

The Retailer's Role in a World's Best CDS

Dave West, National Policy Director. 23 September 2016

In February 2015, NSW Premier Mike Baird and Environment Minister, Rob Stokes announced that NSW would introduce the world's best Container Deposit System to start in July 2017. In describing what his government saw as the features of such a scheme, Premier Baird committed his government to a network that would deploy "at least 800 Reverse Vending Machines (RVMs) across NSW¹."

RVMs are a proxy for consumer redemption convenience. However, this target has disappeared in all future statements and discussion papers. Boomerang Alliance has consistently called for convenience via RVMs and retailer engagement. An approach that does not focus on convenience means that potentially millions of NSW homes would not have ready access to a redemption point - thus the state government would be actually proposing to deny many NSW consumers the opportunity to reclaim the 'deposit' they paid at the time of purchase.

In lieu of ensuring retailers participation of the proposed scheme, the current approach proposed by the NSW EPA places faith in the market mechanism and has transferred full responsibility to the Coordinator without any regulatory underpinning. This delivers serious scheme operation problems (including lower return rates and potential higher costs) which need to be rectified if the CDS is to gain community trust and acceptance.

With this in mind, this short briefing paper expands on Boomerang Alliance's submission to the NSW EPA Draft Regulatory Framework and Legislation to describe an updated vision for the retailer's role in delivering a cost effective CDS.

The role of the retailer in a modern efficient CDS

Retailers, along with bottlers play a substantial role in the beverage litter problem and derive billions of dollars in income from the sale of drinks. Consumers come into direct contact with beverage products (and thus a CDS) at the retail point and inevitably will expect a linkage to it. Consequently, retailers should:

1. Ensure their customers are aware of the fact that some of their shopping items carry a deposit that can be refunded and where they can return their empties to receive their refund.
2. Provide space within their stores to fit RVMs or, at the minimum be required to facilitate or be connected to nearby space to establish a collection point.
3. Allow payment of refunds upon presentation of a verified voucher when a consumer has used a RVM.

These are critical functions, that ensure a CDS has the level of convenient redemption to perform well and contain costs. Importantly, of the 15 CDS introduced around the world in the last 20 years nearly every scheme has featured strong retailer obligations. A review of these schemes highlights a direct relationship between the strength of the retailer obligation and the overall performance level (the refund value was not an important factor).

The table below shows that 10 of the 13 jurisdictions that have adopted a CDS since 1997 require retailers to provide space for redemption points and other obligations to pay refunds and educate their customer base. Tellingly, these 10 CDS jurisdictions with retailer obligations experience an average 86.75% redemption rate, while the 3 operations without retailer obligations achieved, on average, a redemption rate of just 62.5%. Clearly any CDS wishing to be counted amongst the world's best requires a suite of retailer obligations.

¹ Quote by NSW Premier Mike Baird announcing a NSW CDS at Coogee Beach 21/2/15

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<i>Jurisdiction (Population)² Commencement Yr</i>	<i>Recovery rate</i>	<i>Retailer Obligation to provide space?</i>	<i>Retailer Obligation to provide refund / consumer education?</i>
<i>Newfoundland (0.5mill population) Commenced: 1997</i>	65%	No – 56 Depots	Yes
<i>Norway (5mill population) Commenced: 1999</i>	95%	Yes – 25,000 locations	Yes
<i>Israel (7.9mill population) Commenced: 2000</i>	77%	Yes – Return to retail; unknown no. of locations	Yes
<i>Denmark (5.6mill population) Commenced: 2002</i>	89%	Yes – 6,500 locations	Yes
<i>Germany (81.9mill population) Commenced: 2003</i>	96-98.5%	Yes – 135,000 locations	Yes
<i>Estonia (1.3mill population) Commenced: 2004</i>	79%	Yes – 570 locations	Yes
<i>Hawaii, USA (1.3mill population) Commenced: 2005</i>	68.4%	No – 72 Depots	No
<i>Netherlands (16.8mill population) Commenced: 2005</i>	> 95%	Yes – 4,300 locations	Yes
<i>Croatia (4.3mill population) Commenced: 2006</i>	Not Available	Yes – no details unavailable	Yes
<i>Ontario (12.9mill population) Commenced: 2007</i>	82%	Yes – 825 locations	Yes
<i>Manitoba (1.2mill population) Commenced: 2008</i>	81%	Yes – Return to retail; no detail available	Yes
<i>Northern Territory, Australia – 2013</i>	54.2%	No – 9 Depots	No
<i>Lithuania (3mill population 2016</i>	(first Yr of Operation)	Yes – 1,000 locations	Yes

