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Office of the Minister for the Environment

Cabinet Environment, Energy and Climate Committee

Public consultation on a container return scheme for Aotearoa New Zealand

Proposal

- 1 This paper is one of two Cabinet papers relating to the draft consultation document titled *Transforming recycling*. The draft consultation document seeks public feedback on three proposals to improve Aotearoa New Zealand's recycling systems:
 - 1.1 Design of a container return scheme;
 - 1.2 Improvements to household kerbside recycling;
 - 1.3 Separation of business food waste
- 2 Specifically, this paper seeks Cabinet agreement to:
 - 2.1 part 1 of the draft consultation document which outlines the proposed design of a container return scheme for New Zealand (NZ CRS);
 - 2.2 release the consultation document for public consultation on or after 7 March 2022 for a period of eight weeks.
- 3 A second accompanying Cabinet paper titled *Public consultation on proposals for improving household kerbside recycling and managing business food waste* provides advice on part 2 of the draft consultation document concerning improving household kerbside recycling and the separation of business food waste

Relation to government priorities

- 4 The Labour Party's 2020 Election Manifesto committed to investigate a NZ CRS. Implementing a NZ CRS is also a recommendation of the Prime Minister's Chief Science Advisor's 2019 *Rethinking Plastics* report. Further, work on a CRS aligns with the New Zealand Labour Party and Green Party of Aotearoa's Cooperation Agreement.

Executive Summary

- 5 In October 2021, I presented two papers to Cabinet on the option of a NZ CRS) and sought direction on key design considerations within a scheme to help drive the recovery of beverage containers [ENV-21-MIN-0049 and ENV-

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21-MIN-0048 refer]. Cabinet provided direction on several key design parameters and invited me to prepare a draft consultation document on the option of a NZ CRS [CAB-21-MIN-0402].

- 6 In line with Cabinet direction, the draft consultation document (Appendix 1) proposes the following key design considerations for a NZ CRS:
 - 6.1 a broad scope of eligible beverage containers be included in a scheme including all single-use metal, plastic (PET, HDPE, PP, and recyclable bio-based PET and HDPE), glass and liquid paperboard (LPB) containers, but exempting fresh milk in all packaging types and beverage containers that are intended for refilling and have an established return/refillables scheme;
 - 6.2 a refundable deposit level of NZD 20 cents (+GST) per beverage container;
 - 6.3 a 'mixed model' return network proposing mandatory return-to-retail (to some degree, e.g. based on scope and size of retail outlet) to ensure convenience and accessibility while allowing voluntary participation of businesses, hapū/iwi, charities, community groups, etc.;
 - 6.4 a 'deposit financial model', that requires beverage producers to pay the deposit and scheme fees on all beverages sold to market (regardless of whether the beverage container is returned);
 - 6.5 a not-for-profit, industry-led scheme, given the strong proposed regulatory framework outlined in points 6.1 - 6.4 above.
- 7 In addition, a 'scheme fee' would be used to cover the costs of managing a scheme (modelled at a net cost of NZD 3 to 5 cents plus GST per container).
- 8 The proposed CRS design would provide a strong financial incentive to encourage consumers to return beverage containers to return points that are accessible and convenient for most New Zealanders. The anticipated impact of a NZ CRS is an increase to over 2 billion containers recycled annually; an additional 1.17 billion containers based on current 2020/2021 data. This is much higher than previously estimated, as the sales of containers have increased significantly, and kerbside performance overall has decreased slightly.
- 9 Subject to Cabinet approval to consult, I will report back to Cabinet in the second half of 2022 with final policy proposals on the option of a NZ CRS. These proposals will consider all aspects of the scheme, including impacts for households and business.
- 10 Should Cabinet decide to implement a NZ CRS, the Ministry will progress legislation as part of broader amendments to the Waste Minimisation Act 2008 (WMA). Due to timeframes for legislative drafting and the need for industry lead-in (e.g. contracting, leasing, procurement) of 12 to 18 months, it is likely a NZ CRS would not be implemented until 2025.

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- 11 Alongside this paper, I am also presenting options for public consultation on improving household kerbside recycling and business food waste collections [Cabinet paper titled *Public consultation on proposals for improving household kerbside recycling and managing business food waste* refers].
- 12 Implementation of these proposals along with a NZ CRS would result in improved waste management systems across New Zealand, supporting investment in equipment and infrastructure for collection, sorting and processing of recyclable materials, and encouraging the development of uses and markets for recycled materials. Overall, this will ensure higher quality and quantity of material for recycling.
- 13 A NZ CRS would complement kerbside recycling by addressing away-from-home consumption of beverages that kerbside is not able to capture. A NZ CRS would also mean reduced kerbside volumes and increased value of beverage containers that remain in kerbside via unclaimed deposits. In addition to benefits from reduced contamination and landfill costs, the benefits to council kerbside services are estimated to be approximately \$50 million annually under a CRS scenario.

