



SRC Response to the Scottish Government Consultation on a Deposit Return System for Scotland

INTRODUCTION

1. Retail is an exciting, diverse and dynamic industry undergoing transformational change. The Scottish Retail Consortium ('SRC') is at the forefront of enhancing, assisting, informing and shaping it. Our mission is to make a positive difference to the retail industry and to the customers it serves. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture. The SRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference.
2. The SRC publishes leading indicators on Scottish retail sales, footfall and shop vacancies in town centres. We also hold policy positions which are informed by our 200-strong membership and determined by the SRC's Board.
3. Retail is the largest private sector employer in Scotland with over 240,000 workers. The industry is one of the largest sectors of the Scottish Economy, with the potential to grow by £3 billion over the next five years to a total turnover of £28 billion. Despite the structural change the industry is going through, it will continue to play a vital and valued role in communities across Scotland.
4. A thriving retail industry is good for jobs, for investment¹, for tax revenues, for keeping down prices for consumers, for communities and even for our pensions². The industry is also one of the most innovative. This is evidenced over recent years through significant new investment in store formats and layouts including online, in-store technology and order points, home delivery and distribution capabilities, click and collect services, digital customer loyalty and payment arrangements, and new and refreshed own-brand products.
5. The SRC welcomes the opportunity to respond to this consultation.

¹ 14 per cent of private sector investment comes from the retail sector e.g. buildings, vehicles, software and hardware

² 4 per cent of dividends into pension funds come from the retail industry

General Comments on Deposit Return Systems

6. The Scottish Retail Consortium believes a properly designed and targeted deposit container return scheme could play a role in improving recycling and reducing litter in Scotland. That scheme will need to be UK-wide and work for consumers, retailers, local authorities and manufacturers.
7. It is imperative there is a co-ordinated approach across the UK as, otherwise, there is a significant risk of fraud which would add to the cost of the scheme and ultimately be borne by Scottish consumers. The UK single market, and the open and unfettered access across the border, makes it very simple for a large quantity of containers to be brought into the system from outside Scotland. Preventing that would require specific fraud prevention labelling – which would have very significant costs. The SRC is clear that the deposit level, the labelling, and the scope of materials within the DRS need to be aligned across the UK. We believe the best approach to DRS is a single system, but if not, alignment of those key areas, on both substance and timing, is essential for the scheme to be proportionate and feasible.
8. Scotland and the wider UK are unique due to the existence of long-established household recycling collections and a significant move to grocery shopping on line. Consequently, any interventions, such as DRS, will take time to design and implement if they are to deliver long term sustainable solutions. There is no precedent for building a mandatory DRS in a country which already has a fully developed household recycling system and the two will inevitably compete. Whilst there is value in understanding other international DRS models, any DRS must be designed to complement, rather than cannibalise, existing recycling collection systems, such as household kerbside recycling collections. Any scheme must avoid compromising the economics and efficiency of existing door-step collection systems. We believe a targeted scheme, focusing on the materials where we can improve the quantity and quality of recycling, without distorting the market into alternative materials (such as plastic pouches and cartons), is the best approach, rather than a comprehensive approach which will be costlier for the scheme and consumers.
9. Any scheme will, to some degree, be funded by consumers through payment of deposits which are not redeemed and potential food inflation to absorb additional costs both from deposit return and any extension of producer responsibility for packaging. Consequently, ensuring the costs of the final scheme are not excessive should be a key design consideration to ensure the deposit level does not rise to a point which is excessively and disproportionately costly to hard-pressed consumers.
10. Any proposals to establish a DRS must be considered within the wider context of measures to reduce packaging and increase recycling, including: reform to the PRN producer responsibility regime for packaging; Defra's forthcoming Resources and Waste Strategy; the outcomes of the UK Treasury consultation on taxing single use plastics; other action and regulation around plastic and packaging, including the draft EU Single Use Plastics Directive. It is also important to acknowledge the wider pressure on the retail industry from other business taxation such as business rates.
11. We believe an industry-owned non-profit organisation will need to be established to administer and manage any mandatory deposit return scheme (or schemes). As a

key partner in delivering a successful DRS, retailers should be fairly represented on that body.

