

6 August 2018

**IPART**  
**NSW Container Deposit Scheme**  
**Monitoring the impacts on container beverage prices and competition**  
**Coca-Cola Amatil Submission**

**Introduction**

Coca-Cola Amatil supports cost-effective, well-run container deposit schemes that minimise the impact on consumers and the beverage manufacturing industry. Our support is part of our commitment to delivering positive waste collection and recycling outcomes in the markets where we operate.

Our track record in both collection and recycling of waste is strong, and we aspire to do better. In relation to collection, we have been operating the South Australia and Northern Territory container deposit schemes. We also have a strong track record of use of recycled materials in our packaging with 58 per cent of the aluminium in our cans and 31 per cent of the glass in our bottles being recycled content.

In Australia, our plastic bottles are 100 per cent recyclable, and contain an average of 24 per cent recycled content. And at the end of 2017 we were proud to have achieved 100 per cent recycled content in our 600ml Mount Franklin containers – a great indication of what is possible in this area.

December 2017 saw the commencement of the New South Wales container deposit scheme followed by the ACT scheme commencement in June 2018 and schemes currently under development in Queensland and Western Australia. Coca-Cola Amatil is part of industry consortiums selected by the New South Wales, Queensland and ACT governments to support the delivery of their schemes. Our focus is to work with state governments to ensure that each scheme is efficiently and cost effectively delivering their waste reduction and recycling objectives, minimising their impact on consumers and the manufacturing industry.

In NSW, for a range of reasons, the level of redemptions via collection points has been lower than anticipated. Redemptions will steadily increase as more collection points are established. In the meantime, we are working with our customers to evaluate opportunities, such as additional promotions and discounts, to better reflect the actual redemptions experience in the early stages of the Scheme.

Alison Watkins, Coca-Cola Amatil's Group Managing Director told the Annual General Meeting of Coca-Cola Amatil's shareholders in May 2018: *I know there is a lot of interest in understanding what impact the NSW CDS has had on beverage sales. There are many factors impacting beverage sales (such as weather, promotions and competition), which mean we cannot isolate a CDS effect. However, we can certainly see there has been a negative impact on volumes from the CDS-related impost.*

Coca-Cola Amatil is transparent in communicating to customers our CDS rate and the treatment of any surplus funds collected through the ongoing "true-up" process conducted by Exchange for Change. We undertook to provide IPART with further information on the factors that influence our CDS rate, and our commitment to returning surplus funds to consumers through our "reinvestment plan".

## **Coca-Cola Amatil's CDS Rate**

In June 2018 Coca-Cola Amatil announced a change in the CDS rate for NSW and the ACT. The CDS rate was reduced from 13.59 cents (excluding GST) per eligible container (15 cents including GST) to 10.91 cents (excluding GST) per eligible container (12 cents including GST) effective from 1 August 2018.

The new CDS rate and the timing of this change reflects the volatility of the scheme through its commencement phase. This is commensurate to the introduction of a scheme of this magnitude involving compliance costs, consumer behaviour changes and the creation of new value in waste materials for the waste management industry.

Under the NSW scheme, beverage suppliers are invoiced in advance (commencing from 1 November 2017) based on an assumed rate of containers returned through the scheme. The redemption rate is set by Exchange for Change and suppliers are invoiced based on market share.

True-ups occur on a quarterly basis and as at the time of this submission we are only true-up until the end of March 2018, leaving four months of uncertainty. Volatility continues through the true-up figures as suppliers and distributors correct their export claims with Exchange for Change. It has taken up to five months to confirm Coca-Cola Amatil's surplus amount, which is the difference between what we have paid in advance to Exchange for Change and the amount redeemed by TOMRA Cleanaway and the Material Recycling Facilities (MRFs).

The true-up process provides IPART with insight into costs of the mechanics of the scheme on suppliers, but IPART should also recognise that the CDS price has negatively affected sales volumes in NSW. We are not seeking to recover the costs of lost volumes through the scheme itself and it is this volume loss that is the real impact of the CDS on manufacturers and on our sector's contribution to the broader NSW economy.

Whilst redemption rates were not as high in the first six months of operation as what the NSW Government had assumed, we note that redemption rates are increasing as people in the community are more aware of how to return their beverage containers and claim the refund and new collection points come online.

## **Costs of Scheme Compliance**

IPART's interim report released in April 2018 acknowledged the influence of scheme-related costs on CDS rates passed through to our customers (typically retailers, distributors, restaurants, entertainment venues to name a few) and ultimately consumers. These scheme-related costs include the requirement for advance payments to Exchange for Change that suppliers had to pay prior to the commencement of the scheme, based on Exchange for Change's assumption that 100 per cent of containers would be claimed for a refund, and the requirement to pay invoices within seven days even though our customers have 60-day payment terms with us.

In addition, Coca-Cola Amatil has incurred significant costs to participate in the scheme. These include costs for IT system changes, label changes, communications with customers, training our field teams, and

tracing the flow of our containers to ensure Coca-Cola Amatil complies with the scheme. Unfortunately, the introduction of the CDS in NSW meant we had to pass on some costs to our customers, which have ultimately flowed through to consumers.

We initially communicated our pricing outcomes to customers in October 2017. These were 13.59 cents per container plus GST (to a total of 15 cents). This reflected the amounts we were invoiced by Exchange for Change. From external reports it was also comparable with the price increases passed on by other suppliers.

In determining the fees to charge suppliers, the Scheme Co-ordinator made various estimates, including:

- The fees the Network Operator charges the Scheme Co-ordinator
- The total number of eligible containers in NSW
- The total eligible container redemption rate
- The split of eligible containers redeemed at Collection Points, Reverse Vending Machines and Material Recycling Facilities (MRFs)
- The operating costs of the Scheme Co-ordinator
- Each supplier's proportionate share of eligible containers in NSW, by material type.

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### **Returning CDS Surplus to Consumers**

Coca-Cola Amatil has publicly committed to not to seek a profit from the NSW CDS, and our interest in keeping beverage prices as low as possible. Alison Watkins, Coca-Cola Amatil's Group Managing Director told the Annual General Meeting of Coca-Cola Amatil shareholders in May 2018: *In NSW, for a range of reasons, the level of redemptions via collection points has been lower than anticipated. Redemptions will steadily increase as more collection points are established. In the meantime, we are working with our customers to evaluate opportunities, such as additional promotions and discounts, to better reflect the actual redemptions experience in the early stages of the Scheme.*

Shopper catalogues illustrate the way CDS costs were passed through to consumers, showing the same promotion in Victoria and NSW at three stages:

1. Prior to the commencement of CDS in NSW (same price)
2. Prior to the reinvestment of surplus CDS funds to consumers (15 cents more per container in NSW)
3. After the reinvestment of surplus CDS funds to consumers (same price, but bigger savings in NSW)

In addition to the different prices, these catalogues are a working example of how the pricing movement looks across the stages and how long it takes for promotional pricing to reach consumers. The "post reinvestment" period below commenced at the end of April, but consumers saw it for the first time in mid-June.



Coca-Cola Amatil can provide IPART with the digital copies of each of the catalogues we took these examples from, and every grocery catalogue for comparison across the relevant timeline if this is of interest and not already available.

Coca-Cola Amatil’s approach to returning the CDS to consumers is broadly commensurate with the mix of containers distributed through a mix of channels.

We expect that as the redemption rate for the scheme continues to grow and with our new CDS rate from 1 August 2018 that this will not be an ongoing issue, but we have committed to continue monitoring our CDS rate against the actual costs when they are confirmed.

**END**