



A DEPOSIT RETURN SCHEME FOR SCOTLAND

COCA-COLA EUROPEAN PARTNERS & COCA-COLA GREAT BRITAIN CONSULTATION RESPONSE

25 September 2018

Introductory note

The responses below are specifically to the Scottish Government's consultation on a proposed deposit return scheme for Scotland launched on 27 June 2018 and do not constitute Coca-Cola's response to any other consultation.

Given the complexities of waste management and producer responsibility laws and a plethora of existing and proposed measures at EU, UK and national level, the detail of any final proposed DRS arising out of this consultation must be consulted upon further in order to ensure lack of unintended consequences, proportionality and no distortion of the market.

In this regard, we welcome the comment on page 73 of the consultation document that "*there will be a subsequent opportunity to comment on the design that we will bring forward*". However, it is not clear whether this will take account of other proposals in England and Wales. A further opportunity to comment meaningfully on a proposed scheme design is fundamental as it will be important to attempt a consistent approach across Great Britain.

Executive Summary

- We welcome the consultation on a Scottish deposit return scheme, which we hope will guide and form part of a packaging recovery plan which is compatible across all countries in Great Britain (GB).
- As a major user of packaging materials, of all types, we have long championed the need for reform of the current recovery system and have pioneered the concept of sustainable packaging – including light weighting, recyclability, the use of recycled and renewable materials and smart new ways to reduce packaging waste.
- Through our Western European sustainability action plan, *This is Forward*, we have set out an ambition to work with others to ensure that all our packaging is recovered so that more is recycled and none of it ends up as litter or as waste in the oceans. Earlier this year, we also launched our global strategy, *World Without Waste*, where we committed to, by 2030, recycle one plastic bottle or metal can for every one we put on the market.
- We have experience of operating successful deposit return schemes (DRS) in other countries and we have been closely engaged in this debate as it has taken shape over the last few years.
- DRS is just one part of a wider set of policies which are being looked at to improve waste management and recycling in Great Britain. DRS will also make more food grade recycled PET available for manufacturers like us to purchase. Ultimately, while fully respecting the powers of

devolved Government, we want to see alignment between policies, to ensure that reform of the UK PRN system, introduction of a DRS, and any new plastic tax, are compatible.

- We are committed to working with Government and others to achieve a circular economy. We have set out our vision for a well-designed DRS in GB, with eleven clearly defined principles based on detailed discussion with suppliers and customers, industry and recyclers:
 1. Easy for public to recycle and no penalty for doing the right thing (i.e. good provision of return points and deposit not subject to VAT)
 2. Good financial management and fraud control
 3. A common approach covering the whole of GB
 4. Run by one, industry-owned, not-for-profit operating company ('OpCo')
 5. Retailers, machine suppliers and hauliers are paid for the services they provide
 6. Scheme costs are covered by the sale of collected materials, deposits which aren't redeemed by the public and a fee on producers and retailers
 7. The OpCo designs and runs the scheme to achieve targets agreed with Government, including responsibility for determining the number and type of collection points, administration and fraud control
 8. The OpCo is run by those businesses who are required to fund the scheme
 9. Scheme is flexible enough to work in different retail outlets, specific exemption criteria for small stores and those with sensitive hygiene or security requirements
 10. Underpinned by legislation so all parties engage in the same scheme
 11. Sits alongside other policy initiatives such as changes to the current producer responsibility schemes and other proposed taxes

Background

Coca-Cola European Partners (CCEP) is the bottler, distributor and seller for both The Coca-Cola Company and other brand owners. CCEP is the largest Coca-Cola bottler in the world by revenue¹.

Coca-Cola Great Britain (CCGB) markets the beverages bearing the trademarks of brand-owner The Coca-Cola Company (TCCC) in the UK. To avoid duplication, CCEP and CCGB have produced a joint submission.

- In the UK market, we produce 19 brands, including sparkling soft drinks, still and sparkling fruit juice drinks, isotonic sports drinks, still and sparkling water and energy drinks. Our most successful brand, Coca-Cola (Coca-Cola, Diet Coke and Coca-Cola Zero Sugar), is also one of the biggest grocery brands in GB². Our products represent around 26% of the total soft drinks category in the UK³.
- We sell over 4 billion drinks a year in a variety of packaging formats: aluminium cans, glass and plastic bottles as well as dispensed products requiring very little packaging. We sell packaged products in portion sizes ranging from 150ml cans through to 2 litre bottles. We currently use around 168,000 tonnes of packaging materials each year, including glass and aluminium, with plastic bottles accounting for around 25% of that total.

¹ CCEP was formed in 2016 following the merger between Coca-Cola Enterprises, Coca-Cola Iberia Partners and Coca-Cola Erfrischungsgetränke. It covers the following countries: Great Britain, France, Spain, Portugal, Andorra, Germany, Belgium, The Netherlands, Luxembourg, Norway, Sweden and Iceland.