12. It is more helpful to consider return locations in terms of coverage rather than numbers of return points. We believe that all drinks containers within the scope of the scheme should have a deposit applied regardless of the place of purchase. However, we believe the nature of the Scottish grocery market and its difference from other nations with a DRS, mean there needs to be consideration of the best way for consumers to return drinks containers and that, in some locations, it makes more sense for stores to share a common return point rather offer takeback in each individual store. Whilst a return to retail model is likely to be sensible for larger retail outlets; for: small food-to-go, convenience stores, or businesses without a focus on food, it's desirable the scheme examines the best options for each geographical location. Similarly, whilst online retailers should apply the deposit to the containers they sell (as they currently do with carrier bags) it should be optional for them to take back containers as this may not be practically feasible. In all cases there should be a reasonable quantity a retailer is expected to take back at one time.
13. The consultation addresses many specific and technical points. Many of these questions should not be determined by the Scottish Government in legislation but should be left for the system operator to consider. While primary legislation should allow for the establishment of DRS scheme and an administration/operating body; implementation detail (such as coverage thresholds and takeback models) should be analysed and defined by that body in consultation with relevant stakeholders to find the appropriate solutions for local communities rather than impose a one size fits all model.

Specific Responses to the Consultation

What materials will be collected

Q1. Which of the options do you prefer? Please chose 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

See the below table which explains the opportunities and challenges for each option (based on figures from the consultation paper).

Options 1 & 2 will add additional cost and market distortion with higher PET recycling rates being offset by lower household recycling on other materials (due to withdrawal of revenues).

Options 3 to 5 significantly 'step-up' volumes to achieve viability by including glass, then other materials but represent a wholesale move away from convenient doorstep collections to in-store takeback.

Our table also **suggests a SRC/BRC option targeted at drinks containers and materials not effectively captured by the current household recycling system.**

We are concerned at suggestions in the consultation paper that a DRS could be designed to allow local authorities, or operators of Material Recovery Facilities (MRFs), to redeem deposits on any containers that are placed in kerbside recycling or collected as litter in addition to retaining the value of the material they collect. While we appreciate that a DRS could offer a further income stream for local authorities, **we do not want DRS to result in local authorities being in competition with the private sector for recycled materials.** This would be counterproductive and could increase the potential for fraud.

Options	Opportunities	Challenges
Option1: PET plastic only	<ul style="list-style-type: none"> Addresses part of the key concern of plastic bottles (though not all) Will increase PET bottle recycling. 	<ul style="list-style-type: none"> Could cause market distortion (to can, HDPE, glass, cartons and pouches). Will divert £2.7m of PET revenue from local authority recycling (@£100/ t) resulting in lower levels of recycling of other materials. Small scale of 0.7m items is unlikely to be viable.
Option2: PET plastic + metal cans	<ul style="list-style-type: none"> Addresses part of the key concern of plastic bottles (plus small weights of high value aluminium). Will increase PET bottle and drinks can recycling. Captures 1.3m items 	<ul style="list-style-type: none"> Could cause market distortion (to HDPE, glass, cartons and pouches). Will divert £2.7m of PET revenue from local authority recycling (@£100/ t) resulting in lower levels of recycling of other materials.-.
Option 3: PET plastic, metal cans + glass.	<ul style="list-style-type: none"> Will increase PET bottle and drinks can recycling. Has a viable scale of 1.7m items 	<ul style="list-style-type: none"> Less convenient for consumers. Will require significant collection capacity at retailers Could still cause market distortion (to HDPE, cartons and pouches). Inclusion of glass will raise capacity and health & safety concerns. Will divert significant revenues from local authority (LA) schemes and challenge the long-term sustainability of existing contracts and infrastructure. Will signal a wholesale move to central/ DRS recycling instead of doorstep.
Option 4: PET & HDPE plastics, metal cans and glass.	<ul style="list-style-type: none"> Also includes milk and large drinks containers limiting some market distortion. Has a viable scale of 1.9m items. 	<ul style="list-style-type: none"> Less convenient for consumers. Will require significant collection capacity at retailers. Could still cause some market distortion (to cartons and pouches). Will divert significant revenues from local authority (LA) schemes and challenge the long-term sustainability of existing contracts and infrastructure. Many existing schemes exclude milk because storing the empty containers in-store may have serious hygiene implications. Will signal a wholesale move to central/ DRS recycling instead of doorstep.

