<u>Industry Implementation Group (IAG) concerns regarding glass inclusion within a DRS for Scotland</u>

Despite the rationale set out in the Stage 1 Business Case, IAG members remain extremely concerned regarding the proposed inclusion of glass within a DRS for Scotland.

It has not been possible from the analysis provided to separate out and fully test the costs/benefits of a DRS both with and without glass containers. This analysis is vital to allay serious concerns and ensure full transparency for all parties, including consumers. What is clear is that including glass drastically increases the costs and complexities of the scheme and that these costs will ultimately be passed on to consumers. We also have concerns that the number of glass containers on the market is much higher than currently estimated for.

The business case calculates an eye-watering 3.3p per unit producer fee for the first five years *across all materials.* This will be significantly higher for glass bottles, <u>likely more than double,</u> to avoid plastic bottles and cans cross-subsidising glass. Even at 3.3p, on a 20-pack for beer, as well as adding £4 in deposits to the initial price, if the producer fee is fully passed-on, consumers will be paying a further 66p which they will not be able to redeem. This will reduce demand significantly[1]. By comparison, in Norway (no glass in scope) the producer fees are between <0.5p (aluminium) and c.1.0p (plastic bottles).

A significant volume of glass will still need to collected via Kerbside collections and the UK already exceeds its glass packaging targets. We therefore seriously question whether it would be significantly more cost-effective, with the same or greater environmental gains, to improve the existing system for glass collection and recycling through reformed EPR proposals. This will also raise funding to reduce litter and facilitate investment in greater use of colour separation technology. To reiterate some other key points raised by parties during consultation:

Consumers

Glass cannot be compressed safely like plastic and other material packaging. Glass is 7 to 18 times heavier than plastic, will be cumbersome to handle and pose a hazard for consumers to return safely. The inclusion of glass will disproportionately impact the elderly, those on low incomes and those without cars.

Business

As well as 14,000 manual return points, 3000 much larger and more expensive RVMs will be required to handle the 268% increase in tonnage within the scheme. When the transport costs, storage, security, health and safety and hygiene issues are compounded they become much bigger issues. Significant store adjustments and loss of selling space will all add extra cost and time to put in place. Producers and retailers will inevitably review their glass bottle portfolio.

Smaller retailers and take-away food outlets will have to manually take-back glass bottles and redeem deposits where they currently do not handle glass at all. Extra costs, Scotland-only labels and SKUs will negatively impact exports. Glass bottles currently left outside for collection from pubs and other outlets will now have a significant value and need to be stored securely posing challenges for many. To be of "Re-melt" quality, glass cannot be crushed at source. Including glass significantly increases the operational cost of the DRS due to the material's low value and greater weight. Despite accounting for almost 80% of the tonnage, glass will realise just 7% of estimated material revenue.

Environment

Whilst breakages present a hazard, there is little evidence that glass beverage containers are a major litter issue. This is borne out by the lack of glass only little bins in public places. Glass is wholly inert, 100% recyclable and is made from natural readily available substances. Vehicular emissions will increase from consumers returning glass bottles currently recycled at home and the additional vehicles required for collections by the DRS scheme from the 17,000 return points. Substitution to other packaging types is likely which may be regressive environmentally.

[1] And in the case of alcoholic drinks undermining the evaluation of the impact of Minimum Unit Pricing

Industry Implementation Group (IAG) concerns regarding proposed Return to Retail Model

Collectively we recognise the merits of the Return to Retail Model proposed by the Scottish Government. Retailers have a crucial role to play in a successful DRS, and if given the correct framework, they can ensure the system delivers an efficient service.

However, we have significant concerns that the model and approach outlined will need considerable refinement to work in a proportionate and effective manner.

Food to Go Retailers

There are significant challenges for retailers, especially those who operate food to go businesses, being asked to take back materials they don't sell. Those businesses that do not sell glass products, and have neither the space, nor the waste system to process glass will struggle to manage returns. They are also concerned how to manage glass in a food preparation environment. A clearly defined fair return policy should consider these issues. Clarity is needed on food to go retailers who also sell products for consumption on site.

Online Retailers

There are also concerns on how a fair return policy will work for online retailers. No DRS has ever been established in a market with the evolved online system we have in Scotland. In particular, there are significant questions on how to enforce a DRS where the retailer does not control the marketplace and uses a third party for delivery. These issues are exacerbated by the inclusion of glass due to its weight, bulk, and handling issues. There are further questions on how to calculate handling fees for online retailers.

Small format stores (Manual Handling)

Many retailers are very concerned about taking back quantities of drink containers disproportionate to their store size. This is most likely to be acute in places where there is limited coverage of retailers. The take back of glass raises health and safety issues for retailers taking back those containers manually.

Small Format Stores (RVM)

Retailers will not be able to consider whether to place RVM Machines until they understand the handling fee, and estimate the quantity of containers they will receive. For small retailers the capital cost of RVMs is a significant concern. Few will have the money available

Larger Format Stores (RVM)

There are enormous challenges ahead before we can implement a DRS system. Larger format stores will need to buy RVM machines to manage the quantity of containers they are likely to have to take back. In most cases retailers will need to refit stores, and in some cases they may even need to be extended. These pieces of work would require building planning permission and changes to licensing regulation, not to mention significant financial investment. It would also potentially increase the rateable value of the store. Retailers will require extra delivery visits in order for the materials to be collected. Many city centre stores have restrictions on when they can accept deliveries due to noise restrictions.

Community Options

More detail is required on how community return points can work in areas where there are a number of retailers.