² <https://www.thegrocer.co.uk/reports/rankings/britains-biggest-brands-2018/>

³ Coca-Cola European Partners internal calculations based on a range of market data. w/e 01 September 2018

- Throughout Great Britain we have a network of six manufacturing sites, plus logistics and business centres, employing around 3,500 people. For every Coca-Cola job, we create a further eight jobs along our supply chain and in the communities where we have operations⁴ (a total of 34,500 British jobs across the economy).
- Approximately, 97% of the products we sell in this country are made here.
- We invested £74 million into our GB operations in 2017, bringing our total investment to £430 million over the past seven years.
- According to an economic impact study, the activities of the Coca-Cola System contribute £2.4 billion to the UK economy⁵.

Q1. Which of the options do you prefer? Please choose one or more options from below and explain your reasoning.

- **PET plastic containers**
- **PET plastic containers and metal cans**
- **PET plastic containers + glass containers + metal cans**
- **PET plastic containers + glass containers + metal cans + HDPE plastic containers**
- **PET plastic containers + glass containers + metal cans + cartons + disposable cups**

Coca-Cola's preferred scope is PET plastic containers and metal cans.

Through our sustainability action plan, *This is Forward*, we have set out an ambition to work with others to ensure that all our packaging is recovered so that more is recycled and none of it ends up as litter or as waste in the oceans. Earlier this year, we also launched our global strategy, *World Without Waste*, where we committed to, by 2030, recycle one plastic bottle or metal can for every one we put on the market.

We have set out our vision for a well-designed DRS in GB, with eleven clearly defined principles based on detailed discussion with suppliers and customers, industry and recyclers:

1. Easy for public to recycle and no penalty for doing the right thing (i.e. good provision of return points and deposit not subject to VAT)
2. Good financial management and fraud control
3. A common approach covering the whole of GB
4. Run by one, industry-owned, not-for-profit operating company ('OpCo')
5. Retailers, machine suppliers and hauliers are paid for the services they provide
6. Scheme costs are covered by the sale of collected materials, deposits which aren't redeemed by the public and a fee on producers and retailers
7. The OpCo designs and runs the scheme to achieve targets agreed with Government, including responsibility for determining the number and type of collection points, administration and fraud control.
8. The OpCo is run by those businesses who are required to fund the scheme
9. Scheme is flexible enough to work in different retail outlets, specific exemption criteria for small stores and those with sensitive hygiene or security requirements
10. Underpinned by legislation so all parties engage in the same scheme
11. Sits alongside other policy initiatives such as changes to the current producer responsibility schemes and other proposed taxes

⁴ Coca-Cola European Partners. "Every pound of value created by Coca-Cola supports an additional £8 elsewhere in the British economy" <https://www.cokecce.com/news-and-events/news/coca-cola-enterprises-to-invest-1-million-a-week-in-2014-as-research-reveals-coca-cola-s-value-to-gb-s-economy>

⁵ Ibid

We have assumed for the purposes of this consultation that the ‘scheme administrator’ will be the not-for-profit company which operates the DRS. This operating company (OpCo) will be responsible for day-to-day operations and be overseen by a Governing Board of Management (GBOM). That GBOM will consist of representatives of the businesses obligated under the scheme and proportionate to the potential financial exposure of those businesses. We believe that any direct and high level connection to Government should be via that GBOM. Day-to-day operations will be supervised by Government agencies in the same way as for any other business of that nature.

Q2. Do you think the scheme should start with a core set of materials and then be expanded as appropriate? Please pick one.

- Yes
- No
- Don’t know

Yes

Q2a. If yes, which materials should it start with?

- PET plastic
- Metal (aluminium and steel)
- Glass
- HDPE plastic
- Cartons
- Disposable cups

Coca-Cola’s preferred scope is PET plastic and metal.

Q2b. If yes, which materials do you think should be added later?

- PET plastic
- Metal (aluminium and steel)
- Glass
- HDPE plastic
- Cartons
- Disposable cups

We would support a wider scope, but only on the basis of activity-based costing and no cross-subsidisation of materials within the system. In other words, each material collected has its own profit and loss profile and producers pay according to the materials that they put on the market. Any additional materials would need to be added in a way which does not contaminate, or devalue, the packaging already being collected.

If the materials scope for the DRS is at some point expanded, then all companies whose packaging is included in the revised scheme should be obligated to both participate in the scheme and to pay an allocation of the original capital and revenue set-up costs. Newcomers should not benefit unfairly from any existing infrastructure – there should be no ‘freeriding’ for those who join the scheme later.

