



**VANUATU RECYCLERS & WASTE
MANAGEMENT ASSOCIATION**

**Vanuatu Recyclers and Waste
Management Association
Policy paper on the proposed
Container Deposit Scheme**



Executive summary

The Vanuatu Recycling and Waste Management Association (VRWMA) is supportive of the introduction of a container deposit scheme (CDS) in Vanuatu. We believe it is a viable and sustainable solution to reduce littering and for the proper disposal or recycling of beverage containers. We believe a scheme can be established that will, after initial set up costs, be self-managing and self-funding. However there are risks if the scheme is set up without full comprehension of the business environment in Vanuatu and the effects it could have on current manufacturing and recycling in Vanuatu. We have therefore created this policy paper to identify risks and suggest solutions that we believe will work in Vanuatu. Whilst the basic template for CDS's are similar across countries the details need to be adapted to fit a particular place. As VRWMA members have over 100 years of experience in running businesses and charities in Vanuatu collectively, we feel we can offer informed insight. We have identified the steps that are needed for the implementation of the scheme. We believe we are at a point where Vanuatu is ready to start taking those steps, provided sufficient funding can be sought for the costs associated with the commencement of the CDS.

Table of contents

Abbreviations	3
Background	4
The recommended CDS model for Vanuatu	4
Board of Governors	5
Management agency	6
CDS Levies	6
Identified Risks and Threats to the CDS and recommended solutions	7
Important Considerations	13
Steps required for the implementation of the Contain Deposit Scheme in Vanuatu	13
Essential	13
Desirable	14
Conclusion	14

Abbreviations

CDS	Container deposit scheme
JICA	Japanese International Cooperation Agency
JPRISM	Japanese Technical Cooperation Project for Promotion of Regional Initiative on Solid Waste Management in Pacific Island Countries
LPB	Liquid paper board
PET	Polyethylene terephthalate
VCCI	Vanuatu Chamber of Commerce and Industry
VRWMA	Vanuatu Recycling and Waste Management Association

Background

Vanuatu Recycling and Waste Management Association (VRWMA), is a charitable organization, whose membership consists of recyclers, local manufacturers of food and beverages, civil society organisations and others with an interest in any of the three R's of waste management: Reduce, Re-use and Recycle.

Our association is supportive of the introduction of a container deposit scheme (CDS) in Vanuatu. The members recognise that there is a range of items, including beverage containers that end up as rubbish in the landfill or litter that has leaked into the environment leading to environmental and health issues. We understand there is a need to improve collection of waste containers and incentives are needed to reduce littering. We also recognise that there are some containers that are potentially recyclable or could be re-purposed at the end of their life. A CDS is a useful mechanism for collecting these containers in separated waste streams and diverting them from landfill. Some of these materials may have value and others will require funds for processing and delivery to suitable recycling facilities and a CDS mechanism is a way to collect funds for this purpose. There are many container deposit schemes working around the world for this purpose. We recommend *all* beverage containers are included in the scheme.

We also recognize the introduction of a CDS scheme cannot happen without some effect on local businesses and changes will need to be made to accommodate the scheme. However the members would like to stress that it is imperative that the scheme is set up in a manner that will work in the Vanuatu situation and does not unnecessarily or unjustly impact local business.

The recommended CDS model for Vanuatu

The introduction of a CDS in Vanuatu has already been proposed. Under the JICA funded JPRISM project, Alice Leney, a waste management consult with experience in introducing schemes in to other pacific islands, conducted a pre-feasibility study in early 2019. The results of the study were presented at a meeting at the Vanuatu Chamber of Commerce and Industry (VCCI) in March. Mr. Leney recommended a that management agency system would be the most appropriate approach for Vanuatu The VRWMA agrees that this model would be suitable for the situation in Vanuatu and feels it would be the most acceptable for the business community in Vanuatu. However the members of the association have recommendations for the detail of the model to ensure that the scheme works well in the retail and manufacturing sectors of industry in the country.

