

Wednesday,
6 April 2022

PETCO Member Update



Thank you to our members who have paid **their fees** and are now fully compliant PETCO members

Dear PETCO member,

We would like to thank our members who have paid their fees and are now fully compliant PETCO members since the commencement of mandatory Extended Producer Responsibility (EPR) in November 2021. We are greatly encouraged by your vote of confidence. We are in the process of finalising the terms of converter membership with PETCO and will thereafter revert on next steps toward new converter producer agreements that support their respective brand owners wishing to align with PETCO's EPR strategy.

We are prepared for the Department of Forestry, Fisheries and the Environment (DFFE) to audit and measure

our progress against the legislated targets, and we can assure you that with the manner in which PETCO has been operating in South Africa since 2004, you are in the best possible hands to demonstrate producer compliance within the ambit of the new EPR legislation.

Thanks to those members who provided input and feedback for the testing of the online declaration app. Your feedback has been noted and we are implementing the recommendations. (You can find the PETCO Online Declaration App on the [member portal](#))

For those members who have not yet paid their EPR fees for the period from 05 November 2021 – and who are, therefore, not yet legally compliant – please note:

As stated in our previous communication (sent on the 20 January), we submitted our 2022 EPR fees to the Department of Forestry, Fisheries, and the Environment (DFFE) for approval on 01 November 2021, which now sits with Treasury. Although the DFFE has not yet provided concurrence on the already submitted Extended Producer Responsibility (EPR) fees, the Minister's recent letter

with regards to EPR fee concurrence affirms PETCO's chosen approach to date: EPR fees are determined by the Producer Responsibility Organisation (PRO) that establishes and implements the EPR scheme. As such, we would like to reiterate the veracity of the member fees that we communicated in our January communication with members.

We would like to highlight the following:

- Members do not have grounds for not paying fees due to the lack of concurrence. The DFFE has made it very clear that any failure to comply with the requirements of the EPR regulations is an offence in terms of regulation 12 and may attract penalties as prescribed in regulation 13.
- Not paying EPR fees essentially exposes the member to non-compliance and potential penalties.
- We will be measured as a Producer Responsibility Organisation (PRO) from the 5 November 2021 on our legislated targets and we will submit our first Interim Performance Report, which will include all member metrics and targets, to Minister Creedy and the DFFE at the end of June 2022.
- PETCO needs to continue working to meet annual targets and achieve high standards of compliance. This cannot be done unless all members continue paying the requisite EPR fees.
- At present, the regulations require all PROs to report on performance for Year 1 from November 21 to Dec 22, without income from EPR fees we cannot act on members behalf and as such put the Year 1 result in danger. Even if Year 1 is amended to start in January, we still risk non-compliance in future if there is a disconnect between EPR fees paid and the period over which we are measured.
- Rest assured that any changes or adjustments applied by the Minister will be applied equally to all members either in the form of a credit or debit.
- If producers/members have not registered with the Department of Environment, Forestry and Fisheries, we encourage you to urgently do so at the [following link](#)
- We are aware of companies that have registered after the 5 November 2021 deadline being contacted by DFFE to explain late registration.

Additionally, we ask members to supply a forecast of 2022 volumes for identified products to help us adequately prepare for the collection and recycling thereof, especially in the case of new materials where EPR schemes may have to be developed anew.

Please use the [link here](#) to view the five-year targets



REMINDER:

PETCO is required to compensate waste collectors for collection services and environmental benefits as of November 2022. Please be on the lookout for correspondence on this development in the near future.

Interim board constituted

As you know, PETCO currently has an interim board that will serve until mid-2023. The board members and constituents were detailed in the last communication (but can also be found on the [website here](#)). Upcoming meetings in 2022 are scheduled for 2 June, 18 August and 17 November. Feel free to reach out to your board representatives or me for updates on PETCO matters.

The board's strategic focus for the year is as follows:

- Advancing collections and driving a sustainable value chain
- Supporting robust information and data
- Enhancing and strengthening PRO collaboration
- Enhancing awareness, education and communication with consumers, members and government
- Growing PETCO fund raising initiatives

Why PETCO is the PRO of choice for leading multinationals:

PETCO understands that our members are clients to whom we provide a service. For 17 years PETCO has provided a service to its members by growing the collection and recycling of PET bottles to levels that are admired by many developed countries and helping develop local rPET capacity. We believe that we can continue to provide this service, keeping our members compliant while also supporting their ESG (environmental, social, governance) objectives.

