Sharing the Benefits of the CDS

Local Government and Material Recovery Facilities

Discussion Paper - March 2019

1.0 INTRODUCTION

The introduction of the Container Deposit Scheme (CDS) in early 2020 will bring a range of benefits to Western Australia. The main objects of the CDS, as outlined in the legislation, are to:

- Increase the recovery and recycling of empty beverage containers
- Reduce the number of empty beverage containers that are littered or are disposed of to landfill
- Ensure that manufacturers or importers of beverage products meet their product stewardship responsibility in relation to their beverage products
- Provide opportunities for social enterprise, and benefits for community organisations through participation in the scheme
- Create opportunities for employment (including for people with a disability and long term unemployed people)
- Complement existing collection and recycling activities for recyclable waste.

The community will be able to participate in the Scheme by either returning eligible containers to refund/donation points, or placing containers in their kerbside recycling bin (where provided). Material Recovery Facility (MRF) operators that process the material from the kerbside recycling bin will be able to claim a 10c refund on eligible containers from the Scheme Coordinator, rather than the current situation where the only revenue from the material collected is that of the commodity. It is likely that to continue to receive refunds (after a certain time period), the MRF operator will need to enter into an agreement with the Local Government that the material originated from. This agreement will identify how the benefits from the Scheme are to be shared between the Local Government and MRF operator.

In NSW and QLD, there have been challenges in reaching agreement as to how the benefits from the Scheme should be shared between Local Governments and MRF operators. In WA, there is the opportunity for Local Governments and MRF operators to reach agreement, prior to the Scheme's implementation. This Discussion Paper outlines the proposed approach to sharing the benefits of the Scheme (Section 2), the economics of operating a Material Recovery Facility (Section 3) and potential sampling protocols for Material Recovery Facility operations (Section 4). WALGA is seeking feedback from Local Governments on the acceptability of the proposed approach to benefit sharing.

2.0 PROPOSED APPROACH TO BENEFIT SHARING

2.1 Material Recovery Facility / Local Government Agreement

For a MRF operator to receive a refund on eligible containers placed in the kerbside recycling bin, the operator will need to enter into an agreement with the Local Government that the material originated from as to how benefits from the Scheme will be shared. The *Waste Avoidance and Resource Recovery (Container Deposit) Regulations* will outline the period in which an agreement must be reached, the consequences of failing to reach an agreement and how payments are to be shared in the absence of any agreement.

In other jurisdictions there have been challenges in reaching an agreement on how the benefits from the Scheme should be shared between Local Governments and MRF operators. The negotiations have been complicated by the impact of China's National Sword Program on traditional end markets for recyclable material.

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2.2 Proposed approach to sharing the benefits of the CDS

To ensure Local Government receives the benefits from the Scheme in a timely manner, WALGA has been working with the CDS Policy Forum and MRF operators to develop a proposal for consideration by the sector. This section outlines the proposed approach to benefit sharing between Local Government and MRF operators.

The proposed approach to sharing benefits from the CDS is:

- **Separate Agreement:** Local Government and MRF operators come to a separate agreement to the current contract, as to how the benefits of the Scheme will be shared.
- **Benefits are shared 50/50 – net verifiable MRF costs:** Both parties commence negotiations on the basis that benefits are shared 50/50 – net the verifiable MRF costs to be part of the CDS. There will be a cost to the MRF to participate in the Scheme and agreement on what these costs are, will form an essential element of these negotiations.
- **Transparency:** Material Recovery Facilities agree to provide sufficient information on MRF costs.
- **Agreement Timeframe:** The Agreement runs for a 3 year period, or the length of the current contract. Future negotiations can then occur when the actual Scheme costs are known in more detail.

Separate Agreement

Given the difficulties experienced in other jurisdictions, it is proposed that Local Governments and MRF operators enter into a separate agreement to the current contract. This will allow for separate conversations to occur on the impact of China's National Sword Program, and provide transparency on how the benefits of the Scheme are to be shared. The Agreement needs to include:

- Payment timeframe: It is not yet clear when the Scheme Coordinator will pay the MRF operators for eligible containers. Therefore, it is suggested that payment timeframes for Local Government are contingent on the Scheme Coordinator/MRF operator payment.
- Local Government Granting Access to Kerbside: To determine the eligible container factor, it is likely that Local Governments will need to provide Scheme auditors with access to kerbside bins prior to and post Scheme implementation to directly sample eligible glass containers remaining in kerbside (Section 4).

Benefits are shared 50/50 – net verifiable MRF costs

It is suggested that a starting point for negotiations, is for both parties to agree that the benefits of the Scheme are shared 50/50 – net the cost to the MRF operator of participating in the Scheme. This will provide both parties with an equitable share of the benefits of the CDS but include consideration of the costs to the MRF operator to claim the benefit.

