Submission responding to "Driving NSW's circular economy: Discussion paper on enhancing the NW Container Deposit Scheme

2 December 2022

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Who are we

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 6,000 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 and winegrape growing businesses. These businesses make a significant contribution to underpinning regional economies by driving growth in jobs, regional exports and food and wine tourism.

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 winegrape growers and winemakers across Australia.

Introduction

Australian Grape & Wine strongly opposes the proposed expansion of NSW's Container Deposit Scheme (CDS) to include wine bottles. We are also deeply disappointed by the consultation process in the lead-up to the announcement of the proposal.

As an industry we are firmly supportive of reasonable, evidence-based policy interventions to improve glass recycling and movement towards a more circular economy. Pillar three of the sector's Vision 2050 strategy highlights the importance of sustainability to the sector, our community, the land and on the environment within which we grow grapes and make wine. Recycling glass wine-bottles is part of our sustainability commitment, with many of our members having publicly committed to ambitious targets relating to recycling and packaging.

The NSW EPA's near-sole focus on expanding the CDS – variations of which make up three of the four options put forward in the discussion paper – is a missed opportunity for NSW to take a leadership role in a more meaningful national discussion about glass recycling, and it is a great shame that Australian grape and wine businesses are being consulted on what is effectively a pre-determined outcome. Expanding the CDS to include wine bottles – as slated in the NSW Government's preferred option (Option 2) – would deliver just a 0.5 per cent increase in recycling rates.[1] And while we acknowledge the argument that CDS provides for a cleaner stream of glass, we are in no way convinced that the benefits of this proposal outweigh the enormous cost to NSW wine businesses and their interstate counterparts.

If we set aside the negligible overall impact on glass recycling and assume the NSW Government's objective is to deliver a cleaner stream of glass, then we question why the EPA failed to take an evidence-based, comprehensive assessment of all the options to achieve this objective?

In terms of cost, in New South Wales alone, we conservatively estimate that the inclusion of wine bottles in the scheme would cost Australian winemakers, at a minimum, approximately $45 million per year[2]. If the inclusion of wine bottles to CDS arrangements is applied nationally, the cost to industry would be upwards of $100 million.[3] As will be discussed in this submission, there is very little opportunity to pass this cost on to consumers, meaning the cost of the scheme sits solely with the wine business, despite the purported benefits flowing to to every other aspect of the value-chain. To put this in context, a $100 million cost roughly equates to the scale of Australia's sixth largest export market, (New Zealand, valued at $103.4 million in the year to September 2022).

This submission does not address all questions raised in the discussion paper, instead focusing on matters relating to the inclusion of wine bottles in the CDS. And while Australian Grape & Wine engaging in good-faith in this consultation process, we urge the NSW EPA and Government to review a broader range of alternatives to glass recycling and refine its cost-benefit analysis methodology to include assumptions relating to job losses in Australia's grape and wine sector and the comparative carbon emissions profile of CDS versus alternative arrangements. The assumption that no jobs will be lost in Australia's grape and wine sector due to the passing on of costs sector is naïve and ill-informed and must be addressed.

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[1] Marsden Jacob Associates, "Cost-benefit analysis of options to improve resource recovery in NSW", 13/10/2022, p 34.

[2] Cost estimate is based on the number of wine bottles sold in NSW multiplied by the 13.72 cents contribution pricing + GST + Registration, compliance and administration costs. This is a conservative figure – and we note in the South Australian context, the South Australian Wine Industry Association independently estimated costings placed the figures of expanding the South Australian Scheme to include wine bottles as high as 55 cents per bottle in the first year, and 40 cents per container, per annum, ongoing.

[3] This uses the same costing formula applied in the NSW example.

Wine industry commitment to sustainability

Australian Grape & Wine is committed to exploring ways to continuously improve the sustainability of Australia's grape and wine sector. Sustainability is at the heart of our sector's Vision 2050 document (see pillar 3), and with regard to glass recovery and recycling, a large proportion of the wine bottles sold in Australia would already fall under the jurisdiction of the Australian Packaging Covenant , a national regulatory framework under the National Environment Protection (Used Packaging Materials) Measure 2011 (NEPM), that sets out how governments and businesses across Australia share the responsibility for managing the environmental impacts of packaging.