The management agency system is illustrated in the schematic in *figure 1*. It consists of a management agent (proposed to be an established accounting firm) who is responsible for the day-to-day management of the scheme overseen by a board of relevant stakeholders. All businesses importing containers listed under the scheme, must hold a license to import and obtain a permit for each shipment, issued by the management agency, before goods may be released by customs authorities. Contract/s will be issued to recyclers to collect containers and distribute refunds and to process

materials as required to recycle, re-purpose or dispose of them in the most appropriate manner, whether exporting or managing the materials locally.

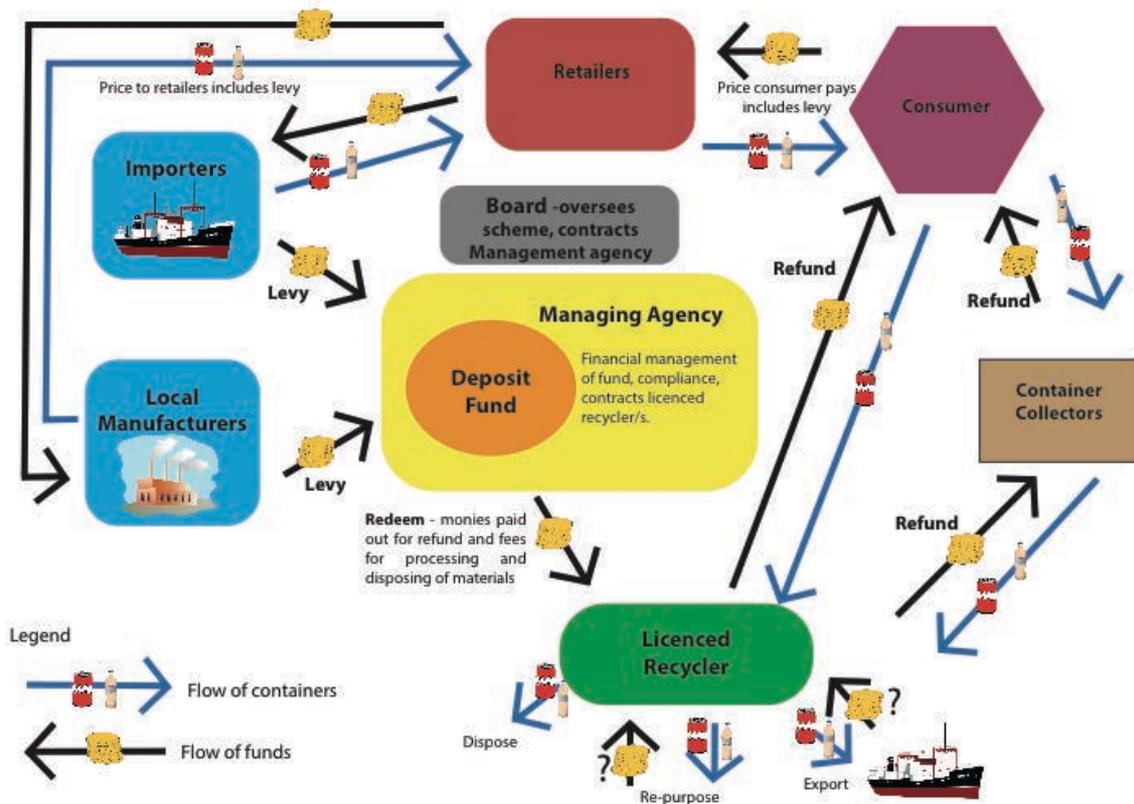


Figure 1. Diagram of management agency system

The VRWMA believes that the Vanuatu CDS should be independent and, after initial set up costs, self-funding. For this to happen we strongly believe that the composition of the governing board and the terms of reference for both the board and management agency are crucial.

VRWMA would support a scheme where the roles of the actors are as follows:

Board of Governors

- 1) Structure: We recommend the members of the board include: Government representatives, representatives of the VRWMA, civil society and independent financial professionals.
- 2) Role of the board:
 - i) To oversee the scheme
 - ii) To set the levy for each item listed under the scheme. When setting the levies the board should ensure that the levy reflects the true cost of recycling, repurposing or disposing of each item, given the technology and markets available at the time.
 - iii) Be responsible for adding to or taking items off the list for inclusion in the scheme.

