



Restaurant  
& Catering

# IPART Review – NSW Container Deposit Scheme

R&CA Submission

March 2018

## RESTAURANT & CATERING AUSTRALIA

Restaurant & Catering Australia (R&CA) is the national industry association representing the interests of over 45,000 restaurants, cafes and catering businesses across Australia. R&CA delivers tangible outcomes to small businesses within the hospitality industry by influencing the policy decisions and regulations that impact the sector's operating environment.

R&CA is committed to ensuring the industry is recognised as one of excellence, professionalism, profitability and sustainability. This includes advocating the broader social and economic contribution of the sector to industry and government stakeholders, as well as highlighting the value of the restaurant experience to the public.



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# TABLE OF CONTENTS

|  |    |
|--|----|
| INTRODUCTION   | 1  |
| SUMMARY OF MAJOR ARGUMENTS   | 2  |
| OVERVIEW OF CAFÉ, RESTAURANT AND CATERING SECTOR                     | 3  |
| SIZE AND VALUE   | 3  |
| Figure 1: Business Count in the Café, Restaurant & Catering Industry | 3  |
| IMPLEMENTATION OF CDS  | 4  |
| TIMING AND LOCATION OF REVERSE VENDING MACHINES                      | 4  |
| COMMUNICATION WITH INDUSTRY STAKEHOLDERS                             | 5  |
| LACK OF CONSUMER AND PUBLIC AWARENESS                                | 5  |
| IMPACT OF CDS  | 6  |
| COST INCREASES FROM SUPPLIERS  | 6  |
| PRICE SENSITIVITY OF CAFÉ AND RESTAURANT INDUSTRY                    | 6  |
| INABILITY OF CAFÉS AND RESTAURANTS TO COLLECT REFUND                 | 7  |
| INCREASED PRICE ON MENU ITEMS  | 8  |
| Qualitative Evidence Received from Operators Regarding NSW CDS       | 9  |
| CONCLUSION   | 10 |
| REFERENCES LIST  | 11 |

## INTRODUCTION

R&CA welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal's (IPART) review of the NSW Government's Container Deposit Scheme (CDS) in NSW. As the industry representative acting on behalf of over 15,000 cafés, restaurants and catering businesses throughout NSW, R&CA is well-placed to provide comment on the impact of the CDS since its formal commencement in December 2017. R&CA believes that the overall effectiveness and success of the CDS has been severely undermined by a combination of poor execution and inadequate communication with industry stakeholders and the wider public. Issues concerning the implementation of the CDS have since resulted in significant adverse effects on businesses in the café, restaurant and catering sector which has been the source of great frustration and anxiety for the business-owners themselves.

## SUMMARY OF MAJOR ARGUMENTS

R&CA's major arguments in response to the impacts of the NSW Government's CDS, as highlighted throughout this submission, can be summarised below:

- The CDS's commencement date of 1 December 2017 was inappropriate given the complexity and magnitude of the scheme;
- The failure to ensure an adequate roll-out of the 500 promised recycling collection points by 1 December 2017 has created significant frustration amongst both businesses and consumers, especially those located in rural and regional areas;
- The failure to synchronise the roll-out of the CDS with other states and territories also meant that businesses operating across multiple jurisdictions have had to account for the price differential in the cost of beverage containers in NSW;
- Stakeholders were not properly consulted prior to the CDS' commencement and industry feedback was not incorporated into the design of the scheme;
- The CDS has been inadequately communicated to the public throughout its development and implementation which has been compounded by the absence of a centralised body or agency dealing with and responding to inquiries;
- Additional resources must be allocated to properly communicating the overall purpose, objectives and functioning of the scheme to consumers and businesses alike;
- The overall design and functioning of the CDS has failed to properly take into account the extreme customer price sensitivities in the café and restaurant sector, limiting business owners' ability to recoup the costs of increased beverage containers; and
- The logistical difficulties of café and restaurant owners in collecting refunds on eligible containers has not been addressed thus far in the scheme's implementation.

