



Victorian Container Deposit Scheme

Submission

November 2020

The Victorian Wine Industry

Wine Victoria is the peak body representing the Victorian wine industry; we serve the interests of more than 1,500 grape growers and 700 wine companies of all sizes, and regional associations that cover every part of the state.

The Victorian wine industry generates an estimated \$7.6 billion in direct benefit to the state economy and supports 13,000 direct and 33,000 indirect jobs, most of which are located in regional areas. The Victorian wine sector has a small number of large wineries who account for 90% of the total annual crush, and a large number of very small wineries who account for 10% of the crush (i.e. less than 5,000 tonnes of grapes crushed per year).

Profitability continues to be the main concern for the Victorian industry where the majority of winemakers are smaller operators. *“Industry profitability has fundamentally lowered over the last 5 years and will remain under pressure for the foreseeable future...In this environment the business models under the most profit pressure are...Small to mid-size (higher-cost) winemakers without significant volumes in more profitable distribution channels (mail order/online, unique market niches); and with less attractive portfolios.”*¹

Prior to the onset of COVID-19, the Victorian Government has previously cited food and wine a key driver in attracting visitors to regional Victorian destinations. Put simply, the wine industry has always provided the value-add in the tourism experience.

*“A wine industry that is supported will directly grow the Victorian economy – particularly in regional Victoria. The reverse is also true, a wine industry that is not supported to increase production and value, will also shrink the regional Victorian economy.”*²

The wine industry straddles between the agriculture sector, which is reliant on the climate and environmental conditions, and the production sector that is sharply focused on minimizing costs and supply chain efficiencies. The impact when these conditions become imbalanced is acutely felt by the many wine business and grape growers operating throughout Victoria.

A report produced for Wine Victoria by Essential Economics, identified that *“for every 1 direct job created in the wine industry a further 1.53 jobs are indirectly created in the wider economy. Additionally, for every \$1 of direct value-added by the wine industry a further \$2.17 of value is added elsewhere in the economy.”*³ As such, the Victorian wine industry requires the ongoing support of its Government to ensure it is competitive, growing in volume and value and providing employment in regional areas.

¹ *Expert Report on the Profitability and Dynamics of the Australian Wine Industry, Centaurus Partners, 2013, Page 4*

² *Wine Victoria Policy Priorities 2019-20, Page 5*

³ *Wine Victoria Policy Priorities 2019-20, Page 5*

Overview

The ongoing success of the Victorian wine sector is dependent on winegrape growers and winemakers continuing to operate sustainably and responsibly. As such, the wine industry strongly supports the recycling of wine bottles and efforts to improve environmental outcomes.

Wine Victoria acknowledges that the Victorian Governments proposed CDS fits within Recycling Victoria's broader suite of reforms aimed at reducing waste and making more productive use of resources.

The four-bin kerbside recycling system to separate recyclables, glass, food and organics, the state-wide education program and the establishment of a new dedicated waste and recycling Act, will all work together to underpin the overall effectiveness of the CDS as proposed in the discussion paper.

The most critical consideration for the Victorian Governments' proposed CDS should be to ensure that it operates in harmony with other state CDSs. Elements of the Scheme such as, the Refund Amount, Refund Mark and Eligible Containers, need to be consistent across state and territory borders to ensure that all state and territory CDSs operate without unnecessary regulatory complexity for businesses, or confusion for consumers. National harmonisation will improve the overall effectiveness of these schemes and ensure that the cost of operating them is minimised for the beverage producers who fund these programs.

It is pleasing that the proposed Victorian CDS is recommending wine bottles continue to be excluded from its Scheme. This is consistent with CDSs in all other jurisdictions, and importantly, reflects the fact that wine bottles are in almost all cases, collected via existing kerbside and commercial venue, recycling systems. The fourth glass recycling bin proposed by the Victorian Government, is an excellent initiative that will further enhance the quality of the glass collected and should be used as a test case for other jurisdictions looking into improving approaches to glass recycling.

Wine Victoria notes that it is extremely difficult for wine businesses, particularly small businesses, to pass on the costs of a CDS to consumers. The nature of the wine industry, particularly in Victoria where around 90% of wineries crush 5,000 tonnes or less of grapes annually, means the volume of wine they produce if all goes well in a season, is relatively small. Unlike large beer and soft drink manufacturers, a small wine producer has virtually no market power to negotiate price increases on their wine, to cover any additional costs that a CDS would incur. This lack of negotiation power is even more pronounced given Australia has two major retailers, controlling approximately 75%⁴ of the retail market nationally, and who therefore have the power to secure wine from other suppliers and countries at the lowest possible cost and to the detriment of smaller wine producers.

Wine Victoria supports the government's intention to align with other states and continue to exclude wine bottles from its proposed CDS.

⁴Roy Morgan's Alcohol Retail Report, May 2020

Ensuring Victoria's CDS Complements The Kerbside Recycling System

Wine Victoria welcomes the proposition that the Victorian CDS is being designed to complement Victoria's new four-bin household recycling system, which is aimed at reducing waste and separating recyclables so they can be re-manufactured into new products.

This initiative will help deliver one of Recycling Victoria's key objectives to strive for a circular economy by extracting the maximum value both from the waste materials collected, and the operation of kerbside waste collection system. It also recognises the well-established finding from other Australian CDSs, that some containers such as wine bottles do not end up as litter, given they are most commonly consumed at home or at commercial premises and therefore already being collected in existing domestic and commercial waste collection systems.

