

# Deposit Return System call for evidence

## A Response from Diageo

### About Diageo

Diageo is the world's leading premium drinks business and a top-10 FTSE 100 company. We employ more than 36,000 people worldwide, in more than 80 countries, including over 6,500 people in the UK and 4,000 in Scotland, across 64 sites. Our brands include: Bell's, Johnnie Walker and J&B whiskies as well as a range of malt whiskies from our 29 Scottish distilleries alongside Smirnoff vodka, Captain Morgan rum and rum-based spirit, Baileys liqueur, Tanqueray and Gordon's gin, Guinness beer and Blossom Hill wines.

Scotland is one of Diageo's largest spirit supply centres responsible for producing around 50 million cases of leading brands of Scotch whisky and white spirits annually. Around 85% of Diageo's production in Scotland is sold overseas.

### Overview

Zero Wastes Scotland's [call for evidence](#) asks for:

- Additional evidence relevant to consideration of suitability of a Deposit Return System, DRS, in Scotland (eg impact on litter, recycling of litter, wider sustainability impacts, performance and cost compared with experience elsewhere)
- Evidence on how a DRS could be designed and managed
- Evidence of impact on business, consumers (costs and acceptability).

This response relates in particular to points 1 and 3.

Through our membership of the industry bodies the Scottish Beer and Pub Association (SBBPA) and The Industry Council for Research on Packaging and the Environment (INCPEN), Diageo GB is a member of the Packaging Recycling Group Scotland (PRGS), a group of 33 leading food and drink companies and industry bodies.

As members, we agree with and fully support the submission PRGS has made to this call for evidence. From Diageo GB's perspective, and as a leading manufacturer in the Scottish economy, we believe that a DRS would add major complexity to labelling for drinks in Scotland and would add significant cost to manufacturers and consumers, potentially reducing sales across the whole beverage industry in Scotland and in-turn having a significant negative impact on the competitiveness of the industry and its ability to create employment and economic benefits

For example, we estimate the potential costs on changing Stock Keeping Units (SKUs) alone, such as creating Scotland-specific SKUs, would be around £350,000. When you include additional significant logistical, warehousing and labelling costs, this would cost millions of pounds for Diageo GB.

We wish to make absolutely clear that we strongly support the Scottish Government's ambitions to tackle litter and increase recycling and we are committed within our own business to driving this

agenda by setting ambitious targets for our packaging which encourage a reduce, reuse, recycle approach and by pursuing a policy of zero waste to landfill. Further detail on Diageo's approach to sustainable packaging and waste can be found at the following weblink: <http://www.diageo.com/en-row/csr/environment/Pages/waste.aspx>. We do not believe DRS will have the intended effect on either litter reduction or recycling but is certain to have a negative impact on the economic health of the industry. . We would advocate that **the already established PRN system should be further developed to increase recycling rates**

The following points are taken from the PRGS' response and highlight our main concerns with the introduction of a DRS system:

#### **A DRS would increase price, be inconvenient for consumers and would penalise low income families**

- Rather than encouraging reuse, it is an alternative recycling collection method, which requires people to walk past the recycling bins at their front door and return all drinks containers to shops.
- Consumers will have the inconvenience of having to store empty containers at home separately from other containers, take them back to stores and queue to return them. Consumers are also likely to be confused by which containers carry a deposit and should be returned to store and what should be recycled by the local authority.
- It takes no account of the extra inconvenience for older people, those without access to transport or low income families and for those living in more remote rural areas.
- The report does not take account of a number of other costs that will be passed on to consumers, including higher production and handling costs, provisions to deter fraud, the use of counterfeit-proof ink for labelling and many others.
- The report puts a high value on people's willingness to pay for reduced littering but no value on the costs, wasted time and inconvenience that people would face.