Background

- 14 An estimated 1.7 billion beverage containers are stockpiled, littered, or landfilled annually in New Zealand. By weight, it is estimated that 45 per cent of the over 2.57 billion beverage containers sold to market in 2020/21 were recovered for recycling. In 2019, beverage containers made up 66 per cent of recognisable branded litter and 24 per cent of all litter in New Zealand.
- 15 A CRS is a recycling scheme and form of product stewardship that incentivises people to return beverage containers for recycling or refilling in exchange for a refundable deposit. It shifts the costs of recycling away from councils and ratepayers to the responsible supply chain (i.e. manufacturers, retailers and consumers).
- 16 There has been a significant growth of CRS internationally over the past 10 years. There are now approximately 50 schemes in operation, with several more expected by 2023. Notably, every Australian state has, or is in the process of implementing, a CRS. These schemes typically operate alongside kerbside collection systems.
- 17 The aim of a CRS is to increase recovery and recycling of single-use beverage containers and reduce litter. The core principle underpinning a CRS globally is the use of economic incentives (e.g. the refundable deposit) to change recycling and litter behaviour. A CRS also helps to reduce emissions by reducing the use of virgin materials in container manufacture.
- 18 On 5 August 2021, I presented a paper to the Cabinet Environment, Energy and Climate Committee (ENV) on the problem of away-from-home resource recovery and litter of beverage containers and the role a NZ CRS could play in increasing recovery and reducing litter (ENV-21-MIN-0039 refers). This included initial advice on financial modelling and costs and benefits of a CRS.

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Cabinet agreed in principle to progress the development of a NZ CRS and invited me to provide further information on key design considerations for a NZ CRS [CAB-21-MIN-0402].

- 19 In September, I presented two papers to ENV on design considerations for a NZ CRS and sought Cabinet direction on key design elements such as the deposit level, the scope of eligible containers, and the return network. Cabinet invited me to prepare a draft consultation document on the option of a NZ CRS in line with direction provided on the proposed design (Appendix 1) [ENV-21-MIN-0049 and ENV-21-MIN-0048 refer].

Analysis

Scheme design considerations influence the recovery of beverage containers

- 20 Overseas, effective CRS with high beverage container recovery rates balance incentives and interests through interconnected design settings (such as the deposit level, network design and scheme structural/governance arrangements).
- 21 For example, a scheme with fewer regulatory controls may require a higher refundable deposit level (to further incentivise the return of containers) and more government involvement in the scheme's managing agency function to ensure that recovery targets are met. Alternatively, a scheme that is well regulated (such as one that requires retailers to take-back used beverage containers) may achieve high recovery rates with a lower deposit level and less government involvement.
- 22 I consider that the proposed design for a NZ CRS as outlined in the draft consultation document would create a scheme with the necessary balance to ensure high return rates of beverage containers.
- 23 In particular, the proposed design includes a sufficiently strong deposit level (NZD 20 cents), a convenient return network for consumers with mandatory return-to-retail regulations, and other design features to achieve high recovery rates¹ -whilst providing opportunity to industry to manage the scheme as efficiently as possible. The design also proposes that a broad scope of containers would be eligible under a scheme to capture a large proportion of single-use beverage containers (which are currently littered, stockpiled or landfilled).

Table 1: Overview of key NZ CRS design considerations

Design element	Proposal
<p><i>Scope of containers</i></p> <p>Fundamental to the design of a CRS, it determines which beverage</p>	<ul style="list-style-type: none"> • Broad scope of beverage containers including all single-use metal, glass, plastic (PET, HDPE, and PP; recyclable bio-based PET and

¹ This is in line with a number of high-performing international schemes such as some of those in the European Union (EU) [ENV-21-MIN-0049 refers].

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<p>containers will be required to include a deposit on them and can be returned through the scheme for a refund.</p>	<p>HDPE), liquid paper board beverage containers</p> <ul style="list-style-type: none"> • Exempt beverage containers that are intended for refilling and have an established return/refillables scheme. • Exempt fresh milk in all packaging formats and target commercial recovery through other means
<p><i>Deposit level</i></p> <p>Container return schemes use a refundable deposit to encourage consumers to return their empty drink containers for a refund.</p>	<ul style="list-style-type: none"> • NZD 20 cents (+GST)
<p><i>Network design</i></p> <p>Creates a network of return points where people can return their used beverage containers to be recycled or reused.</p>	<ul style="list-style-type: none"> • Mixed return model using mandatory return-to-retail requirements and voluntary (procurement-led) participation
<p><i>Recovery targets</i></p> <p>Including recovery targets in legislation can help to drive the recovery of eligible beverage containers and hold the scheme's managing agency to account.</p>	<ul style="list-style-type: none"> • A target of 85 per cent beverage container recovery by year three of scheme implementation, and a 90 per cent recovery target achieved by year five • If these targets are not met at either year 3 or 5, or maintained after 5 years, the proposed deposit level of NZD 20 cents and network configuration is reviewed, with an increase in the deposit level considered
<p><i>Scheme financial model</i></p> <p>Creates a structure for the scheme and how it manages the refundable deposit and scheme fees for the over 2.3 billion beverage containers that would be eligible to be collected through the scheme each year.</p>	<ul style="list-style-type: none"> • Deposit financial model. Under this financial model, beverage producers pay a deposit and scheme fees on all eligible containers sold to market, regardless of whether the containers are returned through the CRS

