


MINNESOTA BEVERAGE
ASSOCIATION
Representing the bottlers & distributors of non-alcoholic beverages

October 8, 2013

Mr. Wayne Gjerde
Minnesota Pollution Control Agency
520 Lafayette Road N
St. Paul, MN 55155-4194
Dear Mr. Gjerde:

Attached please find the written comments from the Minnesota Beverage Association regarding the MPCA's "Draft program design for a recycling refund program for beverage containers in Minnesota."

Sincerely,



Tim Wilkin
President

Implications of Designing a Container Deposit/Refund Program for Minnesota

The development of a dedicated system to recycle only beverage containers is environmentally, economically, and socially counter-productive. How such a system is configured is irrelevant to the profound negative impacts that it would have, especially in a state where hundreds of millions of public and private sector dollars have been invested in waste diversion and recovery infrastructure.

The key objections to this system, no matter how it is designed, are the adverse effects on recycling programs, infrastructure, and the taxpayers and rate payers who fund them; the cost of establishing and operating a new, independent infrastructure for beverage container redemption and the associated cost to consumers; border sales and redemption issues including fraud and cross-state sales; and consumer impacts to redeem rather than recycle containers.

Impact on Existing Recycling Programs

The economic viability, efficiency, and scope of existing recycling programs would diminish in the face of a deposit/refund system. Recycling companies would experience significant reductions in commodity revenue while facing significantly lower utilization of equipment, lower efficiency, but the same fixed costs of providing service.

A deposit scheme, especially one with 10¢ deposits, would draw virtually all of the valuable container material out of the curbside and dropoff recycling systems in Minnesota. The material remaining in recycling trucks, carts, and bins would be paper and a smattering of metal, glass, and plastic containers. Even if consumers recycled deposit containers at home or elsewhere, scavengers would likely collect those containers for redemption. Curbside scavenging is a serious problem in many urban neighborhoods in deposit states and is especially well-established in California where large scale, weight-based redemption is permitted, which accommodates scavengers very well. The public health and nuisance impact of scavenging is significant as well as residents awake to overturned recycling bins and scattered contents.

The operational impact on recyclers would be enormous, leading to significant material and revenue losses. Existing collection routes would become much less efficient, collecting far less material per route and per stop, but still requiring the same routes and stops to be covered. Even with efficient, automated equipment, the loss of volume makes the system much less effective and therefore much less efficient.

Processing facilities would find their significant investments in sorting and processing equipment for plastics, metal, and glass severely underused, both in terms of volume and in terms of the materials the facilities were designed to manage. The economics of recovering the small amounts of container material left in the multi-material recycling stream would deteriorate as scale economies in collection, processing, and materials marketing were lost. Many municipalities, especially in rural areas, would likely stop collecting some of these materials.

While these impacts on efficiency and cost would be profound, the revenue impact would be even more striking. Revenues from container materials – aluminum, PET, and HDPE (the most valuable components in the recycling stream) – would virtually disappear, creating a disconnect between existing pricing/contract terms and what was actually being processed. Recyclers would need to renegotiate contracts quickly, raising service fees to reflect both cost and revenue impacts from the deposit system.

The impact of such a broad beverage container deposit program (extended to all beverages and beverage packaging) would make these impacts more severe than experienced in any other deposit jurisdiction. This is especially true because no new deposit regime has ever been introduced in a jurisdiction with such extensive existing recycling infrastructure. In fact Hawaii's law is the only deposit system implemented since widespread access to household recycling appeared in the late 1980s. (Part of the impetus behind Hawaii's deposit law was the sorry state of recycling in Honolulu, which was the largest city in the US without curbside recycling at the time of the law's passage.) In short, there is no precedent for overlaying a deposit/redemption system over extensive, existing residential recycling infrastructure.

Building an Entirely New Infrastructure

Creating and operating an entirely new network of facilities to redeem beverage containers would require capital investment, extensive logistics and operational oversight, staffing, and a fee structure to recover the costs directly or indirectly from Minnesota consumers.

