



25<sup>th</sup> June 2015

Lyndsay Parker  
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Dear Lyndsay

## **DEPOSIT REFUND SYSTEM (DRS) CALL FOR EVIDENCE**

### **BACKGROUND**

The Scotch Whisky Association (SWA) is the industry's representative organisation and aims to create the conditions for Scotch Whisky's long-term growth worldwide and to secure its place as the leading, high quality spirit drink. Our 56 members include distillers, blenders, bottlers and brokers of Scotch Whisky, representing over 90% of the industry. We welcome the opportunity to submit our response to this 'Call for Evidence'.

Scotch Whisky is an important British and Scottish industry, directly employing 10,000 people and supporting around 40,000 jobs in total across the UK. A leading manufactured UK export, Scotch contributes approximately £4 billion to the UK balance of trade and accounts for around 25% of UK food and drink exports.

The Scotch Whisky industry is committed to sustainable production and sustainability is one of the industry's and Association's top priorities. Our Scotch Whisky Industry Environmental Strategy displays a real commitment from our members to take the lead in sustainable practices. Packaging targets are a core part of the industry's commitment with an industry goal to ensure that 40% of Scotch Whisky product packaging will be made from recycled materials by 2020. To deliver on our packaging target we aim to work in partnership with the full supply chain to improve both the quality and quantity of glass recyclate in Scotland.

### **GENERAL COMMENTS**

We share the Scottish Government's ambitions to prevent and clean up litter, and to increase the amount and quality of materials recycled, in the most cost effective manner for all parties including Scottish manufactures.

As the debate for a national deposit return scheme for beverage containers continues, the SWA wants to play a constructive role in the process by setting out what Scottish Government support the Scotch Whisky sector values and what is essential to us to ensure

the success of our environmental strategy ambitions and in particular 2020 packaging targets.

Overall, we are yet to be persuaded that there is sufficient supporting evidence to confirm that the scale of the investment that would be required to roll out a DRS is the most cost effective approach for Scotland. Nor that such a scheme would deliver any significant improvements in terms volumes & quality of glass recycle in addition to litter reduction.

## **SPECIFIC COMMENTS**

Please find below our comments on the three questions posed. The majority of our response will be focused on Question 3.

### ***1. Are you aware of additional evidence that is relevant to any consideration of the suitability of a deposit return system in Scotland?***

The SWA understands that it was not the intention of the Eunomia report to carry out a full cost benefit analysis. But we believe a full cost benefit analysis should be undertaken with the key stakeholders, ahead of any firm policy decisions being made.

### ***2. Do you have evidence that is relevant to any consideration of how a deposit return system could be designed and managed?***

The majority of bottles used by the Scotch Whisky sector are bespoke, with only a few of the brands utilising 'tall round' mould. The automated return machines must be able to cope with a large variation in bottle types including non-circular cross sections.

### ***3. Do you have any evidence on the anticipated impacts of a deposit return system on your own organisation, or on the public more widely***

#### Production Impacts

The Scotch Whisky is sold in around 200 markets worldwide and our members have significant experience of managing differing market labelling requirements. Our members are efficient global manufacturers and as such we continually strive to minimise the number of SKUs (Stock Keeping Units), which reduces our bottling line changeovers and maximises our logistic efficiencies. An additional DRS logo plus barcode would be difficult to include on already crowded back label and would create a separate SKU for the Scotland market. This would result in reduced manufacturing efficiencies and increase wastage of packaging material at our bottling operations. The majority of Scotch Whisky is distributed via large UK distribution companies and again it would be complex and inefficient process to separate out SKUs for the Scotland market only. Additional resources would also be required in terms of re-branding and possible stock wastage as our products may be held in distribution centres for significant periods before being placed on the relevant market.

We are not able to provide estimated costings at this stage in the process due to the limited information regarding implementation. As a broad brush comparison of possible costs to the Spirit Drinks sector, a 2008 UK Government report summarises some of the cross-cutting concerns and costs regarding the implementation of the Spirits Duty Stamps in 2006.