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<p><i>Scheme fee</i></p> <p>The core costs of a CRS (alongside the refundable deposit) are covered by a non-refundable ‘scheme fee’, which are a core financial element of schemes globally.</p> <p>Scheme fees flow through the system to fund the CRS and covers the cost of managing the scheme. The scheme fees are variable costs and to some degree depend on the nature and efficiency of a scheme.</p>	<ul style="list-style-type: none"> • Financial modelling for a NZ CRS has modelled the gross scheme fee costs at NZD 8.8 cents per container • However, scheme net costs (i.e. those experienced by consumers) are likely to be NZD 3-5 cents (+GST) per container • The lesser net scheme fee (NZD 3-5 cents) borne by all consumers is offset by those who litter or landfill their empty beverage containers. The unclaimed deposits reduce scheme costs for all e.g. polluter pays principle
<p><i>Scheme governance</i></p> <p>Schemes are usually managed by an external not-for-profit organisation, typically led by the beverage industry and appointed by the Government, for the purpose of managing and overseeing the scheme.</p>	<ul style="list-style-type: none"> • Not-for-profit • Industry led • Central government regulatory oversight

24 A full list of proposed design considerations for a NZ CRS can be found at Appendix 3. At a high-level, financial modelling and cost-benefit analysis of the proposed design indicates:

- 24.1 estimated recovery rates of beverage containers of at least 84 per cent;
- 24.2 a benefit-cost ratio of 1.61².

25 A NZ CRS would complement kerbside recycling by addressing away-from-home consumption of beverages that kerbside is not able to capture. A NZ CRS would also provide local government (and/or recyclers) approximately \$50million in benefits annually by:

- 25.1 reducing volumes managed at kerbside (reducing costs);
- 25.2 significantly increasing the value of beverage containers that are still recycled at kerbside (unclaimed deposit increases per container revenue);

² Note the BCR has been updated to 1.61 for the proposed scheme design scenario. The draft CBA report is undergoing internal review at time of lodgement.

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- 25.3 reducing landfill costs (associated with both recycling and waste collection);
- 25.4 reducing contamination rates.
- 26 While beverage containers are currently some of the most valuable materials collected in kerbside bins, where containers are collected at kerbside (rather than returned to a CRS return point), the deposit value would more than offset the loss of beverage material to a CRS (assuming approximately 10 per cent of containers remain).
- 27 Councils and recyclers would need to establish contractual arrangements to manage the new unclaimed deposit revenue from kerbside bins. Our expectation is that this revenue sharing negotiation would start with an equal share (50:50) proposition. The reality is that the range of contractual situations across New Zealand for kerbside services varies from all council, to all private, with many partnership models in between.
- 28 Subject to Cabinet's decision to consult on the option of a NZ CRS, I will present Cabinet with final policy proposals for a NZ CRS in the second half of 2022. This will take into consideration feedback from public consultation and any further analysis and modelling that may be required to support the proposed design.

Additional data, financial modelling, and cost-benefit analysis for the proposed NZ CRS

- 29 The Ministry has undertaken further data gathering, financial modelling, and cost-benefit analysis in line with Cabinet's direction on design options for a NZ CRS. This included procuring additional financial modelling from PricewaterhouseCoopers and an updated cost-benefit analysis from Sapere Research Group³.
- 30 Previously, the beverage sales and container recovery data were based on 2018/2019 figures. Updated beverage sales for 2019/2020 and 2020/2021 show a significant increase in beverage sales from approximately 2.19 billion containers in 2018/2019 to approximately 2.57 billion containers sold in 2020/2021 (annual growth in container numbers of 9 per cent and 7 per cent respectively).
- 31 In 2020/2021 kerbside and commercial recovery combined is estimated to be less than 50 per cent of all containers by weight (45.2 per cent). This is less than previously reported for 2018/2019. However, this is more a function of growth in beverage container sales than a decline in kerbside performance, although it has declined slightly. Commercial recovery data remains limited and may improve through industry engagement in the consultation process.