<p>Option 5: PET & HDPE plastics, metal cans, glass, cartons + coffee cups.</p>	<ul style="list-style-type: none"> • Has a viable scale of 2.5m items. • Will not result in any significant market distortion. • Opportunity to separate out cartons and coffee cups from e.g. paper and card thereby reducing contamination. 	<ul style="list-style-type: none"> • Less convenient for consumers. • -Will require significant collection capacity at retailers. • Inclusion of glass will raise capacity and health & safety concerns. • Question over the technical capability of including cartons. • Will divert significant revenues from LA schemes and challenge the long-term sustainability of existing contracts and infrastructure. • Will signal a wholesale move to central/ DRS recycling instead of doorstep
<p>SRC/BRC option: Targeted at on the go containers: PET + metal cans</p>	<ul style="list-style-type: none"> • Addresses part of the key concern of plastic bottles (plus small weights of high value aluminium). • Will increase PET bottle and drinks can recycling. • Will address the lack of infrastructure for capturing drinks containers used 'on the go' and could reduce littering of drinks containers. • Will address concerns around diverting significant revenues from LA household recycling collections. • Will mitigate potential for LAs and a DRS to be competing for the same materials. 	<ul style="list-style-type: none"> • Lower overall scheme cost but cost per item increases • Throughput potentially more volatile • Could cause market distortion (to HDPE, glass, cartons and pouches). • Will require more innovative approach to return locations, not just retail stores.

Q.2 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

We do not agree with this suggestion. However, if the longer-term intention is to expand the scheme to capture additional materials and containers, this would need a different approach to support deposit return and should be signalled clearly to the retail industry from the outset, along with expected timelines.

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

PET plastic

Metal (aluminium and steel)

Glass

HDPE plastic

Cartons

Disposable cups

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

PET plastic

Metal (aluminium and steel)

Glass

HDPE plastic

Cartons

Disposable cups

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

Glass:

- We do not believe that glass should be included as this will raise capacity and health and safety concerns both at return locations and for those collecting and returning the bottles. The supply and range of reverse vending machines (RVMs) which accept glass is limited. Retailers would need an additional RVM to handle glass, which for smaller stores on the high street or in travel locations will not be practical given space constraints. The alternative is manual takeback which has health and safety and resource concerns for retail staff. Additionally, fraud has been shown to increase with manual handling.
- The inclusion of glass would significantly increase the quantity (and crucially weight) of material which would need to be stored and backhauled in a return to retail model. That increases both the carbon impact of the DRS, and the costs for retailers which would impact on the handling fee, and the overall deposit.
- In addition, glass bottles are not widely consumed on the go or littered
- We understand that the inclusion of glass in a DRS reduces the quality of glass recycle rather than increasing it and adds costs of 10% to a scheme. If the quality of glass recycle is negatively impacted by inclusion in a DRS, this would appear to go against one of the aims of a DRS, which is to increase the quality of recycled materials.

HDPE:

- HDPE is typically used as a container for all dairy products, including fresh milk, flavoured milk and yogurt drinks. We believe that dairy products should be excluded from a DRS (see response to Q 8 below).
- HDPE would need to be collected separately from PET, which would raise capacity issues at retail.

Cartons

- Cartons are not collected by any other deposit return schemes and there are questions around the technical capacity of reverse vending machines (RVMs) to do this.
- Separate machines would be required, which raises capacity issues at retail
- Machines to accommodate cartons would be expensive and this cost may be disproportionate to the amount of material collected.

Coffee cups

- Coffee cups are not collected by any other deposit return schemes.
- There are a number of projects exploring the best way to capture and recycle coffee cups.
- Again, separate RVMs may be required which raises capacity issues at retail and additional cost.
- Coffee cups are an item which may be best addressed through extended producer responsibility rather than a DRS.

General principle

- As a matter of principle, retailers should not be mandated to take back materials which they do not currently stock/sell.

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.

- Bioplastics may play a greater role in drinks packaging in the future and should be included in a DRS. Some bioplastics replicate current PET while others are based on PLA (Polylactic Acid) and will need to be readily identifiable (e.g. by colour) so they can be separated in the recycling process.
- A DRS may cause producers and consumers to switch to other materials to avoid the charge. The interaction of any DRS with the PRN packaging producer responsibility regime and its proposed reform is therefore key.