For our members the most important outcome is that they are fully compliant with the regulations and in this context outside of the administrative requirements, the primary challenge is ensuring that we achieve the specified collection and recycling rates. Fortunately, PETCO has always used a target driven approach to establish our business plans and for this reason we are confident that we can continue to deliver for our members.

We also know that in a world full of green washing, credible reporting is critical not only from a regulatory point of view, but also from a stakeholder point of

view. Our contract based approach to collection and recycling has always enabled us to not only accurately report collection and recycling statistics but also to clearly demonstrate how our action as a PRO, using our members contributions, is enabling the collection and recycling that we report.

In terms of our interactions with our members, we have reviewed how we raise our EPR fees and have looked to simplify the process as much as possible to create options that work for our diverse membership. These include both direct payment to PETCO and payment of EPR fees through our converter members. Our most important goal in this process is to ensure that the basis for membership and payment is 100% clear to all parties.

We know that all over the world the development of EPR policy is an iterated process and we are not going to be any different. This means that we will have teething problems as between industry and government we work through the intention of the regulations and clarify things as we go.

If you still have questions about the section 18 EPR regulations, [please visit the FAQs on our website](#)

As always, we remain contactable for any support you may require during this process. Feel free to reach out if you have queries about any of the above or anything relating to your PETCO membership.

Kind regards,

Cheri Scholtz
CEO

How are PETCO EPR fees calculated?

In calculating our EPR fees it is important to highlight two key principles.

Principle 1.

Our EPR fees represent a few categories of costs for each of the materials we represent.

Some of these costs are common and some of them will be specific to a material or a specific EPR scheme. As a PRO we can share our administrative costs across multiple material categories and in some cases on items such as communication or even general support for things like waste picker or buy-back centres applicable to more than one kind of material. For example a campaign to encourage recycling of beverage bottles will enable the collection of bottle, label and possibly even the cap. So not everything we do can be split by material.

Importantly, however, we believe that the majority of the funding must be what we call Direct Value Chain support and this goes directly to the value chain to ensure that the materials are collected and recycled. This means that the substrate specific costs for recycling beverage bottles, or thermoforms or closures should make up the majority of the spend.

And where the cost of recycling something is **high**, this should be reflected in the EPR fee in line with the **principle of eco-modulation**.

As you will see we have not differentiated our fees significantly to start with, but this will happen in future. One of the reasons for this is the second important consideration.

Principle 2.

EPR fees are affected by the target that we are tasked to achieve.

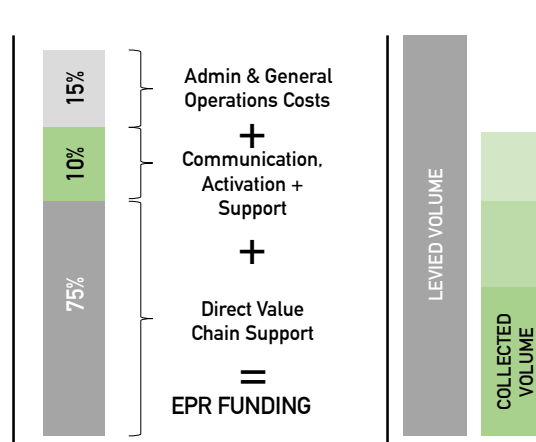
Although this is not necessarily completely fair, materials with high targets require more effort and cost and because of the relationship between **levied** volume and **collected** volume, the cost per tonne in EPR fees will need to increase as targets get higher.

Collecting 10% of the material placed on the market is a lot easier than collecting 60% of the product placed on the market.

This is why some materials that are **harder** to recycle, may have lower or the same EPR fees as **easy** to recycle materials.

This will however, change as materials that have low targets in years 1 and 2 see their targets increase in years 3 – 5.

PETCO EPR fees (based on the above, and on the scope of work required to meet the statutory targets against the tonnage of identified products placed on the market by our members) are presented to the Board of Directors, and once approved by the Board on behalf of members, implemented.



Where targets are high e.g. >60%, the ratio between levied volume & collection target typically results in HIGHER EPR fees.

$$\text{EPR FEE} = \text{EPR FUNDING} \times \frac{\text{COLLECTED VOL.}}{\text{LEVIED VOL.}}$$

IN OTHER NEWS:



Extrupet expands food-grade plastic recycling operations in SA

Extrupet, a longstanding PETCO recycling partner and one of the largest and most advanced recyclers of plastics on the African continent, has announced a major expansion of its food-grade plastic recycling operations in Cape Town.



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