

Exchange for Change
Suite 6, Level 1, Building C
1 Homebush Bav Dr. Rhodes



23 April 2019

The Commission

Independent Competition and Regulatory Commission

PO Box 161

Civic Square ACT 2608

Dear Commissioner

Exchange for Change, EfC, would like to take this opportunity to submit a response to the ICRC draft report on the ACT container deposit scheme. Our comments are centred around the topics that the ICRC has requested feedback on, which also impact EfC & beverage suppliers. In addition to these topics, EFC has also put forward an additional suggested scheme improvement.

The Commission is seeking feedback on the following topics that impact EFC:

- 1. Should an arrears payment model be adopted in the ACT regardless of whether this payment model is adopted by NSW?*
- 2. Should the period for true up adjustments be limited to 12 months after invoice*

Arrears Payment model & alignment with NSW CDS

EfC is very supportive of an arrears invoicing model for beverage suppliers. In choosing the right model to utilise we believe harmonisation with other jurisdictions is critical. There are two competing models that ACT should consider being the Queensland model or the NSW model.

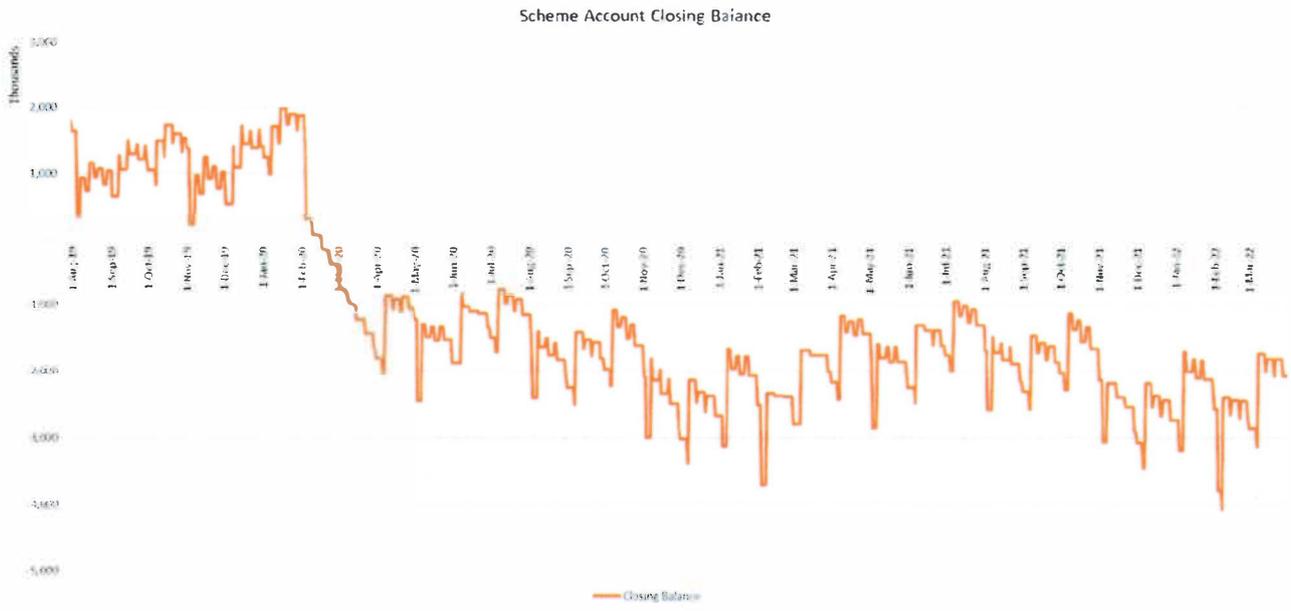
Queensland Model

EFC considers this the most favourable for beverage suppliers. It is based on beverage suppliers being charged a fixed price for containers they sell into the market in the preceding month. Details are as follows:

- Container cost fixed for minimum of 6 months preferable 12 months
- Suppliers report sales volumes 15 days after end of month
- Invoice generated with 7 days of volumes being reported.
- Invoice terms are 14 days from date of invoice

- Arrears model commencing on 1st February 2020, aligned with the change in excise on alcohol sales.

This model would require an overdraft facility to fund the arrears payment. The following graph shows the balance of the overdraft facility based on the above assumptions.



The graph shows an overdraft of \$4 million would be required in the first year of operations. Efc would accumulate funds after the February 2020 commencement date to ensure that a \$4 million overdraft is the maximum requirement.

The most efficient way the overdraft can be financed is through the ACT Government providing an unconditional guarantee for the maximum overdraft to Efc banking provider, Westpac.

NSW Model

The NSW Treasury has declined to provide security for an overdraft account for the NSW CDS. As a result, an arrears model cannot be implemented in NSW. The alternative model being considered in NSW has the following features:

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]

While the NSW model does not provide beverage suppliers the cashflow benefits of the Queensland model, it provides all of the other benefits of the arrears model.

Harmonisation of ACT Scheme with other jurisdictions

Harmonisation of the scheme is essential to minimise the administrative costs on beverage suppliers which will ultimately lower costs for drinks to all consumers. At present in Australia there is 5 CDS schemes and all schemes operate differently. This means beverage suppliers are required to report container volumes at different times of the month, for different periods and pay into different accounts. Even worse the South Australia & Northern Territory scheme have additional containers included within their scheme than the Eastern States.