Why does the retailer need to play a role in securing convenient redemption points?

Anyone who has experienced the Sydney real estate market knows that our capital city has some of the highest real estate prices in the world and that it is difficult to find vacant property in prime locations, so it's hardly surprising that without support from leading retailers like Coles and Woolworths it will be difficult for the future NSW Network Operators to find space in or near our major shopping centres. Where they can find the space, these operators will be competing with retail kiosk based businesses so they can expect to pay premium rentals (which significantly increases the handling costs associated with running a CDS).

A free market approach requires a Network Operator to target prime retail space in established shopping centres (where scarcity and competition creates rentals that are amongst the highest premium across all real estate markets). A quick survey of Sydney spaces in key retail areas (Chatswood, North Sydney, Bondi Junction, Parramatta) on the commercial real estate webpage www.realcommercial.com.au showed that 'kiosk style'³ rentals were very limited (3 sites in Chatswood, 4 in North Sydney, 1 in Bondi and Parramatta) and ranged between \$26-\$65,000 p.a.

To date, the NSW EPA has described the potential collection network as being 'mostly existing waste facilities' which in Sydney would represent some 18 collection points across Greater Sydney – representing a ratio of some 95,000 homes per redemption point. The map below shows these facilities (the garbage bin icons) and highlights that many consumers will face 60 minute plus journeys to access a collection point. Further many of these points are not designed for public access or large volumes of traffic which will potentially create safety hazards and long queues waiting to redeem.

² Table excludes two jurisdictions (Prince Edward Island Canada and the NW Territories Canada) as they are such small populations (100,000 & 40,000 respectively) that they do not reflect a typical jurisdiction.