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

- We are concerned at suggestions in the consultation paper that a mandatory DRS could be designed to allow local authorities, or operators of Material Recovery Facilities (MRFs), to redeem deposits on any containers that are placed in kerbside recycling or collected as litter. **Such an approach will result in local authorities and MRFs being in competition with the private sector for recycled materials. This would be counterproductive and could increase the potential for fraud.**
- Kerbside recycling ecosystems and financials are fragile, and the impact of a DRS on UK retail operations and local authority recycling collections is not fully understood. If not managed extremely carefully, the introduction of a mandatory DRS with its removal of valuable bottles from municipal recycling could spell the end of our current kerbside approach, which enables a wide range of packaging products and materials to be recycled, and the start of a shift towards a 1990s continental European approach of in-store collections.
- There is a risk that doorstep collection of other low value materials, such as plastic pots, tubs and trays, could cease if valuable plastic PET and metal cans are removed from kerbside recycling collections.
- Local authorities are tied into long term contracts and will not have the resources to cover any financial shortfalls arising from the introduction of a mandatory DRS and would expect to be compensated for this. The DRS operator should not be expected to compensate local authorities for any shortfall.
- The Scottish Government needs to examine what the cost implications for Local Authorities would be, and publish this in advance of the final decision on a mandatory DRS.
- A comprehensive full-scale DRS will have significant unintended consequence for kerbside recycling collections and will result in two systems running side by side with two sets of costs, which in the long term are likely to be covered by industry and ultimately consumers/citizens.

What types of products will have a deposit on them

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

There are two questions here. The initial scope should be determined by the material the container is made from (and - if a targeted on the go approach is adopted – the size of the container). Underneath this will sit some exclusions based on the product contained within the container.

Q7a. If no, please explain your reasons

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

Dairy:

- Milk is not a suitable product for a deposit return system and is exempt from most deposit return deposit schemes. It is consumed at home, and therefore does not significantly contribute to the litter problem.
- Currently milk bottles are the top recycled packaging product in the UK at over 80%, mostly via kerbside collection.
- Storing empty dairy containers in-store may have serious hygiene implications. If retailers are mandated to backhaul these materials, we have concerns about empty dairy containers travelling in the same space as food and pharmacy products.
- Milk is seen as a household staple and increasing the sale price of milk by applying a deposit would be a regressive measure and could impact on the overall favourability of the scheme with consumers.

- Milk prices are also themselves subject to significant volatility in the wider market and we are concerned primary producers could be impacted by a mandated increase in the product.

Fruit juice

- Our members know from experience of operating DRS in other countries that fruit juice is extremely damaging to reverse vending machines (RVMs), making them more difficult to operate. This increases RVM costs but also attracts pests which discourages consumers from using the machines, particularly in the summer.

Q9. Are there any product categories 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.

- We believe a targeted rather than comprehensive approach is the right way to deliver a successful DRS. A targeted approach would:
 - Address part of the key concern of plastic bottles (plus small weights of high value aluminium).
 - Increase PET bottle and drinks can recycling.
 - Address the lack of infrastructure for capturing drinks containers used 'on the go' and could reduce littering of drinks containers.
 - Address concerns around diverting significant revenues from LA household recycling collections.
 - Mitigate the potential for LAs and a DRS to be competing for the same materials

Q11a. Do you agree with how we have defined on the go? Please explain your reasons.

- We believe the correct way to consider a DRS is on materials rather than specific products. The definition used here is reasonable, but the description does not include e.g. multipacks which may be purchased and then split up and used in lunch boxes or taken to work. We would suggest that 'on the go' refers to items which are consumed outside the home.
- We suggest that a size restriction will help determine which items should carry a deposit for a scheme targeted at on the go consumption. That size restriction should be set at a level which discourages the design and retail of containers for out-of-home use which would be excluded from a DRS.
- We recognize that some drinks which are not designed for on the go consumption are consumed outside the home and then littered, but we have not seen conclusive evidence to

suggest that the scale of littering these types of drinks containers is sufficient to justify their removal from kerbside recycling collections and inclusion.

Questions Related to Dairy Issues

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

- Bottles and cans with dairy residues are a microbiological and pest hazard and should not be mixed with consumer goods, particularly food and pharmacy.

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

- Ready to feed baby formula and infant milk may be dairy or dairy alternative based, and range in size from 150ml to 1 litre, and should be excluded.

Where you will be able to get the deposit back

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

- The diversity of retail formats and logistics needs to be acknowledged in the impact assessment and any final scheme as well as the limitations of a one size fits all approach of mandated retail return locations.
- **We are supportive of a community option** for mandated stores, and those smaller stores which choose to opt into accept DRS returns, to have a shared machine within a specified distance. This approach would work in town centres and transport concourses but would require cooperation from other landowners.
- The retail store estate in Scotland is very concentrated in certain areas of the country, with other more rural areas often having quite a small number of stores. When designing the DRS, consideration needs to be made to avoid stores having to unnecessarily take back containers

(which may be practically difficult); and to the potential for incentivising rural smaller stores to take back (and backhaul) materials.