Management agency

- 1) We strongly recommend that the management agency contract be tendered to an organisation with strong financial management capabilities such as an accounting firm.
- 2) Role of the management agency:
 - 1) To collect and securely hold the deposit funds
 - 2) To manage the container returns and the refunds of these returns
 - 3) To issue licenses to importers
 - 4) To issue permits for each importation of containers or other items listed under the scheme, whether it is finished product, raw material packaging, or ready-made packaging.
 - 5) To manage contracts for recycler/s
 - 6) Ensure all participants of the scheme comply with regulations and conditions of contracts, licenses and permits.

CDS Levies

VRWMA believes that for the up-take and sustainability of the scheme it is imperative that the levy is set appropriately, taking into account the incentive required for collection of the containers and the true costs of processing and disposing or recycling the materials. *Figure 2* illustrates the breakdown of levy into its constituent parts and *figure 3* demonstrates how the levy could vary depending on the material type and its potential fate.

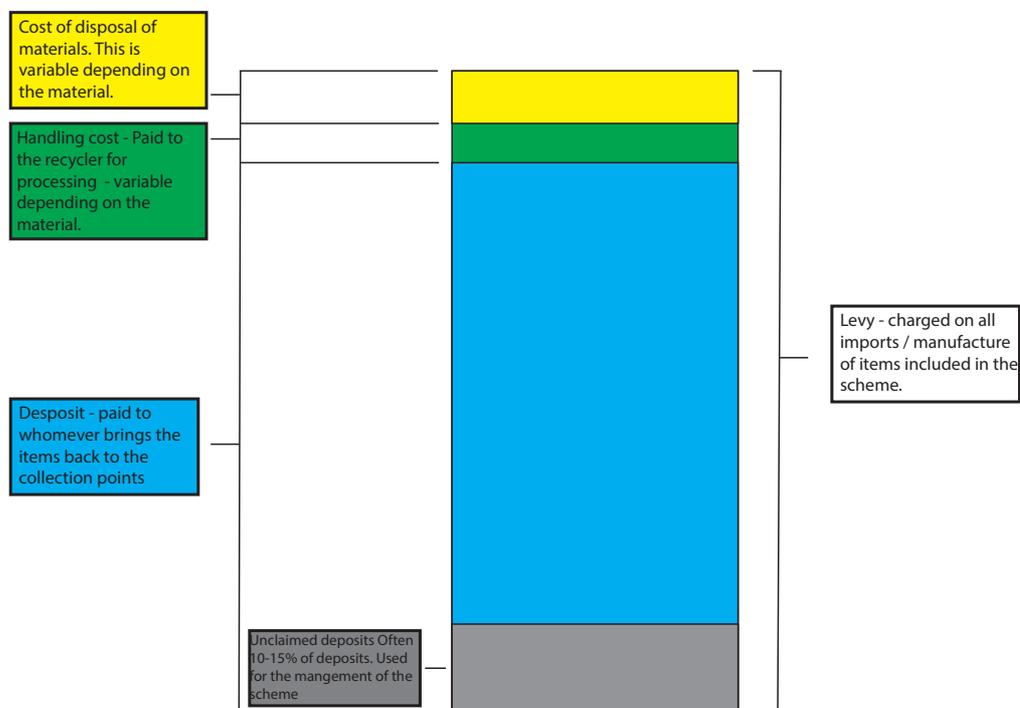


Figure 2: Components of the proposed levy

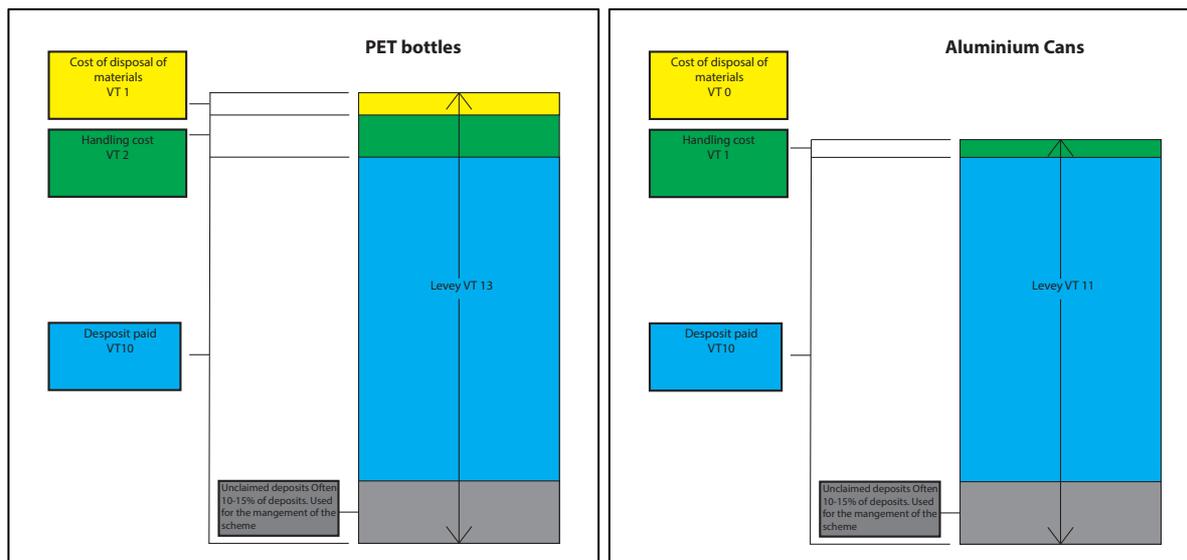


Figure 3: Illustration of how the refund can be the same but the levy can be different for different material depending on the cost to dispose or recycle an item. For example for PET bottles there is a cost in processing and preparing the material for recycling and there is a potential cost in disposal, for example shipping cost to send the material to a recycling facility overseas. Aluminium cans have a value when sold and, depending on the world price, there may not need to be any cost for disposal built in to the levy. (Vatu prices in this illustration are for demonstration purposes; calculations for what the actual cost could be for the levy have not been done at this time).

Vanuatu Brewing Limited recycles their glass Tusker beer bottles. They offer a Vt10 refund and have a high return rate. We believe the Vt10 is a tested benchmark for the refund portion of the levy in Vanuatu and the new CDS should take account of this when setting the initial levies.

