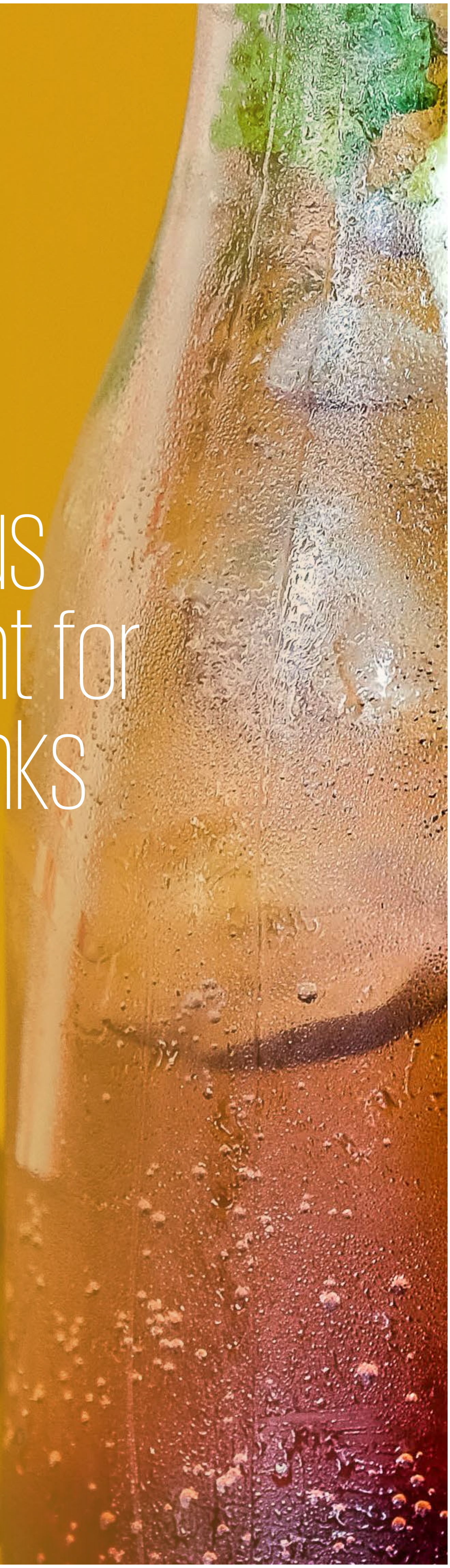
A Refreshing Recovery: A Post-Coronavirus Recovery Blueprint for the Australian Drinks Industry



Australian Beverages Council

September 2020

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Executive summary

The recent crisis caused by the COVID-19 pandemic has created an opportunity for government to invest in reform that could not only aid in the economic recovery, but that could also set the Australian economy on a path to long-term productivity-led growth, positioning the Australian economy as an agile front-runner among OECD nations.

KPMG has been engaged by the peak body representing non-alcoholic beverages in Australia, the Australian Beverages Council Limited (ABCL), to assist with preparing a set of policy propositions that the Council can use to engage with government in a constructive way.

Informed by stakeholder consultations and a survey of the ABCL's membership base, this paper outlines a number of issues faced by the industry, and provides key policy recommendations. These proposals not only reflect identified industry needs, but are anticipated to benefit the broader economy in terms of creating employment opportunities and improving productivity.

There are several factors concerning the industry that include an immature and incomplete recycling sector with great potential, rising business costs from a range of sources including energy and inputs, onerous processes and compliance requirements, and inefficient taxes that hinder investment. Coupled with price pressures from the grocery and supermarket sector's significant market power, profit margins are being increasingly squeezed across all participants in this industry. The industry has identified that these factors are occurring in an environment where support for any cost-saving R&D has been too complex to navigate and too narrow in its definition to make a difference.

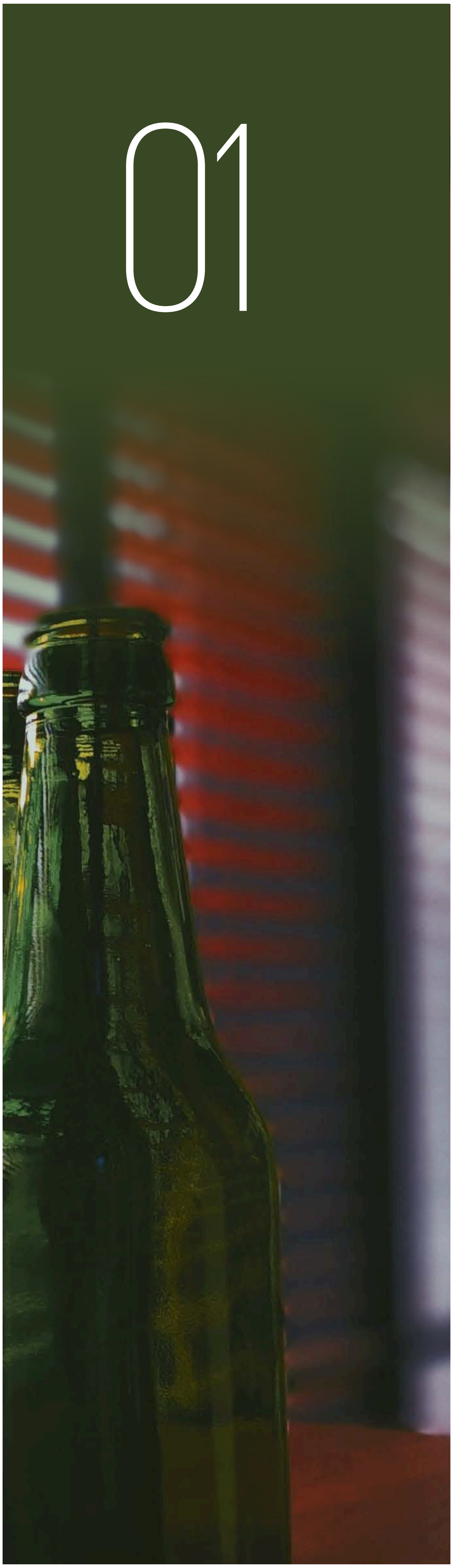
As the Australian government is currently charting a path to recovery from the COVID-19 crisis, open and wide opportunities exist for meaningful structural reform and policy planning. Conscious of the need for widespread economic recovery, with particular focus on reducing unemployment, the proposals in this report seek to generate economic benefits and have broad appeal beyond just the beverages industry. These are:

- Harmonising Container Deposit Schemes (CDS) across jurisdictions, incentivising key stakeholders and broadening the remit to meet sustainability goals, supported by recycling infrastructure to close the domestic loop.
- Reforming the tax system to reduce the burden on businesses and providing tax incentives to support beneficial economic decision-making and a business-led recovery.
- A simplified and mutually beneficial industrial relations system for employees and for employers of all sizes.
- A well-informed energy policy that reduces costs, increases reliability and is consistent nationally.

As the industry continues to pivot towards adopting sustainable practices and minimising its environmental footprint, stronger government support and effective action is key. At the same time as the recommendations in this paper were being finalised, the government is also highlighting the need for action on this front. The government's announcement about a $190 million Recycling Modernisation Fund, with shared contributions from states, territories and industry, is both timely and very welcomed by the ABCL.

With specific regard to supporting the Australian beverage industry, there needs to be an increased emphasis on making CDS consistent across jurisdictions and in ensuring that the right incentives are provided to key stakeholders across the entire supply chain. Furthermore, as the new fund is expected to support Australia's recycling and reprocessing infrastructure, it is important for it to be matched to the material collected for reprocessing, which enables in-country processing of recyclables to close the domestic loop.

Overall, the industry has indicated that an open discussion with government and non-government stakeholders at every stage of the policy making and reform process is imperative. The ABCL looks forward to contributing to the economic and social recovery of Australia, as a trusted partner with the Australian government, its departments and agencies.



01 Introduction

The COVID-19 pandemic has had a significant effect on the Australian economy. Some industries have been more adversely impacted than others and economic uncertainty will continue to expose the vulnerability of many businesses. The first official statistics capturing the impacts of the crisis show a 0.3% contraction in the Australian economy in the March quarter of 2020. ABS estimates show that total employment decreased by 835,000 between March and May 2020.[1] It is anticipated that the peak impact of the COVID crisis will show through in the National Accounts for the June quarter. The Commonwealth Treasury had forecast the unemployment rate to peak at 10% by June end, with about 1.4 million Australians expected to be out of work (although expectations have been revised down because of the positive impact of the JobKeeper program in enabling employers and employees to remain connected).[2]

While undesirable and damaging to the economy, the crisis has created an opportunity to pause and reassess the relationship between individuals, companies and governments. In particular, government is supportive of reform that could not only aid in the economic recovery, but also provide much needed jobs and investment for the future.