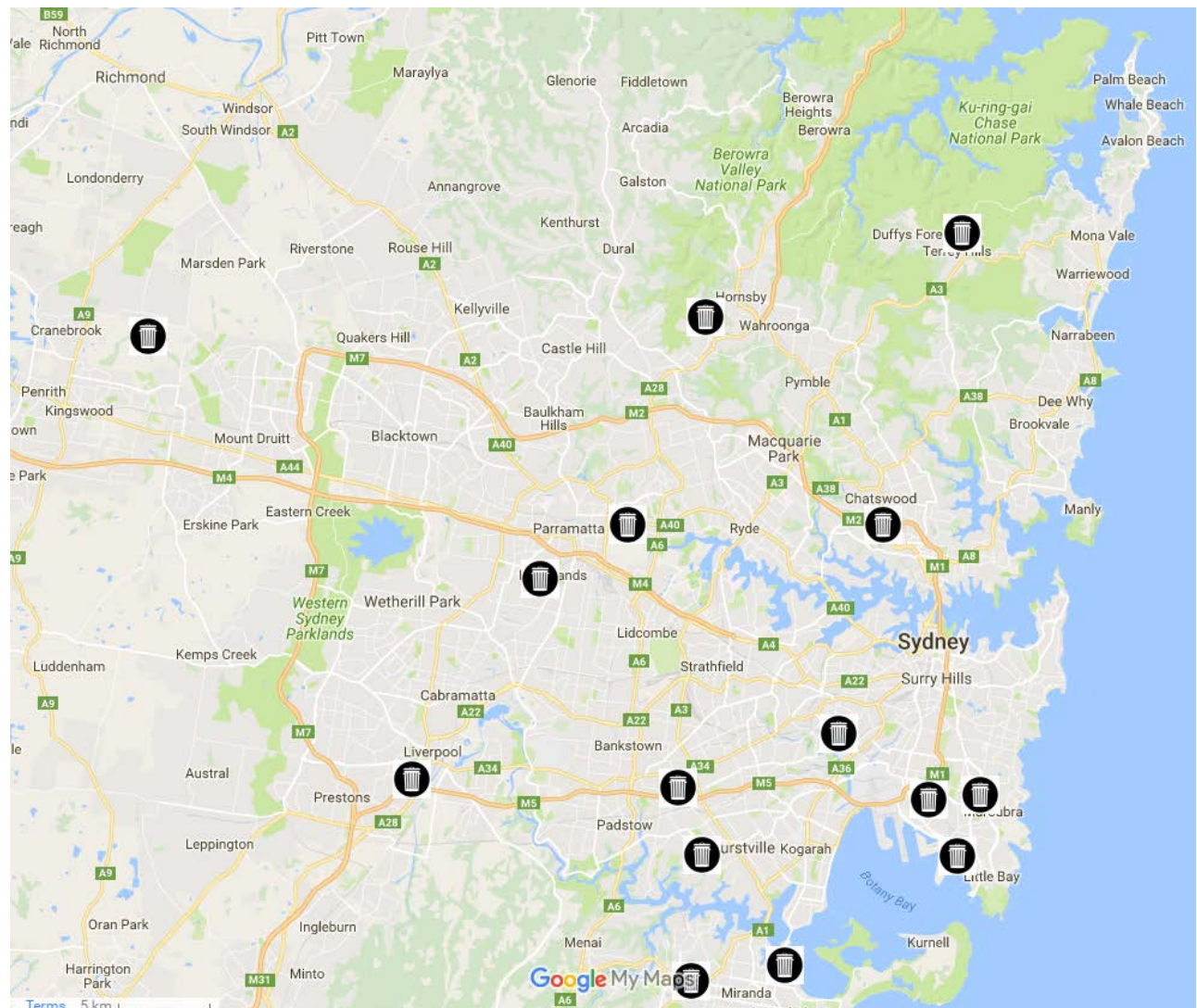
³ Indoor and outdoor spaces in major shopping centres of between 32-80M²

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The map of the Greater Sydney Region shows the 18 waste facilities that would be expected to manage the bulk of the redemption as described by the NSW EPA.



By comparison, the best performing schemes in Europe operate at a ratio of less than 2,500 homes per redemption point (e.g. Germany, Norway, Sweden). Previous modelling by the Boomerang Alliance sought to achieve ratios in metropolitan Sydney of a redemption point per 3-5,000 homes (340-570 RVM points across Sydney).

Obviously, it is expected that Network Operators can roll out additional collection points, but based on the experience in the NT (which uses the same basic approach as proposed in NSW) there are just 5 depots across the greater Darwin area.

If left to a free market approach, redemption points will be secured on a site by site basis (slowing up implementation) which is likely to push redemption points into less accessible and cheaper locations. In turn this will ensure that the most vulnerable people in our community have far fewer opportunities to redeem (e.g. the elderly and infirm - who may no longer drive, the poor - who often have limited transport options, and working families). It is critical to recognise that while the actual payment of refunds acts as an incentive to reduce litter and increase recycling it is not actually a payment earned by the redeemer, rather the redemption process is the return of monies paid by the consumer. Denying substantial sectors of the community from access to a convenient collection point is unconscionable.

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A retailer obligation would have the regulatory underpinnings to allow a shopping centre to place a RVM centre in space not on the rental market (e.g. by allowing the retailer to sacrifice four car parking spaces or access open space at the supermarket entry).

