Testimony of Kevin S. Dietly[1]
Representing CommonCentsCT.org
In Opposition to Senate Bill 661 and 662

Co-Chairs Roy and Meyer and members of the Committee, my name is Kevin Dietly and I am a Principal at Northbridge Environmental Management Consultants in Westford, Massachusetts. I am representing a coalition of grocers, beverage companies, and their employees to review our concerns with three significant changes proposed to Connecticut's container deposit law.

Northbridge provides economic, financial, management, and systems consulting services related to environmental issues. Our clients include the US Environmental Protection Agency, state environmental agencies including Connecticut's DEP, trade associations, and corporations. The firm has been involved in the analysis of container deposit legislation for more than 30 years.

We have compiled data on the operation of Connecticut's bottle bill since 2000, examining its environmental and economic costs and benefits. This constitutes the most comprehensive data collection effort ever undertaken related to Connecticut's deposit program. Northbridge has also compiled and analyzed data on deposit program operations in the other 10 US deposit states and I am drawing on our Connecticut research and our experience with deposit laws in other states today to assess the implications of SB 661 and SB 662.

These two bills, combined with the recent seizure of unclaimed deposits for the general fund and the collapse in scrap prices, would **cost Connecticut consumers and businesses an additional $68 million to $75 million per year** at a time when both are struggling. This is a hidden tax increase that Connecticut cannot afford. The bills before you today would:

1. **Increase the handling fee to 3¢** on existing beer and carbonated soft drink returns. This drives up the cost of the current bottle bill, without providing any environmental gain. The higher handling fee also reinforces the inherent high cost of a redemption system compared to alternatives.

2. **Raise the deposit to 10¢.** This change would increase the number of returns significantly, including many from out of state, and reduce the unclaimed deposits to virtually nothing. Additional fraudulent returns mean higher handling fees and costs, passed on to Connecticut consumers, to fund redemption of out of state containers.

3. **Expand the law** to include single-serve glass, aluminum, and PET containers of water (SB 662) or all noncarbonated nonalcoholic beverages (SB 661). Expansion would provide limited environmental benefits at a very high cost to retailers, beverage companies, and consumers.

Given their high cost and their insignificant environmental impact, I encourage your rejection of SB 661 and SB 662. The remainder of my testimony describes our assessment of the bills.

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1. A 3¢ Handling Fee: $10 Million in Increased Costs

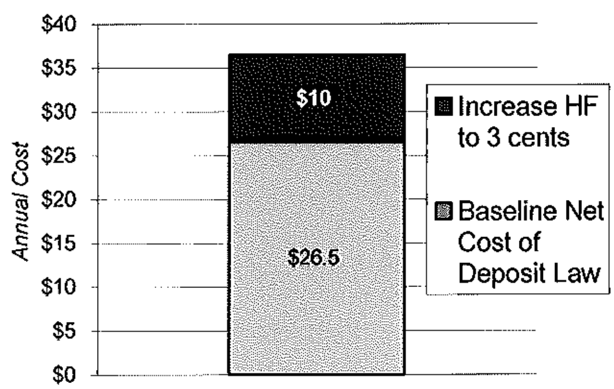
The current law requires distributors to pay a handling fee to retailers and redemption centers of 2¢ for each carbonated soft drink container redeemed and 1.5¢ for each beer container redeemed. This represents the largest mandated cost of the deposit law and accounted for the largest use of the unclaimed deposits retained by distributors.

Increasing the handling fee to 3¢ on existing deposit containers makes the current law more costly, without providing any environmental gain. A higher handling fee acknowledges that container redemption is an expensive, time consuming practice that burdens the state's retailers. But we must also realize the business impact of this increase, especially when distributors have just had their primary source of revenue (the unclaimed deposits) taken away.

Focusing only on beer and carbonated soft drink containers, the 3¢ handling fee would raise the cost of the deposit law in Connecticut by $10 million. The environmental gain from this expenditure would be zero. No more containers would be recycled, no litter reduction, no impact on landfills or greenhouse gases – just higher costs and, ultimately, higher grocery prices.