Representing over 90% of the non-alcoholic beverage industry's volume, the Australian Beverages Council Limited (ABCL) has engaged KPMG to assist with the development of a set of policy propositions that the ABCL can use to engage with government in a constructive way and one that will support the government's objectives. Through consultation with ABCL Members, some key challenges and issues were identified in relation to the Australian Beverages Industry (the industry). A detailed survey of the ABCL's membership base was then used to understand how these views resonated with the broader industry. These inputs from industry stakeholders have informed the key themes highlighted in this paper, with the policy recommendations not only reflecting these identified industry needs, but also focusing on economic benefit for the broader economy.

This paper starts by providing an overview of the non-alcoholic beverage manufacturing industry and its important contribution across the Australian economy, both in its metropolitan and regional centres. Section 3 summarises some of the key issues and challenges faced by the industry. Section 4 focusses on a number of key policy ideas for government consideration that could not only benefit the industry, but are also anticipated to benefit the wider Australian economy and its people. Section 5 identifies the ABCL's key policy recommendations that warrant government support, not just for economic gains to the beverage industry, but to provide wider benefits to the environment and society.

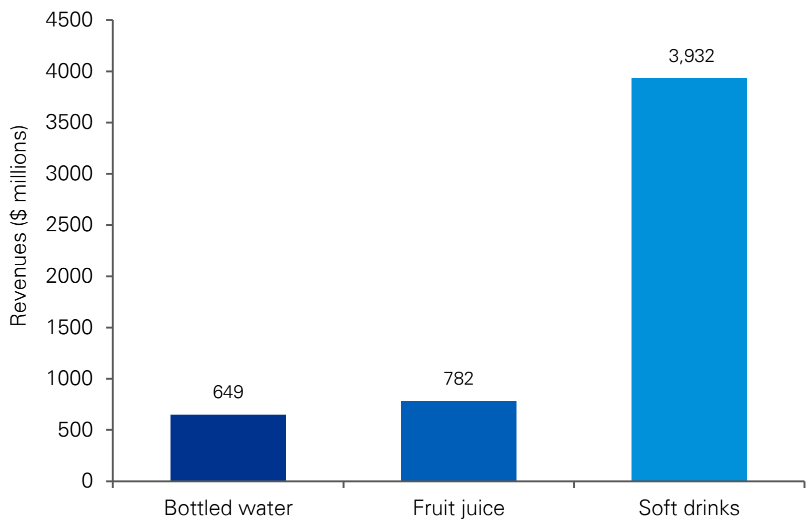
[1] ABS Cat No. 6202.0 May 2020
https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6202.0Main+Features1May%202020?OpenDocument
[2] https://treasury.gov.au/speech/opening-statement-april-2020-senate-select-committee-covid-19 and
https://treasury.gov.au/speech/opening-statement-june-2020-senate-select-committee-covid-19

02 Background

The non-alcoholic beverages manufacturing industry in Australia offers a wide range of products including carbonated soft drinks, energy drinks, sports and electrolyte drinks, frozen drinks, bottled and packaged waters, juice and fruit drinks, cordials, iced teas, ready-to-drink coffees, flavoured milk products and flavoured plant milks. While non-alcoholic beverages continue to be an important part of Australian diet, the choice of drinks has changed considerably over the past two decades. Increasing consumer awareness of sugar intake and its health impacts resulted in a 27% decline in the demand for sugar-sweetened beverages (SSBs), particularly sugar-sweetened carbonated soft drinks, over the period 1997-2018. Over the same period, the sales volumes of non-SSBs increased by 85%, first driven by non-sugar sweetened alternatives, and then by bottled water.[3] With the industry adapting to this changing trend, low- and no-sugar drinks now proliferate the market, outselling SSB volumes since 2015.

The industry, in general, has a large focus on domestic sales, with around one in every two (48%) Australian adults consuming soft drinks at least once per week.[4] In addition, the majority of drinks manufactured in the domestic market are consumed in Australia. As shown in Figure 1, in 2018-19, the total revenue generated from soft drinks, bottled water and fruit juice was over $5.3 billion, with soft drinks making up about three quarters of the revenue share.

Figure 1: Revenue from major beverage segments, 2018-19

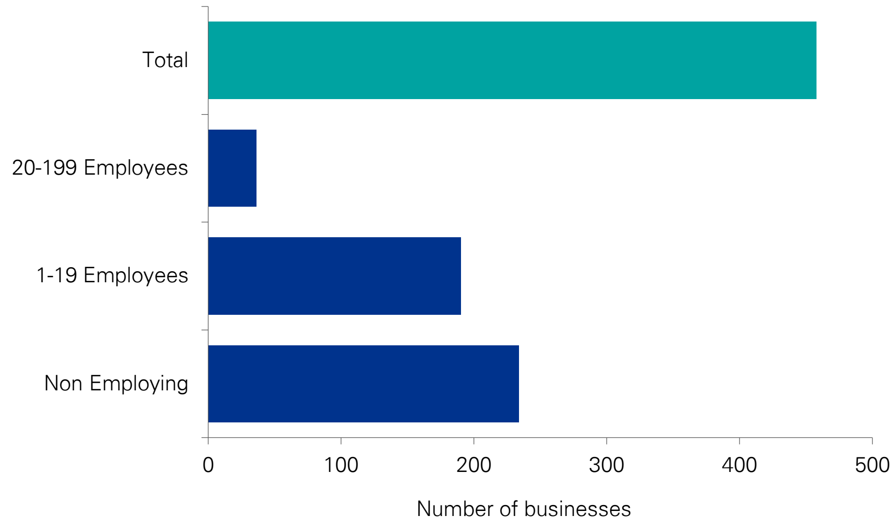


Source: IBISWorld reports, 2020

According to the Australian Bureau of Statistics (ABS), as at 2018-19, there were 458 businesses in the non-alcoholic beverage manufacturing industry in Australia, located mainly in Queensland, New South Wales and Victoria. The majority of these businesses are sole proprietors and partnerships without employees. There are 190 small businesses, employing up to 20 people and 36 businesses with somewhere between 20 to 199 employees.

[3] Shrapnel W., Butcher B., 2020, Sales of Sugar-Sweetened Beverages in Australia: A Trend Analysis from 1997 to 2018
[4] ABS Cat No. 4364.0.55.001, National Health Survey: First Results, 2017-18,12 December 2018

Figure 2: Number of businesses in the non-alcoholic beverage manufacturing industry, 2018-19



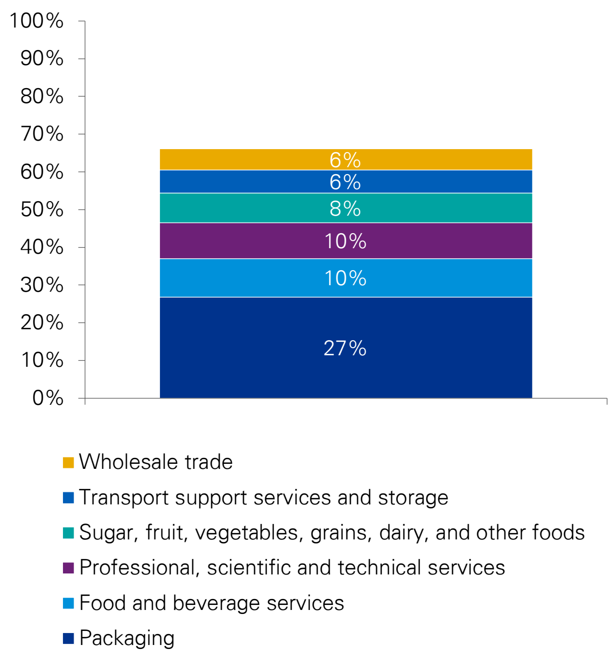
Source: ABS Cat No. 8165.0, Counts of Australian Businesses

In 2017-18, these businesses employed over 6,800 individuals and paid $635 million in wages. Employment in this industry makes up almost a quarter of the total beverage (alcoholic and non-alcoholic) manufacturing industry's employment, and almost 1% of total employment in Australia's manufacturing sector.[5]

The beverages industry is part of a broader domestic supply chain that spans four inter-related sectors: agriculture, manufacturing, transportation & logistics, and retail. For every direct employee in the non-alcoholic beverages manufacturing industry, it is estimated that there are 4.9 jobs required elsewhere in the economy to produce and retail the beverages.[6] Thus, the end-to-end benefits of this extended supply chain has been estimated to have supported about 46,000 jobs and contributed $7 billion to the national economy in 2013-14, with a tax contribution of $1.2 billion annually.[7]

The non-alcoholic beverages manufacturing industry draws on significant resources and inputs from other industries in its production processes across the domestic market, as shown in Figure 3, thereby generating economic benefit along this supply chain.