The Covenant applies to businesses in the supply chain that have an annual turnover of $5 million or more. These businesses are required to choose between becoming a Signatory to the Covenant and contributing to the collective national efforts in managing packaging waste, or meeting compliance obligations under the National Environment Protection Measure (NEPM), which are implemented by the laws and other arrangements of participating states and territories, where a business sells or distributes its products. These criteria would encompass most medium and large wine producers throughout Australia.

Signatories to the Covenant are obliged to reduce the environmental impacts of their consumer packaging by optimising resource recovery of packaging materials through the supply chain. As such, winemakers are already mindful of ensuring packaging is easily recycled and packaging materials or waste, is captured before it enters the environment. The Covenant is overseen by the Australian Packaging Covenant Organisation (APCO), and with APCO's administrative support, a group of approximately 25 wine businesses have already been working together under a 'collective impact model' to implement initiatives such as, developing cross-industry sustainable packaging guidelines; initiating a pilot regional waste drop-off facility in the Barossa Valley; reviewing the use and weight of glass and cardboard used in wine packaging and other packaging items such as closures; exploring ways to reduce cling film to wrap pallets; and exploring a retail store program to reduce packaging waste at the point of sale.

While there is certainly more work that the wine sector can do to reduce and reuse glass, we do not support including wine bottles in the New South Wales CDS. As the national grape and wine sector representative body, Australian Grape & Wine is keen to work with the New South Wales Government and the EPA on the best mechanisms to drive real improvements in glass recycling that are cost-efficient, evidence-driven and equitable across the supply-chain.

Consultation failure

Australian Grape & Wine is deeply concerned by the lack of consultation in the leadup to the announcement that the Government was proposing to expand the scope of the NSW CDS to include wine bottles.

Firstly, the lack of consultation in advance of the NSW Minister for the Environment and Heritage's announcement that he was proposing to expand the scheme is unacceptable. For the state's wine industry association, NSW Wine, to receive a call from the EPA at 4.48pm on Friday 14 October 2022 informing them that this announcement would be made the following day is an example of the most cynical kind of stakeholder engagement, in which bad news is delivered as late as possible on the last day of the working week. And while cabinet confidentiality was cited as the reason for the absence of consultation to that point, we note articles appeared in the Sydney Morning Herald the next morning – clearly indicating the story had been leaked to the media in advance of the industry having any knowledge of the issue.

Secondly, the failure to consult is a clear breach of NSW Wine's Memorandum of Understanding (MOU) with the NSW Government, which clearly states the Government would consult on any measures impacting: "regular consultation with the wine industry on all matters that affect industry profitability and growth, including matters of regulatory burden". By signing the MoU, it was also committing to partner with industry in growing demand in a sector that supports more than 53,000 regional jobs, contributes more than $14 billion to the NSW economy and is a significant driver of domestic and international tourism.

Thirdly, while the EPA is claiming to consult with industry on the proposal, of the four options put forward in the discussion paper, three are variations on an expansion of the scope of the CDS to include wine bottles and the – including the preferred option (Option 2) – with the remaining option dismissed on the grounds of cost despite clearly offering superior recycling outcomes.

Fourthly, we suggest the discussion paper itself is written in a way that prohibits the reader from making a common sense, evidence-based decision. It is clearly biased towards leading the reader towards agreeing with the EPA's preferred proposal.

No less litter by including wine bottles

In the Discussion Paper's Overview and the sub-section entitled "Less litter" on page 9, it is rightly pointed out that the CDS has contributed to a reduction in litter. We agree that to date, the CDS has been a highly effective mechanism for reducing litter.

However, the paper does not explain anywhere in the discussion paper that wine bottles do not contribute in a meaningful way to the litter stream. This is due to the fact that wine bottles are consumed at the home or at a licensed premises and are placed in kerbside recycling bins on the overwhelming majority of occasions.

While it is difficult to extrapolate data specifically attributable to wine bottles, we note that in 2020-2021, Non-CDS drink containers contributed 0.34 per cent to the litter stream in NSW, while CDS eligible containers made up 5.18 per cent.[4]

The omission of this data in the context of a paper primarily focused on the expansion of eligible containers is misleading to the reader, who we assess would be highly likely to assume the inclusion of wine bottles would contribute to litter reduction.

No reference to industry harms

While we note page 21 of the Discussion Paper notes the value of the sector in a single paragraph, it goes on to say that "To ensure a successful transition we want to hear from all stakeholders, especially those in the wine and spirits industry, and work with industry to collectively design implementation solutions". This pre-supposes industry acceptance of expanding the scope.