It is VRWMA position, provided the levies are set appropriately, that market forces will allow businesses to develop as container collectors and collection points will be set up as a matter of course. Therefore, there is no need to prescribe how this should occur in any regulation or condition of the scheme. Free enterprise should be allowed to develop the secondary collection systems that best suit their business models. Having said that there is space for mentoring and support of small businesses to fill the niche that will be created by this scheme. We expect, if a refund of Vt10 is set, this will be sufficient incentive for collections from the outer islands to occur.

Identified Risks and Threats to the CDS and recommended solutions

VRWMA members have identified a number of risks for the introduction and smooth running of a CDS scheme in Vanuatu. There are also concerns for the affects on local businesses. We have several suggestions and recommendations that we believe will limit the risks, address the concerns and thereby enhance the chance of a smooth introduction, efficient administration and a sustainable future for the scheme.

- 1) **Concern:** The CDS is seen as a panacea for all solid waste management issues in Vanuatu. There are many litter or waste items that are suitable for such a scheme and some that are not.

Recommendation: The scope of the CDS is clearly defined and understood by all parties. The VRWMA believes any CDS has *only* 4 purposes:

- a) To create a financial mechanism to pay for disposal, recycling or re-purposing of items included in the scheme.
- b) To reduce littering and leakage of the items into the environment
- c) To incentivise the collection of the items
- d) To create separated waste streams for items.

- 2) **Concern:** The CDS is seen by the government as a mechanism to change consumer or retailer behaviour, for example by increasing the levies, and thereby the retail price, on certain items for health or environmental reasons leading to consumers opting for a cheaper and therefore healthier or more environmentally sound option. This would introduce more funds in to the system over and above what is required to run the system and manage the waste. This can introduce conflict with how this surplus should be used and who has access to these funds.