Estimates provided by the SMRC, indicate that eligible containers make up approximately 20% of the overall material collected. Modelling has shown that a 40% diversion rate of eligible containers away from the recycling bin would reduce the total volume by 8%, leading to MRF losses from reduced gate fees, commodity sales and an increase in operating and compliance costs (Section 3.1).

Transparency

For Local Governments and MRF operators to reach an agreement using the proposed benefit sharing approach, it is essential that transparency is provided on MRF costs. MRF operators will need to provide sufficient evidence to Local Government of the following costs:

- Reduction in tonnage delivered to the MRF by individual Local Governments – reduction compared to previous year
- Reduction in tonnage of eligible container commodity sales – reduction overall compared to previous year (facility total)
- Administrative costs associated with the Scheme – such as reporting to the Scheme Coordinator
- Audit costs – it is not yet clear if the Scheme will cover audit costs, these are likely to be one of the most significant costs to the MRF directly attributed to the Scheme
- CDS related infrastructure costs – if the MRF has to install specific infrastructure, for example to facilitate the audits required by the CDS.

It has been suggested that costs should be verified by a suitably qualified third party auditor.

Agreement Timeframe
Over time the benefits from the CDS are likely to be factored into general pricing for MRFs. However in the short term, as this represents a significant change to current operations, a specific agreement needs to be reached.

3.0 ECONOMICS OF OPERATING A MATERIAL RECOVERY FACILITY

A Material Recovery Facility currently has two sources of income, the fixed gate fee and the variable commodity price. The costs to a MRF include the cost of capital (borrowing to set up the facility) and the costs of operating the facility. Operating costs are influenced by the volume and composition of material delivered to the facility and the amount of contamination. Figure 1 shows current income, costs and areas of risk. WALGA has produced a separate Paper which goes into more detail on these issues. The benefit sharing approach proposed in Section 2, relates to additional verifiable MRF costs of the Container Deposit Scheme.

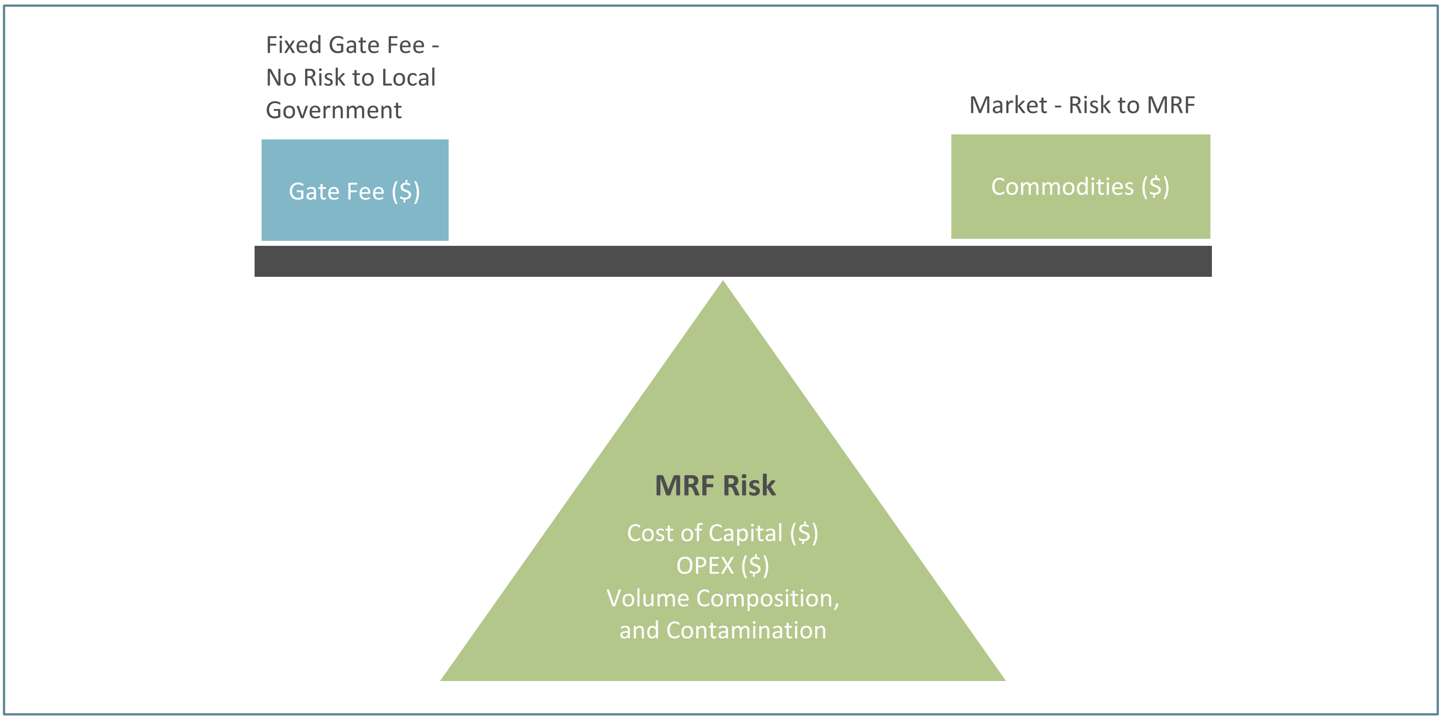

Figure 1: MRF economics - income, costs and areas of risk.