³ As above, although updated modelling has been prepared, it is subject to quality assurance at the time of lodgement of this paper. Any updates will be provided at Cabinet Committee

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- 32 The trends outlined above provide an even greater opportunity for a NZ CRS to recover a large proportion of beverage containers that are not currently being recovered.
- 33 Detailed analysis based on the updated data, modelling and CBA can be found in the draft⁴ Interim RIS (Appendix 2).
- 34 Notwithstanding the positive cost benefit ratio and clear benefits of a CRS, there may be concern in the current environment about costs to households and businesses. It is important to note that scheme implementation is not expected to involve costs to households until 2025.
- 35 Details of expected costs are set out in the draft Interim RIS. In summary:
- 35.1 assuming 100% pass through of scheme costs⁵, an average household under the 20 cent scenario would see \$283 (plus \$43 GST) in scheme fees paid in year one. With an estimated \$248 worth of deposits refunded to the household, the net cost would be \$78 per year (including \$43 of GST), or \$1.50 per week. Households that redeem all of their containers would only experience the GST cost of the scheme.
- 35.2 For business, key potential costs are:
- 35.2.1 An expected drop in container sales of approximately 6.5%, based on data from Australian schemes (expected to be recovered within three years, although latest container sales data suggests this could be recovered in as little as one year for many producers);
- 35.2.2 Increased costs at the beginning of the scheme as a result of the use of a deposit financial model, although these costs will be recovered from consumers in advance if the scheme is implemented in a staged manner;
- 35.2.3 Costs of changes to labelling of containers included within the scheme.
- 35.3 Consultation will inform the analysis set out above, to ensure that costs are appropriate, and take into account the combined impact of the CRS kerbside schemes and other waste initiatives.

Implementation

- 36 Implementing a NZ CRS would require system-level change. Key elements of implementation would include:

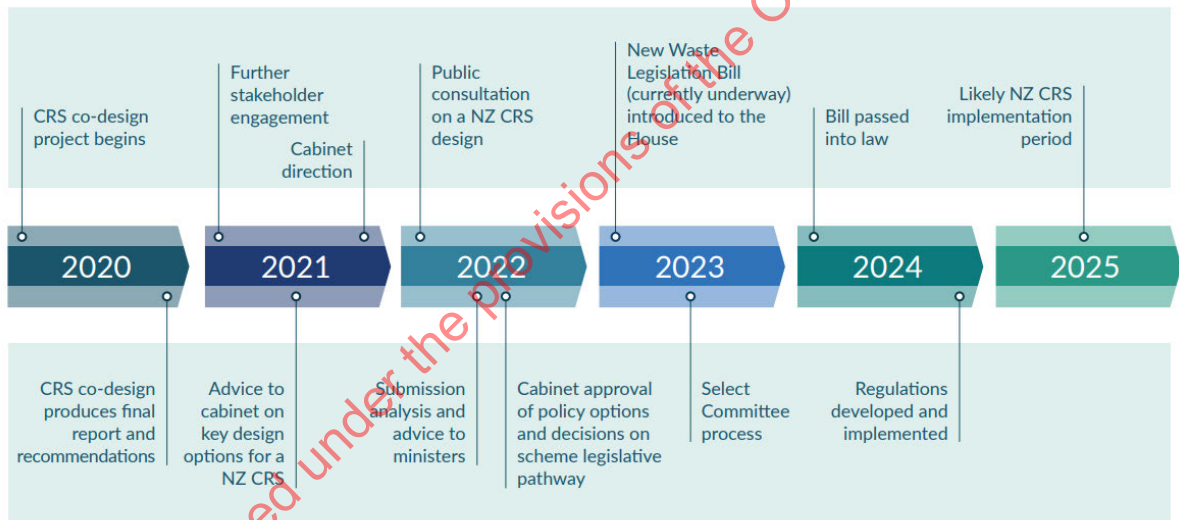
⁴ The Interim RIS is in draft as at the date of lodgement and will be updated to confirm final figures from the Sapere report, and to enable editing, formatting and proof reading before the Interim RIS is published.

⁵ Scheme modelling necessarily assumes 100% pass through of costs to consumers even though this may not be the reality. Price setting negotiations are commercial-in-confidence between parties (beverage producers and retailers) and take into account the price elasticities of different product types.

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- 36.1 drafting bespoke legislation and regulations to enact a scheme (see Legislation section below);
 - 36.2 the establishment of a scheme managing agency;
 - 36.3 procurement and development of scheme infrastructure (the return network and consolidation facilities), including consideration for how CRS infrastructure could support a future shift to reusable/refillable containers;
 - 36.4 the establishment of central government compliance, monitoring, and enforcement systems.
- 37 Subject to Cabinet agreement to consult on the option of a NZ CRS, and subsequent decisions to proceed with a scheme, it is expected that enabling legislation including a scheme commencement date could be passed in early 2023. However, due to the necessary lead-in times, a NZ CRS would likely not be implemented until 2025, as per the indicative timeline set out below.