## OVERVIEW OF CAFÉ, RESTAURANT AND CATERING SECTOR

### SIZE AND VALUE

The hospitality sector, including cafés, restaurants and catering businesses, makes a significant contribution to the NSW economy. Total industry turnover for the sector in NSW, including turnover generated from takeaway sales, amounted to \$15.2 billion for the year ending January 2018.<sup>1</sup> As of June 2017, there were just over 14,282 cafés and restaurants operating in NSW which grew 4.5 per cent over the 2016-17 financial year.<sup>2</sup> Of

***“Over 94 per cent of cafés, restaurants and catering businesses in NSW are small businesses with 19 employees or less.”***

these businesses, over 94 per cent are small businesses with 19 or less employees.<sup>3</sup> Cafés and restaurants in NSW accounted for 34.5 per cent of all cafés and restaurants across Australia.<sup>4</sup> The sector also employs 192,400 people in NSW with this figure projected to increase 19.2 per cent over the next five years.<sup>5</sup>

**Figure 1: Business Count in the Café, Restaurant & Catering Industry**

| Café, Restaurant and Catering Businesses operating at end of financial year - June 2017 |                    |             |              |                |              |        |          |              |             |           |                      |
|---|--------------------|-------------|--------------|----------------|--------------|--------|----------|--------------|-------------|-----------|----------------------|
| State   | Business Type      | Non Employ. | 1-19 Employ. | 20-199 Employ. | 200+ Employ. | Change | % Change | Entry Rate % | Exit Rate % | Sub Total | Total No. Businesses |
| NSW   | Café & Restaurants | 2,781       | 10,623       | 858            | 25           | 615    | 4.5      | 23.6         | 19.1        | 14,282    | 15,646               |
|   | Catering Services  | 476         | 794          | 81             | 11           | -5     | -0.4     | 18.6         | 18.5        | 1,364     |                      |
| VIC   | Café & Restaurants | 2,400       | 8,666        | 827            | 20           | 556    | 4.9      | 21.8         | 16.9        | 11,918    | 12,879               |
|   | Catering Services  | 387         | 486          | 81             | 8            | 21     | 2.2      | 17.1         | 14.8        | 961       |                      |
| QLD   | Café & Restaurants | 1,431       | 5,356        | 708            | 12           | 421    | 5.9      | 24.3         | 18.4        | 7,507     | 8,096                |
|   | Catering Services  | 240         | 305          | 44             | 3            | -15    | -2.5     | 17.1         | 18.4        | 589       |                      |
| SA  | Café & Restaurants | 390         | 1,684        | 185            | 3            | 75     | 3.4      | 21.6         | 18.2        | 2,263     | 2,517                |
|   | Catering Services  | 113         | 120          | 15             | 0            | 21     | 9.0      | 19.7         | 12.0        | 254       |                      |
| WA  | Café & Restaurants | 702         | 2,538        | 423            | 10           | 192    | 5.5      | 22.4         | 17.0        | 3,668     | 4,009                |
|   | Catering Services  | 129         | 169          | 33             | 4            | 0      | 0.0      | 19.4         | 19.4        | 341       |                      |
| TAS   | Café & Restaurants | 106         | 571          | 66             | 3            | 47     | 6.7      | 21.7         | 15.4        | 744       | 807                  |
|   | Catering Services  | 17          | 38           | 3              | 0            | -5     | -7.4     | 19.1         | 26.5        | 63        |                      |
| NT  | Café & Restaurants | 39          | 145          | 32             | 0            | 15     | 7.2      | 23.7         | 14.5        | 222       | 249                  |
|   | Catering Services  | 12          | 12           | 5              | 3            | -7     | -20.6    | 8.8          | 26.5        | 27        |                      |
| ACT   | Café & Restaurants | 130         | 605          | 96             | 5            | 27     | 3.4      | 21.5         | 18.1        | 827       | 882                  |
|   | Catering Services  | 17          | 30           | 4              | 0            | -5     | -8.3     | 15.0         | 25.0        | 55        |                      |

Source: ABS 8165.0 Counts of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2017

<sup>1</sup> Australian Bureau of Statistics (ABS) (2017) 8501.0 - Retail Trade, Australia, Jan 2018.

