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THE WHITE HOUSE

WASHINGTON

November 11, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: JAMES T. LYNN
JAMES M. CANNON

FROM: JAMES E. CONNOR 

SUBJECT: EPA Draft Guidelines on Beverage Container
Deposits

Confirming conversation with Jim Lynn today, the President reviewed your undated memorandum on the above subject and approved the following option:

"Take no action. EPA will publish the proposals for public comment prior to promulgation."

Please follow-up with appropriate action.

cc: Dick Cheney

THE WHITE HOUSE
WASHINGTON

November 10, 1975

MR PRESIDENT:

Staffing of the attached memorandum resulted in the following:

Phil Buchen - Favors Option 1

Max Friedersdorf and Bill Seidman - Favor Option 3

Bill Seidman added the comment - "We should get out ahead on this issue".

Comments from Jack Marsh have not yet been received.

Jim Connor

THE WHITE HOUSE
WASHINGTON

November 10, 1975

MR PRESIDENT:

Jack Marsh has now submitted his comments concerning the memorandum from Jim Lynn and Jim Cannon re: EPA Draft Guidelines on Beverage Container Deposits. They are as follows:

"Option 4 - Also there should be set out opposition of Labor Unions to this proposal if such continues to be the case."

Jim Connor

THE WHITE HOUSE

WASHINGTON

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: JAMES T. LYNN
JAMES M. CANNON *JM*

SUBJECT: EPA Draft Guidelines on Beverage
Container Deposits

ISSUE

Under the terms of a court agreement, EPA is proposing to publish guidelines that include a requirement of a five-cent returnable deposit on beverage containers sold at Federal facilities. Should you direct Administrator Train to a different course of action?

BACKGROUND

The Solid Waste Disposal Act, as amended, requires the Administrator of EPA to issue guidelines for "solid waste recovery, collection, separation and disposal systems." The guidelines are merely recommendations to State and local agencies. However, the law requires the guidelines to be followed by Federal agencies and authorizes you, the President, to prescribe regulations to insure that Federal agencies comply with the guidelines. In December 1973, President Nixon signed Executive Order 11752 directing the heads of Federal agencies to comply with the guidelines issued by the EPA Administrator.

Three environmental groups sued the EPA and the United States in June 1974 for failure to issue the guidelines. In effecting settlement of the suit, the EPA provided the court with a schedule for developing and promulgating the guidelines in seven areas. Five of these guidelines have already been issued (land disposal, thermal processing,

collection, source separation, procurement). The law does not specifically address beverage containers, nor did the court or plaintiffs direct that this item be covered. EPA, however, included it as one of the seven guideline areas. EPA would require sellers of beverages to levy a five-cent returnable deposit on all beverage containers (e.g., cans, one-way bottles and returnable bottles.) The court-monitored schedule calls for beverage container guidelines to be proposed in September, with final promulgation by December 30, 1975.

DOD and Commerce challenged EPA's authority to mandate beverage container deposits, stating that a beverage container is not a solid waste until it is empty. Consequently, it is contended that filled beverage containers are not solid wastes and cannot be controlled under the Solid Waste Act. The EPA has responded that the Solid Waste Act calls for systems for collection, separation and recovering solid waste, and the proposed guidelines would establish such a system.

In a letter to Senator Robert Taft, the Assistant Attorney General for Land and Natural Resources opined that EPA does have the legal authority to promulgate the beverage container regulation. In addition, FEA, GSA, CEQ, and Interior do not question EPA's legal authority to promulgate the regulation. The Office of Legal Counsel of the Department of Justice has not ruled on this issue.

A number of bills have been introduced in the Congress to effect such a ban. To date, there has been no action.*

* Chairman Paul G. Rogers of the House Subcommittee on Health and the Environment has written to EPA:

"While I expressly disavowed any nationwide legislative prohibition on the sale of nonreturnable bottles at this time given the economic conditions of the country right now, I believe the Congress, the Agency, and the States should explore all reasonable avenues for dealing with the Nation's waste problems, including possible phase-in of limitations on use of no-deposit packaging."

IMPACTS

The Federal facilities mandated to comply constitute less than 2 percent of the total beverage market, and those facilities showing adverse economic impact in the local area can be exempted from compliance. Thus, the specific impact of the EPA proposal is minimal except for the important philosophical point of the proper Federal role in the national resolution of the problem. Promulgation of the guidelines will be perceived as the way the Administration is leaning on the issue of national legislation; therefore, the proposal is herein viewed with consideration for the impact of national legislation as well as for the mandated compliance required.