- This approach would work well with a targeted DRS.
- It is more helpful to consider a flexible approach to return locations and to view this in terms of coverage rather than numbers of return points. High streets and retail hubs may contain several outlets obligated to accept returns within a very small area. In these locations, it makes more sense for stores to share a common return point rather than offer takeback in each individual store.
- It's important to note transport hubs (such as airports or railway stations) may have a number of small format retail and food to go outlets. The scheme should explore how those transport hubs can work to prevent each individual business having to take back containers.
- Coverage and takeback models should be a matter for DRS operator, so they have the flexibility to design the best approach to meet government targets. The implementing legislation should not define this level of detail.
- Retailers should not be required to take back categories of products/materials that are not sold in their store.

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

Yes

- **Size threshold** for stores mandated to operate a return system, with an opt in option. We'd note that size threshold would be likely to exclude a number of smaller format rural stores, and the system operator would need to look at whether specific incentives would be required to encourage those stores to opt-in.
- **Islands:** On many of the Scottish islands it may be more sensible to put the return location at a community facility than a store for practical logistical reasons. Ferry terminals would be the obvious example.
- **In store cafes:** In-store cafes (in e.g. department stores which sell mainly non-food and drink items), where food and drink, is mainly consumed on site, should be excluded from any DRS. Furthermore, some SRC member in-store cafes do not serve food or drink in plastic containers and only stock glass bottles. If in-store cafes are included within a DRS, we propose that the size of the cafe, rather than the size of the store, should be the determining factor on whether these cafes should be obligated to accept DRS returns.

No

Don't know

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

- While eligible drinks containers sold online should carry a deposit, on line retailers and food delivery services, should be excluded from a mandatory obligation to accept returns, with an opt in option. Market forces are highly likely to encourage on line retailers to consider how to accept returns, however this should not be mandated.
- Online retailers should be included as brand owners (for in scope products) and required to contribute to the producer subsidy required for the scheme.
- There is a hygiene risk from transporting empty containers in the same vehicle as fresh food which means collections could require different vehicles to prevent food safety risks.

- How an online business would be defined is immeasurably more complicated than physical retail (especially when collaborative platforms are considered, which facilitate sales of drinks but don't directly come into contact).
- Finally, the question of fair returns also comes in – consumers might see an online return system as an alternative to returning all their containers to physical retail and it's much harder to see how that would be effectively managed.

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

- If online retailers opt-in to take back containers, there should be a limit on the number/weight of containers they are obliged to take back so that they are not taking back more containers than they deliver. The concern is that consumers could store containers at home and then order a small online delivery in order to return a large number of containers.
- This is also an important issue for rural deliveries.

How the scheme will be paid for

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

Yes

No

Don't Know

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

- A mandatory DRS must be considered in conjunction with: extended producer responsibility for packaging (to be consulted on in Autumn 2018); any taxation on plastics or packaging; legislation to ban the use of plastics in particular products or packaging and proposals from the European Commission on a single use plastics directive.
- **Our preference would be to reform the existing PRN regime so that it contains incentives for producers to use recyclable packaging and has a clear link to infrastructure funding before a DRS is introduced. That way gaps could be identified which a targeted DRS may be able to address.**
- Packaging eligible for a DRS should be eligible for a reduced producer responsibility fee. This would avoid double taxation and would help to prevent unintended consequences of moves to alternative materials in order to avoid a DRS levy.
- A move to a comprehensive mandatory DRS could remove any EPR obligations on producers, putting the burden on consumers and retailers instead.

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

- This is a fundamental principle regarding the financial sustainability of the scheme. It will also help to incentivise the scheme administrator to ensure that DRS containers are collected.
- Scottish recyclers could be given first refusal (at the market price) on material collected.

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

Pursue other benefits

Q19a. If you selected pursue additional benefits, which benefit should the administrator pursue?

- The sustainable financial footing of the scheme will be a combination of unredeemed deposits and the sale of material, which should be maximised. Any additional benefits may impact the sustainability of the scheme and hence should be determined by the system operator, not legislation.

Q20. Should any excess funding or unredeemed deposits be ringfenced 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 ringfenced

- There are examples in Europe where deposit return schemes have experienced financial difficulties because the price of recycled materials has dropped or the system has been significantly defrauded and the scheme has insufficient income to operate. Ring fencing would enable a scheme to build up some reserves which can be used in times of trouble.
- We believe that the system should be run on a not for profit basis.
- If the scheme (as is common in Europe) is run on an industry-owned not for profit basis, those businesses who are obligated will be required to support the scheme if it runs into financial difficulties in the future. Due to the volatility of the markets for recycled materials, it may be some years until the scheme has a reasonable surplus to accommodate this. If the scheme is run and owned by Government, then it would be a matter for them if they wished to take on this risk.
- It's also important to note surplus resources are often used in DRS to encourage recycling uptake when consumers start to reduce their takeback. This communications cost is essential to maintaining high return rates and should be considered an essential, not ancillary, component of a DRS.
- If funding is not ringfenced, we suggest that a Government bailout clause is included to ensure that the system does not collapse in the event of funding pressures.