A system designed to redeem containers from consumers, transport, and process the beverage container material would represent nearly all new investment and new operating costs. Under the population formula proposed, more than 1,100 redemption centers would have to be sited. The system would also need transportation links between these centers and processing facilities; processing capacity for the containers ranging from steel and aluminum to glass, plastics, cartons, and pouches; material and financial management systems to monitor redemption, validate transactions, and manage the program; and an administrative organization to oversee and audit the entire operation.

Revenue from commodities would not cover these expenses – it does not do so in any deposit-refund system in the world. Because the 10¢ deposit is so high relative to the value of the material, fraud would be extremely profitable. Acquiring empty containers outside the state and redeeming them in Minnesota would be one avenue for fraud as would purchasing products in neighboring states and redeeming them in state. These activities would erode or even eliminate this revenue source.

The balance of funding would come from fees levied on containers to cover their handling costs. The more transparent way of levying these fees would be to charge them directly to consumers as a non-refundable component of the price paid at retail. This model is in place in deposit programs in several Canadian provinces. Alternatively these additional costs would be funded by beverage brand owners and passed along in wholesale prices. Consumers would ultimately bear these costs either embedded in the price of beverages or spread among other groceries and products they purchase.

Border Problems

The movement of empty containers across state lines for fraudulent redemption increases the cost of operating the redemption system. But the deposit and any visible fees also influence purchasing decisions, especially where these extra charges represent a large share of the final product price. These impacts are not greatly affected by the design of the deposit system because, regardless of the system, fraudulent redemption from border areas is nearly impossible to prevent. Given the vast number of products and packages affected, state-specific labeling or marking is infeasible; virtually all of these products are produced and sold for distribution nationally. Therefore a bottle of milk sold in Wisconsin is likely to carry the same deposit marking as one sold in Minnesota. To do otherwise would require the establishment of a state-specific inventory by producers and distributors; this is not only practically impossible given storage and transportation issues but would add enormously to food costs in Minnesota.

Even if a state-specific label or package were available for sale, those labels would not prevent fraud. In large scale redemption operations individual examination of each container is impractical and use of technology to read codes or symbols beyond traditional bar codes is not yet feasible.

Purchasing beverages outside Minnesota and redeeming them in the state would erode retail sales, reduce tax revenues, and drive up the cost of running the redemption system – all of which would flow through to consumers. For high velocity grocery items such as multipacks of soda and water the combined value of avoiding the deposit by purchasing out of state and then redeeming the container in state would virtually cover the purchase price of the product.

Consumer Impact

Consumers' time and effort to recycle would both increase markedly. This is especially noteworthy since recent gains in recycling participation and diversion have resulted from deliberate efforts to simplify sorting and collection (*i.e.*, single stream collection and provision of large carts to households). Separating all beverage containers from other recyclables doesn't just revert to the dual stream recycling system that most communities have abandoned – in fact for many this system would regress to the old material-specific separation of the late 1980s and early 1990s. In order to redeem containers, consumers may be required to not only keep them separate from other recyclables, but to sort them by material type (at least) and possibly size for counting and redemption.

Consumers can expect higher recycling service fees at home once the high value materials are removed from their curbside bins. They can also expect increased direct or indirect payments to underwrite the establishment and operation of the new redemption/recovery system. Consumers would also bear significant new time and transportation costs to redeem their beverage containers. Consumer travel to redemption centers is costly, even without valuing consumers' time. Most of these visits require consumers to travel out of the way and many redemption trips are dedicated to that purpose based on interviews conducted with redeemers in multiple deposit states.

System Design Issues

These consequences of adopting a deposit-based beverage-only system of recycling are not dependent on the assumptions made in MPCA's Draft program design dated September 16. These impacts are inherent in the adoption of any deposit/refund system. Tweaking the scope of the program to add or delete a particular product or material or to set the minimum number of redemption centers at 900 or 1,300 instead of 1,100 is not going to change these outcomes.

These impacts must be considered in the cost-benefit analysis to be prepared in the coming months. The *net* increase in containers recycled as a result of the 10¢ deposit needs to be compared against losses in recycling of other nondeposit containers and the entire cost of the redemption system including consumer travel, higher costs of existing recycling, and higher energy consumption and emissions associated with the redemption system.