The industry, and some Federal agencies, are concerned that the proposed regulations will put the Federal Government's imprimatur on banning nonreturnable containers, whether legislated locally or nationally. This signal would create substantial uncertainty as to the future of the beverage container market.

At a meeting chaired by OMB of interested Federal agencies, the main criticism by DOD, Commerce, and to some extent OMB, centered around the:

- inflation impact of the proposed regulation;
- expected impact on industry and labor resulting in a change from metal containers to heavy glass containers;
- the uncertainty--especially as to investment--that publication of proposed regulations would have on the future of the industry;
- impact on the ways various government agencies (predominately DOD) conduct beverage businesses.

As a practical matter, the likely effect of this regulation is that beverage vendors will tend to use heavy reusable glass bottles because they know they will be getting 90 percent of their containers back and a reusable glass system is, on the whole, cheaper than a system utilizing

other recyclable containers such as cans. Coors and Falstaff favor publication of the guidelines so that the public can comment on its contents.

The estimates for the employment and energy impacts of a national beverage container deposit bill (assuming a 90 percent market share for refillable glass containers) depend greatly on the type of legislation. Employment effects run from a net change of zero (Commerce estimate) to a net increase of 25,000 jobs (EPA, FEA estimate). (OMB is not satisfied that the studies have been extensive enough). In both cases, the losses would occur in the can, metal, and bottle (non-refillable) manufacturing industries and the gains would occur in the retail, distribution, and bottle filling industries. Both estimates assume lower salaries but higher total labor income. The energy savings is estimated to be about 100,000 barrels of oil per day (FEA's report due in December, Tab A). EPA estimates that a national beverage container deposit system would lower the cost of beverages by 2 or 3 cents per container. The Department of Commerce states that prices will increase. OMB believes that under existing economic conditions, prices will rise in the short-run and then decrease to a level which exceeds or possibly equals current prices. OMB also states that, given the significant differences between the agencies, additional study is needed prior to making a definitive statement on the price impacts related to a national program.

The CEA review of the economic analyses available concludes that the background studies are incomplete, but it can be inferred that the price effect of national legislation is small (Tab D).

Two States (Oregon and Vermont) and several localities have similar legislation. The Oregon experience (Tab B) has shown a significant decrease (66 percent on a piece-count basis) in roadside litter from beverage-related sources. Total sales were up, but not at previous growth rate, soft drink wholesale prices went down, beer prices remained constant, bottler profit margins were lower, net employment figures increased.

OPTIONS

Option 1. Take no action. EPA will publish the proposals for public comment prior to promulgation.

Pros

- Satisfies the court requirement.
- Would be viewed favorably by many organizations, editorialists and public interest groups (League of Women Voters, U.S. Conference of Mayors, environmentalists and the National League of Cities).
- Would permit change or modification (though probably difficult) of the regulation based on more information subsequent to public comment.
- EPA, Agriculture, CEQ, ERDA, FEA, Interior and TVA support or at least do not object to this option.
- Would permit you to have time to reassess the issue after the initial public comment period.

Cons

- Would create uncertainty for the beverage and can industry because it is difficult to assess the extent to which the guidelines would stimulate States and local governments to adopt similar guidelines on a piecemeal basis.
- Places the greatest burden of compliance on a small group--the military and their dependents in terms of consumer choice.
- Programmatically, this piecemeal approach--through Federal facilities only--is an inferior way to implement any eventual ban on one-way containers.

Option 2. Direct the EPA not to publish this guideline for comment and promulgation.

Pros

- Would leave resolution of the nonreturnable container issue up to the legislative process.
- Would alleviate the immediate concern of the can industry.
- Would keep the Federal Government from becoming the "lead" force in inducing the States and local governments to pursue similar beverage container laws.

Cons

- Could lead to a legal action requiring the publication of the regulations since plaintiffs are already moving for a court order.
- Would be viewed by editorialists, environmentalists and some public-interest groups as a giant step backwards.
- Could posture you as captive of industrial interests particularly in view of the current widespread political and media interest in these regulations.

Option 3. Announce your intention to submit national legislation to require mandatory deposits on nonreturnable containers with ample lead-times for compliance.