At no point in the discussion paper does the EPA make reference to the cost to the total cost to industry, which we estimate, conservatively, to be $45 million if limited to NSW, and $100 million if implemented across Australia. Furthermore, at no point in the discussion paper does the EPA mention what we consider to be the certain likelihood of job losses as a result of this impost.

This is disappointing given the paper dedicates four pages to the benefits of the CDS to certain community groups, not for profits and other social enterprises. While we in no way wish to diminish the successes of these groups – they are all doing very positive things – the focus on community groups and the omission of any meaningful discussion about the risks of expanding the scope of the CDS clearly leaves the reader ill-informed and likely to agree with the EPA's preferred approach.

No reference to the 0.5 per cent increase in recycling

Page 18 of the Discussion Paper notes that "environmental benefit, alongside financial incentive, are the top

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[4] Litter composition by items (nsw.gov.au)

reasons consumers participate in the Scheme. Consumers are increasingly valuing sustainability and most Australian consumers believe that brands have a responsibility to make a positive change in the world". This research aligns with consumer insights across our markets that people are seeking to make sustainable choices in their purchasing decisions.

But consumers need accurate and transparent information to make these decisions. It is therefore frustrating and disappointing that at no point in the Discussion Paper does the EPA note that the inclusion of wine bottles in the CDS, along with other containers, would only derive a 0.5 per cent increase in recycling rates. It is reasonable to assume that the average member of the community, if engaging in this process, would not sift through the Cost-Benefit Analysis, choosing instead to rely on the EPA delivering an evidence based and balanced Discussion Paper. But unless they did look at the Cost Benefit Analysis, the reader would have no idea that expanding the scope would deliver such a poor rate of return on investment, let alone what the quantum of that investment (resting solely with the wine sector) would be.

The omission of this data strikes our sector as either an oversight by the drafters, or a deliberate attempt to sway the reader of the Discussion Paper towards the EPA's preferred model.

What is the problem we are trying to solve?

Shouldn't we be looking for the best model for glass recycling?

Australian Grape & Wine is disappointed that the EPA has missed an opportunity to comprehensively consider the range of options available to drive significant improvements in glass recycling and circular economy outcomes. Rather than seeking to adopt a global best practice outcome, the EPA is proposing an outcome in a CDS expansion that will cost NSW winemakers $45 million per annum ($100 million per annum if rolled-out nationally) for just a 0.5 per cent increase in recycling rates. This is an extremely poor return on the enormous costs that would be imposed on the sector. And, furthermore, we question what the margin of error of a 0.5 per cent increase over a twenty year time-frame would be. Can the New South Wales Government guarantee that rates of glass recycling will increase over this period?

CDS will not deliver the circularity NSW winemakers would like to see

In public consultation processes throughout November, the EPA has stated that glass currently collected through the CDS goes to either the Visy plant at Penrith (primarily beer bottle production) and insulation manufacturers, with a small portion trucked (at significant cost and carbon emissions) to South Australia for processing (possibly into wine bottles).

If the Government had have approached our sector for an unbiased discussion about glass recycling and circularity, we would have told them that a cost sharing arrangement in which glass wine bottles are recycled and returned to the sector in the form of wine bottles with a higher recycled glass content would be desirable. However, it appears that NSW winemakers would see their empty bottles sold to either beer bottle manufacturing or insulation manufacturers (and some have suggested road-base), rendering the circularity of the effort unviable for the wine sector. It is simply cost-prohibitive and immensely carbon intensive to truck empty wine bottles to South Australia to be recycled.

Why was the EPA so dismissive of alternatives?

Australian Grape & Wine is deeply disappointed that the NSW EPA has failed to take a principled approach to assessing how business (wine, retail, bottle manufacturers, recycling), community and local governments could work together to deliver the optimum model for glass recycling in Australia. The EPA had an opportunity to be world leading, but has instead fallen back on lazy policy by seeking to re-purpose a litter-reduction scheme into something else.

