for cash flow and the ongoing success of the business.

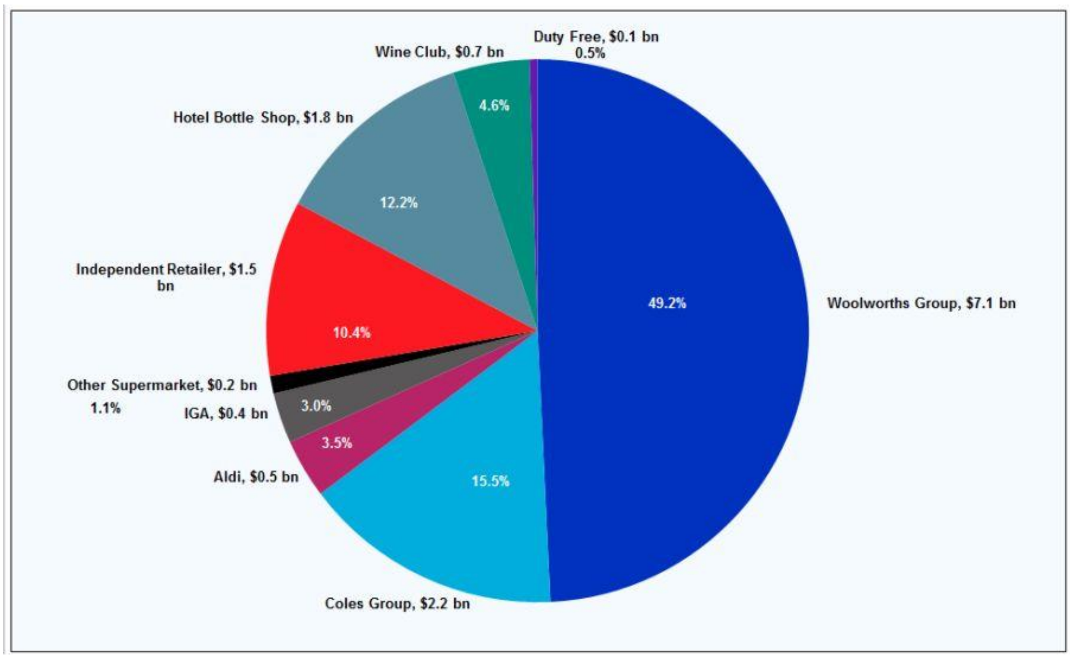
[4] http://www.wfa.org.au/assets/noticeboard/Expert-Review-Report.pdf

[5] A stock keeping unit, or SKU, is a unique identification code for each product, marking things like the producer, product and size. It is often displayed as a bar code.

While we are calling for a far greater analysis of commercial considerations as a part of this review, it is important to make sure any future analysis is objective and realistic. In other jurisdictions we have seen extremely unrealistic predictions about the costs of a CDS to business. For example, the 2017 New South Wales Regulation Impact Statement commissioned by the EPA considered that the 'higher end' cost implications of a CDS on the entire industry would be approximately $500,000 over 20 years. However, the immediate implementation and administrative costs across the entire industry have since been estimated as closer to $50 million over this period. Furthermore, an investigation into consumer pricing by the New South Wales Independent Pricing and Regulatory Tribunal found that smaller suppliers selling small volumes of different types of products were disadvantaged because of the container registration fee. Given the high number of small, family owned wine businesses in South Australia, it is likely they would fall into this category.

As this review progresses, it will be essential that a comprehensive cost-benefit analysis is undertaken to strengthen the evidence base for the review.

Alcohol retail dollars by store type



Source: *Roy Morgan Single Source (Australia), January-December 2016, n=3,502.* Base*: Australians 18+ who purchased packaged alcohol last 7 days. * NB:*

Woolworths Group = Woolworths Liquor, BWS and Dan Murphy's; Coles Group = Liquorland, First Choice and Vintage Cellars.

There is already inconsistency between state and territory CDS arrangements.

While South Australia is the well-known leader of CDS in Australia, in recent years a number of other jurisdictions including the Northern Territory, New South Wales, Queensland and the ACT, have moved to implement their own CDS arrangements. While the refund amount is broadly consistent across jurisdictions, there are inconsistencies relating to the scope of containers included in the schemes, and administrative inconsistencies which can cause confusion for consumers and increase administrative costs for businesses.