Use for other purposes

Q21. How would you define a producer?

- A producer is an organisation which manufactures or specifies products packaged in DRS bearing containers.

How the scheme is communicated so everyone understands it

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

Yes

No

Don't Know

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

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

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

Q22d. If no, what are your reasons?

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

- A successful DRS will require fraud protection measures to ensure only containers in scope for which the deposit has been paid are used to reclaim those deposits. If Scotland has a different deposit level, scope of materials, and labelling rules from other UK nations, then products would be likely to require differential packaging; which would considerably increase product cost, which would have to be passed onto consumers through higher prices.
 - We do not see an alternative to labelling each container, however the costs of re labelling to incorporate DRS related information will be significant. The costs of doing this for Scotland alone could be prohibitive.

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

Yes

Particularly if some return locations are in non-retail owned locations such as transport terminals, high streets and public spaces. Measures such as CCTV may be required to prevent fly tipping, theft and damage.

No

Don't know

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

- We believe that Government should set the targets only. This would give the system operator the flexibility to adjust the deposit level to meet the targets.

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

- Simplicity is key. The priority for the new DRS should be with engaging consumers to change behaviour. That will be much easier to achieve if the system is as easy to navigate as possible.
 - Furthermore, establishing a new DRS system will be a complex endeavour with the potential for innumerable unintended consequences. A single deposit level reduces the capacity for unintended consequences with material choices, or indeed consumer behaviour.

What infrastructure to put in place, and the logistics involved

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

Reverse Vending Machines

Manual take back

Combination of the two

- This is a matter for the system operator rather than the implementing legislation.

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

- We would note at this point it's very hard to calculate what might be required in a handling fee without more detail on what the scheme will look like.
- The handling fee will need to reflect the costs incurred by the retailer. That should include the commercial value of lost sales floorspace; machine costs, servicing and maintenance; anti-fraud measures; Transportation of recycled material, and administration costs.
- Transporting containers from some of the very rural parts of Scotland (such as the islands) will be more expensive, and the handling fee may need to be higher for those specific areas (assuming retailers are responsible for transporting this material and not the scheme operator).
- The handling fee will not compensate all retailers fairly given that volumes of return will vary from store to store and retailer to retailer. The handling fee will not offset the total costs and investment for the retail sector and this should be recognised in the impact assessment.

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

- These estimates appear predicated on a DRS system which has a number of materials in scope (many of which are already captured through household recycling). Our concern is this may only be a displacement of jobs; some will be created for the DRS scheme, but at the cost of workers elsewhere (such as local authority recycling collections). The BRIA should reflect the net jobs figures, rather than simply the potential upside.
- We don't think these figures reflect the likely overall impact of a DRS on employment or the food and drink industry. A very complex DRS system is likely to force food and drink businesses to be more efficient elsewhere. This could see jobs lost rather than created; especially in a retail industry which is already seeing falling employment. That effect will be exacerbated if the DRS is not put into place in a proportionate and sensible manner.
- The numbers are statistically insignificant for measure costing hundreds of millions of pounds, and consequently should not be a relevant criteria for determining the best approach to a Scottish DRS.

How to create additional benefits from the scheme

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

- Yes
- No
- Don't Know

- The focus should be on developing an efficient DRS rather than being distracted by worthy, but non-essential additional measures. Furthermore, the scheme has been heavily promoted as a 'money back' approach to recycling, and any measures which complicate that could

undermine public support for the DRS. The financial sustainability and viability of the system will depend on the operator getting the best value out of the material and this principle should not be undermined.

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

No

Who owns the system

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

- The best ownership model is industry owned, not for profit/distribution, with a board drawn from obligated industries. Retailers, who are likely to take on a vital role in delivering a successful DRS, should be fairly represented on that board.
- Operations should be tendered to a single company reporting to the Board.

