BOOMERANG ALLIANCE

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BEVERAGE COMPANY PRICING BEHAVIOUR UNDER THE SOUTH AUSTRALIAN AND NORTHERN TERRITORY CONTAINER DEPOSIT SCHEMES

Dave West, National Policy Director, Boomerang Alliance, 2 August 2012

Introduction

This analysis was undertaken to investigate and understand claims by the Australian Food and Grocery Council (AFGC) that the introduction of a National Container Deposit Scheme (CDS) would significantly increase the price of beverages.

This is a tactic commonly adopted by beverage companies in face of CDS initiatives – with Coca Cola and other beverage companies inflating the notion of price increases (which have then subsequently turned out to be untrue when investigated by government – for example, Massachusetts Department of Environment[1]).

This ‘strategy’ was also adopted in the Northern Territory; where we have been informed there have been significant price increases that bear little to no correlation to the costs associated with a Container Deposit system.

Having studied the operation of CDS for some 10 years, the Boomerang Alliance has noted that some of the current price impacts appear substantially higher than the amount bottlers would need to pay out.

While the following study is not exhaustive, there are some clear patterns to indicate wide spread profiteering in particular by Coca Cola Amatil (CCA), Lion Nathan and Schweppes.

While it is important state governments and regulators undertake a more detailed investigation into the pricing and conduct of the major beverage brands - it is also clear that product stewardship schemes of any type need to introduce regulations to ensure that companies cannot profiteer on their environmental obligations and product stewardship.

This is not the first time this sort of unethical conduct has been an issue with suggestions of profiteering (ie, diversion of environmental levies) within the used tyre scheme reported in late 2010 where a number of tyre retailers were levying charges some 2-3 times their costs.

[1] Investigations of bottle-refund and non-refund states found no difference in prices and consumer choice. ‘Comparison of Beverage Pricing, Consumer Choice and Redemption System Performance in Massachusetts and Neighboring States’, The Massachusetts Department of Environmental Protection (MassDEP), July 2011

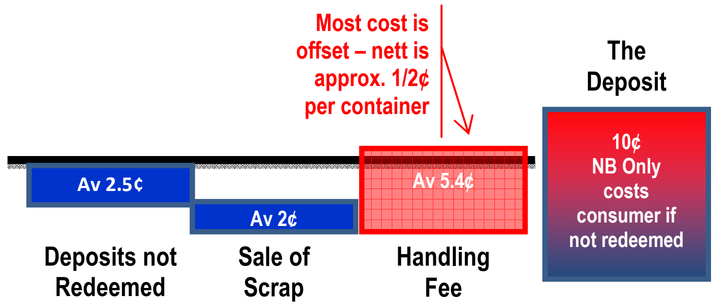
What is a reasonable cost?

While some bottlers will absorb part or all of their CDS cost impacts to try and maintain a price advantage over their competitors; it is reasonable for any beverage company to charge the full deposit value that creates the necessary incentive to encourage high recycling rates i.e. for the price of each container sold to increase by up to 10¢. Obviously, while this charge represents a shelf price it **does not** represent any actual hip pocket impact on consumers as they receive this money back when they return their containers.

Further it would be reasonable for a beverage company to also pass on any nett funds to support the CDS – namely the deposits they retain when consumers don't return containers and the income selling the recovered scrap for recycling.

The costs according to current depot operators in South Australia and the Northern Territory, are:

- In South Australia $0.60 per dozen containers is paid as a handling fee to the collection depots and there is a further cost of (at most) $0.05 per dozen containers to the operation of the Super Collectors (who administer the scheme and manage transport from the depot to the Super Collector)
- SA handling costs are offset by the sale of recovered scrap materials (aluminium, PET, HDPE etc.). These represent 2 – 2.2¢ per container
- At a current recycling rate of 80% this represents a total nett cost per container sold (i.e. where the CDS cost is passed into the price) of 10.72¢ per container



South Australia - The Maths:
10.0¢ deposit paid;
+ 5.4¢ handling fee; LESS
-2.0¢ from scrap material sales
X 80% (costs as a proportion of sales) =
$0.1072 per container sold

This means prices could increase by a **maximum** of 11¢ per container and the nett impact on consumers is 1¢ (nett of deposit) when they return their containers. Note the extra 0.3¢ per container that a bottler retains represents a substantial windfall – increasing their profitability.

