SUBMISSION from The Two Metre Tall Company Pty Ltd

NSW Container Deposit Scheme Review

Independent Pricing and Regulatory Tribunal (IPART)

'Monitoring the impacts on container beverage prices and competition'

12 March 2018

Prepared & written by

Jane HUNTINGTON

NSW CDS - SCHEME EXEMPTIONS – Impact on beverage prices

The overall costs and complexities of the NSW Container Deposit Scheme have been inflated by the very fact that so many products are exempt under the scheme. Exemption requires identification of container types within the system so that only eligible containers are paid the 10c refund. If ALL containers were eligible, producers would only need to register container types and sizes with the scheme coordinator, NOT product types as is currently required. The system would be equally shared by all and would be simpler and therefore cheaper to administer. It would be fairer, especially to those small producers who are currently disadvantaged by their innovation and development of many new products being sold in low volumes in NSW.

Containers that can't be deposited for a refund include:

- Plain milk (or milk substitute) containers
- Flavoured milk containers of one litre or more
- Pure fruit or vegetable juice containers of one litre or more
- Glass containers for wine and spirits
- Casks (plastic bladders in boxes) for wine or water of one litre or more
- Sachets for wine of 250ml or more
- Containers for cordials and concentrated fruit/vegetable juices
- Registered health tonics

Ref. http://www.returnandearn.org.au/eligible

The Impact of Product Registration Fees on Small, Artisan Producers

– A Competitive Disadvantage

Two Metre Tall is a small producer operating as a small winery would operate. We have many products and each year we release another 3 or 4, at least, under our 'Special Release' program. The scheme requires each product and each container size be registered at $80 per product.

At first glance, this fee may appear reasonable. If you are Coca-Cola, producing millions of bottles of coke each year for sale in NSW, it is negligible. If you are Two Metre Tall, producing a hundred bottles of special release ale destined to be sold in NSW, it is expensive. We currently have more than 30 different beverages in 4 different bottle sizes, some we are selling in NSW and some we have chosen to hold back from NSW because of the additional registration fees required. This is grossly unfair on a small business such as ours and is creating a competitive disadvantage for our business wishing to sell into NSW. Big business by its very nature sells large volumes of fewer products. The registration fee doesn't matter to them. It matters to us.

Small producers are now disadvantaged in NSW. Products from high quality beverage producers are being withdrawn or held out of the NSW market because the monetary cost of registration and the compliance impost of time taken on these businesses are too great. It is considered not worth the cost, time and effort to bother when just a few hundred bottles of a product would have been sold.

NSW consumers are also being disadvantaged and will continue to be disadvantaged as they are denied access to products from small, innovative producers not registered for sale in NSW.

This disadvantage could be easily fixed by changing the registration process so that each producer registers each container type, NOT product type. I would then register 4 bottle sizes/types for any product I sold in that bottle type. My business brand would be registered and I would then declare my bottles sold in NSW each month and pay the invoice raised. I would not be disadvantaged by my innovative flare for releasing new products. It would be business as usual. Bottles would be recycled and the costs of the scheme would be covered.

Exemptions for small businesses under a certain level of sales into NSW would also allow markets to be established for producers before they are required to invest in the scheme. Human resources, time taken and cash flow for these businesses are critical and again, big business is unfairly advantaged.

IMPACT OF NSW CDS ON BEVERAGE PRICES

Our prices *have remained the same* as they were prior to the introduction of the CDS in NSW.

This was not a conscious decision. We were in the middle of our busiest sales period of the year when the scheme was thrown at us with very little notice. Registrations due in October, historical sales data due in November and invoices raised and due for payment in December. All when two people were trying to keep up with high demand of sales for the Christmas period. These time frames were too short and particularly for a business physically located outside NSW. We did not hear of the scheme until late September despite already selling in the market place. It took many hours trying to work out what the scheme was about, how it worked and then negotiate the confusing differences between Return & Earn, Exchange for Change, & NSW EPA. We were asked to sign legal agreements with only a few days to consider them.