We would also caution that the infrastructure put into place in the first instance should take account of any potential future expansion of the scheme to avoid businesses having to pay twice or incurring significant increased investment in the future to accommodate the new scope. If the scheme is to be expanded, this should be considered now as incorporating new infrastructure at a later date will incur higher costs. At this same time, this creates the risk of businesses having to invest in more costly infrastructure at the outset which is then not required in the future. These are complex issues which need careful consideration in the initial scope and design of any DRS for Scotland.

If expansion does take place, this needs to be done in a way which avoids consumer confusion as to what is included or not and should not cause contamination of the valuable material streams.

Q3. Are there any materials that you think should not be included? Please explain your reasons.

- **PET plastic**
- **Metal (aluminium and steel)**
- **Glass**
- **HDPE plastic**
- **Cartons**
- **Disposable cups**

Our preferred system is PET plastic and metal.

Including glass, HDPE, cartons and disposable cups would make the scheme more operationally complex and expensive. However, should the DRS include these materials in addition to PET plastic and metal, this should only be done using activity-based costing and ensuring no cross-subsidisation of materials.

In particular, the inclusion of glass has many drawbacks including:

- Significant increase in handling costs and equipment complexity due to the weight of the material and those costs are not recouped due to low material values
- Glass can contaminate plastic reprocessing streams making reprocessing more costly and more difficult to achieve high quality output. As a result, any DRS system incorporating glass needs to ensure no-cross contamination with other materials and that separation is costly.
- Glass beverage bottles are only a small proportion of food and drink glass containers and so collecting this within the DRS may undermine wider efforts to capture all glass, sorted by colour, which should be the ultimate goal.
- Given the weight of glass packaging, many consumers in other countries prefer not to take their glass packaging back to return points and glass typically has one of the lower collection rates when included in a DRS.

If glass is considered by Government as a later addition, this should not be added to the existing DRS by default – instead there should be a carefully considered debate about whether a parallel separate collection scheme would be a better option.

If glass were to be included it is important that there are specific solutions developed for on premise outlets, like bars and restaurants, which handle large quantities of glass packaging. These specific solutions should always be approved by the OpCo.

Q4. Are there any other materials not already listed that should be included?

No

Q5. Are you aware of any materials currently in development that should be included? For instance, there is currently a great deal of interest in making 'bioplastics' either from starch derived from plants or food by product streams. Whilst these can look and behave like plastic, it is often important to ensure they are kept separate from plastic in the waste stream as they are recycled differently.

The most effective schemes in other countries are controlled by an industry-owned, not-for-profit central operating company or 'OpCo'. Any material which is included must be approved centrally by the OpCo in advance of its inclusion to ensure it doesn't contaminate the waste stream of the DRS system and so make recycling more difficult or impossible, as summarised in the question. The OpCo should be guided by prevailing scientific opinion and regulations when considering the addition of any new packaging materials.

Q6. Do you have any views on the cost implications for local authorities?

Coca-Cola believes that collaboration between the OpCo and local authorities will be important for a successful DRS.

If they already have an income stream from sales of materials, local authorities may lose some of this depending on the scope of the scheme. How much depends on how well they were collecting and segregating those materials in the first place.

Q7. Do you think the material the container is made from or the product it contains should be the key consideration for deciding the scope of the scheme?

- Yes
- No
- Don't Know

Yes – Coca-Cola's preferred scope is PET plastic and metal drinks containers only (non-alcoholic and alcoholic). Any non-food or drink containers should be outside the scope of the scheme as these products would undermine the purity and quality of the rest of the materials in the scheme e.g. perfumes, bleaches.

Q7a. If no, please explain your reasons

N/A

Q8. Are there any product categories that should be excluded from the scheme? Please explain your reasons.

- Ready to drink (soft)
- Soft Mixer Products
- Bottled water

- Fruit and vegetable juice
- Dairy
- All distilled spirits with an alcohol by volume (ABV) of higher than 30%
- All fermented alcohol products including beer, cider and wine. Also includes non-alcoholic versions of the above
- All other alcohol not covered in the “distilled spirits” and “fermented alcohol” categories with a ABV less than 30%
- All other drinks, not listed above, that can be purchased to drink on the go

In Scotland, the majority of milk and dairy products are packed in HDPE bottles and would, therefore, be excluded from a scheme covering only PET drinks containers. Dairy, including dairy alternatives (soya milk, coconut milk etc), should be excluded as a category from the scheme as its inclusion would add to the complexity and cost of the DRS as larger machines would be required to take back dairy containers. There are also hygiene issues associated with dairy (see response to Q12).

Q9. Are there any product categories listed above that you broadly agree with but think that certain products within them should be excluded? Please give us specific reasons for exempting anything.

No

Q10. Are there any other products that broadly fall into the category of ‘drinks’ that we have not included that you think should be?