The UK Duty Stamps Scheme applies to all bottles of spirits released onto the UK market and all qualifying bottles of spirits must bear a Duty Stamp which is - in most cases- applied at

our bottling halls. During the development of this policy, the JATCG (Joint Alcohol and Tobacco Working Group) provided estimates of compliance cost figures which formed the basis of the Business Impact Assessment for the Regulations. This report re-visits these costs and concerns post implementation.

The report is titled ‘‘The Spirits Duty Stamps Scheme: Post Implementation Review including Consultation on the Compliance Costs to the Spirits Industry of Duty Stamps’ and the following points were raised:

- The introduction of this new UK Market label created additional administrative and management burdens especially for smaller businesses.
- The JATCG (Joint Alcohol and Tobacco Consultation Group) estimated compliance costs for the UK Duty Stamp at approximately £6m for first year capital costs and £4m per year for ongoing costs.
- There was a perceived market reduction for imported speciality drinks, due to the disproportionate costs involved in affixing UK duty stamps to a very small quantity of goods. This led to a reduction in consumer choice due to a reduced number of product lines being placed on the market.

***Further discussion points:*** *The SWA would be happy to work with the Scottish Government to try and tease out some of the costs, time resources and other impacts on our business linked to developing a new set of SKUs for the Scotland market.*

#### PRN Linkages

The SWA is concerned that the proposal for all beverage manufactures to continue to contribute to the UK PRN scheme, whilst funding the proposed national DRS would be the equivalent to financially contributing twice to improve Scotland’s recycling infrastructure for post-consumer packaging. There would also be a significant additional administration burden of dealing with two different systems covering broadly the same ambition. A further anomaly for the Scotch Whisky sector is that our members are a significant percentage of the beverage packer/fillers in Scotland, but only place a small proportion of total beverage containers onto the Scottish and UK markets.

***Further discussion points:*** *SWA would be keen to work with the Scottish Government to understand the cost implications to our sector and also whether the other DRS referenced within the report also require companies to pay into multiple recycling schemes. From these initial findings in the Eunomia report we have concerns that our sector is unfairly disadvantaged by being a significant player in terms of producing packaged products but only a minority player when it comes to placing these products on the Scotland market.*

#### DRS set-up costs

Our understanding from the Eunomia report is that the set up costs for the DRS which is estimated at £15.0M will be funded by the beverage manufactures based in Scotland.

***Further discussion points:*** *We would welcome an opportunity to explore further with the Scottish Government the specifics of the proposed scheme and better understand how the set-up costs would be apportioned across the beverage manufacturers e.g. would it be linked to product volume placed in the Scottish market or annual turnover? A more general discussion on the financial implications of the DRS and comparisons to the existing PRN/ LA kerbside approach would be welcomed. For example the PRN Valpak report suggests a current recycling level for glass beverage containers at around 70%. What are the barriers with the existing approach to stop the DRS ambition of 85% recycling being*

achieved? The report estimates £12.9 M for transport costs for dedicated rounds to go from retailers to counting centres - is this a direct additional cost compared to the existing process?

#### Suitability of all drinks categories

The report provides a brief explanation on the different drink categories and highlights the difference between soft drinks and the wine sector which are mainly global importers/fillers rather than being Scottish based. The report also discusses separating out the on-trade beverage containers from the off-trade. We would like confirmation to whether the Scottish Government is considering excluding any drink categories from the scheme and the reasons behind these decisions.

**Further discussion points:** *If on-trade beverage containers were excluded from any DRS what processes will be put in place to minimise fraudulent deposit claims attached to the non-deposit paying on-trade bottles? We would also be keen to explore the impacts on the beverage manufactures if a different 'on-trade' label for brands was required.*

In conclusion, we are yet to be fully convinced that a national DRS will deliver our ambitions for greater volumes of good quality cullet for the Scottish glass manufacturing sector and would re-iterate our offer to work with the Scottish Government to develop a clear understanding of the business impacts regarding this proposal and to minimise any unintended consequences for all parties.

Morag Garden  
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