We have not had time to react and communicate professionally any price increase to our customers. We are continuing to review the impact of the scheme on our costs and at this stage have absorbed the additional costs of trading in NSW.

PRICE INDICES - BEVERAGES PRODUCED, Australian Bureau of Statistics

It should be noted that the ABS 'Wine' expenditure class (ref. Table 4.1, p. 18) includes cider which is covered by the CDS. This will impact the relevance of the data in relation to the calculation of price increases on beverages during the period under review.

COMPETITIVE ADVANTAGE & Lack of Transparency – Scheme ownership

It should be noted by the IPART review that Return and Earn is administered by Exchange for Change which is a joint venture of Australia's largest beverage companies. These 5 beverage companies have ***NO*** incentive to create a scheme that fosters and encourages small producers. We put it to you that the structure of the scheme is working against small business, discouraging them from doing business in NSW. Big business is far better off under the scheme than innovative small producers as they produce very large volumes of fewer products.

See below the explanation of how the scheme will work. This excerpt is taken from the NSW EPA website.

"Return and Earn will be administered by a Scheme Coordinator, Exchange for Change, and a Network Operator, TOMRA Cleanaway, who will set-up the collection points. The Scheme will be regulated by the NSW EPA. ...

Exchange for Change is a joint venture of 5 of Australia's beverage companies: Asahi, Carlton & United Breweries, Coca-Cola Amatil, Coopers Brewery and Lion, who together have more than 40 years' experience managing container refund programs in South Australia and the Northern Territory.

Reference: http://www.epa.nsw.gov.au/your-environment/recycling-and-reuse/return-and-earn/how-return-and-earn-will-work

SUMMARY

- Exemptions within the system are adding to the overall administrative cost of the scheme. If products are exempt under the scheme, the scheme needs to identify them adding cost and complexity to the process. If every producer registered each container type, NOT individual product, the overall scheme would be more fairly shared. Every container in the system would be eligible and the 10c refund would be paid on all containers. Easy to identify, easier to manage and less costly for all.

- Small producers are the innovative future of high quality produce and sustainable business in this country. They should be subsidised and provided stepped time frames and business volumes before being treated the same as big beverage companies.

- Small producers are at a competitive disadvantage as the innovators of the alcoholic beverage industry. **Container types per producer should be registered not product types.**

- Exchange for Change joint ownership by 5 of Australia's biggest beverage producers has resulted in a scheme design which does not foster nor encourage product innovation by small producers who are being asked to register each product, regardless of the volume they are selling into NSW under the CDS.

- It is too early to gauge the full implication of beverage price rises as many in the industry, especially small producers, have been caught off guard by the rushed timeframes of the scheme's introduction. Schemes are being proposed across Australia. Producers will be asked to sign up to many schemes with additional registration charges. There should be one federal scheme – NOT many state operated schemes. We will be faced with tens of thousands of dollars in registration costs if the systems continue as currently designed.

APPENDIX

BACKGROUND – The perspective of a small producer from Tasmania

The Two Metre Tall Company is a small business based on a farm in southern Tasmania, a 45 minute drive from Hobart. We brew naturally fermented, handmade, artisan ale & cider – just 2 people making and selling alcoholic beverages in glass containers across Australia. We have been in operation for almost 14 years and selling into NSW restaurants and independent bottle shops for more than a decade.

Our beverages take months and sometimes many years to make. We use age old techniques of barrel fermentation and bottle conditioning. Our beverages improve with age and cellar like a fine wine. We are always innovating and releasing new products under our 'Special Release' program. We behave like a winery, harvesting our ingredients, fermenting them over time and releasing new vintages. Our bottles are aged in people's cellars and consumed at home as well as in premium restaurants and bars.

This submission has been written and prepared by:

Jane Huntington, Co-Owner, The Two Metre Tall Company Pty Ltd

PO Box 453 New Norfolk TAS 7140

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