Figure 1: Indicative timeline for implementing a container return scheme



Establishing the scheme’s managing agency

- 38 CRS are usually managed by an external organisation appointed by the Government for the purpose of managing and overseeing the scheme. CRS are typically led by the beverage industry.
- 39 A scheme’s managing agency is the organisation responsible for the operation and performance of the CRS. Generally, these organisations are not-for-profit to ensure that scheme revenues are used to support the operation of a scheme. Many schemes overseas also include a governance board which is responsible for ensuring the scheme meets and exceeds the schemes requirements (as set out in legislation or regulations).
- 40 Broadly, the leadership in the managing agency can be any singular or combination of key stakeholders.

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- 41 In line with previous advice to Cabinet, the draft consultation document proposes that a NZ CRS would be not-for-profit and industry-led (e.g. beverage producers and retailers), with central government involved in the establishment of a scheme, and then moving into an oversight role with a compliance, monitoring, and enforcement (CME) focus. The draft consultation document proposes that government costs (including CME) would be covered through the CRS scheme fee.
- 42 The scheme design proposed in the draft consultation document strikes a balance between robust regulatory parameters (e.g. deposit level and mandatory return-to-retail requirements) to enable high environmental performance (ambitious, low-carbon recycling outcomes and litter reduction), while allowing the opportunity for industry to run a scheme as efficiently as possible.

Financial Implications

- 43 While the scheme fee would be used to cover the costs of a NZ CRS, there would be initial costs to establish the scheme's managing agency and implement a scheme (including the network infrastructure required to manage the return of eligible containers).
- 44 The costs to establish the managing agency are normally funded by an industry loan, often by those who desire to operate the scheme and have representation on the scheme's board. Alternatively, a Crown loan could be provided for some or all the start-up costs if the governing board could not provide for the loan (e.g. where the board is made up of small beverage producers, recyclers, NGO's, community representatives, small retailers etc.).
- 45 The managing agency loan covers start-up costs such as staffing, legal fees, office space etc. Indicative costs of establishing the managing agency are estimated at NZD \$20 million however, the reality may see less than half of a loan drawn down.
- 46 Broadly there are two main ways to fund a NZ CRS, the deposit financial model or the refund financial model [ENV-21-MIN-0049 and ENV-21-MIN-0048 refer]. Schemes based on the refund financial model also require a Crown loan to float the scheme's deposit refund mechanism, as beverage producers pay in arrears under this model (i.e. producers pay into the scheme for containers that have been returned, after they have been redeemed by customers for the deposit). Under this model, the required loan facility could be in the order of NZD \$50-\$100 million to cover the first quarter of a scheme with a NZD 20 cent deposit level.
- 47 Schemes with the deposit financial model (as proposed in the draft consultation document) do not require a government loan as beverage producers pay the deposit and scheme fees on all beverages placed on the market (i.e. before they are sold). Producers could be allowed to sell eligible containers in advance of the schemes 'go-live' date (approximately three months), which ensures that producers are able to pass on costs to consumers and be in a position to recover the deposit value before they are

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required to pay into the scheme's managing agency when the redemption part of the scheme commences for customers.

- 48 The draft consultation document proposes that a NZ CRS uses the deposit financial model. If this model is implemented, the Government is unlikely to require a loan facility to support the scheme. This is in line with many of the best-performing schemes globally (e.g. European schemes).
- 49 The deposit financial model is one way that a CRS enacts product stewardship and producer responsibility as it makes beverage producers more financially responsible for the cost of recycling their containers.
- 50 The deposit model has an apparent increased cost to beverage producers at the initial outset of a scheme, however both models are not-for-profit and the deposit paid on unredeemed containers can be used to offset scheme costs to producers and consumers which results in a similar net cost (see draft Interim RIS at Appendix 2).
- 51 As further decisions on the implementation of a NZ CRS are made, the Ministry will work with Treasury as needed to provide for a loan facility if required. Note that irrespective of the initial funding approach for a NZ CRS (e.g. the managing agency start-up costs or the deposit float), all costs are proposed to be fully recoverable from the scheme itself.

Legislative Implications

- 52 Depending on the design of a NZ CRS, new legislation would likely be required to implement a scheme. This is particularly the case for the design currently proposed in the attached draft consultation document. Drafting of new legislation and regulations could be in line with the current review and amendments to the WMA.
- 53 New waste legislation could include both general and bespoke deposit return scheme provisions that set out the framework for deposit return schemes and enable schemes for specific materials to be established through regulations. Regulations could then be prepared for the specific design of the NZ CRS.
- 54 I intend to take policy proposals for new, more comprehensive waste legislation to Cabinet in mid-2022. New legislation, including for a NZ CRS, could then be drafted in the second half of 2022 for introduction in 2023.
- 55 Given the technical nature of a CRS design, and the importance of legislation and regulations to ensure that a NZ CRS is robust and effective, it would be important to undertake targeted consultation on an exposure draft of the regulations with key stakeholders at that stage of the process. I will provide further advice on this if, and when, I seek Cabinet's agreement on final policy proposals for a scheme in mid-late 2022.