Pros

- Would place the Administration in a favorable position on two popular topics: energy conservation and environmental protection.
- Would force congressional action on the issue.
- Would ensure national uniformity rather than permitting a series of conflicting and confusing State and local laws.
- Would provide the container and metals industries with the long-range planning ability to make investment decisions with a minimum of uncertainty and disruption.

Cons

- Would be interpreted as a new regulatory program, running counter to expressed Administration position.
- There would be immediate dislocation effects on the can and metals industries unless the legislation were carefully drawn and substantial phase-in periods permitted.
- May not satisfy the courts.
- There would be strong negative reaction from the can and metals industry, supporting industries, and labor.
- Opens the door for potential regulatory programs over other types of packaging.

Option 4. Announce a six-twelve month delay in promulgation on the grounds that further study is needed on energy savings, labor dislocation, individual agency impacts; establish a formal task force to make recommendations.

Pros

- Would postpone uncertainty in the beverage and container industry.
- Further study could have useful results.

Cons

- Might not survive court challenge.
- A fair amount of study has already been conducted.
- Would be viewed by environmentalists as a substantial step backwards.
- Would still leave a sword hanging over the industry.

VIEWS AND COMMENTS

EPA Views (Tab C)

1. There is no outstanding legal question with relation to EPA's authority to issue the beverage container guidelines.

2. Federal agency compliance is mandatory only if economically feasible and can be phased in over a number of years.
3. The guidelines are clearly not inflationary, will reduce costs and save energy.
4. The employment impact would be minimal and most likely positive.
5. There is widespread public support for the guidelines.
6. EPA wishes to publish the guidelines as proposed allowing for public comment.

OMB VIEWS

Jim Lynn believes this is the wrong time to be creating additional investment uncertainty in a key industry. Further, he has substantial doubts as to the legal validity of the proposed regulations and, in any case, thinks it inappropriate to be achieving indirectly what the Congress has failed to legislate directly over the years. Finally, from a programmatic point of view, if the Nation is to ban nonreturnable containers, the "Federal facility" approach is not nearly as sound as a national ban phased in over time. Accordingly, Jim Lynn prefers Option 2 but also agrees that Option 4 is nearly as good programmatically, but may substantially be better politically.

DOMESTIC COUNCIL VIEWS

Option 1, no Presidential action, is the safest course. If some Presidential action is to be taken, Option 3 is the preference. Option 3 would:

1. Conserve energy
2. Possibly create jobs, and
3. Be a widely popular environmental step at no cost to the Federal Government.

PRESIDENT'S ACTION

Option 1	<u>RR4</u>	Option 3	_____
Option 2	_____	Option 4	_____

of the equipment and space and the bottle and ancillary packaging float over the projected values in the absence of government intervention. The capital impacts differ from the increases in investment to the extent that the capital already in place can be substituted for the desired capital equipment. The maximum savings are obtained when there is a complete switch to refillable bottles. This case, however, is also the case having the largest capital requirements.

Because of the labor-intensiveness of handling returned bottles and metal cans, those parameter values that imply high metal can return rates tend to have the highest net labor and earnings impacts. For most parameter values, the net labor and earnings impacts are positive; that is, more jobs are created than destroyed. However, the dislocation can be significant.

The revenue potential of a typical ton of solid waste recovered in a resource recovery plant is about \$8.00. Of this amount \$1.73 is due to beverage containers. Thus were mandatory deposits to result in the complete elimination of beverage containers from solid waste there would be a 22 percent reduction in the revenue potential of solid waste.

~~The following general conclusions appear warranted regarding the energy and economic impacts of mandatory deposits:~~

- ~~1. There would be a net decrease in the energy requirements;~~
- ~~2. There would be a net increase in the capital requirements;~~
- ~~3. There would be a net increase in the labor requirements over virtually all metal can market shares and return rates; however, there would also be dislocations in the job market;~~
- ~~4. There would be a net increase in labor earnings for most metal can market shares and metal can return rates;~~
- ~~5. The revenue potential of municipal solid waste would be decreased by a maximum of 22 percent.~~

1.3 Methodology and Limitations

The approach employed in this study is to project the requirements of the beverage systems for energy, capital, and labor over the 1975-85 period without and with mandatory deposits, and to estimate the impact of mandatory deposits by subtracting the "with" from the "without" projections.