3.1 How will the Container Deposit Scheme influence the cost of operating a MRF?
The exact financial impact of the Container Deposit Scheme on MRFs in WA is currently not known. Factors that are likely to influence this include:

- **Amount of containers in kerbside recycling:** It is not yet known what percentage of households will choose to take eligible containers to a refund point, or use their kerbside recycling bin.
- **Reduction in the weight of material collected:** A reduction in the weight of material received through the kerbside recycling system will impact on MRF gate fees, which are currently weight based.
- **Reduction in value of material in kerbside recycling:** The volume of high value materials collected in kerbside recycling, such as Aluminium, is likely to reduce. This in turn reduces the saleable commodities and consequent income.
- **The cost of complying with legislative requirements:** The legislative framework will have a direct impact on the operational costs of a MRF. For example, the administrative cost of complying with specified audit requirements (Section 4) and the cost of reporting to the Scheme Coordinator.

It is important that Local Government considers how these factors will be addressed in negotiating an arrangement to share the benefits of the Scheme.

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4.0 POTENTIAL SAMPLING PROTOCOLS FOR MRF OPERATORS

For an MRF operator to receive a refund on eligible containers placed in the kerbside recycling bin, they must enter into a Material Recovery Agreement with the Scheme Coordinator. It is anticipated that the Regulations will outline how payments under an agreement are to be calculated, including the means for estimating the number of containers processed by an MRF operator. Other Australian jurisdictions with Container Deposit Schemes have used two different approaches to determine the amount that is paid through the Material Recovery Agreement. Regardless of the approach used, refund payments cannot be made until evidence is provided by a MRF operator that eligible containers have been sold for recycling.

The **Direct Count** approach means the MRF operator directly counts eligible containers and either registers as a refund point or takes the material to a refund point. It is possible that payments based on this approach could include both the 10c per container refund, and handling fee. In other jurisdictions, this approach has predominately been used at smaller MRFs where there is minimal machinery and it is possible to directly separate eligible containers.

The **MRF Sampling Protocol** approach is based on an estimate of the number of eligible containers processed at a MRF. Payments based on this approach only include the 10c per container refund. This approach has predominately been used at larger MRFs where it is not feasible to directly count containers due to a high levels of mechanisation and significant tonnage throughput. In NSW, the Sampling Protocol is based on a state wide eligible container factor that is published by the EPA quarterly. The eligible container factor is formulated from the results of representative audits of kerbside recycling bins and MRF outputs. In QLD, each MRF operator uses a different eligible container factor – resulting in different audit costs for each MRF.

Further work is needed to determine what requirements should underpin Material Recovery Agreements in Western Australia. Key considerations include:

- **Reporting requirements:** This could include quarterly claims, annual recycling statement and proof that processed material has been sold for recycling/reuse. The amount and type of reporting specified in the legislative framework will have a direct impact on the cost of the Scheme.
- **Timing of payments:** The legislative framework could contain an inbuilt delay in the timing of payments from the Scheme Coordinator to Material Recovery Facilities. This could affect the cash flow of a MRF operator.
- **Audit and sampling regime:** The composition of material received and processed at a MRF can change in response to both seasonal and long term factors. The design of any audit and sampling regime of kerbside bins and MRFs must balance the need to reflect such variation with the need to reduce Scheme costs.
- **Eligible container factor:** This is the number of eligible containers per tonne, from kerbside, which has been calculated from the audit and sampling regime. It is not yet known if the Regulations will specify the use of a state-wide, or facility specific eligible container factor.
- **Statistical significance of audits:** In NSW and QLD, the audit and sampling regime of kerbside bins and MRFs was not designed to provide Local Government specific data. Information from these audits is instead used to develop the eligible container factor. The cost of undertaking ongoing statistically significant audits in each Local Government could potentially outweigh the benefits received from Scheme.
- **Cost of audits:** It is yet to be determined if the Scheme Coordinator, or MRF operators, will be required to cover the cost of completing audits. WALGA has advocated for the Scheme to cover the costs of audits, as it would then be in the Scheme Coordinators interest to ensure lower cost and efficient audits.

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