Stewart Investors
Sustainable Funds Group

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Container Deposit Scheme

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Finding investment gold in plastic rubbish

Lost amidst the noise around more expensive beer and soft drinks are the long-term benefits of the NSW container deposit scheme called Return and Earn, which was launched last week.

Theoretically, the NSW container deposit scheme should not be contentious. The ultimate winners of the initiative are our waterways and air quality – and our future generations. Framed in this way, paying around 20 cents more for your favourite beverage offers altruistic value that most can appreciate.

Apart from the benefits, it's far from groundbreaking – the NSW scheme has come 40 years after a similar initiative commenced in South Australia.

Yet the scheme has been greeted with a mixed response, with much of the criticism stemming from the immediate costs borne by the beverage industry (who are helping to fund the scheme) and retailers (who are passing on costs via price increases). While their concerns about the impacts on their businesses are valid, also worthy of debate is the broader question of who should bear the environmental costs of the consumption of plastic containers.

On the flipside, for investors who have seen the value of companies eroded because of changing environmental policies, another question worth asking is: which companies are well-positioned for growth in this brave new world?

Historically, we've lived in a 'linear' economy of seemingly limitless inputs for goods which are bought, consumed and disposed, and where the costs of pollution are not borne by companies.

Given our planetary constraints, there is more potential than ever to benefit from a shift towards a circular economy – one which produces, consumes and maintains goods, rather than discarding them, or, following consumption, goods are collected and reused, refurbished or recycled.

Essential to this process are better design and greater resource productivity, and businesses that can deliver these solutions stand to benefit from the shift from a linear to a circular economy.

One of those businesses is Tomra, a Norwegian company which makes the reverse vending machines we are about to see in NSW.

The reverse vending machines allow consumers to recycle packaging materials and send products back. Last year alone, the machines collected 35 billion beverage containers, diverting waste to landfill and waterways, and helping to avoid greenhouse gas emissions from the equivalent of two million cars.

Payments facilitated by the machines can be used to incentivise consumers. Those who participate in the scheme ultimately will not pay much more for their drinks if they return their used containers and collect their refunds.

Until now, our beverage prices have not included the full costs of production. The disposal of the product has been free for the producer and consumer but not for the environment.

Many Australians may have heard about the Great Pacific Garbage Patch, a rubbish-strewn region of the Pacific Ocean, stretching some several hundred kilometres in diameter. It is staggering to think that, by 2050, there could be more plastic in the ocean than fish.

The very existence of the Great Pacific Garbage Patch tells us that we need to account for the environmental costs of production. There is a growing movement in the consumer goods sector for an extended producer responsibility where packaging or end-of-life goods are taken back for reuse, refurbishment or recycling.

In the economist jargon, we need to internalise the externality, and consumers and producers will begin to pay a more accurate price, one that reflects the costs on the environment and incentivises behavioural change.

As long-term investors, at Stewart Investors, we have a strong preference for the sharing of costs along the value chain. This approach helps to improve brand equity with consumers, and to manage relationships with other merchants in the chain, as well as encouraging the development of a more sustainable long-term economy.

It also provides technology incentives for the manufacturers to look into alternative designs and production processes, and gives pricing signals to the current recycling infrastructure to encourage improvement.

Sometimes people ask us whether there is any trade-off between sustainability and investment returns – a fair question.

Investors in Tomra have been rewarded with attractive returns; over the past five years, the company's share price has risen by 22% per annum. Central to the Tomra thesis has been its positioning as a circular economy company and, more recently, its role in Responsible Production and Consumption, goal 12 of the UN Sustainable Development Goals.

Instead of there being a trade-off between sustainable practices and investment returns, the two, in fact, can go hand in hand.

Stewart Investors has invested in Tomra on behalf of their clients for the past five years.

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