Environment Committee Testimony Regarding
Raised House Bill 7294 – In opposition

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Good morning Co-Chairs Cohen and Demicco and Members of the Committee. My name is Bree Dietly and I am a Principal at Northbridge Environmental Management Consultants in Westford, Massachusetts. I am representing the American Beverage Association and its members who produce and distribute most of the refreshment beverages sold in Connecticut.

Many of you are acquainted with me and my research on forced deposit laws and recycling policy over many years. I study these issues around the US and globally and have testified before this Committee and others around the country many times. I am also involved in the operational side of deposit programs as I help manage two distributor cooperatives that handle empty deposit containers in Maine and in Vermont.

As we have previously conveyed to the Committee collectively and individually, our companies share a strong commitment to the environmental sustainability of our products and packaging. We sell virtually 100 percent recyclable packaging that has high value in recycling markets. We are engaging at many levels to drive up recovery of our containers from the waste stream and thereby support higher levels of recycled content in our bottles and cans. This bill, however, threatens to derail the integrity of the outdated, inefficient deposit system.

Our opposition to this bill stems from the fact that it would impose massive new costs on Connecticut businesses struggling to operate and even expand in an ever-more hostile business environment. Most of those costs represent subsidies – not a penny of which furthers the environmental goals in Connecticut law or the goals to which our member companies have committed. The one measure that would affect recycling, expansion of the deposit law, would simultaneously add burdens to consumers and retailers while further undermining the tenuous state of municipal recycling in the state.

Subsidies

The two largest subsidies in the Connecticut deposit law are the handling fee, currently amounting to $13 million per year paid by distributors to retailers and redemption centers, and the unclaimed deposits totaling $35 million that are forfeited by consumers and swallowed up by the General Fund. This bill would dramatically change the amount of those subsidies to the detriment of Connecticut beverage distributors and their consumers.

Beginning with the handling fee, the bill would raise the handling fee for beer from 1.5¢ per container to 3.5¢ per container, a 133 percent increase. The handling fee for soft drinks and water would rise from 2¢ per container to 4.5¢ per container, becoming the highest handling fee in the US and increasing the subsidy by 125 percent.

1 Representing the American Beverage Association
While the impact of the increase is profound, I would be remiss if I did not point out the absurdity of a lower handling fee for beer compared to nonalcoholic beverages. Roughly 55 percent of beer containers in Connecticut are glass, a material that not only has a low or negative value in scrap markets but that is dramatically more expensive to handle. Mandating handling fees for aluminum and PET containers that effectively subsidize the handling of glass is nonsensical.

The total handling fee outlay today of $13 million per year would jump to $65 million per year by 2022 once the law is expanded and the 10¢ deposit is implemented (Exhibit 1). This cost includes the offset of 20 percent of the unclaimed deposits offered up to distributors in the proposed legislation. Clearly the offset does little to reduce the burden of these dramatic increases in the handling subsidy, especially once the deposit is raised to 10¢ and unclaimed deposits are all but eliminated.

For distributors of current deposit items, the increase is from $13 million to $55 million – a 320 percent jump. The additional $10 million in 2022 is the handling fee paid by distributors of containers subject to expansion.\(^2\) This by no means paints the full picture of costs of the deposit refund system in Connecticut, but illustrates the impact of the handling fee alone.

The other subsidy highlighted in Figure 1 is the unclaimed deposit revenue to the General Fund. Today the consumers’ unredeemed nickels total $35 million but by the time the law is expanded, the deposit raised to 10¢, and 20 percent of the unclaimed retained by distributors, the State’s take will drop by more than 90 percent to about $3 million per year.

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\(^2\) The $10 million in handling fees paid by distributors of expansion items (juices, teas, and sports drinks) is NOT the only cost they face from expansion; these distributors must also pay fees to collect and process the empty containers – fees that are often significantly higher than for containers already in the deposit system because the containers are more difficult to manage based on their size, shape, and composition.
**Expansion**

Expansion of the deposit to additional noncarbonated beverages like juices, sports drinks, and ready-to-drink teas and coffee drinks would have a relatively small impact on the total number of deposit containers, adding about 18 percent more containers to the system. As a result, the impact of expansion on the State’s recycling rate would be nearly immeasurable – in the fractions of a percentage point. The increase in the cost and complexity to manage these containers would be much more substantial.

**Cost and Handling Problems for Connecticut Stores**

Most redemptions go through reverse vending machines in supermarkets, but roughly half of the juice, tea, and sports drink containers that would be affected could not be accepted in these machines today, either because of the material they are made from or the shape or size of the bottle. Retailers would have to redeem many of these containers manually, leading to more staff, more space, and lines at customer service counters.