Figure 3: Top intermediate industries for non-alcoholic beverage manufacturing, 2017-18



Source: ABS Cat No. 5209.0.55.001 Input Output Tables 2017-18

[5] ABS Cat No. 81550DO003, Australian Industry, 20-17-18
[6] ABCL 2015, Refreshing our economy – the economic contribution of the Australian beverages industry
[7] Ibid

The packaging sector, comprising of paper, polymer, metal and glass products, is an important input for the industry, making up over a quarter of its intermediate inputs. In 2017-18, the industry used over $1 billion of packaging material. Food and Beverage Services and Professional, Scientific and Technical Services are the next two top industries supplying intermediate inputs to support the manufacture of non-alcoholic beverages and contributing significant value to the industry. Sugar, fruit, vegetables, grains, dairy and other food products are also important inputs to this industry, with many of these supplies sourced from regional Australia.

The industry supplies customers through a number of different avenues. These include on-trade sales through venues such as restaurants/cafes/stadiums and theatres; and retail sales through supermarkets and other retailers. Notwithstanding that sales have been limited to the latter during the pandemic, the industry has been resilient, rapidly adjusting to fluctuations in demand and continuing to support workers and jobs in Australia.

Furthermore, a change in preferences, owing to increased consumer consciousness of sugar intake and environmental impacts of plastic packaging, has had a negative impact on certain segments of the industry. As the industry adjusts towards this consumer-led shift, however, there have been a number of industry initiatives towards healthier alternatives and sustainable packaging. In addition, a move towards healthier life choices, underpinned by increasing health consciousness and demographic changes, has caused a number of shifts in consumer behaviour, including moves towards greater consumption of low- and no-sugar beverages, and alcohol alternatives. As the economy adjusts to new spending patterns in response to COVID-19, the non-alcoholic beverages industry is expected to contract in 2021-22 but bounce back and follow a modest jobs and sales growth trajectory thereafter, with an estimated average annual growth rate of 2.6% for the next two financial years.[8]

[8] IBISWorld reports, 2020

Key issues and challenges

The broader non-alcoholic beverages industry in Australia comprises a diverse range of players that represent the entire supply chain. While each business faces unique challenges to their operating environment, there exists some common overarching challenges for different areas within the industry that were raised during stakeholder consultations and/or identified through our industry survey. These challenges not only limit the industry's ability to operate efficiently, but also put upward pressure on input costs, which in turn has an impact on jobs and potentially prices paid by consumers as businesses attempt to manage expenses. The following section presents a summary of the key issues and challenges raised by industry participants to KPMG.

3.1 Retail market power

- Main challenge includes price pressures from the supermarket sector due to lack of bargaining power coupled with competition from home brands and co-packers that are sold almost at cost.
- Rising business expenses diminish profit margins as businesses have no way of passing on these costs.
- While the Grocery Code of Conduct and Dairy Code of Conduct attempt to balance differences in market power, there are some limitations that impede their usefulness and effect.

The duopoly market structure of Australia's grocery sector remains a prime concern for the beverages industry due to:

- the pressure to continually drop prices with no option of passing on costs; and
- competition with home brands and co-packers where goods are sold almost at cost.

Compounding this, the COVID-19 pandemic has restricted all on-trade sales channels (e.g. restaurants, hotels, cinemas, stadiums) as well as foot traffic in and around shopping centres and through convenience stores, making the supermarket channel the main way of getting product to market. While retail volumes have been on the rise, a number of businesses have faced a substantial reduction in profit margins. Owing to a change in consumer behaviour and unprecedented demand, supermarket activity is at an all-time high and they continue to expand their offering by moving into new markets. For example, Woolworths launched a B2B service, setting up a direct sales force to cater to businesses.

As the industry apportions a large and growing share of its business to supermarkets, the Food and Grocery Code of Conduct is seen favourably, with support from industry Members. Participation is voluntary, however, and while the compliance training for the retailers works well, it is hard to enforce. Further, there is a perception in the industry that inadequacies and retaliation tactics have the capacity to undermine the purpose of the code.

As a further step in regulating the supply chain and balancing bargaining powers, the Dairy Code of Conduct was introduced in 2020 to provide farmers more control and transparency in their negotiations with dairy processors. Each farmer is now contracted to a processor for one trading year, locking in supply amounts and a minimum unit price. While providing the certainty of price and demand to farmers, there are concerns around seemingly limited business opportunities for processors during a trading year and ultimately, its effect on expansion and competition.

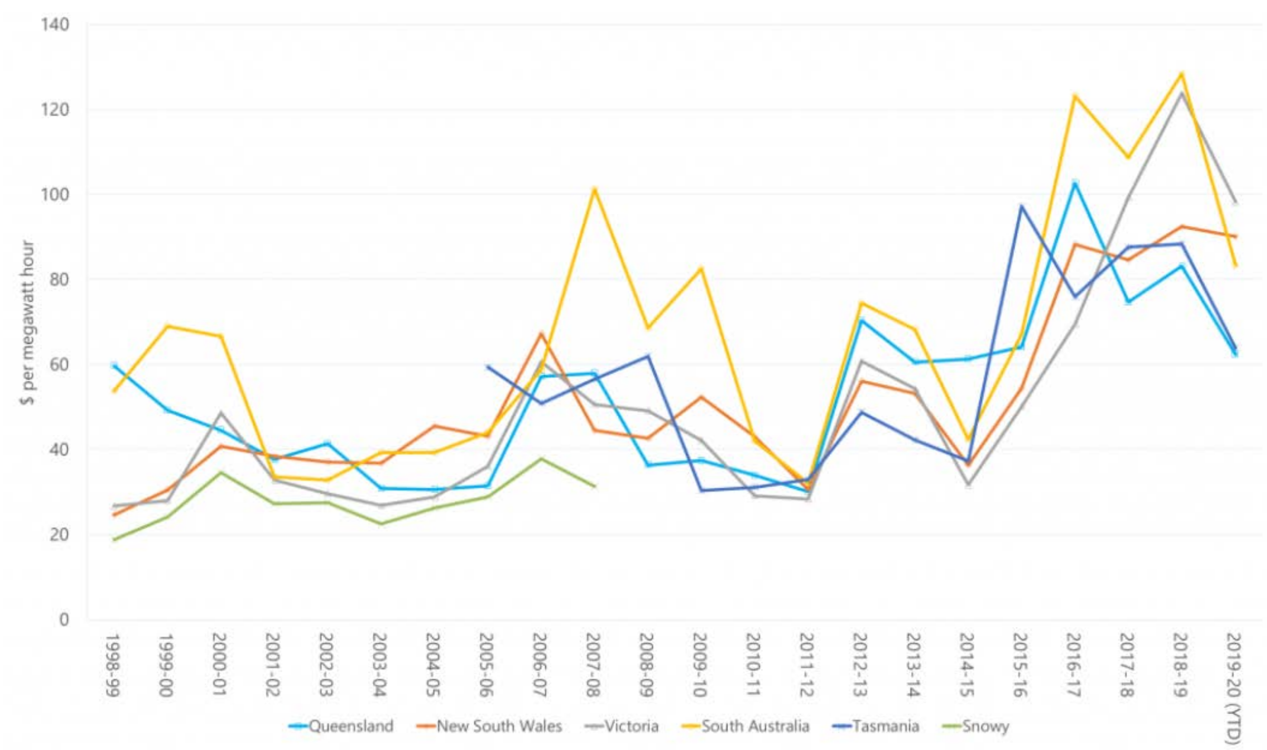
3.2 Energy costs

- Energy costs have increased significantly in the past 5-10 years.
- Costs are highly volatile, which make it hard for business planning.
- Reliability of electricity is an ongoing concern.

The beverage industry is characterised by energy-intensive processes at every stage, including mixing and blending inputs, maintaining drink temperatures, bottling beverages and the like. Unsurprisingly, energy was identified as one of the biggest costs to business by most stakeholders and one that has the potential to challenge the ongoing viability of the industry in Australia.

A heavy reliance on electricity means price rises in the past few years have had a detrimental impact on costs and profits across the industry. The chart below indicates more than a two-fold increase in electricity prices between the average of the past three financial years (2016-17 to 2018-19) and the average at the turn of the millennium (1998-99 to 2001-02).

