BRC RESPONSE TO ENVIRONMENT AUDIT COMMITTEE CALL FOR EVIDENCE ON NEXT STEPS FOR DEPOSIT RETURN SCHEMES

5 March 2021

INTRODUCTION

1. The BRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

2. Retail is an exciting, dynamic and diverse industry which is going through a period of profound change. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.

3. The BRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership comprises over 5,000 businesses delivering £180bn of retail sales and employing over one and half million employees.

4. We share the Government's objectives of increasing recycling and tackling packaging litter. As shopping habits change, it is essential that any DRS is future-proofed. We believe that a Digital DRS has the potential to increase collection rates and decrease littering beyond what the current DRS proposal could deliver.

MATERIALS

5. The UK is 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.

6. The majority of BRC members believe that if a DRS is to be introduced, then it should capture all PET bottles and metal cans.

7. Inclusion of glass creates major health and safety concerns for those operating return points, for example, broken glass in a food preparation area will require the premises to close down until it's deemed safe, and elsewhere it will require areas such as DRS machines in retail stores to be cordoned off until cleared away. Retailers would need additional Reverse Vending Machines to handle glass, which for smaller stores on the high street or in travel locations will not be practical given space constraints. Adding glass may require more significant

store refits. 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 littered. We understand that the inclusion of glass in a DRS reduces the quality of glass recyclate rather than increasing it and adds costs of 10% to a scheme. If the overall aim is to improve recycling quality then including glass fundamentally fails this objective. Alternatively, if the aim is to improve littering then glass is not one of the key polluters, so focus should be kept on plastic and cans. If the quality of glass recyclate 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. For beverage containers, glass would account for 80% by weight of volumes collected, 70% of the required instore space and 70% of costs based on research by Resource Futures. While there is a risk of market shift to glass for on the go (albeit a minimal risk), this should be dealt with through EPR measures and through signalling to brands and retailers that any such shift would result in glass being included in DRS. If glass were to start to appear as a more popular beverage container, the EPR producer fee could be set high to discourage this change.

SCHEME DESIGN

8. The majority of our members believe that if a DRS is to be introduced, then it should capture all PET bottles and metal cans, as long as support is provided to help with the set up costs, ensures it does not undermine kerbside collections, takes account of wider taxation burdens on business, and does not include glass. If the objective is to reduce litter and increase recycling rates then on-the-go would logically be the better option as this is where the litter and recycling problems occur, however we recognise an on-the-go system may be complex and difficult to understand for those customers who use it, and therefore an all-in system is most appropriate.

DEPOSIT CHARGES

9. We have no strong views on what the deposit level should be at present, however it may make sense to link it to the fixed deposit levels Scotland has set out for now, to minimise fraud. However, it should allow for flexibility in the future.

10. We seek confirmation from Government that the refundable deposits placed on in-scope drinks containers in the Scottish DRS (and in subsequent DRS systems introduced later across the rest of the UK) should not, and will not, attract VAT. Applying VAT on DRS deposits would be unprecedented, run counter to existing VAT guidance on refundable deposits, and could lead to increased prices for

consumers as well as significant cash-flow impacts for retailers, wholesalers and producers.

OBLIGATIONS ON RETAILERS & CHANGING PATTERNS OF SHOPPING

11. Businesses who sell drinks in scope should be part of any DRS scheme to ensure there is a level playing field amongst businesses. A Deposit Management Organisation (DMO) should coordinate strategic deployment of return points to meet the needs of local communities. This should include return points at certain retail locations, on the go smart bins, and collections from homes.

12. Obligating all physical retail locations may result in unnecessary duplication which in turn leads to higher costs and could led to worse environmental impacts if needless RVMs are built and installed. It is therefore important to allow as much flexibility as possible when it comes to hosting a return point – opt in/opt out options should be made available for retailers, based on issues such as proximity to return points, types of business (e.g. pharmacy or food to go), and product offering (e.g. those who don't sell drinks in glass containers should not have to accept returns of glass containers). Having the DMO taking a pivotal role in managing the location of return points would maximize coverage and minimize costs.

