



ALDI Stores

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Dr Peter J Boxall AO
Chairman
Independent Pricing and Regulatory Tribunal
PO Box K35
HAYMARKET POST SHOP NSW 1240

NSW Container Deposit Scheme Review Submission in Response to Draft Report

Dear Dr Boxall,

ALDI Stores (ALDI) appreciates the opportunity to provide feedback on the draft findings and recommendations prepared by the Independent Pricing and Regulatory Tribunal (IPART), as part of its review on matters relating to the NSW Container Deposit Scheme (CDS).

In our submission, ALDI makes comment on selected recommendations in the Draft Report. While ALDI is generally supportive of the proposals put forward by IPART, we are concerned that the 'first supply' approach is proving to be unnecessarily complex and is leading to suboptimal outcomes for retailers and will ultimately disadvantage consumers. We believe that changes to the first supplier definition would help to improve transparency (between suppliers and retailers), improve overall scheme efficiency, and mitigate adverse consumer impacts.

ALDI respectfully requests IPART to examine the first supplier definition and arrangements in its Final Report and make appropriate recommendations.

1. Background on ALDI

ALDI is a growing Australian grocery retailer with over 500 stores and more than 11,500 employees. We offer approximately 1,600 grocery items and a changing selection of 80 to 120 'Special Buys' every week to cater for the buying preferences of our customers.

Since the company's entry into the Australian market in 2001, ALDI has changed the face of Australian grocery retailing with our innovative business model focusing on a limited range of high-quality private label products providing outstanding value to consumers. These changes in the sector over recent years have led to price deflation that has benefited all Australian grocery shoppers. Our estimates suggest that we are saving Australians more than \$1.5 billion per year.

ALDI's operating philosophy is based on clear values including simplicity, responsibility and consistency. This is reflected in the way we interact with our people, customers, suppliers, the communities in which we operate and the environment. This approach is essential to delivering the unique value proposition we offer Australian consumers.

183 of our stores are located in NSW. The majority of these stores are supplied from two distribution centres in western Sydney (located in Minchinbury and Prestons) but, importantly from the perspective of the CDS, ALDI's stores in northern NSW and southern NSW are supplied from Stapylton (Queensland) and Derrimut (Victoria), respectively.

ALDI understands that we have a responsibility for the impact our business has on the environment. In this regard, ALDI is constantly working on initiatives and collaborations to reduce litter and promote recycling. As a member of the Australian Packaging Covenant we will commence use of the Australasian Packaging Label in 2019. We also continue to expand many of our 'Australian first' initiatives. These include not providing customers free single use bags since we commenced Australian operations in 2001, encouraging customers to return shopping trolleys via use of a deposit lock system, the use of long life reusable plastic pallets, and the use of reusable crates for the supply of our fresh produce. We have also developed and published the ALDI Sustainable Packaging Guidelines, used by our buying teams in collaboration with suppliers to improve product packaging.

Apart from the NSW CDS, we have been participating in the South Australian CDS since opening our first stores in that State in 2016, as well as the recently launched ACT and Queensland CDS's.

2. Recommendations and Findings in Draft Report

ALDI commends IPART for the inclusion of its recommendation to implement an arrears invoicing model arrangement for first supplier contributions to the CDS, with payment terms increasing from 7 days to 30 days (**Recommendation 1**). ALDI concurs that the current arrangements increase cost volatility and can result in consumers paying more for container beverages than the 'direct' cost of the CDS. Indeed, uncertainty in the current system has led to a changing and unpredictable mix of pricing arrangements with many of our suppliers. As a low-cost grocery retailer who values simplicity and consistency, we have found this uncertainty and price fluctuation to be very problematic. Amending the payment terms for first supplier contributions from 7 days to 30 days is more aligned with normal business practice and will generally avoid the situation of making payments on goods that have not yet been sold.

ALDI believes the payment and reconciliation system under the CDS is significantly more complicated than necessary, particularly with respect to the monthly 'true up' adjustment process, which serves to ensure that suppliers pay scheme costs only for containers that are returned in proportion to their actual supply volumes. While this situation will be improved by invoicing first suppliers in arrears, this will not wholly address concerns in relation to complexity and predictability. To this end, we support IPART's proposal to limit the period against which true ups can be made to 12 months after an invoice is issued (**Recommendation 5**).

We also support IPART's recommendation that there be no expiry date on container registrations and that approval for currently registered containers should also not expire (**Recommendation 8**). We note that this change will bring the NSW CDS into line with other interstate schemes and help to reduce the administrative burden on scheme participants.

While ALDI agrees that ongoing monitoring of the impacts of the CDS on container beverage prices and competition is not essential beyond the initial one-year monitoring period, we believe that future reviews of overall CDS performance are necessary to ensure that the scheme operates efficiently and in the best interests of consumers and other stakeholders (**Recommendation 11**).

More broadly, ALDI would strongly support the initiation of discussions between NSW and other jurisdictions to achieve a national, harmonised CDS over the medium to long term. ALDI, like many other retailers and suppliers, operates as a national business and a multiplicity of State-based CDS regimes only serves to add complexity, and therefore cost, to our business model. Further complexity

is also realised when cross-border implications are considered (i.e. supply from or to one state's CDS scheme to another, and from or to a state where no CDS currently exists).