Figure 4: Electricity prices in Australia, 1998-99 to 2019-20

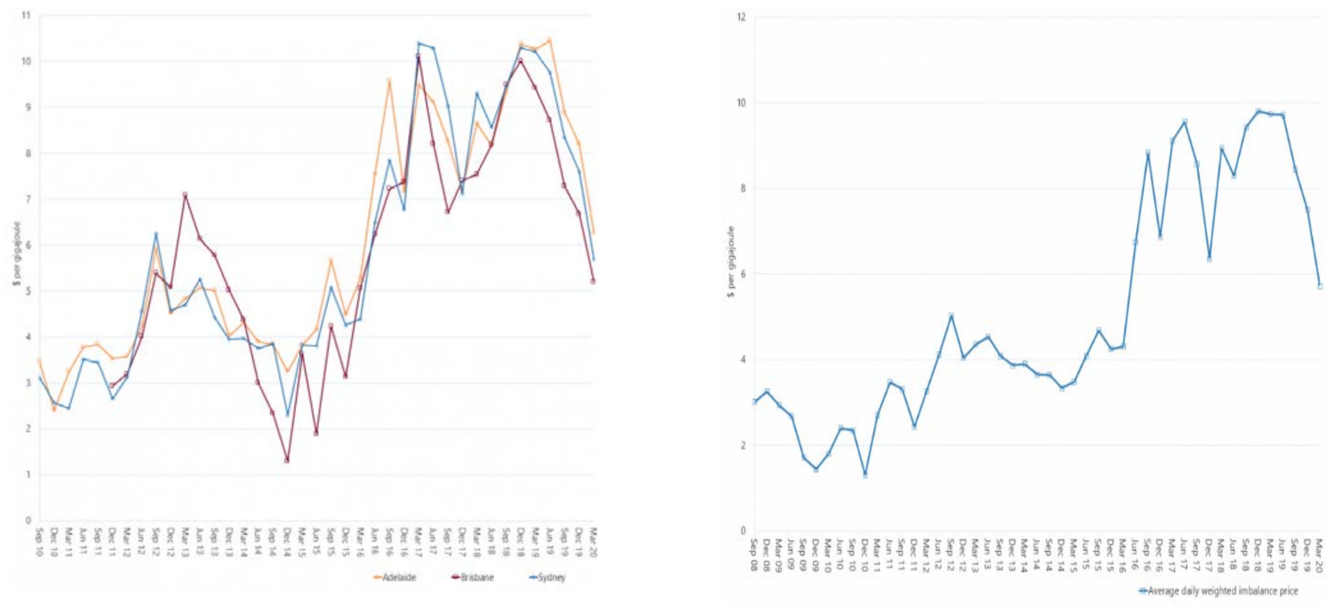


Source: AER, Annual volume weighted average spot prices - regions

Those businesses that rely on gas as a source of energy have had to contend with volatility and steep cost increases over recent years. The charts below show the price of gas on the short term trading market in Adelaide, Sydney and Brisbane on the left, and the average daily weighted prices for Victoria on the right.[9]

[9] https://www.aer.gov.au/taxonomy/term/904

Figure 5: Gas prices in Adelaide, Sydney and Brisbane (LHS) and Victoria (RHS)



Source:
LHS: AER, STTM – Quarterly prices, September 2010 to March 2020
RHS: AER, Victorian gas market average daily weighted prices by quarter, Sep 2008 to March 2020

The higher and more volatile energy costs erode the price competitiveness of domestic products relative to imported products. Businesses have had to accept reduced margins as they absorb the higher costs or reduced turnover (where they have attempted to pass on these higher costs to consumers). A few businesses have been able to invest in energy-saving technologies as a longer-term solution, however the up-front capital costs associated with this option makes it prohibitive for most businesses.

Furthermore, reliability of electricity supply is a challenge mentioned by several Members. Extreme weather conditions in Australia during summer months undermine steady supply of electricity. Given round the clock electrical processes involved in beverage manufacturing, unexpected interruptions to supply of electricity is a costly risk for manufacturers. A lag in productivity, potential damage to heavy machinery, product losses and potential threat to the safety of workers pose a material threat to businesses. Better electricity management remains a critical need, with affordable and reliable supply vital for businesses.

While recognising efforts made towards entering the renewable energy space, it is far from catering to the industry's energy needs in terms of volumes and reliability. Noting rising energy needs and limited sources, there are calls for greater government support and incentives for developing the required infrastructure for lower cost sustainable energy.

3.3 Skills shortages

- Finding and retaining workers can be a challenge in regional areas.
- Certain technical skillsets are hard to source domestically.
- Businesses have adapted to hire for aptitude in order to train up internally for the job.

Like many industries, the beverage manufacturing industry and its suppliers experience skills shortages and face difficulties in attracting certain specialists and technically skilled personnel. In particular, it has been noted that electricians, select types of engineers, laboratory technicians, skilled machine operators, food scientists, food technologists and packaging technologists have been hard to source. More broadly, businesses have also had trouble sourcing the right non-technical or management skillsets for supply chain management, quality control, financial management, digital marketing and international business.

The availability of skills is largely impacted by the location of a business operation or manufacturing facility. Attraction and retention of appropriately skilled workers is particularly challenging for businesses based in regional areas, especially where similar technical skills are also sought by the mining industry. In addition, moving to a smaller town is often a less attractive proposition for skilled workers with families. Businesses also find it challenging to source engineering/operations personnel, which are often recruited for new infrastructure projects with competitive salary packages on offer.

While some businesses are open to hiring and training apprentices to meet their labour demand, it has been a difficult opportunity to seize. Lower and often uncompetitive wages for apprentices limits the attractiveness of the roles, and in some cases, the investment made in skilling a worker may be lost when they take up a better opportunity soon after they have been trained. Businesses that hire apprentices have stated that financial incentives in the form of tax benefits or wage subsidies from the government could better protect the industry against such uncertainties.

Noting an increasing focus on higher education, it is also believed that the government could play an important role in promoting apprenticeship and vocational programs, and partnerships with industry should be encouraged to bolster the rigour of these programs. This could help with a higher intake of such programs as well as provide business with a potential talent pool. An increased focus of apprenticeships and vocational education on developing specialised skills suited to particular industries and occupations in trades such as electricians, mechanical and electrical tradespersons could help alleviate the domestic skills gap to some extent. At the end of training, facilitating job placements and equipping businesses to manage placements effectively would also strengthen the outcome of apprenticeship programs. Given the large size of Australia's manufacturing sector, the industry believes it is important to develop a domestic pool of talent with the technical know-how and ability to work with and maintain advanced manufacturing equipment.

In some cases, businesses have adjusted to the domestic skills gap by adjusting the recruitment process to focus more on aptitude, rather than qualifications, thereby employing graduates and training them. Alternatively, some businesses have sourced the required skills from overseas where possible. Australia's immigration policy has helped provide a pathway for skilled migration which has helped fill the gap for certain supply chain management, logistics and technical skills. However, securing a working visa can be a difficult process and an additional cost to business, thus limited to only a few, big companies. Furthermore, travel restrictions in the wake of the COVID-19 pandemic has almost ruled out this avenue in the short term. Going forward, it is suggested that there may be value in easing visa requirements and extending working holiday visas to four years, which in turn could provide a pathway to permanent residency for skilled workers. There may also be an opportunity to encourage free movement or special treatment under the nascent UK-AU FTA. Given a shared language and strong education systems in both countries, laws enabling easy access and movement of skilled professionals could be mutually beneficial.

A potential solution to bridge the existing skills gap could be the development of partnerships between industry and education providers. Involvement of the industry in the development of training programs can ensure the right skillsets are being developed to meet industry needs. If provided with appropriate know-how and direction, medium to large scale competitive businesses have expressed an interest in pursuing this in a post-pandemic world. Consideration must also be given to ensuring that the education sector is providing the right kinds of skillsets for the future, such as automation, high-tech manufacturing, food scientists and food technologists, data analytics, and technical project management, which will be valuable not just in the beverage industry but also across the broader manufacturing industry.

3.4 Water sourcing

- Challenges sourcing groundwater for bottling due to local community and council opposition.

Businesses in the beverage industry that are involved in the bottled water segment face challenges in sourcing the required amounts of groundwater from extraction sites. Access to water varies from state to state, with Victoria having a relatively consistent and continuous supply of good quality water, while industry participants in Queensland have a more challenging regulatory environment to manage because of more restrictive water licenses in that state. Navigating local community and council resistance to extracting water from local sites is often a long and challenging process for businesses, particularly through devolved planning law.

