Ministry for the Environment
Manatū Mō Te Taiao

BRIEFING NOTE

Container Return Scheme - Proposed talking points for upcoming Cabinet Committee meeting

Date Submitted:	28 September 2021	Tracking #: BRF-612	
Security Level	Policy and Privacy In-Confidence	MfE Priority:	Not Urgent

	Action sought:	**Response by:**
Hon David PARKER, Minister for the Environment	Note the accompanying talking points to support your attendance at the upcoming Cabinet Environment, Energy and Climate Committee meeting on 30 September	5 October

Actions for Minister's Office Staff	**Return** the signed report to MfE.
Number of appendices and attachments # 2	Appendix 1: Talking points to support CRS Cabinet paper *Driving recovery within a New Zealand Container Return Scheme* Appendix 2: Talking points to support CRS Cabinet paper *Proposed scope of containers in a New Zealand Container Return Scheme*

Key contacts

Position	Name	Cell phone	1st contact
Principal Author	Hannah Singer		
Responsible Manager	Annabelle Ellis	022 009 7624	
Director	Shaun Lewis	021 101 2446	✓

Container Return Scheme - Proposed talking points for upcoming Cabinet Committee meeting

Key Messages

1. The purpose of this paper is to support your attendance to the Cabinet Environment, Energy and Climate Committee (ENV) on 30 September, to present the Cabinet papers titled:
   - *Driving recovery within a New Zealand Container Return Scheme*
   - *Proposed scope of containers within a New Zealand Container Return Scheme*.
2. These Cabinet papers are the second and third in a series of four papers (table 1 refers) to support Cabinet's consideration of the option of a container return scheme (CRS) for Aotearoa New Zealand.
3. Suggested talking points for the Cabinet papers are attached at appendices 1 and 2.

Feedback from ministerial consultation

4. As part of ministerial consultation, your office received feedback from the Minister of Finance's office and the Green Party of Aotearoa New Zealand (Green Party) on the two Cabinet papers.
5. The Minister of Finance's office sees value in exploring a CRS for New Zealand and was supportive of the proposal that a broad scope of containers is included in a CRS.
6. The Minister of Finance's feedback noted that of the proposed options for fresh milk, exploring alternative options to increase the recovery of fresh milk is the most consistent with the aim of improving away-from-home recovery and litter reduction.
7. The Minister of Finance's feedback also noted that neither paper was accompanied by a Regulatory Impact Statement (RIS) and so did not meet Cabinet's guidelines for regulatory proposals. It also recommended that the paper should clearly set out costs different stakeholders would be expected to meet, and the benefits they could expect to derive.
8. Officials have not provided a RIS alongside Cabinet papers 2a and 2b as until the design options for a CRS are narrowed to some extent, there are too many variables to feasibly undertake a formal RIS process [BRF-202 refers].
9. Officials have noted in both Cabinet papers that a RIS will be prepared to accompany the following Cabinet paper (Cabinet paper 3), which will seek Cabinet's agreement to consult on the proposed design for a NZ CRS. While key costs and benefits have been provided in the current Cabinet papers, further detail on costs and benefits to various stakeholders will be provided in the RIS.
10. The Green Party's feedback notes that it is broadly supportive of a NZ CRS including:
    - a deposit level of NZD 20 cents or higher (noting a credibility risk of consulting on a NZD 15 cent deposit)
    - a 'mixed-return' model using both mandatory and voluntary return-to-retail requirements
    - the deposit financial model

- the proposed broad scope of containers, including glass, plastic, metal and liquid paperboard.
- including fresh milk in order to increase recovery rates, noting that HDPE plastic is one of the most readily recyclable and valuable plastic packaging types in New Zealand.