PROJECT COMPLETION REPORT

For

STUDY OF THE EFFECTIVENESS AND IMPACT OF THE
OREGON MINIMUM DEPOSIT LAW

October 1974

APPLIED
DECISION
SYSTEMS

I-A SUMMARY OF LITTER ANALYSIS

The Oregon Minimum Deposit Law originated in that state's Legislative Sub-Committee on Litter and has as its principal objective the reduction of beverage-related litter throughout the state. This section of the report presents the results of surveys of roadside litter designed to measure how well the law met that objective. The major conclusions of this analysis relate to: 1) change in beverage-related litter, 2) change in other litter, 3) resulting change in total litter, and 4) the influence of highway traffic on littering behavior. The primary statistical evidence is presented briefly here and fully expanded in later portions of this section of the report.

The Surveys of Roadside Litter

Three litter surveys were conducted which provided the data for the analysis:

- The Legislative Fiscal Office Survey--litter collected along 30 one-mile-long segments of highway. The survey was begun a full year before the law took effect. It provides direct comparisons of piececounts at each site for similar periods before and after the law.
- A Control Survey--collections at 30 additional highway sites performed for the Legislative Fiscal Office after the law to provide a check on the original sites.
- The Governor's Summary of Litter Composition--a summary by piececount and volume of the litter picked up along 25 of the 30 highway sites in the original Fiscal Office Survey. Conducted only after the law was in effect, this survey provides volume data but no direct before and after comparisons of the law's impact.

Results

--Beverage-Related Litter

The statistical analysis of these surveys indicate that beverage-related litter did decline dramatically

after the law. On a piececount basis, beverage-related litter declined by 66% from its pre-law level. Before the law, beverage-related litter (including some paper items) had accounted for 30% of all litter. After the law it accounted for only 11%. On a volume basis it declined from 43% to less than 19% of all litter. The statistical significance of the decline in beverage-related litter was well above the 99% level. Each of the categories of beverage-related litter also showed a decline after the law which was statistically significant: five-cent bottles declined by 65%; two-cent bottles declined by 29%; other returnable containers declined by 77%; and nonreturnable containers (including some paper) declined by 68% (see Exhibit I-1).

--Other Litter

During the same period (October, 1972 - August, 1973), other litter failed to decline. In fact, on a piececount basis, other litter increased by 12% over its pre-law level while traffic along the sample highways went up 4.5%. This increase is just significant at the 91% level. The "Other Litter" category is essentially a "control group", demonstrating that weather, traffic volume, publicity, regular litter pickups along these highway segments, and other external factors were probably not responsible for the decline in beverage-related litter.* It is reasonable to assume that the decline in beverage-related litter is indeed due to the Minimum Deposit Law; on the other hand, the law seems to have had little or no impact on other litter.

--Total Litter

Total litter declined by 10.6% on a piececount basis, and possibly as much as 21% on a volume basis** after the law. The piececount measure is the more precise of the two, and is statistically significant at the 92% level.

*Publicity at least had no general effect upon litter. It is still possible that the publicity associated with the law may have had some effect upon beverage-related litter without having an effect upon other litter.

**All volume measures are approximations from data reported in Governor's Summary of Litter Composition.

II/2 SOFT-DRINK INDUSTRY

II/2-A INTRODUCTION

This section of the report presents the impacts of the Minimum Deposit Law upon soft drink bottlers and contract canners during the law's first year, from October 1972 through September 1973. The impacts of the law have been analyzed in terms of sales volume and mix, prices, investments, employment, direct costs and margins, other costs, and operating profits. The primary measure of impacts used in this section is the comparison of operating results in the first year after the law with those in the year before the law.

The major conclusions of this section are summarized below:

Sales Levels

- Total soft drink sales, on a unit basis (containers), were approximately 4% lower in the twelve months after the law than in the prior year.
- On an ounce basis, total soft drink sales in the year after the law were unchanged from the prior year.
- The sales of national franchise brand soft drinks (Coca-Cola, Pepsi-Cola, 7-Up, etc.) continued to grow after the law -- by approximately 5% vs. the year before on a units basis, and approximately 10% on an ounce basis. That is below the reported historical rate of 8% to 10% per year in Oregon but above the National Soft Drink Association reports of 4% and 5% respectively for the Pacific U. S.*

*Oregon, Washington, California, Alaska, and Hawaii - National Soft Drink Association, 1973 Sales Survey of the Soft Drink Industry.

- The sales of private label and warehouse brand soft drinks (Shasta, Cragmont, Gayla, etc.) declined by 40% in the year after the law vs. the prior year, on both a units and an ounce basis.
- Soft drink sales in the cold bottle market, most of which is vending sales, increased by approximately 6% on a units basis and 5% on an ounce basis in the year after the law (and are included in the franchise bottler sales above).