<sup>2</sup> Australian Bureau of Statistics (ABS) 2017 8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2017.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> Department of Jobs and Small Business (2017) Employment projections for the five years to May 2022.

## IMPLEMENTATION OF CDS

### TIMING AND LOCATION OF REVERSE VENDING MACHINES

Based on consistent feedback received from hospitality operators, R&CA believes that the compressed timelines involved in the delivery of the CDS have severely limited its effectiveness and success to date. In retrospect, R&CA argues that the 1 December 2017 commencement date was unfeasible and that a 1 July 2018 or later date would have been a more appropriate starting point given the complexity and magnitude of the scheme. R&CA believes that the rushed implementation of the CDS was ill-considered given the significant impacts on businesses and consumers alike, both at the beginning and end of the lifecycle of recyclable containers. In R&CA's view, a far more desirable outcome could have been achieved by aligning the implementation of NSW CDS with container recycling schemes in the Australian Capital Territory (ACT) and Queensland.

The NSW Government's failure to ensure an adequate roll-out of the 500 promised recycling collection points in this timeframe has led to significant frustration amongst both consumers and businesses alike.

***“Waste of time particularly when you have to drive 45 minutes to use one of the machines.”***

Although the scheme has officially been in place for over three months at the time of writing, the final locations of all reverse vending machines have yet to be confirmed, creating further uncertainty and confusion amongst businesses. Rural and regionally located businesses are the most disadvantaged by the ineffectiveness of the roll-out of reverse vending machines, with many business-owners in less densely populated areas forced to travel unreasonable distances to their nearest recycling machines. Without recycling machines located in close proximity to businesses, this effectively prohibits businesses from participating in the CDS at all. Business operators have also reported that the NSW EPA's website with details about the location of recycling machines was poorly designed and difficult to use. Finally, there was inadequate communication prior to the formal commencement of the CDS concerning the location of recycling machines, with information limited to newsletters distributed by individual members of the NSW Parliament.



## COMMUNICATION WITH INDUSTRY STAKEHOLDERS

In addition to structural problems adversely affecting the implementation of the CDS, the scheme has been undermined by a lack of communication with industry stakeholders both in the lead-up to and following the

***“It was poorly consulted across the industry and impacts were not considered.”***

scheme’s commencement. R&CA is highly concerned by the severely inadequate communications infrastructure regarding the CDS. Café and restaurant operators have reported significant frustration with the absence of a centralised government body or agency handling business inquiries concerning the CDS. Business owners reported extensive wait times when attempting to contact the NSW Environmental Protection Agency (NSW EPA) regarding the CDS and they had no clear, direct communication in return from the NSW EPA. Business operators also reported that enquiries to the NSW EPA regarding the CDS were transferred to Cleanaway who were also unable to deal with business inquiries. Finally, industry associations across the hospitality industry were insufficiently informed regarding the CDS and were subsequently ill-equipped to inform their respective members regarding operational details of the CDS.

## LACK OF CONSUMER AND PUBLIC AWARENESS.

A lack of consumer and public awareness has contributed to undermining the CDS. Poor community awareness surrounding the scheme can again be attributed to the compressed

***“Implemented too quickly and the public have no understanding.”***

timeframes associated with the delivery of the scheme. Had there been a longer lead-in time in place, R&CA believes that this would have allowed for a more effective consumer awareness and education campaign achieving better cut-through. As one R&CA operator put it, the NSW CDS was “implemented too quickly and the public have no understanding”. The NSW Government’s investment in communicating the scheme to the public has not been satisfactory and that additional resources must be allocated to properly communicating the overall purpose, objectives and functioning of the scheme.



## IMPACT OF CDS

### COST INCREASES FROM SUPPLIERS

The most obvious and immediate impact of the CDS is the increase in prices for beverage containers which are passed on to café and restaurant businesses by their individual suppliers. Rather than being phased in, the price increases associated with the CDS were immediate and thus, did not give small businesses in the café and restaurant industry the opportunity any time to adjust. The failure to synchronise the roll-out of the CDS with other states and territories also meant that businesses operating across multiple jurisdictions had to account for the different cost of beverage containers in NSW. The cost increases across different suppliers have also not been uniform despite the standardisation of the CDS, with R&CA members reporting increases passed on by suppliers ranging between 5 per cent and 20 per cent. The most commonly reported increase passed on by suppliers was 15 cents per container, however R&CA remains concerned about the inconsistencies in the way that price increases associated with the CDS have been applied.