No

Q11. Do you think that the deposit return scheme should be limited to “on the go” only? Please explain why.

- Yes
- No
- Don’t know

No, we believe that the scheme should include all drinks products sold in PET plastic or metal cans, not just those sold or consumed on the go. If the scheme is intended to address key issues related to low recycling rates and littering of beverage products, then focusing only on-the-go products will not achieve these objectives.

Q11a. Do you agree with how we have defined on the go?

Yes, we agree with the definition of on the go as detailed on page 24 of consultation

Q12. Specifically on dairy products, do you think including dairy carries hygiene or related risks above those posed by other products? Please provide evidence.

- Yes
- No
- Don’t know

Yes – empty packages for dairy products can (and do) smell over time. Retailers should be able to insist on packages being rinsed clean before being returned and it will be important this is clearly communicated to consumers. In addition to these hygiene considerations, the inclusion of dairy will add to the complexity and cost of the DRS as larger machines will be required to take back dairy containers.

Q13. Should any dairy products be excluded from the system? Please explain your reasons.

- All ready to drink milk and other dairy (fresh and long life)
- All dairy alternatives.
- Milkshakes
- Flavoured milks
- Milk based smoothies
- Ready to drink coffee and tea drinks.
- Ready to drink yogurt and probiotic yogurt drinks.

If dairy is excluded, then this should include all dairy alternatives so as not to skew the market.

Q14. Which option for return location do you prefer? Please choose one and explain your reasons.

- Take back to a place that sells drinks
- Take back to a designated drop-off point
- Mixture of take back to a place that sells drinks and designated drop-off points

We would support a mixture of take back to a place that sells drinks and designated drop-off points as we believe that this will provide a high level of coverage of return points and support a successful system with high return rates.

All places which sell drinks should be obliged in the DRS to accept drinks containers of the type that they sell. However, they may be able to apply for an exemption – for example those places which do not sell drinks for off-premise consumption such as hotels, pubs and cafes should have the right to ask for an exemption to take back but not an exemption to take part in the scheme.

We would encourage a manual handling system (using plastic bags) to be in place for smaller outlets which cannot accommodate a reverse vending machine. We would also recommend that:

- Any collection point should have the right to refuse abnormal/huge quantities of returns, or particularly dirty returns
- All retailers who can accommodate returns should do so – this encourages consumers to return the store/premises
- A legal requirement be introduced that anyone selling drinks in Scotland should charge the deposit

Q15. In any model involving return to retail, are there any types of retailer that should be excluded? Please explain your reasons.

- Yes
- No

- Don't know

No - apart from on-premise only retailers (see Q14).

We would anticipate that most retailers would not want to be exempted from having to take back materials as this will drive footfall. However, in some instances, e.g. very small kiosks, owners/operators may be able to apply for an exemption to the OpCo. Any decisions on local exemptions should be made by the OpCo and not written into legislation.

Retailers should not be required to take back pack formats that they do not sell. The DRS, however, should be adaptable to allow easy collection (i.e. plastic bag manual handling system) in any retail outlet that sells drinks. Collections should also be frequent – other countries use successful digital tools, such as apps, to allow smaller outlets to arrange for materials to be collected on demand.

Any collection point should have the right to refuse abnormal/huge quantities of returns. In certain circumstances, small retailers within a designated area may be able to work together to create a return point that works for all stores. However, all retailer in this grouping would need to agree to be jointly responsible for maintaining the return point to required standards.

Q16. Do you agree that online retailers should be included in the scheme?

- Yes
- No
- Don't know

Yes. However, there may be food hygiene and waste regulations which need to be looked at in line with these intentions. Many online retailers currently manage to take back and refund plastic bags – plastic and metal drinks containers could be handled similarly.

Q16a. What provisions do you think should be made to ensure online shopping is included successfully?

A limit on the number of containers returned to any delivery driver/truck at any one time, due to space limitations. A review of the waste regulations may also be necessary to ensure that online retailers can take back used packaging materials in their food delivery vehicles.

Q17. Do you agree that deposit return should be seen as a form of producer responsibility?

- Yes
- No
- Don't Know

Yes. The Waste Framework Directive (WFD)⁶ introduced extended producer responsibility to support the design and production of goods which take into full account and facilitate the efficient use of resources during their whole lifecycle including their re-use and recycling without compromising the free circulation of goods on the internal market.

⁶ Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008

DRS falls within the concept of producer responsibility as it is the producer who is obliged to fund the placing of the product on the market and its recovery via the structure of the DRS and charges may depend on the material used in the product. Article 3(21) of the Revised Waste Framework Directive (the “RWFD”)⁷ now provides a definition of an extended producer responsibility scheme which “means a set of measures taken by Member States to ensure that producers of products bear financial responsibility or financial and organisational responsibility for the management of the waste stage of a product’s life cycle”.