In the Northern Territory, handling fees are actually less than they are in South Australia (between 4 & 4.5¢ each); however transport costs increase Super Collector costs but there is no evidence the overall cost per container is higher.

The scheme in the Northern Territory is still very new with recycling rates now reaching about 45%[2] compared to 80% in South Australia meaning any costs incurred are spread over almost twice as many containers. This means that any price increases over and above the 10¢ deposit is a serious rip off.

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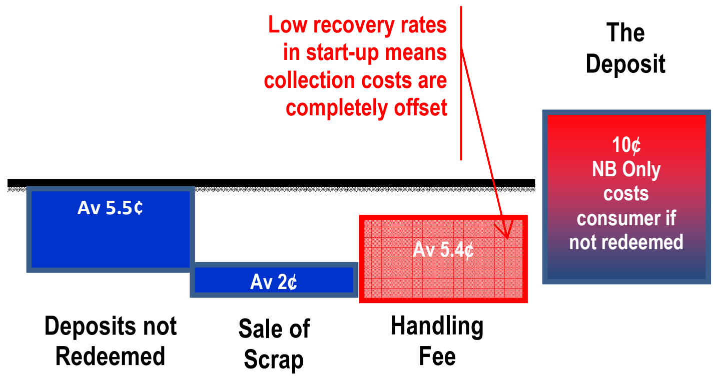
[2] Note: we understand these are rates since the first NT quarterly report.



Northern Territory - The Maths:
10.0¢ deposit paid;
+ 5.4¢ handling fee; LESS
-2.0¢ from scrap material sales
X 45% (costs as a proportion of sales) =
0.06 per container sold

The Northern Territory Government has stronger reporting regulations than South Australia and subsequently it is possible to understand both the actual income and expenditure made by bottlers in the Northern Territory.[3]

From January to March 2012, 31.6million beverage containers were sold in the NT and depots collected a total of 7.95million containers. This means bottlers paid out a total of $795,000 in refunds and no more than $477,000 in handling fees – a total cost of $1.272million. Spread across sales of 31.6million this represents a cost (including deposits refunded) of 4¢ per container. Yet the Australian Food and Grocery Council is boasting:

"The latest industry research shows Coles selling a 15-pack of Coke cans in Perth (where there's no CDL) at $12 compared with Darwin at $14, a Pepsi 24 pack at $13 vs $15 and Corona 24 pack at $50 vs $53. Woolworths has 24 packs of Coke and Becks beer selling in Darwin at $3 higher than Perth stores. In some cases, customers are also paying up to 30 cents extra for other beverages." AFGC Media Release 10/2/12[4]

Ironically the above media release was titled "Territorians conned and confused by CDL". Our research shows the AFGC was partially right – Territorians, are being conned – by unethical profiteering and confused – by the AFGC's misleading ad campaign.

The AFGC's statements indicated their members were charging at average 13 cents per container. Thus on 31.6million containers sold in the Scheme's first 3 months, beverage company manufacturers pocketed $1.88million after their costs.

Alarmed, the Boomerang Alliance began this investigation.

The Study

We checked the price of 20 common bottles and cans of drink offered for sale by Coles via their online ordering in:

- Adelaide, SA
- Darwin, NT
- Perth, WA
- Sydney, NSW

In each instance the writer identified himself as being closest to the Coles CBD store (so market conditions were as similar as possible). Five products that are not beverages (and experience no costs from a CDS scheme) were also checked for general price movement benchmarking purposes.

[3] http://www.nretas.nt.gov.au/environment-protection/containerdeposit/quarterly-reports
[4] http://www.afgc.org.au/media-releases/1119-territorians-conned-and-confused-by-cdl.html

The July Coles Catalogue for each location was also reviewed to check the impact on specials and discounted product lines. There were 8 beverage items reviewed.

While other points of sale (e.g. bottle shops) had insufficient information to compare the impact of prices the writer did undertake a number of spot checks, and relative price increases by brand correlated with the initial findings.

The cost increases identified in South Australia and the Northern Territory were then compared to the costs bottlers are incurring to identify whether brands were profiteering.

Five products that did not attract a deposit were also checked for price variations between Sydney / Perth and Adelaide / Darwin. Price variations in these items were apparent but were only minor with Adelaide actually an average 1.02% cheaper than other major cities.

