

Sales Slow as Germans Pile Up Empties

Nation Not Ready For Deposit Law

By OTTO POHL

BERLIN, March 4 — A new deposit law on cans and bottles has sharply reduced beverage sales, causing at least a temporary hardship in a \$15 billion industry at a time when the German economy may be on the brink of a recession.

"It's chaos," said Christian Berner, chairman of **Lekkerland-Tobaccoland**, a wholesaler that handles about half the 1.5 billion canned drinks sold in Germany each year. Mr. Berner said his company's sales had fallen 30 percent since the law took effect on Jan. 1.

Makers of cans and bottles are reporting 20 percent to 60 percent drops in sales.

Since Jan. 1, customers have had to pay a deposit on all carbonated soft drinks as well as beer sold in cans or plastic bottles. The deposit ranges from 0.25 euro to 0.50 euro a container (27 to 54 cents), depending on its size, much higher than the 5-cent deposit in many American states.

The new law is meant to stem the growing popularity of disposable containers at the expense of refillable glass bottles, which have been covered by a deposit law for years. And it appears to be slowly working. Some of the lost demand for canned drinks has already shifted to refillables, and industry analysts expect overall sales to return to previous levels eventually.

But for now, the spirit of Oktoberfest is in hibernation.

"We're missing 20 percent of the beer drinkers," said Udo Franken, a spokesman for **Holsten-Brauerei**, Germany's largest beer maker with about 8 percent of the market. Holsten has scaled back production and reduced working hours for almost a quarter of its 2,640 employees.

For Germany, where recycling is practically a national religion, gov-



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A new law requires Germans to return cans and plastic bottles for a deposit refund, but there is no system in place to handle the empties.

ernment regulation is plentiful and planning is prized, the tumult has come as something of a shock.

Supporters of the law say that the beverage industry had more than enough time to prepare but chose to spend the time fighting a losing battle against the law. Many companies put off making the required investments, hoping that a favorable ruling in a series of legal challenges or a victory by Edmund Stoiber and his industry-friendly Christian Democrats in national elections in November would make them unnecessary.

As a result, when Jan. 1 arrived, there was no nationwide return system in place for the disposable containers, as there is for refillable packaging. Consumers were faced with having to return used containers to the store where they were

purchased and show a sales receipt to prove it, or forfeit the deposit.

It will be autumn at the earliest before a nationwide return system will be in place, industry executives say. In the meantime, beverage retailers like **Getränke Hoffmann** are struggling to cope with piles of returned containers. "This is going to smell pretty bad come summer," said Axel Zacksack, an employee at a Berlin branch of the beverage retailer, as he moved sacks of used bottles and cans that had piled up in the back of the store.

Schmalbach-Lubeca, the largest maker of drink cans in Germany, may be the company hardest hit by the law. Recently acquired by the **Ball Corporation**, the American

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packaging conglomerate, Schmalbach-Lubeca depends on the German market for a third of its annual sales of 1 billion euros, and those sales are down 60 percent since the law took effect. The company has begun rotating plant closings and furloughing employees without pay; even so, it expects to lose 50 million euros in the first quarter.

Retailers, who are in the front

lines dealing with the new law's consequences, are watching competitors to make sure they are complying.

Rivals have already filed suit against Wal-Mart Germany, accusing it of refunding deposits to customers without requiring them to actually return the containers. In a statement, Wal-Mart denied the charge.

The growing volume of returned containers represents a new business opportunity, but who will be able to seize it is still unclear. In the

fall of 2002, investors bid up shares of Tomra Systems, the Norwegian company that dominates the worldwide market for "reverse vending machines," devices that let consumers return containers; Germany is thought to need some 30,000 of the machines.

But Tomra's stock fell 40 percent on the day in late January when the German beverage industry selected an untested new technical standard for handling the returns. Tomra must now compete with companies

like Trautwein Sb-Technik, MRV and Prokent to develop machines that can accommodate the new standard.

Some retailers, including the huge discount supermarket chain Aldi, initially reacted to the law by simply refusing to sell carbonated drinks in cans or plastic bottles. Now Aldi is slowly reintroducing the products with a small Aldi recycling logo on the label that allows customers to return them to any Aldi store without needing to show a receipt. Other chains are following suit.

The new deposit law grows out of a 1991 recycling law that set a ceiling on the percentage of deposit-free containers on the market. In recent years, growing price competition and aggressive marketing drove the market share of these containers up to almost twice the allowed limit.

Many industry executives expect consumers to resume their past consumption habits once a nationwide return system is operating and deposit containers can be cashed in conveniently anywhere.

"We just can't believe that Germans are drinking less beer just because they have to bring the can back," said Mr. Frankel of Holsten-Brauerei. "At some point, their thirst will be greater than their irritation."