Contrary to perception, water use for bottling and packaging makes up a very small proportion of the total groundwater extracted. The NSW Chief Scientist & Engineer's independent review of the impacts of bottled water on groundwater resources in the Northern Rivers Region of NSW found that less than 1% of groundwater extraction was used for bottling, with the remainder going towards landholders, commercial and farming uses.[10] Nevertheless, commercial water extraction is sensitive and often resisted by local communities, councils, and environmental organisations.

Noting the industry's commitment to responsible water sourcing and sustainability, support from state governments in facilitating dialogues between industry and local council is needed. The industry believes improving additional water extraction sites and better management of the existing framework by the state may alleviate this issue, underpinned by the industry's exemplary self-regulatory code of practice.

3.5 Industrial relations

- Need for flexibility in employee entitlements related to penalty rates to accommodate manufacturing schedule rather than the typical work week.
- Negotiations for employee bargaining agreements can significantly add to business costs, which can be particularly crippling for small businesses.

With respect to industrial relations, complexity of industrial awards is the primary concern for beverage manufacturers. A complex awards system, stipulating penalty rates and loading payments even for fixed salaried employees, results in increased costs and lower productivity. Weekend penalty rates restrict job creation and can be especially prohibitive for certain agricultural and food and beverage manufacturing industries that do not operate on a typical eight-hour weekday schedule. A review of the way people are employed is needed to allow for greater flexibility in working arrangements, especially in the broader manufacturing industry.

It was also noted that the process of negotiating enterprise bargaining agreements (EBA) demanded significant time and effort, owing to the involvement of unions rather than engaging with the employees directly. Involvement of unions, which in some cases may not even have a member as one of the employees, can often lead to long-drawn out negotiation processes due to the range of demands or operational matters being put forward (sometimes with no obvious connection to the workplace in question or around matters that should be left within the employer's discretion). Further, the Fair Work Commission's process for gaining approval for an agreement is lengthy and timeframes for knowing the subsequent assessment can vary a lot. Similarly, the industry believes that, in complying with the Fair Work Act, explaining the agreement to employees is time-consuming and repetitive with little or no benefit. Smaller businesses operating in this space can be seriously negatively impacted financially by the costs and time needed to work through the process. Given the need for businesses to re-negotiate EBAs every three years, flexibility in negotiations and more streamlined processes are highly desirable.

[10] NSW Chief Scientist and Engineer 2019, Independent review of the impacts of the bottled water industry on groundwater resources in the Northern Rivers region of NSW Final Report

3.6 Environmental sustainability

- Businesses adapting to meet consumer demand for sustainable packaging.
- Container Deposit Schemes (CDS) have helped meet the need for a supply of rPET.
- There is a gap in the recycling loop where recycled plastics are being processed overseas.
- There are concerns that the Australian beverage industry is unduly bearing the costs of CDS.
- There are also concerns around the costs and complexity of CDS due to differences across jurisdictions.

As sustainability takes precedence in every sphere across industries, businesses in the beverage industry have also been adapting production processes and beverage recipes to meet sustainability goals. Driven by both consumer trends and business strategy, sustainable practices such as the use of recycled glass and aluminium for packaging and recycled polyethylene terephthalate (rPET) resin to manufacture bottles has become a core focus for the industry. While committed to the cause, the use of rPET involves a cost premium to businesses. Further, it remains a technical challenge to use rPET in larger packs and volumes. For example, packaging high volume carbonated drinks in rPET is complicated due to the carbonation pressure on the container, which deems some use of virgin plastic necessary.

Introduction of Container Deposit Schemes (CDS) across most jurisdictions in Australia - providing a 10-cent refund for each empty eligible container deposited at a collection point - have evoked differing responses across the industry. On one hand, since this additional cost to the manufacturer is reflected in higher retail prices for consumers, it is believed to have negatively impacted sales volumes. On the other hand, businesses have attributed an increased availability of recyclable plastic bottles and recycling of PET and soft plastics, wraps and labels over the past few years to these schemes. Overall, there has been industry support in the form of compliance with the schemes and high redemption rates.

While there is consensus among businesses about CDS helping to better meet collection needs, its implementation has been challenging for many. As each jurisdiction adopted its own version of CDS, although conceptually similar, there are minor differences in logistics and administration which results in an inconsistent, disjointed and costly approach to meeting the objectives set out by government. The variation in compliance requirements across states and territories creates a greater administrative burden for business on top of the additional cost of the schemes themselves. It is acknowledged that Victoria and Tasmania are currently planning the design of their respective schemes, and the ABCL strongly supports harmonisation efforts between these jurisdictions and those that already have existing CDS.

To this end, the ABCL has identified the following *Container Deposit Schemes National Harmonisation Elements.* The ABCL believes that the following five key principles could be used to define a nationally harmonised CDS and could guide concerted efforts in achieving one.

- *Governance*: Designed to be not-for-profit, the CDS should be run by the beverage manufacturing industry, which has demonstrated its experience in operating schemes at lowest cost to consumers. Further, it should be under federal level semi-statutory authority; company limited by guarantee. For managing the operation and finances of the schemes, it is most feasible to have a single scheme coordinator, without a network operator level.
- *Accountability*: CDS should have a single reporting standard across all jurisdictions, which will enable minimisation of costs to businesses as well as operators. It is also important to have periodic monitoring of price, competition and performance by an independent statutory authority.
- *Elements*: Consistency in the various components of CDS across jurisdictions can deliver significant cost-savings to businesses and increase efficiency. It is important to have consistent legislation as well as protocols (export, first supply, contract bottling) across jurisdictions to reduce costs for businesses. High redemption rates are, in part, driven by consumer participation rates in the schemes. Hence, it is important to have a common scope for eligible containers, be consistent in the use of terms/definitions and have cross-jurisdictional branding to increase consumer understanding. It is also important to have a common 10-cent refund amount to reduce incentives for cross-border return. Lastly, an invoice in arrears model, avoiding the need for payment adjustments when based on forecast volumes, and a common refund mark including New Zealand (a common market) is highly desirable for businesses.
- *Services*: Significant cost efficiencies can be realised by streamlining back-end functions and establishing a single platform and protocols for container registrations, supplier registrations, invoicing and auditing. In addition, having an integrated platform for reporting, IT and processes will reduce the administrative burden and time spent by businesses in uploading information across multiple CDS.
- *Operations*: A single container registration point would significantly cut down business costs and avoid duplication of information for each CDS. In addition, streamlined marketing and promotion as well as multiple collection modes (depots, reverse vending machines) will ensure better understanding and increased opportunities for returning eligible containers. In view of the need for improved sorting operations in Australia, tying the 10 cent refund offered to materials recovery facilities (MRFs) to greater sortation investment would make a sizeable contribution to this goal.

In support of ABCL's last principle, while businesses have noted that Australia's efforts to encourage the return of post-consumer waste have shown reasonable results, there is significant scope for improvement in the area of sorting this collected waste. In particular, it is believed that the collection framework for glass and aluminium is working reasonably well but contamination of glass remains an issue and needs to be separated at the sorting stage. Co-mingling different types of recyclable waste into one kerbside bin is too simplistic and can lead to contamination in the recycling downstream. Glass cannot be physically separated anywhere in the process and is identifiable only at the stage when it is being re-melted. At this stage, if it becomes cross-contaminated, with lead-based glass for example, the whole batch of recyclate has to be scrapped. The Victorian state government has made some progress in this space, as it is now canvassing support for designated "glass only" and "fiber only" bins at the kerbside. This could make glass with higher recyclable content available to beverage producers.

Members have also stated concerns around competition among waste companies contracted by councils to pick up recyclables becoming increasingly limited. This decreases the ability of a business to access the required amount of material supply in each state at fair and reasonable prices.

Members recognise that although CDS help to provide recycled waste, there is a gap in the loop. Specifically, Australia does not have sufficient processing facilities and the current capacity of processing plants limited to some metropolitan areas is not large enough to handle the full volume of recycled content. This gap in infrastructure has resulted in the situation where Australia collects more PET waste than can be processed in the country. The domestic supply of rPET is not enough to meet the industry's needs, forcing the industry to rely on rPET imports. The resulting supply chain is a mix of collection being done locally, then sourced offshore for re manufacturing, before being imported back to Australia for bottling.

Even as the industry is making operational changes towards greater sustainability, businesses believe it will be some time before they are able to make a complete switch to using rPET. Noting increased competition for a limited global supply of rPET coupled with China's restrictions on accepting recyclable waste, the Commonwealth's commitment to invest $190 million for setting up a Recycling Modernisation Fund has been well received by the industry. It is part of the solution to dealing with Australia's surplus recyclable plastic and is expected to bolster domestic processing capabilities. Lack of clarity on managing procurement of recycled content demand, however, may undermine circularity and potentially limit the employment generating benefits of a well-functioning recycling industry.