Litter monitoring research done by McGregor Tan⁵ on behalf of KESAB and the South Australian Environment Protection Authority, reports on the percentage of beverage items covered under the South Australian Container Deposit Legislation (CDL) and compares this with other states. This data indicates that non-CDL glass litter in Victoria, has ranged between 0% - 6% of the litter stream over the last five years and Victoria has led or equalled all Australian States for having the least non-CDL glass litter. Given wine bottles fit into the non-CDL glass litter category, this research supports the finding that wine bottles are not litter and are captured by existing recycling arrangements, and therefore they should continue to be excluded from the list of eligible CDS containers.

One of the major benefits of Victoria's new four-bin domestic waste collection system is that glass will be separated from other waste at the point of collection, resulting in an overall improvement in the quality of waste glass collected for recycling and re-use. It will also reduce glass contamination that has sometimes been a criticism with other three-bin kerbside recycling systems where glass, paper, cardboard, etc are intermingled in one all-purpose recycling bin. Wine Victoria endorses Victoria's four-bin kerbside recycling system and agrees with the discussion paper where it suggests that there will be financial benefits in separating and collecting "cleaner" waste, and community benefits through raising awareness and educating the community on the importance of source separation and correct recycling practices.

⁵ *CDL Containers & Plastic Shopping Bags in the Litter Stream 2018-19, Pg 21-25*

Funding The CDS

As with other state CDSs, the Victorian CDS is proposed to be funded by the beverage industry. This is another key reason why Wine Victoria would strongly reject any suggestion to include wine bottles into the Victorian CDS.

Victoria has approximately 700 wine companies of all sizes, across 21 different regional areas throughout Victoria and supports 13,000 direct and 33,000 indirect jobs. The vast majority (approx. 90%) of Victoria's wine businesses are smaller, often family operated, businesses with limited financial resources to absorb additional costs that a CDS would incur.

The additional cost of a CDS arise from direct costs including paying the 10cent refund to consumers and the handling fees for recycling facilities, as well as indirect costs in the form of, extra administration time to produce sales reporting for the scheme coordinator, processing of accounts payable and managing label registration requirements. For the vast majority of wine businesses, these costs cannot be practically passed on to consumers.

Large beverage manufactures, primarily beer and soft drinks, are the primary funders of other state CDSs, and given their market strength and sales volumes they have the capacity to spread out and pass-on CDS costs to consumers. However, small beverages producers, such as wineries do not have the market power to negotiate price increases on their products, particularly when supermarket retailers dominate approx. 75%⁶ of the retail alcohol market in Australia.

It is important to understand that wine companies do not have long-term supply contracts with retailers, and in most cases have little ability to influence price. Further, retailers have many different wine brands to choose from and there are very few brands that are "must-have" for their businesses. Wine Victoria understands that an average retail store carries around 2,000 stock-keeping units (SKUs) from about 355 wine brands, while the largest stores can carry considerably higher numbers of wines. Wine is sold in a highly competitive marketplace in which retailers are in a position to place considerable price pressure on suppliers, and if a small Australian business seeks to increase prices, it is likely retailers will substitute cheaper wines from another supplier, either Australian or from overseas.

Given this, it is practically impossible to pass costs on to consumers via retail sales channels. This would be a particularly significant issue for small, family-owned wine businesses in Victoria, who often sell in very small volumes to the major retailer chains. In the case of Victoria's many small wineries, they would not generate sufficient sales revenue to absorb additional costs, if wine bottles were to become part of a CDS. All other states and territories have drawn the same conclusion on wine bottles and agreed that it is financially unviable and environmentally unnecessary, to include wine bottles in their CDSs.

⁶ Roy Morgan's Alcohol Retail Report, May 2020

Wine Sector Operating Environment

It should also be noted that the Victorian wine industry is experiencing significant strain from the impacts of 2019/20 bushfires, COVID-19 lockdowns and China anti-dumping and countervailing duties investigations on Australian wine in China.

The full economic impacts of these events are ongoing and yet to be quantified, but needless to say the announced maximum 212% tariff will mean that the decade long endeavor to build strong trade ties is now a seemingly redundant exercise.

A study by Glyn Wittwer from the Centre of Policy Studies at Victoria University⁷ examined the impacts of bushfires and the pandemic on the Australian economy, particularly the grape and wine industry. It found that the grape and wine industry has been significantly impacted by a number of factors, including: the direct destruction of vineyards and wineries from bushfires and smoke taint ruining grapes in some regions; and the curtailment of on-premise wine consumption during COVID-19 lockdowns. While there may have been an increase in off-premise wine consumption, the four month (expected lock-down period) that was modelled in this study, has now been shown to be too optimistic given the COVID-19 induced economic crisis continued throughout most of the period from March-October 2020.

Nevertheless, the bushfires plus a severe pandemic disruption was estimated to reduce national economic welfare by \$105 billion in net present value terms. This will have a significant impact on the Victorian and national wine industry, for some time into the future.

For More Information

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⁷ *The 2019-20 Australian economic crisis induced by bushfires and COVID-19 from the perspective of the grape and wine sectors, March 2020, Page 2*