IN CONFIDENCE**Impact Analysis****Regulatory Impact Statement**

- 56 This paper seeks Cabinet agreement to consult on the option of a NZ CRS. Cabinet's impact analysis requirements apply to this paper and the accompanying draft consultation document. A draft interim RIS has been prepared and can be found in Appendix 2.
- 57 The Ministry for the Environment's Regulatory Impact Analysis Panel has reviewed the Impact Statement: A beverage container return scheme for Aotearoa New Zealand, which will accompany the discussion document upon release. The Panel confirms that the level of information provided partially meets the quality assessment criteria.
- 58 The Impact Statement uses an appropriate framing of problem, objectives and options. The analysis that supports the preferred design options is comprehensive and information from stakeholders has been used in its development. However, further analysis is needed to convincingly support the economic and policy case for a container return scheme in general. Where data allows, information on the costs and benefits could be further disaggregated and presented more consistently. Where possible, more information on how the status quo will develop under current policies, and on the impacts of options, would assist their comparison.
- 59 Consultation should aim to draw out further information on the case for intervention and the options for policy change alongside the detailed design options of a container return scheme. This will inform further policy development and support the later delivery of a Regulatory Impact Assessment to inform subsequent decisions.

Climate Implications of Policy Assessment

- 60 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that CIPA requirements do not apply as there is no direct emissions impact at the consultation stage. The CIPA team at the Ministry for the Environment will work with officials developing proposals to assess the emissions impacts of policy proposals as they are advanced, as appropriate.

Population Implications

- 61 No Tiriti o Waitangi settlement implications have been identified at this stage. Tiriti o Waitangi principles may apply and are considered in the draft Interim RIS at Appendix 2.
- 62 Para Kore recently submitted on proposals for a new waste strategy. Feedback noted the need to build a network of community resource recovery centres across New Zealand, and that our relationship with products needs to reflect our shared responsibility for products at end of life with particular responsibility for litter placed on the companies that create the product. While

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the Ministry has not yet engaged with Para Kore on the latest proposals for a NZ CRS, Para Kore participated in the CRS co-design process in 2020 and were supportive of a NZ CRS.

- 63 Depending on Cabinet decisions on the final design of a NZ CRS, if the network is designed to ensure wide-ranging participation and resource recovery at the local level, there may be opportunities for community groups (including hapū/iwi/Māori) to participate in the network through mandatory return-to-retail or through operating voluntary return points (such as depots or over-the-counter return facilities).
- 64 The proposed network design may impact rural or remote communities, such as those living further than a 20-minute drive from a major supermarket (approximately 5 per cent of the population). The proposals aim to mitigate this by using a mix of mandatory and voluntary return points. Voluntary return points could include dairies, depots or community hubs. The Ministry will seek feedback on the implications of the return network on rural and remote communities during public consultation.
- 65 The addition of a NZD 20-cent deposit level and scheme costs in the purchase price of eligible beverages may impact those in lower socio-economic groups. While the purchase price of the beverage may have some impact, the overall impact of a price increase is likely limited to those who do not return their used containers for the refund. Conversely, a CRS provides an opportunity for container charity drives and self-funding litter recovery.

Human Rights

- 66 The option of a NZ CRS as discussed in this paper is consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993.

Consultation

- 67 The Department of Conservation, Treasury, Inland Revenue Department, the Ministry of Foreign Affairs and Trade, Te Puni Kōkiri, the Ministry for Primary Industries, the Department of Internal Affairs and the Ministry of Business, Innovation and Employment have been consulted on this paper. The Department of Prime Minister and Cabinet has been informed.
- 68 This paper seeks Cabinet approval to consult on the option of a NZ CRS. Feedback will be sought on the proposed design for a scheme. During public consultation the Ministry will hold a number of webinars and information sessions for the public and stakeholders. In addition, where appropriate the Ministry will hold individual meetings with stakeholders.

International trade obligations [legally privileged]

- 69 s 9(2)(h) [Redacted text block]

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s 9(2)(h) [Redacted]

70 s 9(2)(h) [Redacted]

Communications

- 71 Subject to Cabinet approval to consult, I intend to announce the opening of public consultation in a press release ahead of the consultation start date, on or after 7 March 2022.
- 72 The Ministry will communicate details of the proposal and public consultation directly to key stakeholders, and through media channels such as the Ministry’s website and social media pages. The Ministry also intends to develop a video to outline the proposal which will be shared online.