3.7 Taxation reform

- Corporate tax is considered high and globally uncompetitive.
- Payroll tax precludes employment in some instances.
- Land tax in some states is considered discriminatory against foreign-owned businesses with a substantial economic footprint in Australia.

The business landscape in Australia is often viewed as prohibitive and overregulated by various industry participants. Adding to the list of unavoidable business costs is taxes, some of which are considered overly burdensome by the industry more generally.

Corporate tax in Australia is considered high. At 30%, it is above the OECD average of 23% which makes Australia a less competitive place to do business globally, when considering return on investment from a post-tax return on equity perspective.[11]

Payroll tax, seen by industry as a tax on employment, is considered onerous and unjustified. It is perceived to discourage economic activity that would otherwise occur in its absence i.e. hiring more employees to expand the business. Moreover, tax compliance costs are considered to be higher than they need to be simply because of the differing payroll tax structure across different states. It has been suggested that the application of this tax and its inconsistency across states encourages businesses to operate on a smaller scale, eliminating potential production economies of scale.

Lastly, foreign-owned businesses in Queensland and Victoria are also required to pay a land tax surcharge if their aggregate land holdings are above the taxable threshold. This additional impost is viewed as discriminatory and stymies inward investment by foreign companies. Attempts to hold talks with the government about removing this impost has been bureaucratic and unproductive.

[11] OECD,Stat Table II.1 Statutory corporate income tax rate https://stats.oecd.org/Index.aspx?QueryId=78166

3.8 Research and Development Tax Incentives (R&DTI)

- R&D incentives can be complex to navigate and the costs associated with doing so are prohibitive for smaller projects.
- Larger businesses and multinational companies are more likely to have the resources to be able to take advantage of the R&D incentives.
- A broader definition for all R&D and expansion of scope could deliver benefits.

R&D activities are essential for continued innovation. They do, however, depend on a business's ability to access the right human resources as well as fund the necessary investment. Although government incentives exist for income tax liable businesses in Australia that conduct eligible R&D expenditure greater than $20,000, stakeholders have stated the process for tax concessions is too complex and restrictive.

Given the time and money required to navigate requirements, it is likely that only larger projects may achieve a net benefit from the application process. Noting the large share of small businesses in the beverages industry, R&D work typically falls in the ambit of a select few big businesses, as it is not a commercially viable option for most others. In addition, the scope of what is eligible for R&D incentives has narrowed and, therefore, is seen as limited in its benefit to businesses in the beverages industry. For reference, the following activities are excluded: [12]

- market research;
- prospecting;
- management studies or efficiency studies;
- research in social science, arts or humanities;
- commercial, legal and administrative aspects of patenting; licensing or other activities;
- activities associated with complying with statutory requirements or standards;
- any activity related to the reproduction of a commercial product or process by a physical examination of an existing system or from plans, blueprints, detailed specification or publicly available information; and
- developing, modifying or customising computer software for the dominant purpose of use by any of the following entities for their internal administration.

The industry recognises the importance and need for continual innovation. However, it is believed that the costs of navigating the current complex system bears a benefit only for high value projects, which are typically carried out by large multinational corporations. Small and medium industry participants often engage in new product development (NPD), which by its nature involves some form of R&D, by absorbing the expenses within their operating costs. It is believed that relaxing the definitions and scope of R&D activities could stimulate more innovation across the whole industry. For example, rising energy costs, recognised as one of the biggest challenges for the industry, has prompted businesses to invest in research and development related to energy efficient technologies and practices.

It has also been highlighted that the current R&D incentive scheme is applied as a tax offset and is jointly administered by the ATO and the Department of Industry, Innovation and Science. This means that it is important for guidelines between the two entities to be well-integrated, comprehensive and updated.

Further, since its introduction, R&D incentives have become significantly more complex and costly to navigate, resulting in the marginal benefit associated with the scheme often being less than the costs associated with accessing it. Anything that can aid in more efficient operational processes and incentivise R&D in this space is welcome by the industry.

[12] https://www.business.gov.au/Grants-and-Programs/Research-and-Development-Tax-Incentive

3.9 Red tape for businesses

- Red tape and inconsistency in certain industry processes can amount to a substantial cost for businesses.
- Even though food safety audits achieve the same goals, they are often varied and bespoke to each major retailer, adding administrative time and costs borne by businesses.
- Complex labelling requirements and state-based environmental laws further add to compliance costs.
- Accessing council permits for high productivity vehicles can be a time-consuming process.

In addition to rising business costs, businesses in the industry consider they face onerous and complex regulations, with high costs of compliance. While the industry understands and supports the Australia and New Zealand joint food regulation system, businesses find it difficult to meet the complex and inconsistent compliance requirements. For instance, food safety audits are often varied and bespoke to each major retailer e.g. Coles, Woolworths and Aldi all have their own audit systems. As a result, the process lasts several days, which becomes an unnecessary compliance cost for businesses and may preclude small business from participating. A simplified, streamlined process across all retailers, underpinned by core food safety requirements would achieve the same goals.

An increase in already complex labelling requirements, such as country of origin labelling, front of pack labelling and Health Star Rating (HSR), to name a few, are time-consuming and an added cost to businesses. While these requirements are important, there are calls for simplifying processes, providing adequate support to enable compliance and timing labelling changes to coincide with each other so that multiple labelling changes over a short period are reduced. In addition, state-based environmental laws affect businesses operating nationally in terms of varying compliance requirements.

With largely a domestic customer base, in-land logistics is also an important aspect of business for the beverage industry. The form of the product is necessarily heavy and ground transportation is the best solution to moving the goods to where consumers are. However, permits for high productivity vehicles can take a long time to process and be costly, limiting a business's ability to get their product to the market in a timely manner. A streamlined process to attain these permits would greatly reduce the amount of time and cost incurred by businesses.

04 Policy recommendations

While Australia has so far managed to avoid serious impacts to human health from COVID-19, the economy has contracted due to the restrictive measures imposed on businesses and the community. As the Australian economy emerges from this crisis and enters the recovery phase, there is an opportunity and willingness by all stakeholders for open dialogue with government to consider reforms that will help Australia recover and surpass the living standards enjoyed pre-COVID. A return to pre-COVID business-as-usual practices, both in terms of government policy and business practices, is now understood to be a recipe for permanently lower living standards for Australia. The strong consensus is that this is not an acceptable option for Australia. Reforms that improve productivity and sustainability will help the beverage manufacturing industry achieve its potential and contribute to supporting the livelihoods of thousands of Australians.

4.1 Environmental sustainability

Consumers are increasingly demanding recycled content packaging. This has been the trend as society becomes more aware of environmental sustainability issues, and pushes for a move towards a circular economy. Sustainable product design and packaging practices generate environmental benefits by redirecting packaging waste away from landfill and waterways towards recycling facilities, keeping it in use for a longer time and reducing the need for frequent manufacture of new packaging material.

Furthermore, the use of highly recyclable material is an effective means to energy saving, thus reducing the industry's carbon footprint. It was noted during stakeholder consultations that the use of recycled glass in glass container manufacturing amounts to significant savings in energy and flow-on costs. It was suggested that, for every 1% of glass recycled, carbon emissions are lowered by 5%. Moreover, higher recycled content means lower energy usage (in terms of melting glass in a furnace) as compared to manufacturing glass. This, in turn, lowers costs for buyers of glass and the recycling segment and leads to job creation.

In general, manufacturing with recycled material inputs requires less energy relative to the manufacture of the same item using virgin stock; the combined energy required to extract the raw materials, to make the product and to incinerate the product after use significantly outstrips the amount of energy used to recycle and re-manufacture the product.[13] One source suggests that the energy saved from recycling plastics compared to making products from virgin material can range from 76% to 90%, or approximately 14,000 – 20,000 kWh per ton of plastic given current technologies.[14] In addition, greater domestic reprocessing/re-manufacturing infrastructure supports jobs, and can also be situated in regional locations where unemployment and social disadvantage is high.

[13] Morris, J. (1996) "Recycling versus incineration: an energy conservation analysis," Journal of Hazardous Materials 47:1996 pp 277-293.
[14] https://sciencing.com/cost-recycle-aluminum-vs-plastic-24066.html.