3. The First Supplier Definition

"Supply" is defined in the Act as meaning supply by way of sale or otherwise, of carrying on a business¹. Under this model, the entity that first supplies beverages in NSW is responsible for funding the NSW CDS by making monthly payments to Exchange for Change (EFC). Depending on the circumstances, this entity can encompass various parties including the manufacturer, importer, wholesaler and retailer.

From ALDI's perspective, the NSW definition of 'first supplier' and its practical application is unduly complex and resource intensive, and serves to put upward pressure on consumer prices. In essence, the weakness in the definition is its 'hybrid' nature – the first supplier under the CDS can be the manufacturer, brand owner, wholesaler or retailer, depending on the context.

The complexity of ALDI's interaction with the CDS, and the first supplier arrangements in particular, can be summarised as follows:

- ALDI is supplied by a manufacturer (located within or outside NSW) to one of its NSW distribution centres, and the product (branded or private label) is then sold through a NSW ALDI store. In this instance, the first supplier is the manufacturer.
- ALDI is supplied by a manufacturer (located within or outside NSW) to its Prestons (NSW) distribution centre, and the product (branded or private label) is then sold through an ACT ALDI store. In this instance, the first supplier into NSW is the manufacturer and ALDI is first supplier into the ACT with the consequent complication of double reporting and reconciliation – firstly by the manufacturer declaring to ALDI its NSW supply total, and then by ALDI (as first supplier) to the ACT.
- The product (branded or private label) is supplied to a NSW ALDI store from either the company's Stapylton (Queensland) or Derrimut (Victoria) distribution centre. In this instance (as with supply from ALDI's Prestons, NSW, distribution centre to the ACT), the first supplier is ALDI.
- ALDI purchases a product internationally from a manufacturer under freight on board (FOB) or ex-works terms, or from a manufacturer within Australia but outside NSW on factory gate terms, and the product is then sold through a NSW ALDI store. In these instances, ALDI is first supplier.
- Product is purchased by ALDI from a manufacturer located in NSW under factory gate terms. In this instance, the manufacturer is the first supplier.

As a consequence, ALDI must distinguish products and sales data depending on the supply arrangement, ALDI distribution centre from which the product is supplied, store location and report volumes to EFC accordingly. Under the current CDS definition of first supplier, there are two sources of additional cost and inefficiency. Firstly, where it is not the first supplier, ALDI is being levied administrative costs by suppliers over and above the scheme costs charged by EFC – these costs are not transparent and vary significantly between supplier and sometimes from the same supplier at different points in time. Secondly, the amount of data analysis and differentiation required from ALDI where it is a first supplier is extensive, and has introduced additional cost into the business. In combination, these factors place upwards pressure on retail prices.

The above is further complicated by the fact that the ACT has its own CDS (which has some points of difference to the NSW scheme) and this leads to double-charging. While ACT fees can now be recovered through a rebate, this recovery process represents a further level of complexity and additional resourcing.

¹ <https://returnandearn.org.au/wp-content/uploads/2018/05/First-supplier-Fact-Sheet-20-Oct-2017-final.pdf>

In comparison with the NSW CDS, the virtue of the longstanding South Australian scheme is that the manufacturer is effectively the first supplier and bears sole administrative responsibility under the scheme; in Queensland, the brand owner is the first supplier, and while this system is not as straightforward as the South Australian CDS, it is far simpler in practice than the NSW scheme.

The Queensland CDS places the responsibility to pay for the costs of the scheme on beverage manufacturers or producers. According to the *Waste Reduction and Recycling Amendment Bill 2017 (Qld)* explanatory note², the manufacturer of a beverage product is:

... is a person who makes the beverage product by filling containers with a beverage or engaging another person under a contract to make the beverage product or fill containers with a beverage for that person. The manufacturer is also a person who imports the beverage product from another country. This definition covers a direct manufacturer, contract bottlers who don't supply direct to market but undertake a manufacturing process contracted exclusively to another entity or an importer who may not have a manufacturing facility in Australia.

ALDI's submission is that simplification of the definition of first supplier should be a key priority in the NSW CDS. One option would be to amend the definition so that the retailer is always the first supplier – while this would vest primary responsibility under the scheme in retailers such as ALDI, it would avoid substantial data analysis and differentiation. We understand, however, that this may be an undesirable solution from the perspective of small and medium size NSW retailers who may lack the capacity and systems to fulfil this responsibility. The second and perhaps more realistic option, therefore, may involve the adoption of the Queensland CDS definition whereby the brand owner is always the first supplier.

Please do not hesitate to contact my colleague, Daniel Baker, Corporate Responsibility Director, on [REDACTED] if any further information is required.

Yours sincerely
ALDI Stores



Simon Padovani-Ginies
Group Buying Director

² <https://www.cabinet.qld.gov.au/documents/2017/Jun/WasteBill/Attachments/ExNotes.PDF>