Recommendation: It is our position that other mechanisms, such as bans and taxation such as customs duty, are used for this purpose and that the CDS collects funds *solely* to run and manage the containers at the end of their useful life, thus avoiding any temptation to use the funds in the scheme for any other purpose.

- 3) **Risk:** Funds collected under the scheme are used for other purposes.

Recommendation: The scheme is a stand-alone, self-funding, non-profit mechanism, independent of government, whose sole purpose is to administer the container deposits, the management of the scheme (this can include awareness-raising of the scheme and anti-littering) and for funding the disposal, recycling or re-purposing the items. Levies can be raised or lowered as markets for recyclables change or new technology allows for a different fate for materials. The decisions on the raising and lowering of levies will be controlled by the board with representation from government and other stakeholders. In some Pacific islands the money collected under the CDS is used to run the landfill. We consider this mechanism a form of taxation and should not be part of an independent management agency model for a container deposit scheme.

- 4) **Risk:** The scheme is too ambitious from the start, trying to do too much too soon. There has been a suggestion that the scheme could cover containers other than beverage containers, such as personal care products. We believe having many items included in the scheme may result in either poor uptake of the scheme due to a lack of understanding by the public or businesses or poor management if the scheme has not the capacity at the start to administer large amounts of refunds for multiple items.

Recommendation: We recommend limiting the scheme, in the initial set up phase, to beverage containers (all types). Schemes including these items have been proven to work elsewhere. Beverages have simple, recognizable containers, a relatively short useful life and are easy for the public to understand. VRWMA also recommends that the refund on all beverage containers is the same, no matter what they are made of to keep the scheme simple in the eyes of the public. We recognise there are many items that could be included in a scheme to collect levies at the time of manufacture or import for their disposal at the end of their useful life. However we believe it would be sensible to start small, with the aim to expand the system, within a proper consultation framework, as the scheme matures and is proven to function well.

- 5) **Risk:** Perverse incentives are created by the terms of the scheme, which drive undesirable outcomes.

Recommendations: Care should be taken not to create perverse incentives by anticipating what they might be and building in measures to prevent them materialising. The board, which sets the levies and items included in the scheme, should be knowledgeable and have a good understanding of the markets and issues that may arise, taking advice where necessary from experts, including those businesses participating in the scheme in Vanuatu. An example of a potential perverse incentive would be if liquid paper board (LPB) containers, such juice boxes are not included in the initial list of items, it may drive retailers to purchase drinks in tetra-paks, which are far less recyclable and detrimental to the environment than either glass or aluminum (or even PET if in the future a market becomes available for recycling PET). The scheme needs to have flexibility built in to be able to respond to changes in the market and behaviors of importers and retailers to ensure that if any perverse outcomes do materialize, they can be addressed at an early stage.

- 6) **Risk:** Paying levies on raw material packaging at the time of import will significantly impact the cash flow of the local manufacturers. Raw material for packaging is often imported in bulk and there is a significant time before the products are produced and sold to retailers. Consequently there is a significant delay to time the manufacturer can recoup the refund money paid as part of the levy. This could unfairly impact the local manufacturers compared to importers of foreign made products as the imported products are on the shelf and for sale immediately and therefore there is less impact on the business's cash flow.

Recommendation: We recommend that there is an option to pay the levy at point of sale for local manufacturers. This will be a separate mechanism for local manufacturers, who apply to the management agency for a license to allow them to pay the levy via this special measure. The levy will be paid on manufactured finished product containers at their sale. Monthly confidential declarations will be made by local manufacturers to the management agency to declare the amount of finished product containers sold and will determine the amount of levy to be paid. The local manufacturers will need to declare the raw materials that are imported. Any waste

for the manufacture of the containers needs to be delivered to the recycler who will issue a receipt for the waste materials received. This paperwork will be used to assist the auditing process. All exports of finished products also need to be declared as they will not be subject to the levy.