Proactive Release

- 73 I intend to delay the release of this Cabinet paper (along with previous Cabinet papers on a NZ CRS) to coincide with the start of public consultation (subject to Cabinet’s decision).
- 74 I will also direct the Ministry to proactively release material supporting advice and decisions on a NZ CRS to-date, including:
 - 74.1 briefings and Cabinet papers on the option of a NZ CRS;
 - 74.2 the CRS project team’s co-design report and recommendations;
 - 74.3 the CRS Technical Advisory Group’s final advice;
 - 74.4 PricewaterhouseCoopers financial modelling report;
 - 74.5 Sapere Research Group cost-benefit analysis.

Recommendations

The Minister for the Environment recommends that the Committee:

- 1 **note** that investigating a container return scheme for New Zealand (NZ CRS) is a Labour Party Manifesto commitment, was recommended to be implemented by the Prime Minister’s Chief Science Advisor in 2019, and

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aligns with the New Zealand Labour Party and Green Party of Aotearoa's Cooperation Agreement;

- 2 **note** that the aim of a CRS is to increase the recovery and recycling of eligible beverage containers, reduce litter, and contribute to New Zealand's transition to a low emissions, circular economy;
- 3 **note** that in October 2021, Cabinet provided in-principle direction on proposed design considerations for a NZ CRS and invited the Minister for the Environment to prepare a draft consultation document on the option of a NZ CRS for New Zealand [CAB-21-MIN-0402];
- 4 **note** that in line with Cabinet's in-principle direction, the draft consultation document proposes the following key design parameters for a NZ CRS:
 - 4.1 a broad scope of eligible beverage containers to be included in a scheme, including all single-use metal, plastic (PET, HDPE, PP and recyclable bio-based PET and HDPE), glass and liquid paperboard containers, but exempting fresh milk in all packaging types;
 - 4.2 a refundable deposit level of NZD 20 cents per container;
 - 4.3 a 'mixed model' return network using mandatory return-to-retail to ensure convenience and accessibility for consumers, while allowing voluntary participation to establish depots and other return points (for commercial volumes, or access in rural communities);
 - 4.4 a 'deposit financial model' that requires beverage producers to pay the deposit and scheme fees on all beverages sold to market (regardless of whether the beverage container is returned);
 - 4.5 a scheme that is industry-led, recognising the robust regulatory framework, but providing opportunity for the industry to operate the scheme as efficiently as possible;
- 5 **note** that a 'scheme fee' would be used to cover the costs of managing a scheme (modelled at a net cost of NZD 3-5 cents (+GST) per container);
- 6 **agree** to public consultation on the above proposed options for a NZ CRS;
- 7 **note** this Cabinet paper accompanies a separate Cabinet paper titled *Public consultation on proposals for improving household kerbside recycling and managing business food waste* which provides advice on part 2 of the draft consultation document concerning proposals to improve kerbside recycling and the separation of commercial food waste;
- 8 **approve** the release of the consultation document titled '*Transforming recycling*';
- 9 **authorise** the Minister for the Environment to make editorial and minor technical changes to the draft consultation document and draft Interim RIS prior to its release, in line with decisions agreed by Cabinet;

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- 10 **invite** the Minister for the Environment to report back to Cabinet on the development of options for a NZ CRS before the end of 2022.

Authorised for lodgement

Hon David Parker

Minister for the Environment

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Appendices

Appendix 1 - Draft Consultation Document *Transforming recycling*

Appendix 2 - Draft Interim Regulatory Impact Statement

Appendix 3 - Overview of proposed design considerations for a NZ CRS

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Appendix 1 – Draft Consultation Document *Transforming recycling*

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Appendix 2 –Draft Interim Regulatory Impact Statement

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Appendix 3 – Overview of proposed design considerations for a NZ CRS

Design element	Proposal
Definitions of beverage and beverage container	For the purposes of this consultation document on a NZ CRS, a beverage means a liquid substance that is intended for human consumption by drinking. An eligible beverage container refers to a vessel or casing of a beverage (regardless of whether it is sold alone or as a unit in a multipack) that is sealed in an airtight and watertight state at the point of sale.
Deposit level	We are proposing that the NZ CRS would have a NZD 20 cent refundable deposit level applied to all eligible beverage containers within the scheme. The refundable deposit would also attract GST.
Scheme fees	Scheme fees would be used to cover the costs of a NZ CRS. Beverage producers pay the scheme fees (including the refundable deposit) to the scheme's managing agency. The scheme fee would be set by the managing agency to take into account the costs of the scheme.
Eco-modulation of the scheme fee	It is proposed that the scheme fee would be eco-modulated to reflect the actual end of life management costs to properly recycling all beverage containers, plus the associated environmental costs. The scheme fees would be modulated based on criteria linked to the waste hierarchy and/or modulated through specific scheme recycling targets to be developed alongside other scheme regulations. The eco-modulation would encourage more sustainable product design. If a NZ CRS proceeds, eco-modulation criteria and/or more specific recycling targets would need to be developed with industry and through further engagement and consultation on regulations.
Glass, plastic, metal and liquid paperboard beverage containers are all proposed to be included	The NZ CRS would target beverage container materials that are the most frequently bought, under recovered and littered, rather than specific product types. All single-use beverage containers made from the following frequently bought beverage container materials: <ul style="list-style-type: none"> • glass • plastic (PET, HDPE and PP, and recyclable bio-based HDPE and PET) • metal (e.g. aluminium and non-ferrous metals (e.g., steel, tinplate and bi-metals)). • liquid paperboard (the only composite product proposed to be included). We are also proposing to include recyclable bio-based PET and HDPE in the NZ CRS given they are compatible with our conventional recycling systems.

