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Container Deposit Implementation Team
Waste and Resource Recovery Branch
NSW Environment Protection Authority (EPA)

Via email: container.deposit@epa.nsw.gov.au

To Whom It May Concern

Winemakers' Submission to the NSW Container Deposit Scheme: Discussion Paper

The Winemakers' Federation of Australia (WFA) is the peak national body for Australia's winemakers and welcomes this opportunity to comment on the *NSW Container Deposit Scheme: Discussion Paper.* Our interest in this discussion is the impact of a CDS for the wine industry as a whole, particularly any scheme design for a possible future national program. The NSW Wine Industry Association is separately making a submission and we would encourage the NSW Government to engage with them to understand the impacts for NSW wine producers in particular.

The Discussion Paper outlines the NSW Government's commitment to introduce a container deposit scheme (CDS). This WFA submission confines itself to the key issue of what beverage types should be covered by a potential NSW CDS. **We strongly support the recommendations of the NSW Advisory Committee that "glass containers of wine" should be excluded as it is in the South Australian and Northern Territory schemes** and the majority of overseas schemes such as the one operating in California.

The reasons why wine in glass containers should be excluded from any NSW CDS are summarised as follows.

1. Wine container litter is not prominent in the public litter stream and the recycling rate for wine is already high via kerbside collection. Removing glass from successful kerbside recycling infrastructure will increase costs and undermine the effectiveness of the kerbside system for wine litter.

2. The cost to wine producers of a CDS that includes wine in glass containers would represent a significant additional burden, particularly for small producers, in what is a sustained period of low profitability for our industry. This threatens the sustainability of the Australian wine industry and the regional communities that rely on this important agricultural and tourism sector.

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3. Exempting wine in glass containers will deliver regulatory consistency across jurisdictions, avoid consumer and community confusion and reduce labelling costs for producers; and

4. The Australian wine industry already has a strong commitment to recycling.

We have elaborated upon each point in turn, below.

1. **Wine container litter is not prominent in the public litter stream and the recycling rate for wine is already high via kerbside collection. Removing glass from successful kerbside recycling infrastructure will increase costs and undermine the effectiveness of the kerbside system for wine litter.**

Wine container litter is not prominent in the NSW public litter stream. The Discussion Paper notes that the National Litter Index data found that “wine and spirits” make up just 3.26% of all container volume in NSW litter in 2014-15. In South Australia, where wine and spirits in glass are excluded from the State’s CDS (in operation since 1975), the latest KESAB quarterly litter report[1] found that of the 10,735 litter items counted across 151 sites, just 198 were glass litter items and just three of these were “wine and spirits”.

It should also be noted from the NSW Discussion Paper that “alcoholic drinks and milk had markedly higher rates of consumption at home than in public places”. This last point is relevant given a stated objective for the design of any NSW CDS is “to target drink containers used *away* from home”.

The Paper also notes that wine in bladders over one litre and wine in glass containers makes up 8.3% of containers found in NSW kerbside collection and just 0.8% of containers found in NSW public litter. The NSW recycling infrastructure for wine containers is therefore working effectively for this comparatively minor litter type.

Kerbside collection infrastructure in NSW is well established and cost-efficient with 93% of NSW households having access to the system. It is estimated that some 79% of containers consumed at home are recovered via kerbside collection, including wine. The Discussion Paper suggests that the level of eligible containers consumed at home recovered to kerbside under a CDS may drop to 17% based on the SA experience. Introducing a CDS in NSW will inevitably reduce the number of items being recovered through the current kerbside system and lower the revenues made by local Councils from recycled glass. In turn, costs to rate payers for kerbside collection would need to rise to cover the shortfall.

The Paper outlines the complexities of Councils to offset these costs even if they were able to recover a deposit on those containers that remained in the kerbside collection system. As the Paper concludes, “…from an overall economic perspective, removing containers from the kerbside adds potential costs to the scheme for only small gains.”