In Darwin prices are an average 2.8% more than other major cities. This increase was caused by 2 of 5 products being more expensive, with the rest being the same price as those found elsewhere. To this end, Darwin's well known disadvantages in transportation costs etc. could represent 1-2¢ more per bottle/can of drink. Thus we have only considered that average price increases of more than 12¢ (or 2¢ nett of the refundable deposit) to be serious profiteering.

The Results

While the scope of the study was somewhat limited the results are clear:

- Despite the selective price quoting of the AFGC - prices in South Australia and Darwin have only risen by an average 9.7¢ in Adelaide and 12.8¢ in Darwin
- 3 major bottlers (CCA, Lion Nathan & Schweppes) had increased prices across most of their brands and were in fact charging consumers more than 100% over the cost they incurred.
- Most leading beverage brands have absorbed some of the cost or are passing on (at most) the deposit cost.
- Excluding the 3 companies that seem to be profiteering on the CDS in NT and SA the average increase in prices is just 6.4¢ (SA) and 2.1¢ in the NT. This means beverage prices are actually **less** expensive in SA and the NT than the rest of the country if a consumer returns containers to receive the deposit refund.

A product by product analysis is included in a table at the rear of this analysis, but the summary results are as follows:

Price Impact By Company *(red indicates clear profiteering activity)*	Number of Items Checked		Av Price Difference		Impact on Consumer (Nett of refund)	
	SA	NT	SA	NT	SA	NT
Bundaberg Ginger Beer	2	2	-$ 0.15	-$ 0.05	-$ 0.25	-$ 0.15
Coca Cola Amatil	5	5	$ 0.20	$ 0.24	$ 0.10	$ 0.14
Coles	2	2	$ 0.09	$ 0.13	-$ 0.01	$ 0.03
Coopers	3	3	$ 0.06	$ 0.03	-$ 0.04	-$ 0.07
Diageo	2	2	$ 0.09	$ 0.09	-$ 0.01	-$ 0.01
Fosters	4	4	$ 0.09	$ 0.09	-$ 0.01	-$ 0.01
Small Brands	2	2	-$ 0.05	$ 0.10	-$ 0.16	-$ 0.00
Lion Nathan	4	4	$ 0.18	$ 0.19	$ 0.08	$ 0.09
Schweppes	4	4	$ 0.13	$ 0.20	$ 0.03	$ 0.10

The following images and pricing are examples extracted from the Coles July Catalogue and illustrate the differences between key cities:

Prices in Adelaide:

Darwin:

Sydney / Perth:

Comparisons between Competitors

Lion Nathan brands investigated included XXXX, Tooheys Extra Dry, West End and Corona. On average prices in Adelaide and Darwin were 18 - 19¢ more than in other states – meaning bottlers pocket $2.04 on each case of beer they sell (after costs). Based on Lion Nathans claimed 40% share of the beer market Lion Nathan are charging their customers in the Northern Territory and South Australia an additional $27million per annum and is pocketing an additional $11million p.a. over the costs it incurs to participate in the container deposit scheme.

By comparison Fosters (9¢) and Coopers (4.5¢) brands have average price changes that reflect less than the actual deposit amount.

Coca Cola Amatil brands like Coke, Coke Zero, Diet Coke, Sprite, Lift, Mt Franklin and Mother Energy drinks prices in Adelaide and Darwin are an average 22¢ more than those in other major cities. Based on these prices and CCA's market share data published each year in its 'Fact Book', Coke would appear to be charging an additional $27million per annum in South Australia & the Northern Territory alone and pocketing around and $15million per annum over and above the costs it faces.

Schweppes Brands such as Pepsi, Pepsi Max, Schweppes, Gatorade & Cool Ridge Water are an average of 16.5¢ more in Adelaide and Darwin than in other major cities. With a 23% market share (compared to CCA's 30% share) it would appear are charging its customers in SA and the NT an additional $17.9million p.a. and pocketing $5.9million p.a. over and above costs incurred.

Other Soft Drink / Water/ Energy Drinks including Coles Own Brands, Aqua Pura, Bundaberg Ginger Beer and Berrocca, on average, are priced at just 1.4¢ more in Adelaide and Darwin than other major cities.

The Guilty?

It appears that compared to some bottlers retailers are not profit taking deliberately (given that exorbitant increases seem to be isolated to a small number of players). However, if the deposit and handling fees are not itemised separately on invoices to the actual wholesale cost of goods it is possible they are inadvertently marking up under the guise of an environmental charge.