4.1.1 Improving efficiency of the existing CDS

Extensive research and numerous global case studies have shown that container deposit schemes are not only beneficial to the environment, but could also help the economy. The first use material that ends up in landfill presents an untapped resource. A report by the World Economic Forum and Ellen MacArthur Foundation estimates that 95% of the global plastic packaging material value is lost from the economy after a short first use. This can range between US$80 billion to US$120 billion. However, it was noted that recouping this value is contingent on designing new ways to breakdown and reuse 30% (by weight) of all plastic packaging that is not recycled for various reasons such as contamination, being too small for easy collection, having very low economic value or containing multiple materials that are not easily separable.[15]

In Australia, all but two states, namely Tasmania and Victoria, will have implemented a CDS by the end of this year (the scheme in Western Australia is due to launch in October 2020). The expected commencement date for Tasmania is in 2022, with Victoria following in the 2022-23 financial year.

In KPMG's conversations with stakeholders, CDS was recognised for not only generating jobs, but also creating an ecosystem for uncontaminated, high-value recycled material types. The schemes apply at a state level and offer a 10-cent refund per empty eligible beverage container. The eligibility criteria of material, size and original beverage are broadly similar between jurisdictions. Of the polyethylene terephthalate (PET), high-density polyethylene (HDPE), glass, aluminium, steel and liquid paperboard (cartons) drink containers that are eligible, only containers between 150ml and 3L are accepted by all state schemes. The only minor exception to this is South Australia, which doesn't stipulate a minimum container volume, thus accepting all eligible containers of up to 3L.

The exclusion of certain beverage containers, typically those that are consumed by households and go into kerbside recycling, seems arbitrary and often creates confusion as to which containers are eligible. For example, spirit bottles are excluded from the schemes, but pre-mix ready-to-drink cans are eligible for a refund. Furthermore, lack of consistency across states is believed to be weighing down on the schemes' effectiveness and overall redemption rates and does not allow for these schemes to reach their full potential in contributing to a truly circular economy.

As every state and territory now supports the need for a CDS, it is believed that **harmonising CDS across jurisdictions** is of utmost importance for both the beverage industry and Australians to reap its benefits – lowering costs and boosting uptake to name a few. A common structure and procedure will drive higher efficacy and compliance. One such area that could also be streamlined is by reducing the number of times a business has to register for CDS. Owing to the state-driven approach to CDS, businesses have had to register separately for each of the state schemes in order to operate in those states. One point of registration for the schemes would suffice and achieve the same aim. A lower cost scheme to industry has flow-on benefits for consumers, with lower-cost products available in the market. There is discussion about the possibility of increasing the refund amount to 20 cents in some jurisdictions to encourage more waste back into the recycling loop. Despite a lack of evidence this would occur, the unintended consequences of this increase in refund amount include increased potential for scheme fraud, negative impacts on business profitability under already constrained margins, and increased cost to consumers. Any increase in household costs at a time when cost of living is already under pressure could have negative flow on effects. The ABCL believes that the current 10-cent refund amount across all schemes has delivered high return rates and provides consistency for consumers and certainty for business.

More importantly, the current schemes only apply to product and packaging in the beverages industry, whereas similar products in the broad fast-moving consumer goods sector are not included. The current arrangement, with only one portion of the market funding CDS, is viewed as highly inefficient and burdensome. It would make economic sense to have a broader remit by **extending CDS to all sectors that use and generate recyclable waste.** The schemes' expansion has potential to not only lead to higher job creation, but also to contribute to a more efficient and well-functioning national recycling industry in Australia.

[15] World Economic Forum, Ellen MacArthur Foundation and McKinsey & Company, The New Plastics Economy — Rethinking the future of plastics (2016, http://www.ellenmacarthurfoundation.org/publications).

4.1.2 Developing recycled waste processing capabilities within Australia

Higher recycling collection rates in Australia have translated into greater exports, rather than increased local capability for processing. In 2016-17, 70% of recyclable plastic was exported overseas for processing.[16] Despite China's restrictions on accepting waste material for recycling from 2017-18, Australia's export figures weren't affected, due to its increase to other Asian countries like Indonesia, Vietnam, Malaysia, India and Thailand.

The now defunct Council of Australian Governments (COAG) has implemented a ban on waste export of plastic, paper, glass and tyre, in a phased approach, starting in January 2021. While this is a first step to managing Australia's waste internally, it is suggested that in-country recycling capacity may have to be increased by 400% to be able to manage the additional waste from this export ban.[17]

A surplus of recyclable plastic, but limited capability to process it locally, has created the perverse situation of having to export rPET pellets only to import rPET resin to re-manufacture packaging. This is completely at odds with sustainability goals.

Similarly, traditionally high costs associated with glass recycling is driving away high volumes domestically, with most of the glass currently processed offshore. This is not only taking away the opportunity for local production, but placing a significant cost burden associated with recycling imported goods on the Australian beverages industry. The current system essentially subsidises the imported material, with low or no recycled content in this material. This is not only an unfair disadvantage to the local supply chain, but also an impediment to achieving sustainability targets for Australia. It is imperative to create a more closed loop in the domestic economy, wherein imported materials are disincentivised.

There is also increasing competition for PET resin due to higher demand in the Asia Pacific region. This increases business costs but could also present as an opportunity for a re-emergent Australian manufacturing industry. While Australia is unlikely to be able to compete on labour costs, it could lead on R&D and recycling technology to automate/increase recycling on a larger scale.

The industry is aware that a solution is to set up more processing plants, but it is a significant investment with risk and complexity for private players. There is a volume risk, as feedstock is not guaranteed and is largely dependent on consumers' recycling habits. In addition, the quality of feedstock is highly variable. This falls back on having a well-functioning sorting sector, such that the risk of contamination is minimised and the material is suitable for processing. The high demand for recycling content is seeing private enterprises willing to enter this space, although the current supply, demand and price dynamics indicate elements of market failure. That is, there remains a disconnect between the significant initial start-up capital costs and the market price for the finished rPET product. As such, there are no strong market incentives for businesses to fill this gap without government funding, despite the potential benefits to a local area from having a reprocessing plant in the vicinity. In conjunction with the government's recently announced $190 million in funding for Australia's recycling industry, it should also consider ways to work together with business in setting up local reprocessing facilities, so their long-term viability can be assured.

The beverage industry has been in support of the government's efforts to improve recycling rates in Australia, but believes that there is a disproportionate focus on beverage manufacturers alone to do so. A circular economy is beneficial for society and is the ultimate solution to Australia's waste management problems. Government involvement will be necessary to regulate and incentivise circular economy initiatives. **The industry supports the government widening its focus by creating incentives and infrastructure at every step of the waste supply chain, including consumers, retailers, manufacturers, suppliers and farmers.** Open discussion, exchange of information and co-operation between private and public sector stakeholders is critical. From a policy perspective it is important that the cost implications for businesses of different options are well understood and that targets and time-frames for implementation of initiatives are determined in consultation with businesses.

[16] National Waste Report 2018
[17] Recycling market situation – Summary Review, 2019
http://www.environment.gov.au/system/files/resources/12ab3fc8-7154-44e1-8691-cc05fd9d72bb/files/recycling-market-review-paper.pdf

4.2 Taxation reform

Taxation policy reform is an area that could provide a productivity boost to help alleviate some of the COVID-19 economic impacts and importantly, provide a longer term boost to the economy.

Payroll tax was one tax that was raised as a common concern to the industry. Payroll taxes are seen as highly inefficient and restrictive to businesses. Simplifying the system by making the concept of "wages" easier to measure and making it consistent across states could relieve some of the administrative burden and disincentives for businesses which operate and employ workers nationally.

Total state payroll taxes raise approximately $26 billion (in 2018-19) and are one of the largest sources of taxation revenue for the states and territories.[18] **In addition to removing the differences across states and territories, a potential improvement to payroll taxes could be through decreasing the tax rate and decreasing (or removing) the tax-free threshold to broaden the tax base, with this combination used to preserve the revenue collections.** Reform to the Payroll Tax System would benefit the Australian economy more broadly, and has been a common recommendation from many tax reform advocates including forming part of the recommendations under *The Australia's Future Tax System Review* (informally known as the Henry Tax Review).[19]

It has also been suggested that **payroll tax revenues could be used to assist with the employment challenges faced by industries**. In particular, one idea presented by industry was that these revenues could be used to offset apprentice wages. This could address the twin problem of not having enough technically trained personnel for businesses as well as the shortfall in apprentice numbers in the country.

Corporate tax is another area that could be reformed. Higher than the OECD average at present, there are calls for a **reduction in the corporate tax rate to attract more investment**. In addition, government support to businesses in terms of **more generous deductions for depreciating assets and other capital expenses, as well as concessions or offsets on R&D can give a major boost to investment and innovation**. Businesses in general are committed to the Australian market and are keen on catering to rising demand. More generous incentives will enable companies to invest in the required assets, equipment, research activities to better serve the domestic market as well as gain global competiveness.