The Boomerang CDS Model promoted a compromise between the full back to retail model by suggesting the use of a convenience zone, where a major retailer (a full size supermarket) has an obligation to ensure that a convenience point is in operation within a certain distance of their premises to avoid the necessity to provide an instore redemption point. This avoids any imposition for many of the major Sydney supermarkets which are positioned adjacent to public open spaces where local councils and state authorities are likely to be enthusiastic landlords for RVM Centres (e.g. Parramatta Mall, Bankstown Mall, Chatswood Chase, Bondi Junction, The Corso in Manly, Train Stations at Hurstville, Kogarah, Newtown and Hornsby) and allows major retailers to share a facility where competing brands are located in each other's immediate vicinity while still guaranteeing convenient network coverage.

Where a retailer does provide space kicks in, the BA model has always advocated that retailers are properly compensated at commercial rates identified via a valuation.

Redemption at the Supermarket

The CDSO Industry Group, Tomra and others have provided a wealth of information to BA, the government and others explaining the critical link between the barcode and the redemption process. Typically, best practice schemes deploy RVMs which have a data link to their nominated retailer (or make a donation) who then pays a refund against their next grocery bill. We support this approach and the benefits of this approach to improve fraud surveillance have been well described, but there are two other features which do not appear to be strongly on the radar.

The first is an important feature of social policy, as by making the redemption point inside a supermarket encourages disadvantaged households to spend their refund on fresh food and groceries rather than for instance, alcohol.

The second benefit of the retailer facilitating the payment of refunds are reduced costs to the scheme via reduced cash flow impacts on the collection points. In 1970's and 80's style-CDS (like South Australia), the depot typically pays out the refund in cash. As outlined by the EPA in their discussion paper this is typically undertaken on commercial terms – billing at the end of the month, with payment made a month later. In a model featuring 800 collection points (as promised by Premier Baird) this means that each location will bear as much as \$75,000 in refunds paid out before they recover monies from the Coordinator / bottler. In a network of 400 locations these outlays double.

The impact of this approach is significant. The need to have \$75-\$150,000 cash flows (on top of overheads) against an average gross revenue (the handling fee) of around \$16,000 per month will largely extinguish any opportunity for a charity or small business to participate in the redemption network. Secondly the cost of funds (typically an overdraft) will significantly increase the costs of the scheme by over \$4million p.a. Further, without a retail obligation to pay the refund and use a barcode, the system will require a more complex billing process and manual administration, further increasing Coordinator costs.

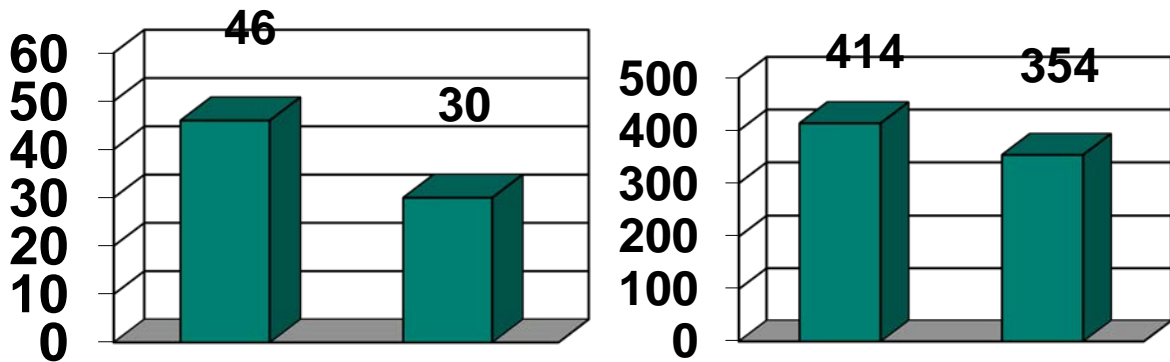
By comparison, if the retailer pays the refund they face no cash flow impacts as they are typically paying out refunds in a closed loop, collecting an equivalent amount of deposits on new goods sold when they pay out the refund. International research also shows that a retailer who participates within a CDS receives a substantial sales benefit from increased purchases – offsetting any inconvenience.