There is also some question about of whether the major Super Collectors - notably Statewide and Marine Stores (owned by CCA and Lion Nathan) may also be overcharging their clients – by passing on handling fees but possibly not reflecting the revenues earned through the sale of scrap.

There are 6 major players in the Australian beverage sector:

CCA, Lion Nathan, Fosters, Schweppes, Diageo and Coopers. It is interesting to note that the 3 that are agnostic towards the issue of container deposits (Foster's, Diageo and Coopers) have not levied excessive charges on the consumer. However the other 3 (CCA, Lion Nathan, Schweppes) are 3 of the 4 bottlers who are members of the AFGC's controversial Packaging Stewardship Council – the major lobbyists against Container Deposits. The question must be asked whether the AFGC is leading a campaign to deliberately inflate prices for a political purpose and whether this is seen as collusion.

Action Required

1) The ACCC and consumer affairs bodies in South Australia and the Northern Territory should undertake an immediate investigation of the pricing practices of CCA, Lion Nathan and Schweppes. The investigation should concern itself with:

    a. Whether the price increases in the NT and SA reasonably reflect costs imposed on them;
    b. If the AFGC is providing advice to its members on pricing and whether they are in fact colluding;
    c. Whether the misleading advertising (particularly on the eve of an election in the NT) is a reasonable business practice.

2) The Commonwealth's "Product Stewardship" legislation and the CDS legislation in the NT and SA should immediately be amended to make profiteering from a stewardship program an offence.

3) The Standing Committee on Environment and Water (composed of state and federal environment ministers) should immediately sanction the AFGC and condemn the practice of providing deliberately misleading information and reject information supplied by the AFGC or profiteering companies named here, to the current government packaging options investigation.

Supporting Information

Coca Cola Amatil's 2011annual report highlighting the ownership of Can Recycling (trades as Statewide) - a South Australian and NT Super Collector. This establishes that CCA have autonomous control over the price they pay and charges they receive:

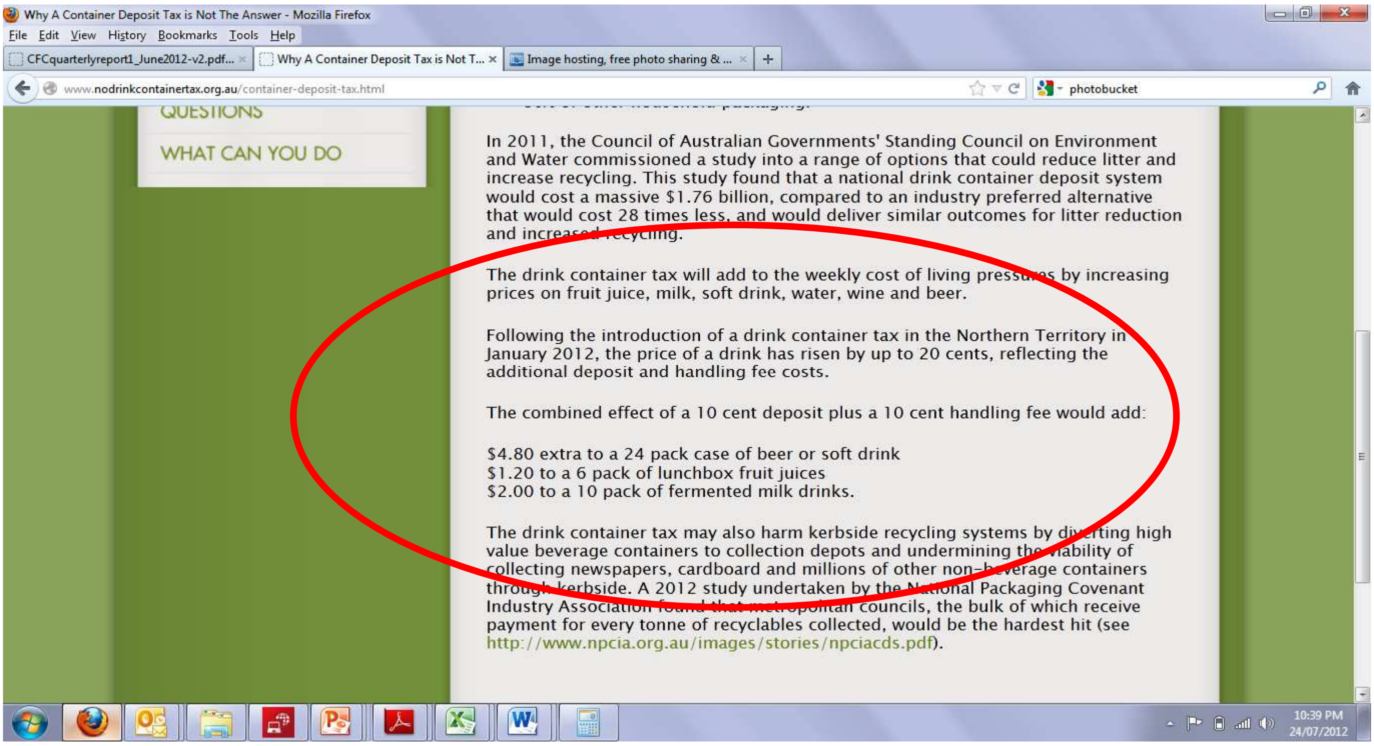
36. INVESTMENTS IN SUBSIDIARIES

	Footnote	Country of incorporation	Equity holding[†] 2011 %	2010 %
Coca-Cola Amatil Limited	1	Australia		
Subsidiaries				
AIST Pty Ltd	1	Australia	**100**	100
Amatil Investments (Singapore) Pte Ltd		Singapore	**100**	100
Coca-Cola Amatil (Fiji) Ltd		Fiji	**100**	100
PT Coca-Cola Bottling Indonesia	2	Indonesia	**100**	100
PT Coca-Cola Distribution Indonesia		Indonesia	**100**	100
Associated Products & Distribution Proprietary	1	Australia	**100**	100
Coca-Cola Amatil (PNG) Ltd		Papua New Guinea	**100**	100
Associated Nominees Pty Ltd	3	Australia	**100**	100
CCA PST Pty Limited	3	Australia	**100**	100
CCA Superannuation Pty Ltd	3	Australia	**100**	100
C-C Bottlers Limited	1	Australia	**100**	100
Beverage Bottlers (Sales) Ltd	1	Australia	**100**	100
CCKBC Holdings Ltd		Cyprus	**100**	100
Coca-Cola Amatil (Aust) Pty Ltd	1	Australia	**100**	100
Apand Pty Ltd		Australia	**100**	100
Baymar Pty Ltd		Australia	**100**	100
Beverage Bottlers (NQ) Pty Ltd		Australia	**100**	100
Beverage Bottlers (Qld) Ltd	1	Australia	**100**	100
Can Recycling (S.A.) Pty Ltd	1	Australia	**100**	100
Coca-Cola Amatil (Holdings) Pty Limited		Australia	**100**	100
Crusta Fruit Juices Proprietary Limited	1	Australia	**100**	100
Quenchy Crusta Sales Pty Ltd		Australia	**100**	100
Quirks Australia Pty Ltd	1	Australia	**100**	100

Can Recycling (SA) is one of 2 'Super Collectors' for the SA CDL trading as Statewide Recycling. This means any handling fees paid by CCA are retained within CCA

An example of the advertisements being ran by the AFGC under its front name of 'nodrinkcontainer tax' which cites inflated costs. Only the members of the AFGC's controversial Packaging Stewardship Forum (previously BIEC) have arrived at these sorts of costs – collusion?

The AFGC funded 'nodrinkcontainertax' web site which cites beverage price increases that do not reflect actual cost impacts of a container deposit costs but does reflect the apparent profiteering of CCA, Lion Nathan & Schweppes.



Why A Container Deposit Tax is Not The Answer - Mozilla Firefox

www.nodrinkcontainertax.org.au/container-deposit-tax.html

QUESTIONS

WHAT CAN YOU DO

In 2011, the Council of Australian Governments' Standing Council on Environment and Water commissioned a study into a range of options that could reduce litter and increase recycling. This study found that a national drink container deposit system would cost a massive $1.76 billion, compared to an industry preferred alternative that would cost 28 times less, and would deliver similar outcomes for litter reduction and increased recycling.

The drink container tax will add to the weekly cost of living pressures by increasing prices on fruit juice, milk, soft drink, water, wine and beer.

Following the introduction of a drink container tax in the Northern Territory in January 2012, the price of a drink has risen by up to 20 cents, reflecting the additional deposit and handling fee costs.