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	<p>Beverage products that are within the scope of a NZ CRS, outlined above, would be required to be part of the NZ CRS and beverage producers/importers would need to establish a contract with the scheme’s managing agency (e.g. potentially through a licence mechanism) in order to sell their beverage products in New Zealand.</p> <p>For clarity, the current definition of an eligible beverage container would mean that drink containers such as cups and coffee cups, and other non-beverage containers (e.g. ice cream tubs) are out of scope of the scheme.</p>
<p>Proposed to be excluded at this stage</p>	<p>Beverage producers manufacturing or importing beverage containers that are not in scope of the approach outlined above likely constitute a small volume of ‘niche’ containers (eg, compostable plastics, biodegradable plastics, bladders, and pouches) that are often more difficult to recycle.</p> <p>Beverage producers that sell containers that are not within the scope of the proposed NZ CRS would need to be assessed on a case-by-case base by the scheme managing agency and Government agency responsible for the scheme to be considered for inclusion.</p> <p>If the product is considered to be not readily recyclable, then the scheme may not approve the alternative container materials and issue a contract and/or license. Without a contract and/or a license (ie, if the product is not readily recyclable), the beverage packaging type would not be able to be sold in New Zealand. In this instance, the producer/importer would need to shift to a more recyclable packaging format that is accepted by the scheme.⁶</p> <p>If a NZ CRS proceeds, the scheme’s scope of containers and a process for assessing new packaging product types would need to be developed with industry and through further consultation on possible regulations.</p>
<p>Beverage types proposed for exemption</p>	<p>Some beverage containers meet the proposed definitions of ‘beverage’ and ‘beverage container’ but are proposed to be <i>exempt</i> from a NZ CRS. This means that these containers could still be sold in New Zealand and would not carry a refundable deposit and scheme fees in the purchase price and could not be returned through the NZ CRS.</p> <p>The consultation document proposes the following exempt containers:</p> <ul style="list-style-type: none"> • Fresh milk in all packaging types (e.g. in plastic, liquid paperboard, glass). • Beverage containers that are intended for refilling and have an established return/refillables scheme <p>Exempted containers may still be subject to some level of regulation, including data reporting requirements. Other beverage containers may be determined to be exempt from the NZ CRS in the future.</p>

⁶ Current regulations in relation to priority products under WMA Section 22(1)(a) include prohibiting the sale of a priority product, except in accordance with an accredited scheme. While new bespoke legislation is proposed for a NZ CRS, this principle is proposed to be carried forward to manage the free rider risk for a NZ CRS.

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Container size	<p>The size of eligible beverage containers would be less than or equal to 3 litres in volume.</p> <p>As with exempted container material types, producers of containers over 3 litres are proposed to be exempted and may still be subject to some level of regulation, including data reporting requirements.</p>
Beverage container lids	<p>Beverage containers are to be returned with their 'lids-on', for beverages that are able to have their lids attached.</p> <p>The scheme would provide alternative means to capture and recycle lids where they are not able to be returned on the beverage.</p>
Return network design	<p>A 'mixed return' model using both mandatory return-to-retail requirements (to some degree) and voluntary (procurement-led) participation</p> <p>The majority of return points (proposed to be supermarkets) would be established through regulations. The scheme's managing agency would procure for and approve additional voluntary return points (e.g. depots).</p> <p>Feedback sought on size of retailers required to take-back eligible containers.</p>
Scheme financial model	<p>Deposit financial model.</p> <p>Beverage producers pay a deposit and scheme fees on <i>all eligible containers sold to market</i>, regardless of whether the containers are returned through the CRS.</p>
Governance	<p>An external not-for-profit organisation, appointed by the Government, for the purpose of managing and overseeing the scheme.</p> <p>An industry-led scheme (i.e. led by retailers, beverage producers, recyclers or any such combination of industry representatives).</p> <p>Central government would play a key role in the establishment of a scheme, then moving into an oversight role.</p>
Recovery targets	<p>A target of 85 per cent beverage container recovery is achieved by year three of scheme implementation, and a 90 per cent recovery target is achieved by year five</p> <p>If these targets are not met at either year 3 or 5, or maintained beyond year 5, the proposed deposit level of NZD 20 cents and the structure of return points is reviewed, with an increase in the deposit level considered.</p>