As the consultation document rightly states, deposit return is often treated in Europe as a form of producer responsibility, and based on the above definition and the spirit of the WFD, a deposit return scheme should definitely be seen as such.

Q17a. If yes, do you think deposit return would impact on other producer responsibility obligations? Please explain your reasoning.

Inclusion in a DRS scheme should allow exemption for that particular container from any other packaging obligation e.g. PRN. However, we recognise that secondary packaging or any other beverage container not within the scope of the DRS would still be subject to the producer responsibility obligations.

The introduction of a DRS should not duplicate costs for business and the public. A well-functioning system needs to be fair, transparent and proportionate. It is therefore crucial that a holistic approach is taken to producer responsibility and that no individual measure is implemented in isolation.

Q18. Do you think it is appropriate for the scheme administrator to maintain ownership and income from sales of the material? Please explain your reasons.

- Yes
- No
- Don’t Know

Yes. The OpCo (scheme administrator) should be a not-for-profit company which maintains ownership and income from the sales of material on the basis that any funds should be applied to the operation of the DRS to ensure it operates effectively, transparently and proportionately. Material sales provide a fundamental income stream for the DRS to maintain its long term financial viability – ownership by the OpCo is therefore not just appropriate – it is essential.

The revenues gained can be used to pay retailers, pay for collection and support an efficient and effective system which minimises any burden on the public.

Furthermore, this is consistent with Article 8a (4) of the RWFD which states that producers should pay a *net* cost in order to comply with their extended producer responsibility obligations: “Member States shall take the necessary measures to ensure that the financial contributions paid by the producer of the product to comply with its extended producer responsibility obligations:

⁷ Directive (EU) 2018/851 of the European Parliament and of the Council of 30 May 2018

(a) *Cover the following costs for the products that the producer puts on the market in the Member State concerned:*

- *costs of separate collection of waste and its subsequent transport and treatment, including treatment necessary to meet the Union waste management targets, and costs necessary to meet other targets and objectives as referred to in point (b) of paragraph 1, taking into account the revenues from re-use, from sales of secondary raw material from its products and from unclaimed deposit fees*”.

Q19. If the scheme administrator maintains ownership of the material, should it prioritise maximising profit from sales or should it seek to achieve additional benefits?

- Maximise profit from sales
- Achieve additional benefits

In order to fairly compete with other players on the market for recycled materials, and not to distort competition on this market, the OpCo (scheme administrator) should maximise profit from sales. All monies raised should be used to finance the operating costs of the DRS.

Q20. Should any excess funding or unredeemed deposits be ring fenced for the continued maintenance or improvement of the system, or do you think it would be appropriate to divert funding to other purposes?

- Funding should be ring fenced
- Use for other purposes

Funding should be ringfenced as a revenue to the system. This is a core principle of successful DRS systems in Western Europe and one that is also enshrined in EU law. All monies from excess funding, materials sales and unredeemed deposits should be ringfenced for the continued efficient operation of the DRS:

“Member States shall take the necessary measures to ensure that the financial contributions paid by the producer of the product to comply with its extended producer responsibility obligations:

(b) *Cover the following costs for the products that the producer puts on the market in the Member State concerned:*

- *costs of separate collection of waste and its subsequent transport and treatment, including treatment necessary to meet the Union waste management targets, and costs necessary to meet other targets and objectives as referred to in point (b) of paragraph 1, taking into account the revenues from re-use, from sales of secondary raw material from its products and from unclaimed deposit fees*”.⁸

Allowing the system to keep the unredeemed deposits will ultimately keep the overall costs of running the system lower for producers, and therefore for shoppers. If producer costs increase, this may lead to price increases by producers to pay for these increased waste management costs. If unredeemed deposits are taken out of the system, producers would need to be reimbursed. A lower industry cost is also an incentive for industry to support DRS and ensure it is successful.

⁸ Article 8a Directive (EU) 2018/851 of the European Parliament and of the Council of 30 May 2018

Q21. How would you define a producer?

Producers within the existing UK producer responsibility scheme are defined according to their turnover and the amount of packaging they handle. One of the incentives of the current scheme is that all parties are encouraged to work together i.e. shared producer responsibility.

However, for the purposes of the DRS, the definition of a producer will depend ultimately on the scope and design of the system itself. There may be a wide range of organisations producing or supplying drinks who may be obligated to make the scheme work.

Q22. Do you agree that producers should be required to put deposit return scheme-related information on each container?

- Yes
- No
- Don't Know

Yes – labelling is fundamental to consumer understanding of which products are in the system; the system will only be successful with good clear on-pack labels.

Q22a. If yes, should those putting small amounts of material onto the market in Scotland be exempt from this labelling requirement?

- Yes
- No
- Don't Know

No – all products should be included and be labelled.

