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Nickled and dimed: Beverage dealers losing money to deposit fraud

BY ALEX NIXON

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KALAMAZOO -- Politicians in Lansing have talked about expanding the state's successful bottle-deposit law to include water and juice bottles.

But beverage wholesalers that serve counties close to Indiana and Ohio say the state needs to find a way to eliminate fraud before adding the 10-cent deposit to more containers.

"I think they need to fix this problem first before they start expanding it," said Randy Siesser, president of Kalamazoo Beer Distributing Co.

Kalamazoo Beer serves retailers in Kalamazoo, Branch and St. Joseph counties as well as parts of Allegan and Van Buren counties.

From 1990 -- when the bottle bill went into effect -- through 2005, Kalamazoo Beer collected more deposits each year than it refunded. The extra deposits go to the Michigan Treasury Department, which returns 25 percent of the unclaimed deposits to retailers. It sends 75 percent to the Department of Environmental Quality.

In the past two years, Siesser said his company has ended up owing more deposits than it's collected.

The problem is getting worse for Kalamazoo Beer, Siesser said. In 2004, it sent \$100,000 in surpluses to the Treasury Department. In 2005, it was \$40,000. But by 2006, the flow had reversed, and the company owed its retailers \$70,000. Last year, it owed them \$83,000. In the beverage-supply chain, wholesalers hold the deposits.

Return machines to blame?

Siesser says the shortfall seems to be linked to the expansion of reverse-vending machines, the automated collection devices found in many large grocers such as Meijer, Wal-Mart and Harding's.

"There's a lot of foreign containers coming into the flow of cans and bottles, especially from Indiana," Siesser said. "They get into the system through those reverse-vending machines."

Reverse-vending machines make returning large numbers of containers quick and easy. They're also more cost-effective for retailers, who don't have to pay workers to sort through bottles and cans.

But the machines don't distinguish between bottles sold in Michigan and those sold elsewhere, Siesser said. The machines read bar codes on bottles and cans but can't determine where the containers were purchased -- only if the store sells the brand.

In general, the machines are an advantage, Siesser said.

"They make picking up the empties at the store a lot easier," he said. "It's good for the wholesalers and good for the retailers.

"They just need to upgrade the machines."

Question of impact

State officials say they can't track fraud but they say the problem is limited.

DEQ spokesman Bob McCann says the money his agency gains from unclaimed deposits -- which funds cleanup at contaminated sites -- far outweighs any losses from fraud.

"When it comes to fraud, the numbers are pretty low," he said. "I don't think that it's the problem that it's made out to be."

Michigan is one of only 11 states in the nation that charge bottle deposits. And its 10-cent deposit is twice that of other states. New York and Michigan are the only Great Lakes states that require deposits on bottles and cans of beer and soft drinks.

Ohio and Indiana do not charge deposits, and Siesser and others suspect people from those states bring their empty bottles and cans to Michigan to collect deposits. Last year, Michigan Attorney General Mike Cox announced his office had cracked a deposit-fraud ring that was responsible for an estimated \$2 million in fraud.

During the past seven years, the proportion of deposits that go unclaimed has gradually decreased. In 2000, 5.6 percent of deposits collected weren't claimed. Last year, it dropped to 1.8 percent.

Officials say that a tighter economy may be contributing to more bottles and cans being returned.

But the state does recognize that some wholesalers are taking in more empty containers than deposits, and it now allows wholesalers with shortfalls to trade credits with those who have extra deposits.

Hit by economy

That's kept Kalamazoo Beer from owing tens of thousands of dollars to its retailers. But the company still loses money because it pays a third-party processor to pick up the empties.

"Over the course of the year, these over-redeemed cans and bottles probably equal a \$20,000 hit to my bottom line," Siesser said.

Kalamazoo-based Schupan & Sons, through a joint venture with a manufacturer of reverse-vending machines, processes about 50 percent of the returnable bottles and cans in the state, said Tom Emmerich, president of Schupan's beverage-recycling division. Separate from the joint venture, Schupan & Sons handles another 20 percent of the market.

The company is neutral on the issue of bottle-bill expansion, Emmerich said, though approval would probably mean more business for Schupan.

Emmerich said he knows fraud is a problem for some of the wholesalers with whom he works.

"I've heard a lot of talk about it. I know it's real," he said. "But I haven't seen an alarming rate of wholesalers over-redeeming."

Emmerich said the larger issue is declining sales. He points to the declining economy and an increase in sales of noncarbonated beverages, such as sports drinks and bottled water.

In recent years, as the state's economy has declined, the amount of deposits collected has declined as well. Since 2002, deposit collections have fallen nearly 8 percent, to \$409.5 million.

A package of bills expanding the deposit law would also provide stronger penalties for returning containers bought outside Michigan.

Bottle deposits shrinking

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After peaking in 1998, total bottle deposits collected by the state have dropped off in recent years to a 10-year low in 2007. And in a sign of tighter economic times -- and possibly fraud -- the percent of those deposits going unclaimed also has become smaller.

Year Collected Refunded Unclaimed Percent

(in millions) (in millions) (in millions) unclaimed

1990 \$294.4 \$289.0 \$5.4 1.8

1991 \$364.1 \$354.6 \$9.5 2.6

1992 \$361.7 \$363.2 \$-1.5 -0.4

1993 \$369.2 \$362.1 \$7.1 1.9

1994 \$383.0 \$380.0 \$3.0 0.8

1995 \$391.9 \$387.1 \$4.8 1.2

1996 \$403.6 \$394.2 \$9.4 2.4

1997 \$412.9 \$401.5 \$11.4 2.8

1998 \$457.8 \$443.2 \$14.6 3.2

1999 \$429.0 \$407.0 \$22.0 5.1

2000 \$418.9 \$395.4 \$23.5 5.6

2001 \$441.9 \$424.4 \$17.5 4.0

2002 \$443.9 \$425.8 \$18.1 4.1

2003 \$434.3 \$422.7 \$11.6 2.7

2004 \$428.4 \$417.8 \$10.6 2.5

2005 \$427.6 \$415.4 \$12.2 2.9

2006 \$415.8 \$399.5 \$16.3 3.9

2007 \$409.5 \$402.2 \$7.3 1.8

Source: Michigan Department of Treasury

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