It is difficult to understand why alternative arrangements to improve glass recycling in NSW were dismissed so easily. While there are many options that could be considered, we note that a 4th kerbside bin for glass was referred to in the discussion paper, but given short shrift, which is very disappointing, particularly given:

- The EPA's cost benefit analysis pitched the fourth bin as delivering far greater recycling outcomes;
- the Victorian Government is in the process of rolling out its fourth bin for glass recycling, with data yet to be collected;
- a fourth bin for glass collects more glass overall (as it includes things like jam and pasta sauce jars) and separates glass, and on occasion glass shards, from other recyclable materials such as paper and plastics – delivering a dual benefit of a cleaner glass stream and a cleaner stream for other materials.
- in the South Australian example, the SA EPA's Hudson Howells economic modelling report states on page 27, that of the options presented in that context "
- the greatest economic impact is generated by the 4th kerbside bin option"
- The NSW EPA's cost-benefit-analysis shows that a 4th kerbside bin option result in twice as much waste avoiding landfill sites compared to the EPA recommended inclusion of wine bottles in the CDS (1.4 million tonnes in total).
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British Glass also supports a kerbside collection model, as opposed to a CDS. In December 2021 it noted[5]

- A good kerbside recycling model for glass packaging will deliver **11% more carbon savings than including glass in a DRS – that's over two million tonnes of CO_2 saved by 2035.**
- An improved, consistent kerbside scheme would lead to "**a collection rate of close to 90% of [all] glass packaging** placed on the market across both drinks containers and all other types of glass packaging" (compared with DRS which anticipates a collection rate of just 85% but is limited to drinks containers only).

Another option to be considered is more comprehensive and well-designed product stewardship arrangements, similar to that proposed by the Glass Packaging Forum in New Zealand. In an August 2022 report entitled "Product stewardship scheme design for glass", it was noted by the Forum that "Our modelling shows the scheme could achieve high rates of bottle-to-bottle use and lower overall emissions than the CRS, at a cost profile similar to or slightly better than the CRS."[6]

If better options are available to us, why is the EPA not seriously assessing world's best practice options to achieve improvements in glass recycling in NSW?

We ask the EPA and the NSW Government to reassess the options available to improve glass recycling, taking into account a more comprehensive cost-benefit analysis that incorporates employment, investment and carbon emissions.

Confused CDS users is not a rationale for including wine bottles in the CDS

We note with curiosity the claim on page 20 of the Discussion Paper that "A key benefit of a more comprehensive Scheme is that it would help to reduce consumer confusion over which beverages and container types are included in the Scheme". Again, this speaks to the Discussion Paper's unreasonable attachment to a pre-determined outcome.

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[5] www.britglass.org.uk, "Deposit Return Scheme will produce more carbon and collect less glass than improved kerbside scheme, report says", 8 December 2022.
[6] Glass Packaging Forum, "Product stewardship scheme design for glass", August 2022, page 2.

We are not at all convinced that consumer confusion about eligible containers is a rationale to expand the scope. While we have not seen any data to back up the claim, we accept that some consumers may be confused about why wine bottles are not included. But would this rationale for expansion be applied if consumers were bringing milk bottles to CDS's, or jam jars, or paint tins? While this is perhaps stretching the hypothetical, the argument is confusion is not a rationale for expansion remains strong.

Furthermore, the paper absolves the EPA of responsibility for educating consumers about eligibility requirements.

What is the value of education?

Australian Grape & Wine would like to know to what extent, an education campaign, or other innovations to engage the community, would improve recovery rates?

An education campaign could, potentially, have the dual benefits of increasing recovery rates in terms of volume, and helping address the identified problem of the presence of glass packaging in co-mingled kerbside rubbish bins. We believe an effective community and business education campaign could easily lead to an increased recovery rate of the same degree or more, as the costly CDS model put forward by the EPA.

This view is also supported in the CSIRO Circular Economy Report where it suggests that "Harmonising messages to consumers through consistency in labelling, recycling instructions, and education messages will underpin effective behaviour change in household, commercial, and industry purchasing, consumption and recycling routines. This will help ensure reduced waste generation, cleaner recyclables are collected, more efficient sorting outcomes are achieved, and end markets for recycled products are sustained."[7] We further contend that an education campaign could be delivered at little to no cost to wine businesses, and negligible cost to the NSW Government.

Sadly, the Discussion Paper is silent on other options to drive improvements, except for the superficial and dismissive contemplation of the fourth glass bin option.

Cost to Australian wine businesses

As noted earlier in this submission, Australian Grape & Wine conservatively estimates a cost of $45 million per annum to NSW wine businesses if the NSW CDS is expanded to include wine bottles. If similar arrangements are adopted nationally, this would cost Australian wine businesses in the vicinity of $100 million per annum. This cost does not justify a 0.5 per cent increase in recycling rates over a twenty year period.

The CDS shifts costs, but doesn't share them

The proposal put forward by the EPA to include wine bottles in the CDS is not based on cost sharing at all, it is based on cost shifting to wine businesses at a magnitude that will undoubtedly lead to widespread job losses in regional Australia.