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 focus when establishing the DRS should be on prioritising the greatest improvement in recycling rates at the lowest cost. The focus on creating a Scottish closed loop is unlikely to lead to the greatest and most efficient system - especially since we are part of a wider UK single market. The reprocessing facilities do not currently exist in Scotland and implementing DRS to an ambitious timescale will mean materials collected will flow across the border and to other markets. It makes much more sense for materials to be recycled at the best facility possible, rather than replicating facilities in Scotland which would have lower material flow, consequently being less efficient, and ultimately making the DRS more expensive.
- Fair work metrics could introduce further cost into the scheme, which would require a higher deposit, and would therefore be paid by consumers. We believe a decision on whether to include those higher costs would be a matter for the Scottish Government.

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

- The main role for a scheme administrator is to design and oversee a scheme which delivers targets set by legislation.

How the system is regulated

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

- We believe the government-imposed costs of regulating the system should be met by government not industry.

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 central operating company
- The enforcement of agreed standards for the return points would be regulated by Trading Standards/SEPA.

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

We believe the system administrator should not have regulatory powers.

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

- The role of the system administrator is to design and deliver a DRS. A reformed PRN system should be the tool to encourage better packaging design.
- The scheme administrator could issue guidelines for in scope products, which would be helpful for RVM manufacturers to ensure that all RVMs on the market can handle these products. These powers could include labelling standards (RVM recognition, antifraud etc).

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

Yes,

No

Don't Know

- We believe the Scottish, UK, and Welsh Governments should collectively develop an approach which would allow the system administrator to be effectively regulated. We would

note that on a local level, if the Scottish Government was to fulfil its commitment to introduce a Primary Authority Scheme for devolved issues that would assist in the regulation of a DRS.

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

- Yes
- No
- Don't know

Q39b. If no, what other organisation should undertake this role?

Questions on Example Systems

Q40. Which example do you think best matches the ambition of a deposit return system to increase the rate and quality of recycling and reduce littering?

At this stage we are not persuaded any of the example systems reflect the best approach to delivering an effective DRS in Scotland. We believe a targeted DRS, with opt-outs for smaller format shops and online retailers is the most workable model, which will deliver a level playing field. Many of these elements are reflected within the example systems, but we don't feel selecting the example 'closest' to our model is especially useful. Retail outlets should not be mandated to collect materials which they do not sell.

The SRC/BRC has commissioned research to look at the implications for retail of the proposed models. We will share this research with the Scottish Government later in 2018 when the findings are complete.

- Example 1 Take back to designated drop-off points.
- Example 2 Take back to dedicated drop-off points and some shops (with cartons and cups)
- Example 3 Take back to any place of purchase
- Example 4 Take back to any place of purchase (with cartons and cups)

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

- Yes
- No
- Don't Know

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

- Yes
- No

Don't Know

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

Yes

No

Don't Know

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

Yes

No

Don't Know

- [Previous research for Zero Waste Scotland conducted by Eunomia](#) assumed that Scotland would require 2,700 RVMs at an average cost of £32,000 per machine, including installation leading to a total capital cost of £86.4 million in Scotland. Given that larger RVMs with sophisticated anti-fraud measures cost up to £100,000 per machine, this figure seems very conservative but still would require significant upfront investment from retailers and/or the system operator. Examples 3 and 4 suggest that 17,407 return locations could be provided through return to retail. If half of these locations provide machines, then upfront costs rise to £285.5 million for Scotland alone (on a conservative estimate).
- Little or no reference is made in the consultation paper as to how these significant upfront costs will be financed. Essential from a retail perspective is one common start date across Scotland with a realistic period for implementation to allow for machine purchase and installation. In addition, upfront support for retail is essential to cover the cost of machines and investment in IT – this could be provided through tax breaks.

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

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

- As stated elsewhere in this response, we see economic risks for business if a Scottish specific DRS is introduced

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

- The examples simultaneously increase the return locations and the number of materials in scope. Therefore, we don't have any understanding of what a scheme with fewer materials in scope but more return locations would look like. The implication is that the more materials in scope is better, and therefore requires more return locations. We're not persuaded consideration of the scheme is improved by considering those points in tandem.