### PRICE SENSITIVITY OF CAFÉ AND RESTAURANT INDUSTRY

R&CA argues that failed execution of the CDS has had a disproportionate impact on small businesses in the café and restaurant industry due to extreme price

***“We have experienced a 20% decline where we have put prices up.”***

sensitivities across the sector. The café and restaurant industry is already hyper-competitive with most businesses operating on very thin profit margins of around 3 to 4 per cent. Café and restaurant operators are therefore highly exposed to any significant increases in the operational costs of running their businesses. The overall number of cafés and restaurants in NSW grew by 4.5 per cent over the 2016-17 financial year, meaning that competition levels across the sector have increased and there is a smaller overall percentage of profit being shared among a larger number of businesses.

In addition, café and restaurant operators are very reluctant to increase menu prices due to a fear of customer backlash and subsequent loss of patronage. One R&CA member stated that they had experienced a 20 per cent decline in customer patronage when they increased prices because of the CDS. Another restaurant operator’s response was “we are now paying around \$140 per week more

*for our bottles, and we have no way of recouping this money. When our business already makes no money, this has a significant impact upon us".* When combined with increases to other essential business operating

costs such as rent, electricity, insurance, wages and produce, the additional financial impact of the CDS may force some NSW café and restaurant businesses to close. Through its direct financial impact, the CDS may also have an impact on overall levels of jobs growth within the café and restaurant sector as it reduces the capacity of businesses to take on additional employees.

#### INABILITY OF CAFÉS AND RESTAURANTS TO COLLECT REFUND

One of the most significant issues specifically affecting the café and restaurant sector is the inability of operators to collect the refund on eligible containers. Many café and restaurant businesses operate in confined spaces, with whatever space available dedicated to maximising seating and table arrangements.

This means that these business-owners do not have the ability to stockpile large numbers of eligible containers within their businesses to collect the refund at a later date.

A far more common practice amongst restaurateurs and other hospitality operators is to use glass crushers to effectively dispose of recyclable containers. R&CA has feedback from its members expressing frustration at having to pay increased costs for beverage containers when they already pay for glass crushers. Under the current design of the CDS, beverage containers must be undamaged in order to qualify for the refund. For a business that recycles containers using glass crushers, they have no means of accessing the refund to recuperate any of the additional costs involved. R&CA, therefore, would seek urgent clarification as to businesses using glass crushers can be reimbursed for beverage containers which would otherwise be eligible for the refund. As the objective of the CDS is to reduce litter and encourage recycling, it is counterproductive that restaurant and café businesses who are already investing in recycling are penalised with the additional higher container cost and no way to recoup it.

***“There is less incentive for us to employ additional staff as the margin is not there.”***

***“Waste of time as we do not have storage space for large containers. We have glass crusher so we can reduce the amount of bins for glass containers.”***

## INCREASED PRICE ON MENU ITEMS

The most common response from R&CA's members was to increase the cost of menu items to cover additional operating costs imposed by the CDS. When asked what

***“Many places are price sensitive so we have lost out. Where we have put prices up we have declined.”***

action they had undertaken since the CDS came into effect, the majority of R&CA survey respondents reported that they had increased the cost of their menu items by 20 cents to cover the increased costs passed on by suppliers. Other respondents reported that they had increased their menu prices by 5 to 15 per cent. The largest reported increase amongst menu items was 50 cents per item. Many business operators however said that they had not changed at all and simply absorbed the increased cost of operating due to their customers' price sensitivities. Being forced to absorb an unproductive cost of doing business is highly problematic for small businesses in the café and restaurant sector as the unilateral increases in prices of beverage containers will impact the sustainability and profitability of these businesses over the short and long-term.