Australian Grape and Wine is firmly of the view that if South Australia were to now move to change its CDS, then this would create even further confusion and misalignment in beverage and recycling markets across the States. Instead, we suggest that South Australia maintains the status quo on its CDS, and put its energy into showing leadership within Australia by exploring opportunities to push for a nationally consistent scheme, with harmonized requirements for businesses and consumers, based on a strong evidence base. To be clear, we would strongly consider supporting this work if wine bottles remain excluded from any proposed national CDS.

Responses to the specific questions listed in the Scoping Paper.

1. What should be the objectives of the container deposit scheme (CDS)?

Australian Grape & Wine recognises the impact the CDS has had on reducing the number of beverage containers in the public litter stream. This should remain its primary objective.

In the absence of evidence to support the expansion of the CDS, particularly in relation to improvements in recycling and resource recovery, we support maintaining the *status quo* of the CDS.

2. How well do you think the CDS is currently achieving these objectives?

As noted above, Australian Grape & Wine recognises the CDS has had a significant impact on reducing the number of beverage containers in the public litter stream.

3. Are there other aims that the scheme could achieve that should be reflected in the legislation?

The Scoping Paper presents no compelling objective evidence to support change, and does not identify any problems with the current system. In the absence of evidence, it is impossible to assess what, if any opportunities there might be to improve the system. Furthermore, it is also impossible to assess the consequences, intended or unintended, changes would have on environmental objectives or commercial and market considerations. More work needs to be done by the EPA to ensure this review is a considered and robust as possible, and to deliver a balanced outcome.

4. Containers included – should more types of containers be included in the CDS and are there containers currently receiving a 10-cent refund that should be removed from the scheme?

In line with the information presented in the general comments of this submission, Australian Grape & Wine is not in favour of expanding the scope of containers currently included in the CDS.

5. Banning of containers – should the scheme ban the sale of beverage containers that present challenges for recycling?

Australian Grape & Wine supports maintaining the *status quo* of the South Australian CDS.

6. Governance arrangements – should review consider how collection depots and supercollectors operate?

While we do not have evidence to support any suggestion that the current system is working well or not, it would seem sensible to include analysis of these governance arrangements in any review of the CDS.

7. Marking of containers – is there a need to modernise how containers are marked to display the 10-cent refund?

Australian Grape & Wine supports maintaining the *status quo* of the South Australian CDS. No evidence has been presented to support a case for change to the current labelling requirements.

8. Payment of deposits – is there another way that you would like refunds to be paid?

Australian Grape & Wine offers no comment on this question.

9. Ease of returning containers – how difficult is it to return your containers for a refund? Are current recycling depots adequate in terms of how many there are and where they are?

Australian Grape & Wine offers no comment on this question, other than to reaffirm our belief that more analysis should be undertaken to understand the fall in deposit rates in recent years. Responses to this question may provide some evidence to assist this.

10. Dispute Resolution – should the review consider options to improve the process of dispute resolution between industry parties in the scheme?

Australian Grape & Wine offers no comment on this question.

11. Compliance - are there opportunities for improvements in the administration and enforcement of the scheme?

Australian Grape & Wine offers no comment on this question.

12. Monitoring and information – is there sufficient and transparent information in the current scheme, for example audit needs?

While we offer no comment in response to audit needs, we reaffirm the view that a much greater amount of objective evidence and data is required to undertake this review.

13. Should the refund amount be revised?

The Scoping Paper provides limited data to inform responses to this question. Australian Grape & Wine reiterates the lack of explanation and analysis for the decline in return rates in recent years, and that understanding the drivers of this decline is essential before any actions to address it are proposed. For example, it would be foolish to simply assume that an increase in the refund amount will change behaviors over the long-term.

14. What research do you think is required to inform the CDS review?

The executive summary and general comments to this submission note, on a number of occasions, the significant lack of evidence and data on the performance of the scheme and material flows through the recycling process. The EPA is encouraged to invest much more in research, data collection and analysis as part of this review to ensure it provides robust, tested recommendations that weigh-up costs and benefits, and draw upon a strong and objective evidence base.

15. Are there parts of the scheme that are working really well and you think should not be considered for change as part of the review?

Australian Grape & Wine supports maintaining the *status quo* of South Australia's CDS.

16. How would you like to be part of the CDS review conversation in the future?

Australian Grape & Wine hopes to remain engaged in this review process. We are pleased that our colleagues at the South Australian Wine Industry Association are involved in the EPA's Stakeholder Reference group. It is critical that the wine industry is represented in this forum, and commercial and market concerns are given proper consideration during the review.

Contact

Australian Grape & Wine remains committed to assisting the South Australian Government with this review where possible, and we are happy to be contacted directly on the details below.

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