Exhibit 1

Handling Fee Increase



We will track the cumulative effect of the changes proposed by SB 661 and 662 in a series of charts like the accompanying Exhibit 1. The baseline cost of Connecticut's deposit law based on Northbridge's survey of grocer and distributor costs is $26.5 million per year. We have provided this estimate and the research report to this Committee on several previous occasions. This is the net cost of the law taking into account actual costs to retailers to redeem containers, distributor costs to collect and process containers, and scrap revenue earned on materials sold.
Increasing the handling fee to 3¢ brings that annual cost to $36 million per year.

2. A 10¢ Deposit: $12 Million in Increased Costs

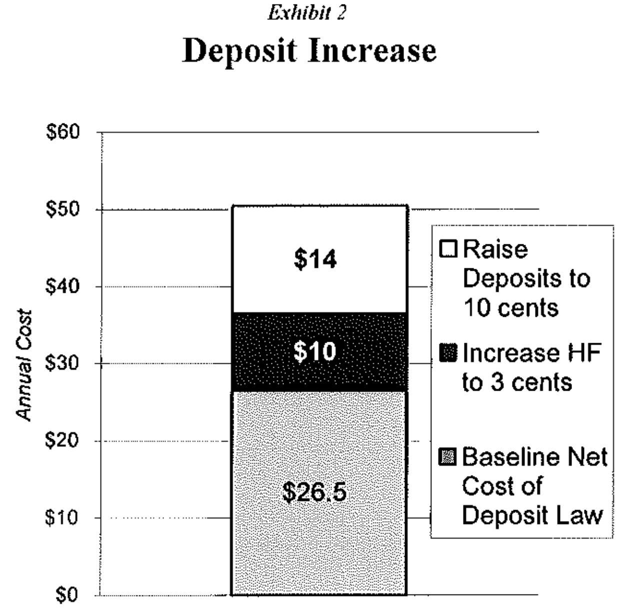
Only Michigan has a 10¢ deposit on beer and soft drink containers. Over the last several years their apparent redemption rate has averaged 97 percent. The state and individual distributors have prosecuted fraud cases including several high profile cases such as the one two years ago where Detroit retailers were conspiring with locations in Windsor, Ontario to transport in empty containers for illegal redemption. Analysis of reverse vending machine contents by independent researchers several years ago found that nearly one in three beer cans redeemed were from out of state. Michigan's fraud problem is significant, despite being surrounded on three sides by Great Lakes.

In contrast, Connecticut is surround on three sides by other states with lower or no deposits on these same containers. The trafficking in empty containers into Connecticut from surrounding (and other) states would profoundly change Connecticut's deposit law. The primary impacts would be a dramatic increase in the number of containers redeemed (though many would be from out of state); higher redemption costs, collection costs, and handling fees for those containers; and significantly lower unclaimed deposits.

We believe based on our experience that the return rate in border areas of the state would climb to well over 100 percent. Distributors in those areas would be paying more out in refunds than they collect. Interior parts of the state would see significant increases as well. On average, we assume that the apparent return rate would reach close to 100 percent, factoring in some increase in redemption of Connecticut consumers plus the influx from neighboring states.

We should also note that the higher handling fee would create an incentive for individuals to redeem containers in Connecticut instead of neighboring New York or Massachusetts, because redemption centers would be earning higher revenues and could share some of the increase with out of state redeemers. Similar arrangements have accounted for significant shifts of container redemption from Massachusetts to Maine, for example.

Exhibit 2



Considering only beer and soft drinks, the cost of this higher redemption rate would be $14 million per year to distributors and retailers (Exhibit 2). Under current law, the cost to the state would be the entire unclaimed deposit balance. Note that with the seizure of the unclaimed deposits by the state, the incentive to monitor for fraud decreases significantly for the distributors. Enforcement is now primarily up to the state, which has devoted no resources to it.

In addition to these higher operating costs and the elimination of the unclaimed deposits, the provision of the bills would also require Connecticut consumers to pay out an additional $57 million per year in deposits to purchase the beverages they buy today. A 10¢ deposit would mean, for example, that a 12-pack of soda would have a deposit about equal to the sale price.