11. The Green Party does not support the proposal that a NZ CRS could be industry-led and consider this will have risks for return rates and scheme operation.
12. Officials note that there are many high-performing schemes internationally that are industry-led, however where this is the case this is usually supported by strong regulatory frameworks to ensure high recovery. Based on the proposed design considerations for a NZ CRS and the high degree of regulatory control, officials consider that a scheme could be industry-led with opportunity for some non-industry representation as well (Cabinet paper 2a).
13. The Green Party support the option of including a refundable deposit on fresh milk. They also sought further information on analysis of impacts on councils of on-selling kerbside recyclables, and analysis on the different options for including or excluding fresh milk. Further analysis of costs and benefits of different options, and on various stakeholders will be included in the upcoming RIS.
14. The proposed talking points in appendices 1 and 2 address feedback from ministerial consultation in more detail should it be raised during the ENV meeting.

Timeframes and next steps

15. You recently received a briefing on improving kerbside recycling performance [BRF-514 refers]. That paper sought your agreement to the proposed consultation approach on options to improve kerbside recycling, including to consult alongside the option of a NZ CRS (subject to Cabinet approval) as a package of related changes to how materials are collected in New Zealand.
16. Once Cabinet has provided direction on proposed CRS design considerations, officials will prepare a draft discussion document (that includes a section on kerbside recycling), a draft Cabinet paper, and regulatory impact analysis (RIA) for your consideration.
17. The final Cabinet paper in this series will support Cabinet decisions on whether to proceed with public consultation on a NZ CRS, including the proposed design and any design options Cabinet may wish to consult on.
18. Due to delays in timeframes for Cabinet consideration of Cabinet papers 2a and 2b, officials anticipate that the final Cabinet paper will be considered in December 2021, with consultation likely in early 2022 (subject to Cabinet approval).
19. The timeline below shows indicative dates for upcoming advice, although this is subject to timeframes for receiving updated financial modelling and cost benefit analysis following Cabinet's direction (papers 2a and 2b).

Table 1: Indicative timeline for suite of CRS Cabinet papers

CRS Cabinet paper scope	Indicative dates
Paper 1: Problem definition and overview of a CRS	[CAB-21-MIN-0300 refers]
Paper 2a: Design considerations: driving recovery	Cabinet (ENV) – 30 September

Paper 2b: Design considerations: scope of containers	Cabinet (ENV) – 30 September
Paper 3: Agreement to consult on a proposed CRS for New Zealand	To Minister – 18 November; Lodge – 2 December; Cabinet (ENV) – 9 December

Recommendations

We recommend that you:

a. **Note** the accompanying talking points to support your presentation of the Cabinet papers titled *Driving recovery within a New Zealand Container Return Scheme* and *Proposed scope of containers within a New Zealand Container Return Scheme* at Cabinet Environment, Energy and Climate Committee on 30 September

b. **Note** the talking points provide a short overview of key CRS design considerations raised in the Cabinet papers, and address some feedback received during ministerial consultation from the Minister of Finance and the Green Party.

Signature

Shaun Lewis Director - Systems Change and Investment **Waste and Resource Efficiency**	

Hon David PARKER, Minister for the Environment	
Date	

Appendix 1: Talking points to support CRS Cabinet paper *Driving recovery within a New Zealand Container Return Scheme*

What this paper is about

- This paper is part of a suite of papers on the option of a Container Return Scheme for New Zealand (NZ CRS) and seeks Cabinet direction on the proposed approach for key design considerations that drive recovery of beverage containers such as the deposit level and network design.

Key design considerations that drive recovery

- Effective schemes balance incentives and interests through interconnected design settings (such as the deposit level and network design).
- While individual policy setting options can be more or less influential, it is the overall combination of scheme design considerations that determines the recovery rate and success of a scheme.
- The most important CRS design considerations to incentivise behaviour change and influence and drive recovery rates are the refundable deposit level and the convenience of the return network (network design).