13. Shopping habits are changing. There has been a growth in online shopping over the last 5 years, and this significantly accelerated throughout the Covid-19 pandemic. Online retailers, like physical retailers, should be part of any DRS scheme. However, that does not mean they should necessarily be obligated to collect all drinks containers. There are several risks and challenges for online retailers in accepting container returns: the safety issues related to the retailer transporting items they do not own or have knowledge of what they may contain; the hygiene and safety issue of storing waste with food; the extra colleague time required to transact the returns; and a reduction in space in the delivery vehicles to accommodate the returned items, which would necessitate more journeys, increasing vehicle usage and road miles. A more environmental and economic solution would lie in shared takeback, such as utilising existing kerbside collection (and so limiting the number of vehicles going back and forth) with digital technology.

14. Digital DRS (DDRS) is an emerging technology solution that has the potential to make DRS even more attractive and convenient for consumers of drinks both at home and 'on the go'.

15. The idea is that each in-scope container would carry a unique code, readable by a smartphone. Recycling bins, including kerbside bins at home, would also have scannable codes on them. When a customer wishes to return a container to redeem their deposit, they would scan the label on the container and scan a recycling bin. This would link to the central system, return the deposit to the customer, and cancel any further transaction on that container.

16. BRC is part of an industry coalition working together to better understand how a DDRS approach can be applied and improved; help understand the cost implications and liaise with industry technology providers. The objective is to assist a process of understanding and exploration and place any research commissioned into the public domain for scrutiny. We believe it merits full evaluation and could be an important development in the delivery of DRS, recognising though that technology is still evolving and trialling the approach will be an important aspect to the full evaluation of its potential.

17. We believe a Digital DRS has the potential to:
    a. **Increase collection rates:** as consumers can return their containers and redeem their deposits closer to where they are consuming them (home, on the go, or shopping).
    b. **Decrease littering:** as consumers will have more channels to return their containers when on-the-go, through smart bins, as well as retail return points.
    c. **Reduce environmental impact:** as consumers would not feel the need to drive to stores to return containers, avoiding extra traffic and related emissions.
    d. **Support viability of kerbside collections:** as Local Authorities and their waste contractors would be able to claim handling fees.
    e. **Decrease fraud:** as products would be scanned so a deposit could only be redeemed once, supported by technology such as blockchain.
    f. **Cost less:** as utilising existing infrastructure such as kerbside collections and retrofitting public bins could reduce the need for RVMs.

IMPACT ON EXISTING SYSTEMS

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18. We have significant concerns that kerbside collections could be undermined by the introduction of a DRS. We urged Government to ensure any DRS complements the viability of existing household collections.

OVERLAP WITH EPR

19. DRS is itself a form of extended producer responsibility (EPR). In scope DRS containers should be exempt from obligations under the reformed packaging producer responsibility system for the same packaging items.

20. Equally to avoid double charging, packaging within scope of the Scottish DRS (which is due to be implemented sooner than the rest of the UK) should be exempted from obligations under the existing Packaging Waste Recovery Note (PRN) system after the scheme goes live, and then the subsequent EPR.

21. It should be sufficient for the DRS DMO to charge higher handling fees to producers for poorly designed containers. This could be escalated year on year to drive poor design out and improve the quality of recyclate.

DEVOLVED NATIONS

22. There is a significant risk of fraud with two separate DRS schemes coming into force in the single UK market. This will add to the cost of the scheme and ultimately be borne by consumers. Our 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. Preventing that would require specific fraud prevention labelling – which would have very significant costs.

23. This makes the case for a single DRS scheme operating across Great Britain, but a UK-wide scheme would likely require issues concerning the border between Northern Ireland and Ireland to be resolvable in practice.

24. We believe the best approach to DRS is a single system, but if not, alignment of key areas such as labelling is essential for the scheme to be proportionate and feasible.