The local manufacturers who opt for this payment process for the levy will be subject to audit of the manufacturers' accounts and premises to ensure the declarations are, and were, truthful. If it is found that the declarations are not accurate the local manufacturer, as well as incurring a penalty, will lose the option to pay the levy this way in the future and will have to pay for raw materials as they enter the country. These measure apply for single use containers only. The levy for raw materials for containers or empty containers that are going to be reused by the manufacturer needs to be paid at the point of entry to the country so as not to over complicate the system.

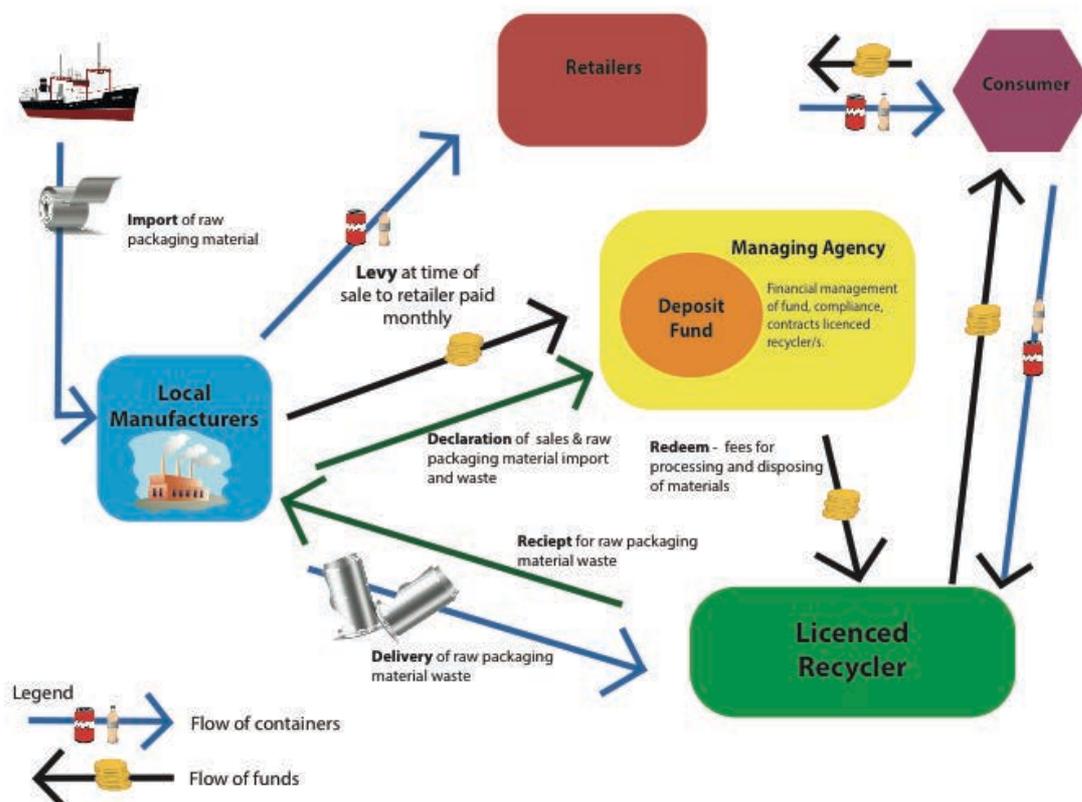


Figure 4: illustration of the mechanism for paying the levy at point of sale for local manufacturers who have been licensed for this special measure.

7) **Risk:** the financial sustainability of the scheme is put in jeopardy by some levies on imports not being paid. If not all levies are collected there will be insufficient funds in the system to pay the refunds, risking the stability of the fund.

Recommendations: Robust monitoring is built into the system to ensure all parties comply. The management agency will be responsible for the auditing of the

importers. There should be significant penalties to any business that fails to comply with the regulation to pay the levy. This is the reason the VRWMA recommends any business wishing to import any item included in the scheme, needs to be licensed. There need to be significant penalties for anyone found to import without a license. Anyone with a license that does not declare the import of included items in any shipment and therefore does not obtain a permit should lose their license to import as well as being subject to fines. As this would obviously seriously affect the future business of the importer, this should act as a good deterrent. However, there needs to be an appeals process for an importer whose license has been revoked. Penalties for non-compliance need to be prescribed by law.