Deposit level

- In a CRS, a refundable deposit is applied to eligible beverage containers to incentivise consumers to return empty containers for the refund, for the containers to be recycled.
- The deposit level is also a key incentive for litter reduction and globally, schemes were originally established primarily as a litter reduction measure. Now, they are also about resource recovery, increased recycling and emissions reduction.
- International evidence shows that most high performing schemes (such as those in the EU) with return rates above 85 percent, have deposit levels equal or greater than NZD 30 cents. Australian schemes have a consistent deposit level of AUD 10 cents s 6(b) [redacted]
- I am seeking Cabinet's direction on the proposed deposit level (for the purpose of public consultation).
- A NZD 20 cent deposit is likely to achieve a return rate of approximately 80 percent (1.9 billion containers), with an average net cost to households (that return their containers) of NZD $60-82 a year.
- A NZD 10 cent deposit is likely to achieve a return rate of approximately 70 per cent (1.7 billion containers), with an average net cost to households (that return their containers) of NZD $54-65 a year.
- A NZD 15 cent deposit level is an alternative to the NZD 10 or 20 cent scenarios however there are some limitations as 5 cents is no longer legal tender and would prevent consumers from receiving a cash refund if they returned an uneven number of containers.

- I consider that a NZD 10 cent deposit is too low and would not achieve the desired level of recovery. I recommend that the Ministry seeks feedback during consultation on NZD 15 and 20 cent deposit level options (noting the practical limitations of a NZD 15 cent deposit).
- The Ministry has also modelled the costs and benefits of a NZD 30 cent deposit, and while the Benefit Cost Ratio improves with a higher deposit, I consider NZD 30 cent deposit to be an unnecessarily high deposit option, given the proposed mandatory take back options for retailers would also ensure a highly convenient scheme network which also promotes higher recovery.

Network design

- In a CRS consumers return eligible containers to 'container return facilities' to receive their refund. Return facilities could be 'reverse vending machines', larger depots, or over the counter returns.
- A return facility's accessibility and convenience is critical to the scheme's overall effectiveness and efficiency. The majority of international schemes with high return-rates use 'return-to-retail' legislation which means that retailers must take-back used beverage containers. This ensures consumers are guaranteed convenient return points.
- In comparison, schemes that use voluntary return point infrastructure require the scheme's managing agency to incentivise retailers to participate in the network which tends to lead to less convenient returns points such as in industrial estates, and the like.
- I am proposing a 'mixed-return' model for the network where participation is mandated in regulations to some degree to require retailers to take-back eligible containers, and that there is opportunity for voluntary participation in the scheme for depots and small retailers where there are gaps and opportunities in the network (such as rural or remote areas).
- I recommend that the Ministry for the Environment seek feedback on the degree of retailer participation (eg, retailer size) during public consultation.

Response to feedback during ministerial consultation

Regulatory Impact Statement (RIS)

- A RIS has not been provided with either CRS cabinet paper (2a and 2b). Officials consider that given the large number of possible variables in a CRS design, more clarity on the indicative direction would be appropriate before completing a RIS.
- Officials will provide a RIS along with the subsequent Cabinet paper when seeking Cabinet approval to consult on the proposed option of a NZ CRS.

Industry-led scheme

- Container return schemes can be industry-led, or more broadly representative. Overall, a CRS would ideally strike a balance between a well-regulated scheme that is industry-led, or a less regulated scheme that is more influenced by government and other interested parties.
- While there are many high-performing industry-led schemes internationally, strong regulatory drivers or scheme structural controls are typically in place where this is the case.

- The structure provided by key regulated design elements proposed in these papers would create the framework necessary for high recovery rates and helps to mitigate the risk of perverse incentives for industry to keep recovery rates low.

Next steps for Cabinet

- Subject to Cabinet's direction on key proposed design considerations for a NZ CRS, the following Cabinet paper will seek Cabinet's agreement to consult on a proposed NZ CRS. A RIS will be prepared on the proposed design for a NZ CRS and provided with this paper.
- Public consultation is likely to take place in early 2022.
- Due to timing requirements for legislative amendments (either standalone legislation or through the review of the Waste Minimisation Act 2008) and implementation, the earliest a scheme is likely to be operational is early 2024.