**Harm to Local Recycling Programs**

Many of these containers are already recycled at home through curbside and dropoff recycling programs. The commodity value, especially from the PET and the aluminum cans, generates much-needed revenue to help keep down the cost of recycling to Connecticut cities and towns. Recycling companies, faced with the loss of revenue, would have to increase rates to customers and, in turn, to local residents and taxpayers in order to maintain recycling service.

A similar proposal in Albany has drawn the opposition of the NY State Association of Counties, the National Waste and Recycling Association and its member companies like Waste Management and Republic Industries, and the Natural Resources Defense Council. And in Massachusetts in 2014, 74 percent of voters rejected expansion in a statewide referendum.

**High Cost to Distributors, Little Revenue for the State**

By 2022 the incremental cost to operate only the expanded portion of the law would reach $18 million per year, funded mostly by local distributors, grocery wholesalers, and retailers (Exhibit 2). This cost reflects both revenue from the sale of recycled materials and distributors retaining 20 percent of unclaimed deposits. While unclaimed deposit revenue to the state grows initially, once the deposit increases to 10¢ the unclaimed deposit virtually disappear.
**Increasing the Deposit to 10¢**

Raising the deposit in Connecticut would increase redemption significantly, with a substantial fraction of that increase coming from outside the state. As more containers (from whatever sources) are redeemed, the cost of the system increases and Connecticut businesses and consumers are paying more to handle recyclables from other states. The higher deposit also has significant implications for unclaimed deposit revenue, as highlighted in Exhibits 1 and 2.

Michigan is the only US deposit state that has always had a 10¢ deposit. It has a severe fraud problem along its southern border (the rest of the state being mostly surrounded by lakes) and state and industry sources have long sought to minimize cross-border fraud with little success. The redemption rate in Michigan was 91 percent in 2017.³

Oregon increased its deposit from 5¢ to 10¢ in April 2017. The redemption rate was 64 percent in 2016, rose somewhat in 2017 as the increase took effect, and while final numbers will not be available from the state until later in the spring, reports from the beverage cooperative (which handles the vast majority of the returns) indicate the 2018 rate will be around 92 percent. Legislators have already filed bills to try to stem the flow of containers from neighboring states, primarily Washington and focused on Vancouver, which is the only significant metropolitan area on its border.

Connecticut, in contrast, is surrounded by states on all sides with significant border populations. From a sales perspective, Connecticut stores would be at a $2.40 per case disadvantage to Rhode Island on purchase price and a $1.20 per case disadvantage to Massachusetts and New York. Adding that to that the potential for a $2.40 refund per case, Rhode Islanders could easily pay for the price of a case of soda or water with the $4.80 per case savings/winfall; that would also go a long way to discounting the price of a case of beer.

The incentive for cross-border redemption from Massachusetts and New York is more complex, but no less attractive. Those seeking to defraud the system can make another $1.20 per case by redeeming containers in Connecticut, for a net price advantage of $2.40 per case; this is not as dramatic as the impact for Rhode Island border communities, but is still significant.

What is of equal or greater concern is that redemption centers have an enormous incentive to move containers across state lines to take advantage of the higher redemption value and handling fee. An empty container in New York is worth 8.5¢ to a redemption center – 5¢ refund and 3.5¢ handling fee; that same container would be worth 14.5¢ in Connecticut.

We conclude that the redemption rate (number of containers reported redeemed in the state divided by the number reported sold) would likely exceed 100 percent. This would result from lower sales as consumers buy outside the state or product is transshipped into Connecticut as it already is in New York City, as well as from higher redemptions not only from Connecticut consumers, but from those outside the state. For our modeling of costs and unclaimed deposits shown earlier, we assumed that the rate would be 95 percent – a conservative assumption – to show the dramatic impact on handling fees, unclaimed deposits, and expansion costs. If the rate went higher as we think likely, the impacts would be even more severe.

³ California has a 10¢ deposit on containers 24 ounces and larger but that affects only about seven percent of all deposit containers in the state so the impact of that deposit is impossible to evaluate.
Conclusion

Connecticut’s forced deposit law is expensive, has the lowest redemption rate of any in the country, and is hurting local recyclers who are already struggling. The portfolio of “fixes” proposed in this bill would have devastating impacts on Connecticut businesses – a five-fold increase in handling fee outlays surely qualifies as devastating. For the state, the higher deposit spells the end of the unclaimed deposit revenue line item in the budget, or at least relegates it to rounding error. And pulling one of the last valuable products out of municipal recycling bins leaves haulers and communities to wonder how much it is worth to run a recycling program for nothing but detergent bottles, milk jugs, and Amazon boxes.

Thank you for the opportunity to present our views to the Committee.