For example, as an initial response to providing financial support during COVID-19, the government's instant asset write-off scheme has been viewed favourably. Increasing the threshold amount for capital expenditure up to $150,000 and expanding eligibility has worked well for businesses. Similarly, accelerated depreciation deduction, which allows businesses to write down half the value of an eligible asset in the first year of purchase, has provided some tax relief to businesses. Although only seen as a small incentive, **an extension of the instant asset write-off scheme and the accelerated depreciation deduction is considered desirable to enable the necessary investment in new capital, which in turn can drive higher productivity.**

Presently, there exists land tax surcharges that target foreign-owned businesses in Queensland and Victoria. This creates an unequal playing field that penalises businesses with foreign-owned parent companies that are willing to invest in the Australian economy. It is recommended that **the governments in these states review these surcharges on land taxes paid by foreign businesses with the aim of creating a more even playing field for businesses and making Australia a more attractive place to invest.**

It is recognised that while the proposed tax reforms are of benefit to the wider Australian economy, they would reduce the revenue available to government to provide goods and services to society. A possible way forward could include GST reform to raise the required funds from a broad tax base. The industry recognises the complex task of balancing these competing needs and would be willing to participate in a roundtable on how industry can contribute to meaningful tax reform.

[18] ABS Cat No. 5506.0.
[19] https://treasury.gov.au/review/the-australias-future-tax-system-review

4.3 Industrial relations

As the Australian economy navigates its road back to recovery, the government's recently unveiled JobMaker plan recognises an opportunity to reform the IR system.

Time consuming negotiations between employers and trade unions has been an issue and one that the government is keen to address. Working with both businesses and unions, there are mutual gains to be recognised in allowing for **greater flexibility in negotiating EBAs**. The current processes involved in planning, negotiating, approving and amending enterprise agreements is long and time-consuming.

It is also suggested that the Fair Work Commission's BOOT test is often distortionary and leads to undesirably high wage outcomes. As a requirement for approving an enterprise agreement, consideration is given to whether employees would be 'better off overall' under the agreement or under the award. Industry believes that this judgment is often made based on extraneous policy documents, instruments or circumstances rather than a pure comparison against the relevant award, leading to an artificially high wage baseline. It is important that such processes are made transparent and are not distorted from their original intent. By reviewing each stage of the EBA process and streamlining for greater efficiency, the government can ensure agreement making is more closely tied to productivity and, hence, wage growth outcomes.

The current complexity in the awards system hinders the ability of the beverage industry to derive maximum worker efficiency. It is important for employee entitlements to better reflect the nature of business in the manufacturing industry and for the currently complex award conditions to be streamlined. **Simplifying pay classifications and definitions in the awards system could ensure greater compliance.**

4.4 Energy costs

High and volatile energy costs have been a long-standing issue in Australia, particularly affecting the manufacturing sector. High energy costs make Australian industries uncompetitive resulting in job losses and low investment. Uncompetitive industries are especially vulnerable when external shocks, like COVID-19, hit the economy.

It is now well understood that business will benefit greatly from governments, at state and federal levels, working together to achieve a nationally consistent energy and carbon emissions policy. A clear path for transitioning the energy sector to low-emission technologies in an orderly fashion will provide certainty to investors in the sector and ensure that energy is supplied securely and at the most competitive prices possible. Secure and competitive energy supply is critical to the prospects of the Australian manufacturing industry, which must become globally competitive to stem the loss of existing jobs, let alone create new jobs.

There is recognition by industry of the government's efforts to transition towards renewable energy, but the industry sees a need to step up **incentives for sustainable energy and co-generation schemes**. Such schemes should **continue to focus on reliability and efficiency of energy supply** and avoiding incentives that result in the adoption of technologies that unnecessarily increase the cost of energy.

Increasing gas prices and uncertainty about domestic gas supply also requires government attention. As new gas reserves open up in Queensland and Northern Territory, it is important to **manage an efficient transmission of gas to other parts of the country**. This can assist in bringing down gas prices for the industry.

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Closing remarks

The resources available to government are finite and there are many calls made on the government by businesses, households and other groups in society. The industry recognises the importance of prioritising policy responses while balancing finite resources and the varying time frames that policy reforms require to deliver tangible results. The latter consideration is especially important in the current environment where government is looking for measures to assist the economy to recover from the COVID-19 crisis as well as to support higher living standards in the future.

In light of the issues presented in this report, the recommendations are as follows:

- Harmonising Container Deposit Schemes (CDS) across jurisdictions, incentivising key stakeholders and broadening the remit to meet sustainability goals, supported by recycling infrastructure to close the domestic loop.
- Reforming the tax system to reduce the burden on businesses and providing tax incentives to support beneficial economic decision making and a business-led recovery.
- A simplified and mutually beneficial industrial relations system for employees and for employers of all sizes.
- A well-informed energy policy that reduces costs, increases reliability and is consistent nationally.

There is much to be gained by addressing the industry's sustainability challenges and therefore this should be regarded as a priority by the Australian Government. At the same time as this key recommendation is being finalised, the government has committed $190 million for setting up a Recycling Modernisation Fund. This aligns well with the industry's needs and is likely to address some of the key challenges identified in this paper. Directing this fund towards developing domestic recycling capabilities will not only propel the beverage industry towards achieving its sustainability targets, but also support and generate jobs for Australians. In the longer-term, as more industries across the economy adopt sustainable practices, a strong national recycling industry is expected to generate widespread economic benefits.

The first step for governments should be to **standardise CDS across all states and territories**. Even though minor, current differences in the structure and processes across jurisdictions impede the effectiveness of CDS and drive up compliance costs for the beverage industry. Furthermore, it is important to broaden the base of the schemes to include all industries that use and generate plastic waste.

The next, equally important, step is **working with the industry to develop adequate recycled material processing infrastructure in Australia and supporting demand for this recycled content.** This can be in the form of co-investments or public-private partnerships, wherein the government directs some of the recently announced fund to making such an undertaking commercially viable.

Closing the loop within the beverages industry by collecting, sorting and processing recyclable waste, and supplying reprocessed material back to the beverage industry for re-manufacturing will lead to significant efficiency gains across the economy. This could then be emulated in other sectors that generate plastic waste, and enable Australia to move towards a more circular economy.

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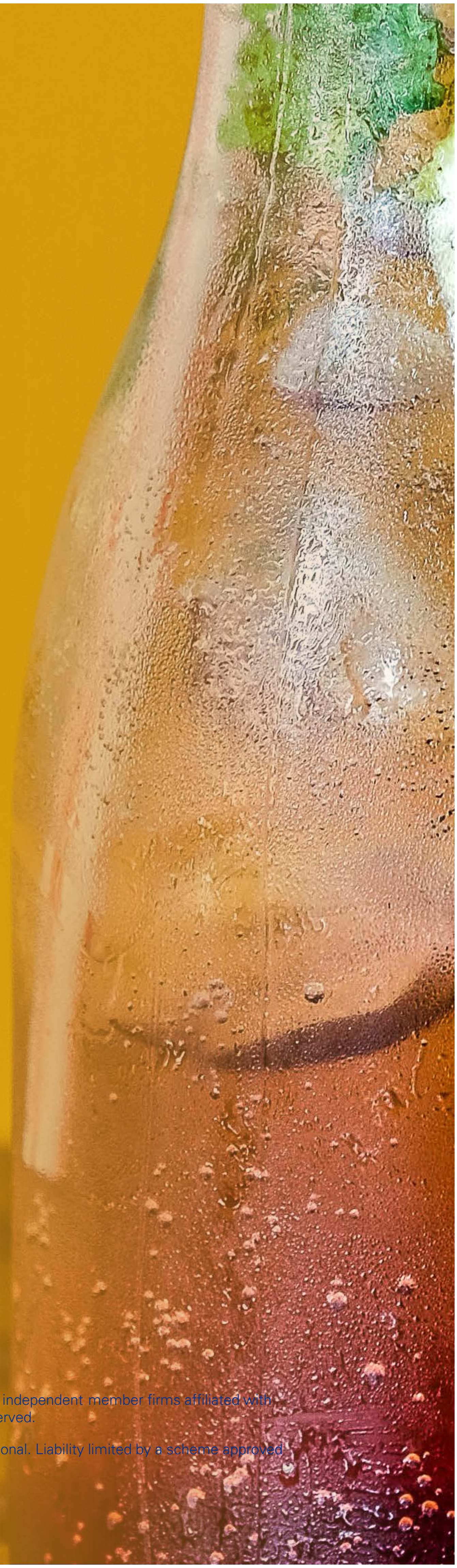

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