Q22b. If so what do you think the limit for this should be?

There should be no limit. Any *de minimis* level could lead to some level of fraud and incentivise abuse of the system.

Q22c. Rather than be exempt, should small importers be required to put a label with deposit return-related information onto the existing packaging?

- Yes
- No
- Don't Know

Yes – all importers should be required to label. Any sellers of imported goods should have a legal duty of care to ensure all imported products they sell are properly labelled and recorded within the system.

Q23. Which option for labelling do you believe offers the best balance between reducing potential for fraud and managing costs to producers and retailers?

- No changes to current system
- Specific barcode
- High security label
- Please elaborate

Specific barcode (EAN) – as in other markets. The OpCo should monitor this for the first couple of years and see if it is sufficient. The DRS should be set up so that, if required in the future, greater fraud prevention measures are straightforward to implement.

Q24. Are there other security measures we should be considering, for instance heightened security measures at key return locations?

- Yes
- No
- Don't know

Yes – return points should be securely controlled in order to reduce the risk of abuse, including measures in place to minimise the risk of packaging being returned more than once and defrauding the scheme. In addition, customers need to feel safe when returning bottles/cans. Therefore, return points need to be kept clean and well lit.

Q25. Do you have a preference for what level the deposit should be set at? Please explain your reasoning for choosing this level.

- Yes
- No
- Don't know

Don't know as we believe this should be decided by, and within the control of, the OpCo. We would, however, recommend keeping the deposit low to begin with – it can be increased relatively easily if required, but will be difficult to reduce if initially set too high. In markets where there are successful schemes in operation, a combination of a well-designed DRS and a deposit level of around 10p does result in high recovery rates. Whatever the initial deposit level, it should not attract VAT. The deposit level should be reviewed periodically by the OpCo, not the Government.

It should be borne in mind that deposit levels are only one lever by which the DRS can be made successful. Other important factors include:

- Availability of return points
- Shopper awareness
- Shopper attitudes to recycling

Q26. Do you think that certain types of drinks containers should carry a different deposit level? Please explain which ones and why you think the deposit should be varied.

- Yes
- No
- Don't Know

No – there should be one deposit level for each pack to keep it simple for consumers. However, this should be at the discretion of the OpCo.

Q27. Which sorts of take back do you think the system should include?

- Reverse Vending Machines
- Manual take back
- Combination of the two

Combination of the two – to give maximum flexibility and accessibility to both retailers and shoppers.

Q28. How should the handling fee paid to retailers be calculated?

The retail handling fee should be set to ensure fair compensation for the work completed by retailers in-store to comply with the scheme. This would include staffing costs, space costs and the costs of bags and tags. The measurement and costing should be carried out by an accredited third party and final details should be agreed between the OpCo and retailers with regular reviews. If a retailer does manage return volumes large enough to consider the purchase of a Reverse Vending Machine (RVM), then the full cost of that machine should be covered by the retail handling fee over the lifetime of the RVM. This will ensure the appropriate handling methods by store throughput and so protect against over investment in unviable RVMs.

Furthermore, some RVMs add value by making the OpCo role easier (squashing packs for efficient logistics and data collection). Retailers adding this value should be entitled to a higher retail handling fee, as agreed by the OpCo.

Q29. Do you agree with the assessment of the potential job creation of between 12 and 116 jobs? Please explain your reasoning.

There is likely to be some job creation on the basis that a certain level of quality and service is needed. However, a number of these jobs are likely to replace those in other, existing waste management systems.

Q30. Do you think a deposit return scheme for Scotland should pursue any additional benefits?

- Yes
- No
- Don't Know

Don't know – we believe it should be left to shoppers to decide if they take their deposit back or donate to charity (either through RVMs or directly by donating bottles to charity) – this is a popular way of engaging shoppers in other markets.

Q31. Are there additional benefits we have not covered that you think should be considered?

There is an opportunity to encourage product design for recyclability. The OpCo would keep a list of approved containers for the DRS to ensure high value recycle can be generated. If the containers are not compatible with the DRS, this could encourage redesign or possibly these producers would

pay a modulated fee to the DRS to reflect the costs of recovering such packs and the lower value of the material.

Q32. Which option do you think offers the best system ownership model to ensure the primary goals of a deposit return system are met?

- Industry operated not-for-profit
- Privately owned and operated commercial operation
- Public ownership
- A combination of the above.

Industry operated not-for-profit

Q33. How much emphasis should be placed on the system administrator achieving secondary benefits like ensuring Fair Work practices are followed and that the material collected is reprocessed in Scotland?

The OpCo should operate within national employment laws and should ultimately aim to focus on achieving agreed outcomes in the most efficient way possible to maintain the system as a viable and sustainable concern and minimise costs which have to be passed on to shoppers.