[1] WAVE 69 – May 2015 Report, Keep South Australia Beautiful (KESAB)

The Discussion Paper does not consider the risk of personal injury and legal action from the practice of bin scavenging from kerbside collection facilities that accompanies CDS. If wine in glass containers were to be included in the NSW scheme, Councils would need to be prepared for scavenging of this additional glass from recycling bins and the associated potential for related personal injuries.

We support the Advisory Committee recommendation that any NSW CDS "should be designed to encourage the community to continue to dispose of drink containers consumed at home via in the kerbside system."

2. The cost to wine producers of a CDS that includes wine in glass containers would represent a significant additional burden, particularly for small producers, in what is a sustained period of low profitability for our industry. This threatens the sustainability of the Australian wine industry and the regional communities that rely on this important agricultural and tourism sector.

Of Australia's estimated 2,500 winemakers, approximately 2,150 are small winemakers, crushing 500 tonnes or less per annum. These winemakers are predominantly small family businesses, regionally based, employing local people and attracting tourists to their regions. In New South Wales there are an estimated 465 winemakers of which around 400 are crushing less than 500 tonnes per annum. The additional costs associated with a CDS that includes wine in glass containers would hit these small producers hardest. Any additional cost burden on brand owners decreases their economic sustainability.

Before reviewing challenges specific to the current era, it is important to acknowledge the underlying agricultural risks that will always be a part of the sector and which distinguish wine production from production for all other beverage types (alcoholic and non-alcoholic):

> *Wine producers have only <u>one</u> production opportunity each year. This "one shot" intensifies the pressure to "get it right" but also constrains the ability of winemakers to spread risk, recover from losses and to maximise profits*.
>
> *Winemaking and grape growing are also subject to the seasonal and climatic vagaries inherent to Australian agricultural production and the threat, risks and opportunities these present.*
>
> *Given these underlying challenges, the industry is sensitive to the emergence and presence of additional market pressures.*

The Australian wine sector is presently faced with a set of once-in-a-lifetime sustainability challenges and cost-of-business pressures.

Currently the wine sector is in oversupply, the value of export sales is only just beginning to show some signs of growth after years of sustained declines and exchange rates that have reduced competitiveness. An independent expert review of industry dynamics commissioned in 2013 by WFA and produced by Centaurus Partners concluded the following:

The Australian wine industry tripled in size from 1991 to 2007 and was very successful at building export markets.

Since 2007 the profitability of the Australian wine industry has declined significantly.

This decline in profitability has intensified:

- Export returns have declined sharply owing to the high Australian dollar and coupled with a decline in consumer interest in Australian wine in key overseas markets.
- Domestic margins have been squeezed by retailers, low demand growth, and increased exports.
- The decline and shift in export demand has created an “oversupply/under-demand of grapes and wine in certain quality segments”.

Each year, the WFA Vintage Report, details the production profitability of Australia’s major winegrowing regions. The 2015 Vintage Report found that for the Hunter Valley 94% of 2015 production was produced at a loss, 1% was breakeven (profit per tonne of between $0-$100), 2% was recorded as low profitability (profit per tonne is between $100 - $300) and just 3% was reported as being profitable (profit per tonne is above $300). While these figures showed an improvement on 2012 figures, it was off a very low base. Any pricing pressure or loss of demand from a CDS that includes wine in glass containers could not be borne by producers, particularly small producers.

We know from applying price elasticities[2] that an increase in price will result in loss of sales volume overall and an accompanying reduction in employment in regional areas where the wine industry is based and a significant contributor.

In 2011, ACIL projected changes in Australian retail volumes and associated employment impacts across beverage categories that would flow from a national container deposit scheme. Depending on the amount of the deposit, ACIL[3] estimated retail prices would increase by 12-28 cents per litre, generating a volume hit of 3.48-8.07% for wine beverages.