Summary of problems with proposed timescales

Industry remains keen to work closer with Scottish Government to implement an effective DRS, but we have significant concerns about the scope and timing of its proposals, and the ambition to implement DRS ahead of the next Scottish Parliament elections in May 2021.

1. A rushed implementation risks undermining public and business confidence in the operational aspects of the scheme, which must work on 'day 1' and be designed for long-term success.
2. Introducing a Scotland-only DRS before the other countries of Great Britain exposes the scheme to a high risk of fraud and cross-border issues, which risks undermining the finances of the scheme and retailers.

Industry therefore continues to urge the Scottish Government to reconsider its proposed timescale, and to work with the Welsh Government and UK Government to consider one consistent GB-wide system introduced at the same time.

Proposed timescales:

- The Cabinet Secretary has restated a highly ambitious intention to introduce DRS in Scotland during the current Parliamentary term, i.e. before May 2021.
- However, in bringing forward the draft regulations as late as 'this summer' (for Parliamentary consideration and approval taking 3-6 months), Scottish Government may only be able to provide industry with a clear legal mandate and certainty about scheme design and scope in late 2019.
- Whilst this could fulfil the statutory 12-month notice period to industry, it does not meet our expectations based on international best-practice and corporate experience, and it leaves very little leeway for delays in the roll-out phase before the 2021 elections.

Timeline required for implementation / set-up:

- Based on international experience and expertise, industry expects and recommends a <u>minimum of 18 - 21 months</u> to cover the development, business planning, and implementation phases of a DRS.
- Certain activities, for instance the establishment of the Scheme Administrator and appointment of staff, could be taken forward whilst the legislative process is on-going. However, industry will need a clear mandate (confirmed legislation) before starting operational and logistical changes.
    - For individual producers and retailers, at least 12 months' notice will be needed to prepare production lines, change distribution arrangements, and facilitate the hosting of return points (including obtaining planning permission and making substantive changes to IT systems).

Timing of a Scotland-only DRS:

- In addition to the set-up and operational challenges of a short timeline, industry continues to advise Scottish Government against the operation of a discrete Scottish scheme, before the rest of Great Britain, as the <u>gap in timing</u> will bring financial and operational challenges.
- People may be able to fraudulently claim deposits on packs purchased in a part of Great Britain where no DRS is in place and where a deposit has not been paid, if there are no additional checks. To illustrate the potential scale of this, in the soft drinks sector alone, it is estimated that over half a billion drinks containers cross the Scotland-England border each year following their production, with many of these crossing back-and-forth again during the wholesaling and distribution process.
- Whilst there appears to be an 'obvious' solution to DRS fraud of using Scotland-specific SKUs/labelling – this will bring disproportionate costs and complexity, and will not tackle other cross-border issues.
    - Of the many thousands of product lines (unique SKUs) sold in Great Britain, very few are specific to the Scottish market (for instance, it's estimated than less than 1 in 6 soft drink lines are Scotland-specific). Furthermore, it's estimated that only 10% of soft drink and 9% of beer units produced in Great Britain are eventually sold in Scottish retail outlets. Having Scotland-only labels on a minority of products would mean complex and costly changes to production lines and logistics, and would divide the supply market for retailers. Some producers whose operations are GB-wide may seek to cease supply to Scotland – either entirely or for specific items – to avoid these changes until a GB-wide DRS can be implemented.
    - Even if producers did use specific packaging/labelling for Scotland, a Scotland-only DRS still gives an incentive to people to purchase large quantities of non-deposit products from other parts of Great Britain for resale in Scotland, and either defraud consumers by charging deposits on non-redeemable packs, but more likely undercutting legitimate businesses by charging less or no deposit at all. Similar issues are seen with the DRS in New South Wales, Australia.

But ultimately, if there can be no change to the timeline of 2021, the scheme design needs to be modified – i.e. a lower deposit value, lower targets, or a limited scope (i.e. exclude glass) – to reduce the size of the financial incentive for scheme abuse.

Annex 1 - Points for discussion - what needs to change?

Points for discussion - what needs to change?

1. Given reservations about the feasibility of a May 2021 deadline, is Scottish Government prepared to work towards a successful GB-wide introduction at a later date?

2. Can Scottish Government commit to 'principles-based approach' to implementing legislation, leaving it to scheme administrator to set targets, fees, the level of the deposit etc.? Industry can move at pace if given simple scope, clear timelines and outcome targets.

3. If a 2021 implementation is still pursued, is Scottish Government prepared to engage more and 'deeper' with industry in order to meet its deadline of implementation ahead of the 2021 elections?

4. Which aspects of the set-up phase can be commenced ahead of the regulations being finalised, and approved by Scottish Parliament?

Annex 2 - Industry expectations of scheme administrator activity:

Pre-legislation (at least 18 – 21 months before start)

- Collaborate on drafting of legislation (regulations/S.S.I)
- Agree governance structure for scheme administrator and found company
- Recruit core management and staff
- Appoint Scheme Administrator procurement lead
- Write detailed implementation plan
- Arrange financials (loans or guarantees)
- Make final design of system, including
    - Way of handling bags
    - Logistics
    - Counting/sorting centre (place, size, etc.)
- Write tenders / specifications
    - Counting/sorting centre equipment
    - RVM's etc. (retail standards, compensation tariff)
    - logistics
- Drafting of DRS (Scheme Administrator) member contracts
- Select software /I.T. provider to be used

Post-legislation (at least 12 months before start)

- Recruitment of wider management and staff
- Send out tenders*, followed by
- Placement of orders (availability!)
- Roll-out counting/sorting centre
- Start consumer communication
- Software development
- Finalise budgets, fees
- Contracting
- Starting database