Appendix 2: Talking points to support CRS Cabinet paper *Proposed scope of containers in a New Zealand Container Return Scheme*

What this paper is about

- This paper is part of a suite of papers on the option of a Container Return Scheme for New Zealand (NZ CRS) and seeks Cabinet direction on the proposed scope of containers to be included in a scheme

Key considerations when considering the scope of materials

- The scope of containers included in a scheme is fundamental to the proposed design of a NZ CRS. Most schemes globally (approximately 90 per cent) include a broad scope of containers including those made from plastic, glass and metal.
- Some schemes include liquid paperboard (LPB) but exclude certain product types irrespective of packaging material (eg, fresh milk).
- Including a broad scope of materials increases overall recovery and reduces litter, increases operational efficiencies, ensures a level-playing field for beverage producers, and simplifies the scheme for consumers and businesses.
- Factors for each major beverage material stream need to be considered including recovery rates, market demand, opportunities for a CRS to support growth of markets and better outcomes, as well as overall convenience and efficiencies of a scheme.
- I propose that a NZ CRS consultation document includes a broad scope of containers including all single-use beverage containers sold in New Zealand made from metal, plastic, glass and LPB.
- Metal and plastic beverage containers currently have relatively low recovery rates (45 and 33 per cent respectively) and both materials have relatively high market values. This means that these materials have high demand and there is an opportunity to significantly increase recovery through a CRS.
- Glass was the most littered beverage material in 2019, and recovery rates are relatively low (60 per cent) compared to most overseas schemes which include glass. I also note that the Glass Packaging Forum has suggested that recovery of glass is higher, but this was not substantiated through the 2019/20 co-design project. New Zealand has good market demand for glass to the point where our onshore processing and manufacturing is exceeded. Additional policy considerations are being considered in tandem with a NZ CRS to support market demand.
- Liquid paperboard (LPB) accounts for a small proportion of New Zealand's beverage container market (less than five per cent), of which kerbside recycling recovers just three per cent. While it has limited recyclability, the lack of collection and sorting infrastructure is a key limitation, which a CRS could help to address. Tetrapak are developing a waste-to-building materials recycling plant with scalable capacity, which will help to process recovered LPB in New Zealand.

Fresh milk containers

- I am seeking Cabinet's direction on the exclusion or inclusion of fresh milk in a NZ CRS.
- Fresh milk packaging is predominantly HDPE plastic, one of the most readily recyclable and valuable plastic beverage packaging types. There is strong market demand for quality HDPE.
- However, fresh milk is considered a staple product by many people and is excluded in approximately 58 per cent of schemes overseas. In addition, most household milk bottles consumed at home are recovered via kerbside systems. Unlike many other beverage containers, milk bottles are not frequently consumed in the public domain and then littered.
- The main gap in the recovery of fresh milk containers relates to recovery from commercial and hospitality sectors (offices, apartment buildings, hotels, cafes, restaurants etc).
- I propose to consult on options that exclude fresh milk from a NZ CRS but that focus on directly increasing recovery from commercial/hospitality sector, along with options that include milk bottles within a CRS, but without a refundable deposit.
- In addition, Cabinet may also want to consult on an option to include fresh milk containers within a CRS with a refundable deposit similar to or less than other beverage containers (eg, 20 cents or 10 cents).
- Excluding fresh milk from a NZ CRS will impact their recovery rate and in turn affect scheme efficiency, costs and benefits. However, excluding fresh milk, or including it without a deposit will also reduce scheme costs for households.

Response to feedback during ministerial consultation

Refillable beverage containers

- Overseas, some schemes (34 per cent) include refillable beverage containers within the scope of eligible containers.
- While there are significant environmental benefits in using refillable beverage containers compared to single-use containers, such as energy, emissions, water, and waste savings and benefits, there is limited data and analysis for refillable containers in New Zealand.
- I propose that for public consultation a NZ CRS would not include refillable beverage containers at this stage, but that provisions should be included to enable refillables/reusables in the future.