Q34. What do you see as the main roles for a scheme administrator?

The OpCo (scheme administrator) would have the following role:

- To manage and operate the scheme, locations, staff and vehicles, to achieve the Government targets within the agreed legislative framework
- Be responsible for monitoring that all parties obligated by DRS are fulfilling those requirements
- Operate a central system to collect and hold the deposit fee for all manufactured and imported DRS packs
- Set-up and maintain logistical and quality service standards between retailers and the administrator
- Provide the collection logistics from retailers to sorting centres for used containers
- Reimburse retailers for redeemed deposits
- Reimburse retailers for retail handling fee
- Sort and sell collected materials
- Prevent / report fraud to appropriate Government agencies for their investigation and action
- Communicate to the public and to retailers to drive the success of the DRS
- Provide calculations and gain agreement for Retail Handling Fees at periodic renegotiations
- Compile an annual report to shareholders and Government
- Collect running fees, as necessary, from obligated businesses to correct any annual losses (see answer to Q21)

Q35. Which option for regulating producers do you think is most appropriate? Please explain your reasons.

- Regulation by an existing body, most likely Trading Standards or SEPA

- The establishment of a new body to oversee regulation
- Regulation by the scheme administrator

Producers should be regulated on practical issues such as deposit labelling etc. by the OpCo (scheme administrator). Ensuring that producers and retailers meet the requirements for communications and anti-fraud measures should be regulated by Trading Standards.

Q36. Which option for regulating return sites, including retailers, is most appropriate? Please explain your reasons.

- Regulation by an existing body, most likely Trading Standards or SEPA
- The establishment of a new body to oversee regulation
- Regulation by the scheme administrator

The general supervision of return sites (to ensure cleanliness, safety etc.) would be undertaken by the OpCo (scheme administrator).

Local agreements between retailers to provide common return points should require the approval of the OpCo (scheme administrator).

The enforcement of agreed standards for the return points would be regulated by Trading Standards/SEPA, on the basis of ongoing supervision of the standards by the operating company. The operating company would report non-compliances to Trading Standards/SEPA.

Q37. What level of regulatory power do you think is appropriate for the system administrator?

We have assumed for the purposes of this consultation that the scheme administrator will be the not-for-profit company which operates the DRS. This operating company (OpCo) will be responsible for day-to-day operations and be overseen by a Governing Board of Management (GBOM). That GBOM will consist of representatives of the businesses obligated under the scheme and proportionate to the potential financial exposure of those businesses. We believe that any direct and high level connection to Government should be via the GBOM. Day-to-day operations will be supervised by Government agencies in the same way as for any other business of that nature.

It will be important to ensure through legislation that the scheme administrator (OpCo) is empowered to introduce necessary DRS regulation and guidelines.

The OpCo needs to have the following regulatory powers:

- To calculate annually the fees for industry based on activity based costing and the principle of no cross-subsidisation of materials
- To set and collect fees for the registration of products into the system
- To set and collect fees for the registration of producers/importers into the scheme
- To set the deposit level (rather than having to seek further legislation to enact this)
- To calculate handling compensation for those taking back empty packaging, by material and redemption method, based on a detailed formula set out in both legislation and regulation
- To collect all deposits due as obligated products enter the market
- To pay retailers, who return used packs which comply with DRS, the deposit plus the handling fee
- To set and approve any other relevant fees

- To detail and enforce labelling standards (barcode, deposit emblem, etc.) and determine whether a Scottish EAN is required on a product (to reduce fraud). Some smaller SKUs may not require Scottish EAN codes on account of small volumes and low fraud risk
- To enforce consumer pricing strategy for the deposit and ensure deposit is displayed separately from price (product price + deposit)
- To determine products that should be included in the system
- To determine any additional fraud measures that may need to be introduced

The appropriate Government body or agency should be empowered to audit the OpCo's financial, environmental and service level performance and approve its financial and environmental reports.

Q38. In particular, do you think the administrator should have a role in approving products that go on sale to make sure they are compatible with the scheme?

- Yes
- No
- Don't Know

There is an opportunity to encourage product design for recyclability. The OpCo would keep a list of approved containers for the DRS to ensure high value recyclate can be generated. If the containers are not compatible with the DRS, this could encourage redesign or possibly these producers would pay a modulated fee to the DRS to reflect the costs of recovering such packs and the lower value of the material.

Q39. Do you agree that the Scottish Government should be responsible for regulating the system administrator?

- Yes
- No
- Don't Know

Don't know – this will depend on the design of the scheme. The appropriate Governmental body or agency should be empowered to audit the OpCo's financial, environmental and service level performance and approve its financial and environmental reports.

Q39a. If yes, should this be done via SEPA?

- Yes
- No
- Don't know

Don't know – this will depend on the design of the scheme.