NSW Wine's modelling suggests a micro producer would face costs of more than $11,000 per annum to comply with the scheme, while a large producer crushing 50,000 tonnes and filling 46 million bottles across 36 SKUs would face a base cost of $6.91 million per annum. Frankly, this cost cannot be passed on and would need to be absorbed in the form of operational cost cutting in the form of job losses, or the closure of businesses. This point is particularly pertinent during a period in which our sector is experiencing a period of sustained and very serious

[7] CSIRO Circular economy roadmap for plastics, glass, paper and tyres, Pathways for unlocking future growth opportunities for Australia, January 2021, Page 96

oversupply in the red wine market following the effective closure of the China market and other factors.[8]

The proposal to include wine bottles into the scope of the CDS, as put forward by the EPA, would not be an example of sharing responsibility – as it pertains to cost – along the product supply chain. Indeed, it places almost the entire cost burden on the winemaker, even though there are other beneficiaries of this proposal, such as, local councils, the recycling sector and glass manufacturers, whose energy prices reduce in line with the receival of cheap materials to repurpose. It is fundamentally inequitable that wineries foot the bill for an initiative that benefits glass manufacturers, community groups, local councils and others.

Our ability to pass on costs is extremely limited

The view that wine businesses can pass on the costs of the CDS has been presented by the EPA, the Minister and others as a *fait accompli.*

Australian Grape & Wine has canvassed its membership on this issue and the clear view is that this assumption is a seriously flawed. Winemakers face considerable issues relating to a very competitive retailer landscape in Australia. Roy Morgan data compiled in May 2020[9], estimated that the combined groups of Coles and Woolworths Liquor Group, were responsible for up to approximately 75 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 marketplace, 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 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 alcohol retailers. Australian Grape & Wine understands that an average retail store carries around 2,000 stock-keeping units (SKUs) from about 355 wine brands, while the largest stores can carry considerably higher numbers of wines. Australian retailers also can source product from winemakers in many overseas countries, so there is a highly competitive marketplace in which retailers are able to place considerable price pressure on suppliers.

Given this, winemakers would likely be forced to absorb any increased costs arising from the CDS. The assumption that the experience of beer and soft drink producers would be replicated in the case of the wine sector is incorrect. While we note the beer industry in NSW was able to pass on approximately 7 cents of the CDS costs in that state, three large multinational beer companies control upwards of 90 per cent of the beer market in Australia. Australia's wine sector is far less concentrated with a small number of large companies capturing nothing like the per centage market share controlled by the major beer producers. If major multinational beer companies could only pass on seven cents, we should expect wine businesses to be in a position to pass on nearly zero.

Further to this, beer companies are able to brew in kegs and spread costs in a way that wine businesses cannot, and they are also able to dial up or dial down production easily. Grape and wine businesses are agricultural businesses, with one chance to produce grapes and wine each year from permanent plantings. They cannot simply decide not to produce for a period if cash-flow is a problem, for example, in a way that beer or soft drink companies can.

Cash flow concerns

We note that in the EPA's community consultation sessions that wine producers have raised serious concerns about the potential cash flow implications of receiving a bill for their CDS contribution with seven-day payment

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[8] Australia's wine stock levels rise following 12 months of challenging global conditions | Wine Australia

[9] Roy Morgan Alcohol Retail Report, published May 2020

terms. In the wine sector, it is common for businesses to operate on payment terms of 30, 60 or 90 days, depending on the sales channel.

Equity and competition concerns

Australian Grape & Wine wishes to highlight that the management of the Exchange for Change organisation comprises the following shareholders (Asahi Holdings (Australia) Pty Ltd, Coca-Cola Amatil (Aust) Pty Ltd, Coopers Brewery Limited, CUB Pty Ltd and Lion Pty Ltd). Many in the wine sector are concerned that the expansion of the CDS to include wine bottles would equate to a wealth transfer from family-owned Australian businesses to multinational corporations with a vested interest in the data, finances and recyclable material outcomes deriving from the scheme.

Conclusion

Australian Grape & Wine hopes the NSW Government seriously considers the points raised in this submission and uses this as justification to take a step back from its proposal and assess its options to improve glass recycling in a more holistic and comprehensive manner. The cost of this proposal is immense and will cost jobs and put at risk investment opportunities in NSW and across Australia without driving meaningful environmental and recycling outcomes.

I would be happy to discuss this further at any stage.

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