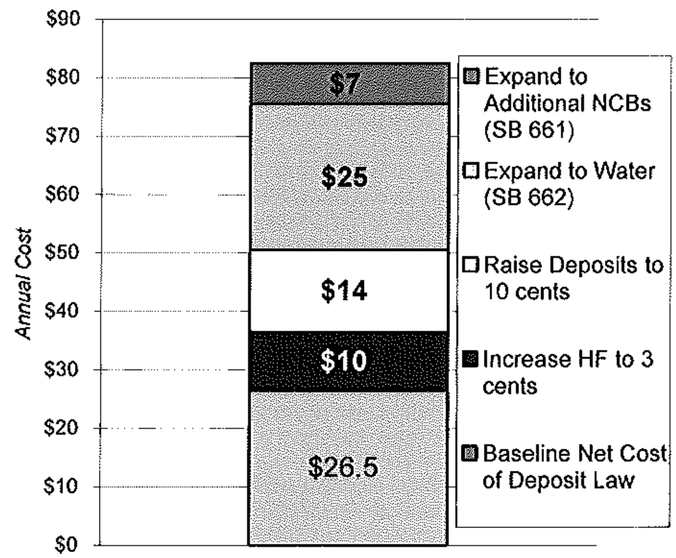
3. Expanding the Scope of the Law: $22 to $28 Million in Increased Costs

The two bills propose either an expansion to single-serve water bottles (20 oz or less) or to all noncarbonated nonalcoholic beverage containers 20 oz or less. Expanding the law to include these containers has widespread implications for how Connecticut's bottle bill works. Expanding beyond beer and soda brings a much broader set of producers, distributors, and products into the deposit/redemption system – companies that are much less capable of complying with the provisions of the law and products that are more costly to handle.

To summarize the economic impacts of expansion, we computed the compliance costs for retailers, distributors, and manufacturers under both bills. For SB 662 (water only), the incremental cost would be $25 million per year; for SB 661 (all noncarbonated containers), the cost would be $32 million per year (Exhibit 3).

Exhibit 3

Expansion



The primary costs are increased redemption costs at retail locations (additional reverse vending machines and the associated higher service, maintenance, and labor costs plus space) and pickup and processing costs for distributors and manufacturers. The two bills would increase the number of containers subject to deposits by 34 percent and 44 percent respectively.

As these containers would also carry a 10¢ deposit the potential for fraudulent returns may be even greater, since no neighboring states impose deposits on these bottles. Given experience in other 5¢ deposit states, the redemption rate for water bottles is not very high (well below than 50 percent), but with the impact of the 10¢ deposit plus fraud we have assumed an apparent rate of 90 percent, which increases costs.

I would like to make four other points about the proposed expansion of the law:

Expansion would adversely affect recycling programs in Connecticut. Communities rely on container material revenue to support their programs and they rely on the material to help spread the fixed costs of recycling (trucks, drivers, MRF construction and operation). The loss of PET and aluminum as a result of expansion would cost significant revenue and undermine investments being made in single stream recycling systems in the state. Connecticut has wisely embraced single stream recycling as a route to more efficient and effective recycling; it would be unfortunate to adopt new laws that conflict with that decision.

Expansion would have a negligible impact on litter in Connecticut. Statistics from around the US suggest that noncarbonated beverages of all types account for an average of 1.3 percent of litter.[2] Dramatic photographs and our personal experience can both support the fact that water and tea bottles do end up in litter, but the data from state litter studies shows we have a bigger problem to worry about. Ignoring 99 percent of the problem does not count as a litter solution.