Q40. If no, what other organisation should undertake this role?

N/A

Q41. Do you agree with the assessment of Example 1?

- Yes

- No
- Don't Know
- No, we do not agree with the assessment of Example 1
- Examples 3 and 4 will both increase the recycling of valuable materials, in particular PET plastic.
- Example 4's wider scope will potentially have a bigger impact on littering but will be much more operationally complex.

Q42. Do you agree with the assessment of Example 2?

- Yes
- No
- Don't Know

No, we do not agree with the assessment of Example 2

Q43. Do you agree with the assessment of Example 3?

- Yes
- No
- Don't Know

Yes, we agree with assessment of Example 3. This seems to be a good start point for a DRS. However, we would caution that the deposit level would need to be set by the OpCo to achieve its environmental targets and may not need to be set as high as 10p to deliver an 80% recycling rate. There are other key levers that also need to be working towards this level of recycling (see response to Q25).

Q44. Do you agree with the assessment of Example 4?

- Yes
- No
- Don't Know

No, we do not agree with the assessment of Example 4. This is a wide and untested scope and would not be a good place from which to start an entirely new scheme.

Q45. How do you think the NPV model could be further developed? What other factors should be included in the models?

The consultation documents do not provide enough information for us to be clear on this point. However, from what we can determine the qualitative scoring model takes no account of the environmental benefits which may result from DRS – for example, lower carbon packaging (by use of increased recycled materials) and reduced littering, marine pollution and disamenity. These are key factors in the introduction of any DRS, and should be evaluated from a qualitative perspective.

As presented, the NPV model does not appear to take account of the following, which could be built in to assess wider impact:

- Cost impacts on shoppers – shoppers will have to take time to return to “depots” (particularly in Examples 1 & 2), which will come with environmental and financial costs. At the same time, there could be financial benefits to those shoppers who choose to pick up littered DRS packs and receive the deposit
- The potential impact for downstream industries, such as recyclers, which will generate additional employment. Currently the UK exports much of its waste; by having higher quality, higher volume recycle streams there could be increased employment and industrial opportunities
- Fraud assessment – the NPV model takes no account of potential illegal and fraudulent activities, unchallenged imports etc
- Commercial impact on producers – no assessment is made of the potential commercial impact on producers of being in a deposit system (e.g. impacts on sales of beverages, possible reductions in production volumes, jobs etc.)
- There may be financial benefits for industry in terms of costs avoided under new Extended Producer Responsibility obligations. There are difficult to value and carry significant uncertainty as they will depend on other legislative changes currently being considered in Westminster (such as reform of the PRN system)

Q46. What economic risks or opportunities do you see in introducing a deposit return scheme in Scotland?

Even if well-designed, if Scotland introduces a DRS ahead of the rest of Great Britain, there will be unnecessary burdens and costs for businesses who will have to run separate systems for Scotland and England and Wales. This will result in increased prices for shoppers, and increased risks of cross-border fraud and associated criminal activity. Different schemes would introduce the risk of disproportionality if there are key differences and an unsustainable approach adversely impacting all stakeholders. We note there was a partial impact assessment issued as part of the consultation and welcome a complete impact assessment taking into account the further design of the scheme post consultation.

Opportunities include:

- Generation of more high-quality recycle to create new bottles and cans etc.
- Reduced landfilling of recyclable waste
- The creation of jobs across Scotland – although a DRS should not be used to force new jobs where not justified economically in the long run

Q47. Do you see particular risks with any of the examples?

Example 4 represents a very wide and untested scope with materials such as cups which could present new unforeseen challenges and undermine the success of the overall scheme.

Q48. What action do you think we could take to maximise the opportunities and minimise the risks of any of the approaches?

Our principles for a well-designed DRS in GB, based on detailed discussion with suppliers and customers, industry and recyclers, are as follows:

1. Easy for public to recycle and no penalty for doing the right thing (i.e. good provision of return points and deposit not subject to VAT)

2. Good financial management and fraud control
3. A common approach covering the whole of GB
4. Run by one not-for-profit operating company ('OpCo')
5. Retailers, machine suppliers and hauliers are paid for the services they provide
6. Scheme costs are covered by the sale of collected materials, deposits which aren't redeemed by the public and a fee on producers and retailers
7. The OpCo designs and runs the scheme to achieve targets agreed with Government, including responsibility for determining the number and type of collection points, administration and fraud control.
8. The OpCo is run by the producers and retailers who have an obligation to fund the scheme
9. Scheme is flexible enough to work in different retail outlets, specific exemption criteria for small stores and those with sensitive hygiene or security requirements
10. Underpinned by legislation so all parties engage in the same scheme
11. Sits alongside other policy initiatives such as changes to the current producer responsibility schemes and other proposed taxes