Whilst R&CA understands that the increases in menu items have been limited to containers eligible under the CDS, café and restaurant businesses may ultimately need to increase the costs of other menu items to compensate for the increased cost of operating their business. R&CA notes that IPART's Discussion Paper released as part of this Review has proposed to *“consider all container beverage products in analysing price changes, including those not covered by CDS”*.<sup>6</sup> The increases in the cost of beverage containers under the CDS must be considered in the context of increases in other essential goods and services. Whilst businesses in the café and restaurant sector may be extremely reluctant to increase the cost of all menu items, there are few other available mechanisms at their disposal to recoup sudden increases in business operating costs such as those imposed by the CDS. Therefore, it would not be unreasonable to expect some café and restaurant businesses to increase prices of non-eligible beverage containers and food items to reflect the costs associated with their current business operating environment.

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<sup>6</sup> Independent Pricing and Regulatory Tribunal (IPART) (2017) *NSW Container Deposit Scheme – Monitoring the impacts on container beverage prices and competition*.

**Figure 2: Qualitative Evidence Received from Operators Regarding NSW CDS**

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|--|
| ○ It is an extra charge to us and we already pay for recycling of all bottles so the increase is unfair. No customers are recycling the bottles so why do restaurants have to pay this extra charge to Coca-Cola Amatil?   |
| ○ A failure.   |
| ○ An ineffective idea, ineffective in its implementation and ultimately a cost to the end user, the consumer!  |
| ○ Waste of time as we do not have storage space for containers. We have glass crusher so we can reduce amount of bins for glass container. Because items are sweet extra cost in pest control required.  |
| ○ Implemented too quickly & public have no understanding   |
| ○ Very poorly organised. No recycling available. Poorly executed.  |
| ○ It was poorly consulted across the industry and impacts were not considered. Now instead of having a recycling service with bulk drop off I now have to sort the individual packaging and spend significant amounts of time at the reclaiming centre to recoup some of the costs. It is a great initiative but most council areas have kerbside recycling so I guess this really achieves little more than revenue boosts to the government and the suppliers and contractors for this initiative. |
| ○ Why doesn't the waste industry do something to collect the lost value. How are we supposed to recover the cost when the container has to be undamaged? Why can't there be a weight or other measure used for bulk users such as restaurants?   |
| ○ Please cancel this scheme  |
| ○ It's terrible. We can't be a collection point easily nor can we crush or compact containers so while we and our customers are having to pay more the ability to redeem and get the 10c back is not working at all.   |
| ○ Waste of time particularly when you have to drive 45 minutes to use one of the machines.   |
| ○ This scheme is a joke.   |

## CONCLUSION

R&CA appreciates the opportunity to respond to IPART's review of the NSW Government's CDS. As has been consistently highlighted throughout this submission, there are several structural elements of the CDS which are undermining its effectiveness, including the compressed timeframes in the scheme's delivery, inadequate rollout of reverse cycle vending machines, inconsistencies in the way that suppliers have passed on price increases, a lack of consumer and business awareness and inadequate communications infrastructure regarding the functioning of the scheme. R&CA remains highly concerned about the increases in cost imposed on small business operators in the café and restaurant as well as the ongoing confusion about the structure and execution of the CDS which persist several months after the official commencement of the scheme. R&CA believes that significant adjustments in the CDS are required to ameliorate the impacts which have arisen in the three-month period since the official commencement of the scheme: notably in communication to the public, associations and businesses; in the availability and location of reverse cycle vending machines; in the monitoring of supplier pricing; and in allowances for businesses who are already recycling containers and unable to receive the refund.

## REFERENCES LIST

Australian Bureau of Statistics (ABS) (2017) *8501.0 - Retail Trade, Australia, Dec 2018*.

Australian Bureau of Statistics (ABS) 2017 *8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2012 to Jun 2016*.

Department of Jobs and Small Business (2017) *Employment projections for the five years to May 2022*.

Independent Pricing and Regulatory Tribunal (IPART) (2017) *NSW Container Deposit Scheme – Monitoring the impacts on container beverage prices and competition*.

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