



To: Commissioner Katie Dykes
From: Sandra Grance, American Beverage Association
Date: 12/4/2024
Re: Beverage Container Recycling Grant Program

Dear Commissioner Dykes:

On behalf of the American Beverage Association (ABA) and its members in Connecticut, we would first like to thank you for continuing to work with us to address compliance issues surrounding the implementation of Public Act 21-58. We appreciate your willingness to take our industry's and our customers' perspectives into account as you manage the program.

While cross-border fraud and lost sales remain ongoing issues our members are navigating under Connecticut's bottle deposit system, our current focus is on the issue of labeling containers. We ask you to reconsider your decision to revoke the 2022 order allowing the use of "CTRV" based on the increasing redemption return rates and the unnecessary burden this will place on manufacturers.

CTRV Background

Our request for a "denomination-free" label stemmed from our desire to avoid two label changes in a short time period as well as any possible changes in the future. Our industry faced a significant expansion of the scope of beverages and beverage containers required to have a 5¢ refund value effective January 1, 2023. Then the law required that these containers as well as the previous deposit containers switch to a 10¢ refund value effective January 1, 2024.

We have noted in our prior comments that labeling changes are expensive for producers and take time to design, approve, put into production, and introduce into the supply chain. This is especially true when entire product lines need to be changed subject to a time constraint. It is also particularly problematic given the length of time that it can take for re-labeled containers to appear on store shelves due to manufacturer, distributor, and retail inventories and slow movement of many of these types of beverages (*i.e.*, they do not turn over as quickly as some other beverages).

To implement two changes within the space of one year was nearly impossible to consider for many products since old, nondeposit inventory would barely be cleared out before a second round of newly labeled containers were beginning to leave bottling facilities. Beyond labeling cost and logistics concerns, there are wasteful implications of these changes as outdated label inventories need to be disposed and newly made printing plates need to be replaced rather than used repeatedly as intended. The "obsolescence cost" associated with rapid label changes is not insignificant based on information provided by our members.¹

¹ We do note that the statutory waiver on compliance with labeling requirements for products in our inventory significantly reduced potential waste from having to remove noncompliant product from shelves.

Our pursuit of the CTRV option was intended to avoid two label changes on the same product – a goal that it achieved. It also provided our members with the opportunity to have a longer runway to switch over carbonated beverage and water containers to CTRV ahead of the 2024 deadline and do a better job managing inventories and minimizing waste. It also allowed us to work with the Connecticut Food Association on educational material around CTRV when it was rolled out, resulting in in-store placement of information as well as a radio PSA campaign earlier this year. That improved awareness not only educated consumers about CTRV, but it also focused attention on the redemption program, enhancing participation. For all of those benefits, we are grateful.

Continuing Use of CTRV

We strongly urge the Department to leave its order in place permitting the use of CTRV indefinitely. The CTRV option was widely adopted by our members and by other deposit initiators, precisely because it would avoid the need for future changes. To undo the order now would result in a third label change for expansion containers and a second label change for the majority of our remaining products that have adopted CTRV on their labels. This change in policy would be worse for our companies than simply going to 10¢ labels in the first place because CTRV was not considered a temporary measure. While that was proposed in an early draft of DEEP's order, that approach was rejected for precisely the reason noted above – it would be worse to introduce a temporary label that then had to be replaced than to simply begin marking containers with 10¢.

We have requested data from our member companies and have examined state data to help substantiate our case for maintaining the CTRV option. Given the compressed timeline, we could not get complete information from all of our members that sell in Connecticut, but we hope the data we have is helpful in your deliberations.

The Confusion Hypothesis vs. Redemption Reality

The increased redemption value has profoundly increased redemption in Connecticut.

- The statewide redemption rate reached 74 percent in the third quarter – a rate exceeded in only one previous quarter dating back to 2009, when the state began collecting unclaimed deposits. The rate in the third quarter of 2023 was just 45 percent.²
- For the first three quarters of the year, the redemption rate stands at 63 percent. Last year for that period the rate was 42 percent.
- 53 percent more containers were redeemed in July-September 2024 than in the same period in 2023. Redemption increases are gaining momentum:
 - For Q1, 21 percent more containers were redeemed in 2024 than in 2023
 - For Q2, 27 percent more containers were redeemed
 - For Q3, 53 percent more containers were redeemed

² Statewide data are from the state's bottle bill website <https://portal.ct.gov/deep/reduce-reuse-recycle/bottles/connecticut-bottle-bill> accessed November 28, 2024.

- Total containers redeemed through September, 847 million, is just short of the 859 million redeemed in all of 2023.
- Data from our member companies varies as their territories and product portfolios differ, but they have experienced increases in the number of containers redeemed *averaging* 43 percent for the year to date, with some much higher. And this dramatic increase in returns has occurred despite lower sales as noted below.

The most common case made for withdrawing CTRV as a labeling option seems to be the assertion that it is confusing for consumers. That opinion or hypothesis does not hold up very well to the flood of additional containers being redeemed. At some point the reality of what consumers are actually doing needs to take precedent over a theorized state of confusion.

Finally, we want to remind you of the huge role that automation plays in the redemption business in Connecticut. The vast majority of returns in Connecticut are redeemed by having their bar codes scanned, which means consumers get their 10¢ regardless of what the container says. This is only growing as CLYNK begins to establish itself in the state.

Improved awareness of the existence of the deposit program, how it works, what products it affects, and how to return containers would all be beneficial to the performance of the system, even though there is no formal entity to fund or provide that education. But with record levels of redemption, it is very difficult to sustain a belief that the CTRV label on containers is confusing consumers.

Cost Impacts

Data from just three of our member companies suggest that a label change away from CTRV would cost them \$5.5 million. This does not include some of our largest members and perhaps counterintuitively shows a greater burden on companies with smaller sales footprints but a more diverse portfolio of products. As noted earlier, the slower moving products account for a lot of unique product SKUs, but lower sales volume, making the transition even more problematic for those companies.

These reporting member companies alone have about 1,700 different SKUs subject to deposit in Connecticut. To compare this to a state with a public database, Maine's label registration database shows more than 6,600 nonalcoholic SKUs registered there, so it is reasonable to estimate that the cost of undoing the CTRV label for nonalcoholic beverages would exceed \$20 million.

Sales Impacts

One of our primary concerns with the increase in the redemption value was the impact it would have on sales in Connecticut, particularly in border areas. The state's data and our members' data bear out that concern.

- Through September, statewide deposit container sales are down 10 percent compared to the same period in 2023. There is no evidence from other states or from national data that beverage category sales elsewhere are seeing that kind of decline.

- Our members' sales losses for the year to date range as high as 27 percent – a punishing consequence of the higher redemption value.

While these sales impacts do not relate directly to the labeling decision, they are indicative of the pressure that Public Act 21-58 has put on our members, their ability to do business, and to succeed in Connecticut. Losing sales to neighboring states means fewer jobs, tax dollars, and economic activity for Connecticut while bordering states benefit. The business environment in the state is challenging, and this is an example of a state policy that could, at the margin at least, make the state a little more business friendly.

To close, I repeat my appreciation for your consideration of our perspective on the labeling issue and hope that you will leave in place the order permitting use of CTRV. We all face growing challenges from fraudulent redemption and cross border sales, and I hope we are able to work together to craft policies to help control these rapidly growing problems. If you have additional questions or need more information from our members, please ask.