#### **A DRS would add cost, unnecessary administration costs and complexity for Scottish and other businesses**

- The whole beverage industry in Scotland, from the alcohol industry to the soft drinks industry and even the dairy industry, could see reduced revenues if consumers simply cannot afford to buy the same volume of drinks once the deposit value has been added to the price.
- Manufacturers will have significant costs too if they have to increase their stock "lines" (SKUs) to accommodate special Scottish labelling requirements – additional warehousing capacity would be required as well as re-designing new labels etc.
- Space in bars and shops that have never had to store empty containers will be a problem. Supermarkets will also have to be careful how they store milk and juice containers to safeguard health and safety requirements.
- The deposits scheme in Germany changed shopping habits. People shifted from small convenience stores to larger retailers because small stores did not have space to install reverse vending machines and therefore customers had to queue at checkouts to return

containers. This also meant that people travelled by car, instead of walking. A DRS risks turning people away from shopping in high streets.

## **A DRS would require more SKUs, would lead to fraud and therefore increase costs to consumers and businesses**

- Some system of labelling containers that would carry the deposit would be required. Two labelling options are suggested:
  - a Scotland-specific label and barcode. The report suggests costs of £1.2 million for increased warehousing but this is only a small part of the extra costs that brands would incur.

The report makes no mention of the effect that a significant increase in Stock Keeping Units would have on the packaging line efficiency of producers' manufacturing plant. It would also create stockholding and distribution problems for retailers, would increase costs of goods and likely reduce choice.

- a UK-wide label which would only be active for goods sold in Scotland. Roughly 75-80% of brands are sold UK-wide so most will opt for this label but this would encourage people to buy drinks in England and claim deposits in Scotland. Financial losses from fraud would get passed on to consumers. **The increase in cross border trade would be detrimental to shops and jobs in Scotland.**
- In the US fraud is a serious problem even though deposit levels are only 5 cents or 10 cents (3p or 6p). The California state body that administers their deposits system carried out a 3-month study of truckloads of containers coming into California from non-deposits states. It found that \$30 million (£19 million) was being claimed for illegal redemption in the state each year.
- Any labelling system would require a counterfeit-proof ink. These are expensive and the cost would be passed on to Scottish consumers.

## **Information in the DRS report has not been verified and should not be used to inform policy**

- The report did not include a cost-benefit analysis, nor did it consult any retailers, local authorities or waste management companies.
- The conclusions of the report are therefore of limited value.

## **A DRS risks undermining Local Authorities' kerbside recycling systems**

- The impact of deposits will affect both street cleaning services and recycling systems and will likely increase costs of both.
- The cost of emptying litter bins and street sweeping will hardly decrease because other litter – newspapers, travel tickets, coffee cups, chewing gum, cigarette packets and ends etc. – will still need to be dealt with. It is likely that costs could increase because deposits may encourage people to empty litter bins to scavenge for containers. They are unlikely to replace other items of litter after emptying.

- Drinks containers have a relatively high scrap value compared with other recyclables. Local authorities would therefore lose this value but would still incur similar collection costs (primarily labour and transport) collecting a smaller amount of lower value materials.
- This proposal may result in the removal of high value items out of kerbside collection recycling undermining the investment in technology made by recycling companies. The implication for the full supply chain needs consideration.

## **A DRS would not increase recycling rates**

- The report provides no evidence for its assumption that a 10p deposit would produce an 85% return rate and a 20p deposit a 95% return rate.
- It suggests that a deposit return system would increase recycling rates. However, this would only be for those containers within the system.

In conclusion, we would like to state once more that we fully support Zero Waste Scotland and the Scottish Government's ambition to reduce litter and to increase recycling rates and we wish to play a positive and constructive role in that agenda. However, we cannot support the introduction of a Deposit Return Scheme in Scotland because we do not believe it will achieve the stated objective, while having a highly detrimental impact on our business and our industry.

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For more information, contact:

Ian Smith, Head of Corporate Relations, Diageo Scotland

[ian.smith@diageo.com](mailto:ian.smith@diageo.com)

0131 519 2045