Sales Patterns

- Returnable bottles have increased in share of the Oregon soft drink market from 53% in the year prior to the law to 88% in the year following it (units basis).
- Cans have declined from approximately 40% of pre-law sales (units basis) to less than 12% after the law.
- The sales of franchise brands have shifted from 65% returnable bottles and 28% cans before the law to 98% and 2% respectively after the law.
- Sales of private label and warehouse brand soft drinks were almost exclusively in cans before the law (92%), and remained 78% in cans during the year after the law.
- A shift in soft drink sales toward larger-sized packages has occurred after the law. In the year prior to the law, large "quart-sized" bottles accounted for 10% of all unit sales and 16 ounce bottles accounted for 16%; after the law they accounted for 14%, and 28%, respectively.

Prices

- The average wholesale price per case of soft drinks in Oregon has declined 5% since the law as a result of the change in package mix (despite the fact that prices on most individual packages were up).
- The overall cost and profit effects of the law upon soft drink bottlers suggest that wholesale prices may eventually be increased to 1.1¢ per unit (approximately 26¢ per case) above the pre-law levels.

Return Rates

- Return rates on the traditional returnable bottles remained at a high level, an average of 95.7% before the law and 95.9% after it.
- Return rates on cans have averaged only 62% in the first year under the law. The rate was increasing throughout the year, and its ultimate level is unknown.

Employment

- Employment in the soft drink industry increased by a net figure of approximately 82 to 98 jobs, almost all in Oregon. Of those about 75 to 80 were skilled jobs at salaries of \$211. to \$252. per week, and approximately 5 were clerical jobs at \$160. per week. The jobs figure is a net of an increase by bottlers of approximately 142 to 148 new jobs, and a decrease by contract canners of approximately 50 to 60 former jobs.

- Total payroll effects of the net job increase in the first twelve months of the law were approximately \$872,000 to \$1,050,000 of additional wages in Oregon.

Investment

- Total new investment in the soft drink industry in Oregon, reported as a result of the law, was between \$3.5 million and \$4.5 million in the first twelve months of the law.
- New investment for plant and equipment, including new warehousing space, was approximately 20% to 25% of the total, for trucks and other merchandising equipment it was 15% to 20%, and for containers it was 60% to 65%.
- The annualized cost of the additional investment was approximately \$2 million in the first year of the law and \$½ million in the second and following years.
- On a per container basis, the annualized cost of the additional investments was approximately 0.6¢ to 0.75¢ in the first year and 0.2¢ thereafter. The breakdown in the first year was approximately 0.15¢ for amortization, 0.05¢ to 0.11¢ for financing, and 0.45¢ for writedowns of new bottles to deposit values.*
- On six-pack basis that could mean a pre-tax additional cost of 3½¢ to 4¢ per six-pack in the law's first year, and 1¼¢ per six-pack thereafter.

*The "writedown to deposit" is a method of recognizing the cash loss of buying bottles at one price, say 10¢ apiece, and "selling" them to consumers for another (deposit) price, say 7¢.

Manufacturing Costs and Margins

- The weighted average manufacturing cost (weighted by volume) per case of soft drinks remained unchanged after the law from its pre-law level. The reduction in average cost of approximately 10¢ per case which would have been the result of changing the package mix was completely offset by increases in handling and other costs related to the law.
- The average margin (weighted by volume) declined from \$1.08 per case before the law to \$0.95 after it, a decline of 12%.
- The reduction in average margin resulted in a loss to soft drink bottlers of approximately \$1.8 million of contribution in October 1972 to September 1973 vs. the prior year.

Other Costs

- Other costs increased by approximately \$400,000 in 1972 to 1973 vs. the prior year.
- Of that, increased advertising expenses accounted for approximately \$100,000, increased promotional expenses for \$150,000 to \$250,000 and miscellaneous other items for \$100,000.

Operating Profits

- Soft drink bottlers experienced a net reduction in pre-tax operating profits of approximately \$3.1 to \$3.5 million, net of about \$1 million in increased deposit forfeitures, in October 1972 to September 1973, vs. the year before.
- That reduction is an average of 1.1¢ per container 6.6¢ per six-pack, pre-tax, during the law's first year. In the second and following years the reduction is closer to 2.5¢ per six-pack, pre-tax.