- There appears to be limited consideration that the greater the scope of the scheme, the wider impacts for kerbside recycling. The potential loss of material is likely to affect local authority services and that is not adequately considered in the current consultation.
- None of these examples clearly quantify the costs to retailers of introducing a DRS, or indeed the overall costs of the scheme. The initial set up of the systems, and machinery and labelling for a DRS is very costly. As well as the significant upfront costs in buying sufficient machines and installing them in thousands of premises across Scotland; re-organising existing stores is a major logistical programme and could take years to complete. It's surprising such a precise figure for the creation of jobs has been provided, but there is no clear analysis on the impact on retail.
- The analysis assumes that producers will benefit from the avoidance of costs associated with the European Commission's Circular Economy Package, however there is no guarantee that a DRS will exempt producers from these costs (see response to Q. 17a above) for drinks containers. In addition, retailers will be required to pay increased PRN fees for all other packaging products.
- There appears to be no recognition in the examples that increasing the materials in scope will create greater logistical challenges for retailers, local authorities and planning on the high street. The inclusion of glass, for example, is significantly heavier, and consequently more expensive to backhaul than PET.

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

- The decision to consult fully on a new scheme is the correct one. Developing a Scottish DRS is unprecedented – we don't think there is an analogous example of a DRS being implemented in a nation with Scotland's household recycling system. Consequently, the system needs to be a hybrid, and will require significant thought before implementation.
- It's essential to get this set up correct the first time. Future changes to the DRS could require very expensive retro-fitting for retailers if the scope is amended, which it is vital to avoid.
- Finally, a crucial, and expensive, component of successful DRS systems is investment in consumer information and campaigning. Return rates for DRS will ultimately depend on consumer buy-in, and it should be clear that a key focus of the scheme needs to be on this engagement; which is a much higher priority than any other putative alternative benefits.

Co-operation with the UK Government

Q49. Do you think being part of a UK-wide system would be beneficial for deposit return in Scotland? Please explain your reasons.

Yes

No

Don't Know

- One of the biggest challenges faced by DRS schemes is the risk of fraud – of people putting containers from outside the scheme into the system to unfairly claim back the deposit. Separate labelling of Scottish DRS drinks containers would be required to mitigate this risk, which significantly increases costs and raises enormous logistical issues for retailers.
- Scotland would be exposed to this due to the completely open border with England. Therefore, a Scottish DRS would be open to people bringing lorry-loads of drinks bottles

north to claim back the deposit. Such an approach could bankrupt the scheme within months.

- This can be avoided by using security measures, such as unique barcodes for Scottish products. We know these systems work from Europe, and they can significantly reduce the risk of fraud.
- However, the consequences of doing so are enormous. It would mean retailers and manufacturers would have to separately label every Scottish drink container. That would be enormously costly for those businesses, costs which would end up being paid by customers.
- We're aware this makes developing a scheme more challenging. However, the UK, Scottish, and Welsh Governments have all been clear they want to support a DRS. We think if those governments can come together to create a single scheme that would be the best outcome.
- There is a second concern. A DRS only operating in Scotland would mean that drinks north and south of the border would be different prices. That goes against the general approach in the industry of keeping those prices the same across the UK. If the deposit level is different north and south of the border, then that creates incentives for people to game the system, all of which will make it less efficient, and less effective.
- Furthermore, if there is not a UK wide approach, retailers would face real logistical challenges with either using Scottish products outside Scotland, or with sending English products to Scotland. Our belief is the challenges of differential labelling would be especially onerous for smaller brands.
- If a Scottish system is established which is more onerous or requires greater investment than that elsewhere in the UK, that will impact on the investment cost benefit analysis retailers take when considering Scottish stores vs those elsewhere in the UK. If investment budgets have to be used on extra resources for a DRS, that will take away resource from other investments which would make stores more efficient (including more sustainable) and consequently make those stores less competitive than equivalent stores elsewhere in the UK. With 7.5 percent of Scottish shops closing in the last eight years, it's imperative there is a level playing field across the UK to ensure Scotland isn't disadvantaged.
- Lastly, a DRS is an extension of producer responsibility and careful thought needs to be given to how these two will interact especially with a UK wide reform of EPR set against a Scotland DRS.

Q50. Do you think having compatible but separate systems would achieve the same effect as a single system? Please explain your reasons.

Yes

No

Don't Know

- A compatible system would by design be more complex to operate within for retailers than a single system. However, if the UK and Scottish schemes had the same materials in scope, used the same labels, and the deposit level was the same, then many of the very significant problems could be *potentially* avoided. This is less preferable to a single scheme, but immensely preferable to two distinct schemes which are not aligned on these key areas.

Q51. Can you identify any risks with being part of a UK system?

Q52. Can you identify any risks with not being part of a UK system?

- As we have previously stated, we believe the economies of scale, along with the near-impossibility of producing feasible and affordable anti-fraud mechanisms, mean a UK-wide DRS is the optimal approach for Scotland. It is also the most consumer-friendly approach.

***Scottish Retail Consortium
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