- 8) **Risk:** The introduction of this scheme disrupts local industry to the long-term detriment of the economy in Vanuatu. Vanuatu is a small market for most industries and additional players or new conditions have the potential to disrupt established industries. For example Tusker already administers a successful container deposit scheme, which a new scheme has the potential to disrupt. Other industries have seen an influx of foreign entities, induced to Vanuatu by tenders for work. For example in the construction industry new companies came into Vanuatu for various aid projects including the seafront, wharf and roads. It appears these new players did not fully comprehend the Vanuatu environment and it could be argued did not use the funds available to the best advantage for themselves or Vanuatu and the sustainability of local companies has been brought into question in their wake.

Recommendation: Care needs to be taken to understand the current business climate and which companies are doing what activities. Whilst it is understood that international expertise in some areas is of benefit and that there may be gaps in capacity that cannot be filled by companies already established in Vanuatu, local capacity in established well-run companies should carry far more weight in any tender process than companies either new to the industry or new to Vanuatu.

- 9) **Risk:** Project funds are seen as an opportunity for new players with no long-term commitment to Vanuatu to set up new businesses and cherry-pick or used a “snatch and grab” mentality for short-term gain. With this approach sustainable outcomes are obviously less likely to be achieved in the long-term and have the potential to disrupt already established businesses.

Recommendation: care is taken by donors and government to not create incentives in projects that tempt only short-term investments in Vanuatu.

- 10) **Risk:** The board of governors is comprised of people who do not understand the industries of manufacturing, retail and recycling. The setting of the levies is critical to the functioning of this scheme and needs to be flexible enough to change as new technologies or market options become available. The board has the responsibility for setting the levies. We see a significant risk to the scheme if the wrong people are in positions where critical decisions are made. In our small country boards and tenders only have a small pool to draw from.. There is a risk is that people less

qualified and experienced will be making decisions outside of their level of expertise which is unlikely to result in the most favorable outcomes.

Recommendation: The most suitable persons are recruited to board and the board is balanced. If the board is comprised of government only there may not be the expertise in business that is required. If the board is made up of business only there may not be the drive to ensure the best outcomes for the country. If the board is made up of only civil society environmental concerns may outweigh economic arguments for how the materials are processed. Therefore we believe the best composition for the board is a mix of these stakeholders: government, business and civil society. The mandate and terms of reference for the board should be very clearly defined and should include a requirement to consult the manufacturers, retailers and recyclers in Vanuatu participating in the scheme before any changes are made to levies or to the list of materials included in the scheme.

In a small industry in a small market there are likely to be conflicts of interest for many eligible persons. This should not automatically preclude a person from being on the board. But all potential conflicts of interest, whether real or perceived should be declared, be well documented and be taken into consideration when appointments to the board are made. Any conflicts of interests need to be declared again at the time if they pertain to any decisions by the board for example for awarding of tenders or contracts.

- 11) **Risk:** Insufficient donor support for the set up of the scheme. Once fully functional we expect the scheme will be self-funding and self-managing. However there are actions and steps that need to be taken to ensure that the CDS is set up in the correct way for this to occur.

Recommendation: sufficient funding is sought to cover the full costs of the set up of the scheme including the activities required in the “next steps” section below.

- 12) **Risk:** Legacy material is not properly accounted for. At the time the scheme starts there will be legacy material in Vanuatu – containers that have not had the levy paid that are presented to the recycler for a refund. If measures are not put in place to account for these refunds there will be insufficient funds in the scheme to pay for them and the fund will become bankrupt.

Recommendation: In some schemes only containers labelled as part of the scheme will be accepted. But in Vanuatu as we anticipate all beverage containers will be covered by the scheme, labeling will only assist for the short time that the legacy materials are being collected and therefore be a complicated and expensive unnecessary step. Instead we propose that the amount of legacy materials is estimated and that funding is sort for seed funding for the scheme to cover the cost of the legacy material.