315

BREWING INDUSTRY

II/3-A INTRODUCTION

This section presents the first-year impacts of the Minimum Deposit Law upon the brewers serving the Oregon market. The effects of the law have been studied in terms of sales volume and mix, direct costs and margins, investments, other costs, and operating profits. The primary criterion used to measure impacts has been change vs. actual levels in the prior year. A secondary criterion has been the change of items vs. the forecasts of what they would have been without the law.

The results of this section indicate that packaged beer sales (in bottles and cans) have declined during the first year of the law, while draught sales have not. Operating margins (cents per case) have remained essentially unchanged for the regional brewers, but have declined by 40% for the national brewers. Investment requirements, on the other hand, have been heaviest for the regional brewers and very light for the national brewers. Overall, the law has reduced pre-tax operating profits by approximately 1.5¢ to 2¢ per 6-pack in the market.

The detailed analyses leading to these conclusions has resulted in the following supporting conclusions:

Sales

- On a barrelage basis, the historical growth of packaged beer sales stopped after the law, and sales plateaued at their pre-law level.
- On a container or unit basis, packaged beer sales have grown slightly since the law, but at approximately half the previous rate of growth.
- Adult per capita consumption of packaged beer reversed a ten-year trend and declined slightly after the law.

- Draught beer sales continued to grow at or above the historical rate of growth indicating that there has not been a general decline in beer consumption.
- Total beer sales on a barrelage basis were up slightly after the law, reflecting the increases in draught sales, but have been below forecast for five of the six quarters following the law.

Sales Patterns

- Returnable bottles rose from 31% of beer containers before the law to 96% after it.
- Cans fell from over 40% of unit sales to 3.5% after the law.
- The 11-Oz "stubby" bottle alone accounted for 47% of unit sales prior to the law, and 81% after it.
- Relative market shares of regional vs. national brewers appear not to have been affected by the law. Foreign and specialty brands, however, have lost half of their former share of the Oregon market.

Malt Beverage Tax

- Oregon revenues from malt beverage taxes of packaged beer fell slightly due to the packaged sales decline. They were approximately \$5,000 lower in the first four quarters affected by the law vs. the prior year, and \$38,000 lower vs. forec

Beer Prices

- The law was not used by brewers as a justification for the price increases in 1973. However, prices should have risen above their pre-law level by approximately 1¢ per 6-pack to cover increased costs of the brewers operations.*

*Data collection for the study was performed prior to the price increases in May 1974, so it is unknown whether those increases were related to the law.

- The price per ounce of beer in Oregon has increased by 2.1% because prices did not decline when the average package size was reduced.

Return Rates

- For returnable bottles, the average return rate after the law appears to have been between 80 and 85%.
- The 11-Oz. "stubby" bottle appears to have had a return rate of approximately 85% after the law.
- Regional brewers have had an overall bottle return rate of approximately 90%-95% after the law.
- National brewers have had an overall bottle return rate of approximately 30-35% after the law.
- Return rates for cans after the law could not be determined.

Employment

- For all brewers employment has increased by 50 to 60 skilled jobs, at average salaries of approximately \$12,000 per year.
- Total annual payrolls have increased by \$614,000 to \$736,000 as a result of the law.

Investments

- Fixed investments for bottle handling equipment and line conversions increased by \$2.2 million to \$3.2 million as a result of the law.
- Annualized cost of the additional investment over 10 years, including financing costs, was \$300,000 to \$600,000 or 0.5¢ to 1¢ per 6-pack per year.

Manufacturing Costs

- The cost of manufacturing each type of package seems not to have been affected by the law.
- For regional brewers, the standard cost of 11-Oz. returnable bottles is approximately 12% lower than for 12-Oz. cans (before deposits).*
- For national brewers, the standard cost of 11-Oz. returnable bottles, before including deposits, is 5% higher than 12-Oz. cans, due to low return rates. After including the effect of unredeemed deposits, the 11-Oz. bottle cost is 11% lower than the can cost for these brewers.

Margins

- Average brewer margins (weighted by volume) have declined by approximately 7% on a case basis after the law.
- For regional brewers, average dollar margins per case were the same, before and after the law.
- For national brewers, average margins were 40% lower after the law than before. The change in margins alone caused a loss of over \$400,000 of pre-tax gross profit for the national brewers on their actual sales volume in the year following the law.

Other costs

- Line expenses to handle special Oregon labels and/or can ends were an estimated \$35,000 to \$70,000 per year.