The combined effect of a 10 cent deposit plus a 10 cent handling fee would add:

$4.80 extra to a 24 pack case of beer or soft drink
$1.20 to a 6 pack of lunchbox fruit juices
$2.00 to a 10 pack of fermented milk drinks.

The drink container tax may also harm kerbside recycling systems by diverting high value beverage containers to collection depots and undermining the viability of collecting newspapers, cardboard and millions of other non-beverage containers through kerbside. A 2012 study undertaken by the National Packaging Covenant Industry Association found that metropolitan councils, the bulk of which receive payment for every tonne of recyclables collected, would be the hardest hit (see http://www.npcia.org.au/images/stories/npciacds.pdf).

Owner	Retail Point	Product	Containers in item sold	Price Perth	Price Darwin	Price Adelaide	Price Sydney	Increase in Darwin (av.)	Increase in Adelaide (av.)
Bundaberg Ginger Beer	Coles Online	Bundaberg Ginger Beer Diet - 750mL bottle	1	2.77	2.63	2.50	2.88	-0.05	-0.15
	Coles Online	Bundaberg Soft Drink Ginger Beer 4 X 750ml bottles	4	5.31	5.48	5.21	5.31		
Coca Cola Amatil	Coles Online	Coca Cola - 1.25L X 6 bottles	6	14.85	15.67	14.90	14.85	0.24	0.20
	Coles Catalogue	Coca Cola - 1.5L X 3 bottles	3	7.00	8.00	8.00	N/A		
	Coles Online	Mother Energy Drink - 15 X 375ml cans	15	27.13	32.09	30.98	28.35		
	Coles Catalogue	Coke - 15 pack X 375ml cans	15	12.00	14.00	14.00	12.00		
	Coles Catalogue	Sprite/Lift - 2 X 1.5L bottles	2	3.00	3.50	3.50	N/A		
Coles	Coles Catalogue	Coles Natural Water - 24 X 600ml	24	8.00	11.00	11.00		0.13	0.09
	Coles Online	Coles Water Natural Spring - 1.5L Bottle	1	1.36	1.49	1.42	1.31		
Coopers	Coles Online	Coopers Clear - 6 X 355ml bottles	6	16.05	16.59	16.59	16.05	0.03	0.06
	Coles Online	Coopers Mild Ale - 375mL X 24	24	42.80	47.08	47.08			
	Coles Online	Coopers Pale Ale - 750ml X 12	12	56.71	54.60	55.64	55.64		
Diageo	Coles Online	Bundaberg Up Rum & Cola - 24 cans	24	78.11	80.25	80.25	78.11	0.09	0.09
	Coles Online	Johnnie Walker Red & Dry - 24 cans	24	75.97	78.11	78.11	75.97		
Fosters	Coles Catalogue	Assorted 2 carton deal	54	75.00	86.00	90.00	75.00		
	Coles Online	Cascade Premium Lite 24 bottles X 375ml	24	38.52	38.52	38.52	36.38		
	Coles Online	Pure Blonde = 6 X 355ml bottles	6	16.06	15.75	16.05	16.05		
	Coles Online	VB Carton - 30 Cans X 375ml	30	53.50	55.64	55.64	55.64	0.09	0.09
Independent	Coles Online	Aqua Pura Fruit Splash 1.25L	1	2.71	2.80	2.66	2.71		
	Coles Online	Berocca Orange Drink - 250ml	1	3.24	3.35	3.18	3.24	0.10	-0.05
Lion Nathan	Coles Catalogue	Assorted 2 carton deal	54	75.00	86.00	90.00	75.00	0.19	0.18
	Coles Catalogue	Corona 30 Bottle Case	30	50.00	55.00	52.00			
	Coles Online	Toohey's Extra Dry 24pack 345ml bottles	24	44.94	49.22	49.22	48.15		
	Coles Online	XXXX Gold Can 375 Ml 30 Pack	30	41.73	54.57	54.57	48.15		
Schweppes	Coles Online	Cool Ridge Water 1L	1	2.60	2.92	2.78	2.60	0.20	0.13
	Coles Catalogue	Pepsi Max - 24 X 375ml cans	24	12.00	14.00	14.00	12.00		
	Coles Catalogue	Pepsi Max - 15 X 375ml cans	15	9.00	12.00	12.00	9.00		
	Coles Online	Gatorade Blue Bolt 600ml	1	2.70	2.91	2.77	2.70		