ACIL also estimated that 767-1,695 direct jobs would be lost as a result of any national container deposit scheme. Around 877 of these would come out of wine production, hitting regional areas in particular. Given the prevailing industry conditions it is difficult to see how this data set could have improved since 2011.

[2] Fogarty, J. The demand for beer, wine and spirits: insights from a meta-analysis approach, AAWE Working Paper No. 31, Economics, 2008

[3] National Container Deposit Scheme Impacts, Projected changes in Australian retail volumes and associated employment impacts by beverage category, ACIL Tasman, September 2011

3. Exempting wine in glass containers will deliver regulatory consistency across jurisdictions, avoid consumer and community confusion and reduce labelling costs for producers.

Introducing a CDS on wine in glass containers in NSW would be a significant departure from the approach taken by existing schemes operating in Australia. As such, it would be an impediment for the Commonwealth to work towards a national CDS should a policy consensus between federal, state and local governments be reached.

It will also be confusing for consumers to understand what containers are eligible for a deposit and which are not.

The issue of cross-border transportation of eligible containers should also be considered. If NSW includes wine in glass containers then it is likely that collection agencies operating in other jurisdictions and collectors in interstate communities bordering NSW will be compelled to transport wine in glass containers to NSW for the sole purpose of claiming the deposit. In essence, an arbitrage opportunity will be created that does not currently exist for the collection and recycling of wine containers.

WFA strongly supports the recommendation of the Advisory Committee that wine in glass containers should be excluded from a NSW CDS and that careful consideration should be given to 'harmonising' the NSW approach with the schemes already operating in South Australia and the Northern Territory.

4. The Australian wine sector already has a strong commitment to recycling.

The Australian wine sector and its suppliers have a strong commitment to recycling and waste management. Currently OI-Asia Pacific, a major supplier of wine bottles, includes 35-40% of recycled glass in its production, with the goal of increasing this proportion continually. In speaking with our largest members, we can report that all use wine bottles made from recycled glass with their bottle suppliers reporting that the proportion of recycled glass (cullet) is between 30% and 60%.

This glass is provided through local recycling depots, council recycling programs and local community organisations such as Scouts and charities.

Any consideration of a national scheme should ensure community initiatives are incorporated so that while recycling becomes more efficient, communities do not lose the spirit of helping local organisations.

Light-weighting of glass bottles is an ongoing process, with continual dialogue between bottle manufacturers and wine companies. These advances and proactive outcomes are occurring free of government intervention or legislative pressures.

Legislative or regulative mechanisms to force environmental outcomes should only be a last resort, especially for industries already putting initiatives such as these in place. Many wine companies have also voluntarily adopted the "recycle please" logo across their domestic brands. Treasury Wine Estates is one such producer, applying it to 100% of their entire domestic range which includes brands like Penfolds, Wolf Blass, Lindeman's and Rosemont.

Similarly, 100% of the Jacob's Creek range (owned by Pernod Ricard Winemakers) carries the recycling logo. Casella also reports that the recycling advice is included on labels for all domestic [Yellow Tail] and Peter Lehmann Wines 750ml SKUs. Accolade Wines (whose brands include Hardys) and Taylors Wines are also among a number of prolific producers who have adopted the recycling logo.

Although the threshold for inclusion in the Australian Packaging Covenant is $5 million of Australian sales, many wine companies which operate below this level are signatories voluntarily because they have a commitment to product stewardship and waste management. They have aspirational reasons for complying. These should not be underestimated and any regulations should encourage this behaviour and emphasise the positives rather than imposing purely punitive measures.

In summary, we conclude that wine in glass containers should be excluded from any future NSW or national CDS as it is in South Australia and the Northern Territory. We commend this submission, and the submission from our counterparts at the NSW Wine Industry Association, to you. Please direct any follow-up questions to Melissa Cheesman-Faull, General Manager, Government Relations via Melissa@wfa.org.au or phone, 08 8133 4300.

Yours sincerely

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