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Average Spend:



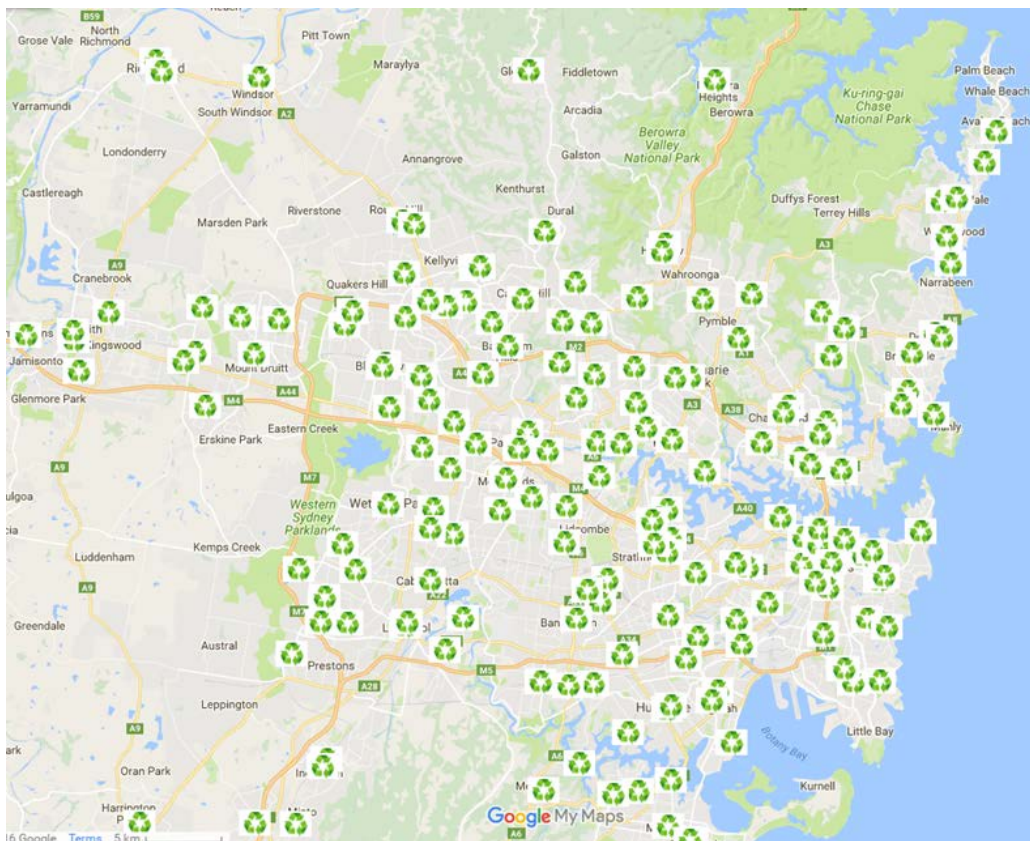
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Consumer Education and Scheme Promotion

Finally, the retailer (and bottler) need to have a larger role in ensuring consumers know about the CDS and how to redeem. It is unacceptable that the proposed NSW scheme has no regulations proposed to ensure that the only consumer information is the refund label. Even in the flawed NT scheme retailers are expected to provide signage at the checkout. At the minimum, retailers need to be willing to ensure that sales dockets identify the charges for monies held towards a refund, that there is signage at the checkout highlighting where the nearest redemption point is, and have information about the CDS on their websites.

A Better CDS

By comparison to the network concentrated on existing facilities, a redemption network based on major retailers would look as follows:



For further information contact: Jeff Angel Ph: 02 9211 5022 or Dave West Ph: 0404 093 718