*The unredeemed deposits constitute an extra source of revenue which can be netted against costs in computing standard manufacturing costs.

Operating Profits

- The net effect of all impacts outlined above was that pre-tax operating profits of the brewing industry on their Oregon business declined by \$0.9 to \$1.2 million, or approximately 1.5¢ 2¢ per 6-pack, in the first year of the law. On an after-tax basis the impact of the law has been just under 1¢ per 6-pack.
- The pre-tax profit impact upon national vs. regional brewers has been quite different: on national brewers it has been a decline of approximately 8¢ to 9¢ per 6-pack, and on regional brewers it has been approximately 0.6¢ to 1¢ per 6-pack.

September 25, 1975

MEMORANDUM TO: Honorable James T. Lynn
Director, Office of Management and Budget

SUBJECT: Federal Guidelines for Throwaway Containers

This will follow up our conversation on the issue of Federal guidelines for throwaway containers. I am attaching the article from Jim Kilpatrick which takes a very positive view of the issue from a conservative viewpoint.

As I mentioned, there are some strong views among some labor groups concerning this issue. As I recall, our estimates of the direct employment impact (without offsetting gains) for a full national deposit program would be somewhere in the neighborhood of 60,000 jobs. (As I indicated on the telephone, these losses would be more than offset by employment gains in other areas of the economy, although not necessarily by the same individuals.) However, in the case of Federal facilities, we are only talking about two to four percent of the national beverage container market so that the actual direct impact should be really quite negligible.

The real issues tend to not involve the impacts related to our pending proposal directly only to Federal facilities, which can be expected to be quite minimal, but rather to the broader issue of a national program which could, of course, only be undertaken on the basis of Congressional action. Thus, the argument is made that our proposal represents an "opening of the door."

You should be aware, in addition to the Kilpatrick article, that the proposal has also had attention from Jack Anderson. Thus, any pulling back from the proposal at this point is going to give rise to a lot of adverse comment. We are, in fact, only going to a proposal, with a final promulgation not before next year and initiation of implementation,

as now proposed, an additional year beyond that. Thus, we are moving into this about as cautiously as possible. I might also mention that, while most brewers and bottlers are unhappy about the proposed move, a letter from Coors Beer to the President is understood to be supportive.

As I indicated to you, it is my understanding that FEA's analysis of the energy and economic benefits of a national program are supportive of the conclusions reached by EPA, namely, that the impacts are positive. Frankly, I really don't think that the country is ever going to begin to come to grips with energy and related problems until it faces up to the wasteful practices which are so pervasive in our society. It seems to me that what we are proposing provides a very modest signal in this direction and represents an entirely appropriate exercise of Federal leadership. Rather than seeking here to impose new rules on society, we are simply trying to set a Federal example. I would also strongly argue that it is anti-inflationary!

(S) [unclear]

Russell E. Train

D

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

November 4, 1975

MEMORANDUM FOR: GEORGE W. HUMPHREYS
FROM: Paul W. MacAvoy *Paul MacAvoy*
SUBJECT: Guidelines on Returnable Beverage Containers

The proposal is to require a five-cent deposit on all beverage containers sold on Federal property. There are a number of possible effects from this regulation, both on the sales involved and those not on Government property. Although it would be appropriate to assess all the effects, we have confined the CEA review to the price impact of phased-in legislation.

Unfortunately, the background studies provided do not address this question directly. However, it can be inferred that the price effect is small. The RTI study remains a "black box." I can't determine from their report how their numbers were derived. They indicate a wide range of possible results in Tables 1-2 and 1-3, with labor costs rising as much as 15 percent or even falling a little, capital requirements using between 20 percent and 100 percent, and energy requirements falling between 12 percent and 55 percent. Since Labor and energy requirements are dominant according to Tables 1-2, the indicated cost (and price) change is zero or negative.

The DOC study indicates a smaller gain in the number of jobs and a smaller decrease in energy requirements. Their results don't seem to indicate much of a price increase either. The Oregon experiment indicates no price increase as a result of the deposit law. In Washington, the returnables sell for less than the non-returnables, but this may be due to a state law rather than a cost differential.



Two further points need to be made. First, beer and soft drinks are final goods; so a change in price is not likely to have "ripple effects" on other goods. Second, even if the purchase price remains unchanged, not including the deposit, the consumer bears the time cost of having to collect and return the bottles or the cost of forfeiting the deposit.