A national CDS is the logical step to reduce the administrative costs of a CDS. Harmonisation only needs to occur at the Scheme Coordinator level, each State can continue to have its own Network Operator solution. This step would reduce the administrative cost to beverage suppliers while still allowing States to have flexibility in the type of scheme they provide to consumers in their jurisdiction.

While a national CDS is a long-term vision, the short term decision that the ACT faces is should it align with the future NSW scheme invoicing solution or with the current Queensland scheme. While the Queensland scheme provides better cashflow advantages to beverage suppliers, EfC believes the optimal solution is to merge the ACT & NSW schemes at a Scheme Coordinator level.

EfC is the Scheme Coordinator for both NSW & ACT schemes, however EfC is required under each jurisdictions legislation to establish a separate company and banking arrangement for that jurisdiction. This adds extensive administrative costs to beverage suppliers as 30% of containers supplied into the ACT have already been supplied into NSW. This means the following process needs to occur:

1. When the containers are first supplied in NSW, the NSW CDS is payable.
2. When the containers are subsequently exported out of NSW, a CDS credit is paid to the Exporter.
3. When the containers arrive in ACT, then the supplier needs to pay the ACT CDS.

It appears from the ICRC draft report that beverage suppliers are harmonising the container price between NSW & ACT. Based on this there is no advantages for ACT consumers having a separate CDS to the NSW scheme. If there are no advantages for consumers, then it would be best to make the ACT & NSW CDS's as efficient as possible for beverage suppliers which would mean merging them into one scheme.

It is understood that the merger of the two CDS schemes would require legislative changes in both NSW & ACT jurisdictions.

True up adjustments be limited to 12 months after original invoice month

The current invoicing arrangement means that whenever a beverage supplier adjusts their supply volumes for a previous period, all beverage suppliers receive an adjustment invoice for that period, as invoices are based on market share of costs. While this methodology ensures everyone receives the correct share of costs, it adds costs and complexity to the reconciliation of invoices. As there is no end date to this process it means that beverage suppliers have difficulties closing off their books for a financial year as they are always receiving adjusted invoices for that prior year.

The table below provides an analysis of the size of adjustments in the NSW CDS after a 12 month period. This data shows that the size of the invoice variation after 12 months averages at 0.14% per month. It is expected that the variation in ACT invoices would be in alignment with NSW.

		Invoice Period				
		Jan-19	Feb-19	Mar-19		
Adjusted Period	Dec-17	0.21%	0.03%	0.11%	0.11%	Average Movement by Adjustment Period
	Jan-18		0.02%	0.20%	0.11%	
	Feb-18			0.26%	0.26%	
		0.21%	0.03%	0.19%		
Average Mvt (month on month) by Invoice Period						

Based on this small invoice variation it is recommended that true ups be limited to 12 months. When a beverage supplier varies their supply volumes for periods older than 12 months, this should be treated as revenue or costs for the current period and distributed between all beverage suppliers based on their percentage supply for the current period.

It is recommended that this change be implemented prior to the ACT scheme anniversary on 30 June 2019.

Additional Scheme Improvements

The following is an improvements to the ACT CDS that EfC recommends be implemented in the short term.

- Change of invoice arrangements for small beverage suppliers

Invoice Arrangements for Small beverage suppliers

A CDS is administratively costly for small beverage suppliers. The requirement for monthly reporting of supply volumes, as well as reconciliation and payment of EfC invoices is a significant burden for all beverage suppliers but significantly more so for small beverage suppliers where they have limited resources to deal with these processes.

Invoicing small beverage suppliers monthly is also an administrative burden on EfC. While the ACT CDS has 305 beverage suppliers the top 50 of these companies supply approximately 99% of total containers.

The Queensland scheme has introduced a special arrangement for small beverage suppliers in that they only have to report sales volumes quarterly as well as being invoiced quarterly. The definition of a small beverage supplier in Queensland is a company that supplies less than 300,000 containers annually. 300,000 is approximately 0.01% of the total Queensland scheme. Applying 0.01% to ACT volumes would represent a supplier that provides just over 16,000 containers annually. If the cutoff for a small supplier is set at 20,000 containers annual this would represent 214 suppliers which supply a total of 697,750 containers annually compared to the annual total supply volume of 164,708,453. This means the 214 small suppliers would supply less than 0.42% of the total containers supplied into ACT.

As the Queensland scheme operates with a fixed price, they can have small suppliers report quarterly. The ACT scheme operates on trueing up the schemes actual costs based on percentage of containers supplied into the market. This means that it is essential that all beverage suppliers report their supply volumes monthly. If ACT adopted a small supplier model like Queensland, it would still be essential to report container supply volumes monthly.

EfC believes this small supplier arrangement should be implemented in ACT in the short term, ideally by the 1st July 2019. The arrangements should be as follows:

- Beverage Suppliers who supply less than 15,000 containers annually would be invoiced quarterly, with 14 days payment terms
- They would be required to report supply volumes monthly
- If on three separate occasions a small supplier fails to report supply volumes or does not pay invoices on time, despite being reminded by EfC, they will revert to the monthly invoicing arrangement with 7 days payment terms.

EfC thanks the ICRC for considering our views and we are happy to provide additional information if required.

Yours sincerely,



Peter Bruce

Chief Executive Officer

Exchange for Change