Important Considerations

VRWMA suggests, with the above recommendations in mind, during the setting up of the scheme, particular attention is paid to:

- a. Structure of the board
- b. Terms of Reference for the board
- c. Terms of Reference for the management agency
- d. Conditions of contracts for the recycler/s
- e. Conditions for permits to import beverages and raw materials for container manufacture.
- f. Definition of a beverage
- g. Mechanisms for monitoring compliance
- h. Significant penalties for non-compliance and an appeal mechanism
- i. Setting timing and triggers for the review of the levies
- j. Mechanism for adding new items to be included in the scheme
- k. Mechanism for dealing with exports for example duty free sales of imported alcoholic drinks.

Steps required for the implementation of the Contain Deposit Scheme in Vanuatu.

Essential

1) Calculation of funds to cover legacy materials

- Assessment of the amount of legacy material including bottles already in circulation for reuse by manufacturers eg Tusker bottles and containers in the environment.
- Estimation of cost of paying refund on these materials. Estimate should be at 3 levels:
 - i. only clean materials,
 - ii. partially soiled
 - iii. all dirty material (i.e. an amnesty on all beverage containers in the environment).
- Identify steps that could be taken to limit on going legacy materials being presented for refunds: e.g. limiting the time that soiled materials will be accepted – we suggest 6 months; work at the landfill that would prevent / discourage mining of the landfill for beverage containers.

2) Change in law

Work with State Law Office, to prepare recommendations for any legal instruments that are required for the scheme.

3) Prepare draft documents required for the management of the scheme including:

- i. Composition and eligibility for members of governing board
- ii. Terms of Reference for the governing board including mechanism for changing levies and adding new items to the list included in the scheme.

- iii. Tender documents to select management agency
 - iv. Contract for management agency
 - v. Tender documents to select Recycler
 - vi. Contract for recycler
 - vii. Create forms for:
 - i. Application to be a licensed importer
 - ii. Application for permit for imported shipments of beverages or containers
 - iii. Application for permit for special conditions for local manufacturers to pay levy at point of sale
- 3) Set penalties and consequences of non-compliance
- 4) Developing mechanism for monitoring and compliance

Desirable

- 1) Study to identify how best Ni-Vanuatu grass roots entrepreneurs; especially women or marginalized groups could capitalize on the potential income from participating in collection systems for the scheme.
- 2) Study to determine the effects of banning beverage containers of less than 300ml and the effects on the ease of introduction of the CDS into Vanuatu.

Conclusion

The VRWMA believes the introduction of a container deposit scheme in Vanuatu is a viable sustainable solution for waste, the problem of littering and disposal of beverage containers. The government has indicated, via a decision at the Council of Ministers, they are supportive of the introduction of a container deposit scheme with a management agency model. The leading beverage manufactures in Vanuatu have been heavily involved in the process of creating this policy paper and are supportive of a CDS provided the risks that have been identified in this paper are addressed.

The problem of beverage waste has been identified and a practical solution has been proposed. We are, therefore, at a point where Vanuatu is ready to start taking the steps necessary to implement this scheme, provided sufficient funding can be sought for the costs associated with the commencement of the CDS. Our proposed model is based on good business principles. Other CDS schemes around the pacific, whilst some are somewhat successful, are not as comprehensive as the scheme we propose. Some are quasi aid projects, which do not stand alone without periodic government of donor intervention; others are basically a form of government taxation. In developed countries there are schemes run and managed by the beverage industry with the environment agency in a role as the regulator.

The CDS we would like to see in Vanuatu is a stand alone, not-for-profit scheme, which will be self-financing. If the right systems and processes are put in place at the

beginning it will have the flexibility to move with the business environment in Vanuatu as well as local and global markets for recyclables. Auditing and monitoring will be built into the system so as not to put unnecessary regulatory burden on government departments. We are proposing the board of governors overseeing the scheme should be a mix of the stakeholders: Government, civil society and Vanuatu business. These groups have the same aims as the scheme itself to reduce litter, recycle or dispose of beverage waste and not disadvantaging our local manufacturing.