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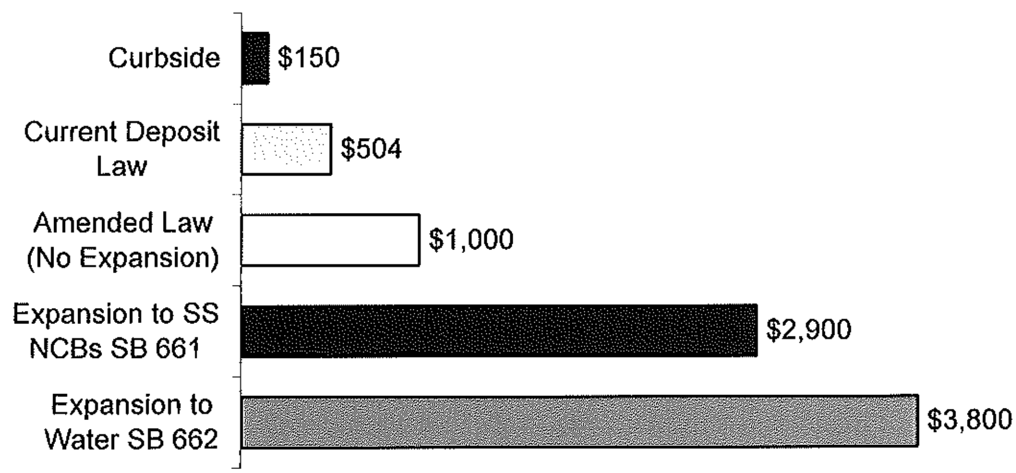
[2] "Sweating the Litter Things," *Resource Recycling*, May 2005, supplemented with findings of studies released in 2006 in Georgia and Tennessee.

Expansion would have a negligible impact on recycling in Connecticut. The incremental recycling that could be attributed to these bills is less than 3/10 of one percent of the waste stream. In other words, expansion would result in an increase of the state's recycling rate of less than 0.3 percent.

The low recycling impact means that expansion has a very poor return on investment from an environmental perspective. The existing bottle bill is already inefficient and its $500 per ton cost is doubled by the higher handling fee and deposits proposed in these bills. Expansion would have an even higher cost per ton recycled of $2,900 to $3,800.

Exhibit 4

Cost Effectiveness of Competing Recycling Programs



Expansion would disrupt the operation of the deposit law. Distributors and manufacturers subject to the expanded face significant operational and cost challenges to comply. About 75 percent of the water bottles and an even higher share of other noncarbonated beverages are sold through open or warehouse distribution systems. Unlike franchise or exclusive distribution, which characterizes the beer and soda markets, open distribution permits anyone to purchase beverages from a manufacturer and sell them wherever they like. The ramifications of this system are:

- Too few deposits are collected since manufacturers cannot determine whether their products will ultimately be sold in Connecticut or not. As a result, producers are forced to pay refunds on redemptions for which they never received a deposit. This effectively creates a 10¢ tax on every water bottle, leading to even higher prices.

- Responsibility for collecting returns is also unclear because multiple distributors handle the same products in the state. Ultimately manufacturers are likely to be compelled to pay vendors to collect containers on their behalf at a comparatively high cost.

- For small retailers, the additional burden of sorting a significantly larger number of containers and product brands will dramatically increase space and labor costs. We have identified at least 75 brands of water sold in Connecticut, for example.

Conclusion: Unreasonable Burdens on Connecticut Businesses and Consumers

These bills would profoundly change the deposit law. In these difficult economic times, it is stunning that the Legislature would amend the law and almost quadruple its cost. If we combine the three components of these bills (handling fee increase, deposit increase, and expansion) with the Legislature's taking of unclaimed deposits and the collapse of the scrap markets in recent months, the baseline cost of Connecticut's deposit program jumps from $26.5 million annually to between $94 million and $101 million (Exhibit 5) and the State of Connecticut receives virtually nothing in unclaimed deposits. For the miniscule environmental benefits provided, Connecticut consumers should not be forced to pay an additional $68 to $75 million in higher grocery prices. I encourage you to vote no on SB 661 and SB 662.

Exhibit 5

Aggregate Impact of Deposit Law Changes in 2009

Cost Elements	Annual Cost
Baseline Net Compliance Cost	$26 million
3¢ Handling Fee, 10¢ Deposit, Expansion	$49 - $56 million
Lost Unclaimed Deposits and Lower Scrap Prices	$19 million
Grand Total	**$94 - $101 million**
Percentage Increase	**260% - 290%**