Deposit Return System call for evidence

Response from Scottish Wholesale Association and Federation of Wholesale Distributors

This submission is made on behalf of the Scottish Wholesale Association and the Federation of Wholesale Distributors. SWA asked for feedback from members and received a number of detailed submissions from members from across Scotland representing all sections of SWA membership. No SWA member has expressed support for the DRS proposal.

SWA

The Scottish Wholesale Association (SWA) is the official trade association for Scotland's food and drink wholesaling businesses.

Wholesale Members of the Scottish Wholesale Association are located across Scotland and include single-depot, family-owned businesses as well as national wholesale companies and buying groups. Many SWA members have retail interests, particularly in local convenience stores, as well as supplying thousands of independent retailers. Wholesalers also provide cash and carry services, food service delivery to restaurants and caterers as well as on sales services to licensed premises. SWA Supplier Members include national and international food and drink companies as well as small, independent, Scottish-based organisations. SWA facilitates communication and understanding between the different elements of the sector and works with other trade associations. SWA is therefore ideally placed to understand the impact a Deposit Return System would have on the Food & Drink sector, the supply chain and the Scottish consumer.

SWA is also a member of Packaging Recycling Group Scotland. PRGS is a group of 33 leading food and drink companies and industry bodies that shares the Scottish Government’s ambitions to tackle litter and increase recycling.

FWD

The Federation of Wholesale Distributors is the member organisation for UK wholesalers operating in the grocery and foodservice markets supplying independent retailers and caterers via cash and carry, delivery and the Internet. FWD members manage the distribution of goods around the UK with a total value of about £30 billion and ensure an efficient distribution channel between manufacturers and retailers and caterers.

SWA/FWD Position on DRS

SWA and FWD share the aspirations behind the DRS proposal. However, we don't believe it is the correct solution for Scotland. We do not believe that the proposed DRS will achieve the levels of returned containers (85-95%) assumed by supporters of this proposal. Almost two and a half million beverage containers are placed on market each year. Any scheme set up to track that volume of items will place extra burdens on our members and in turn could lead to consumer detriment as costs are likely to be passed on. Our members believe this proposal would inconvenience customers and hit the poorest consumers hardest.

Our members believe existing schemes are effective, cover a wider range of waste and should be supported and enhanced.

"Our company already takes recycling seriously and makes every effort to segregate waste to reduce the amount going to landfill and subsequently reduce the environmental impacts of the business operations. The company already pays an extensive amount calculated in waste packaging returns and costs of landfill taxation. This scheme has expensive start-up costs. The published benefits have not been properly calculated and deposit return costs would be passed on to consumers in an already financially difficult time" (Wholesale Cash & Carry)

"Under SEPA regulations we're already required to make a contribution to the re-cycling costs of the product packaging" (Wine wholesaler)

The wholesale sector wants to play its part in partnership with the Scottish Government, PRGS, local authorities and other key partners such as Keep Scotland Beautiful and Zero Waste Scotland to improve on existing kerbside and other schemes and to decrease litter.

Crucially, we believe that the PRGS alternative - the "Packaging Resource Commitment Scotland" http://www.prgs.org.uk/write/MediaUploads/PRGS_May_2015.pdf represents a significant positive step that can be taken forward immediately in partnership.

Any DRS will involve further research as well as potential delay. The Eunomia report makes it clear that there would need to be a minimum of a two-year delay to allow the industry to accommodate labelling, design and other changes as well as a further period to set up governance arrangements, decide on the detail of the scheme and allow local authorities to adapt their systems.

This period would also include time for negotiation between the Scottish Government and BIS in respect of labelling which remains a reserved matter.

We would suggest that there should be a fresh, immediate commitment from all partners to find solutions which work for the environment, for consumers and for Scottish businesses without introducing a DRS which involves significant disruption. The food and drink sector is a vital part of a successful Scottish economy. The sector has benefited from strong Scottish Government support and the significant achievements of the past few years have been achieved through partnership.

SWA believes that an unnecessary DRS scheme will hit manufacturers, suppliers, wholesalers, retailers and customers and will be counter-productive as the Scottish economy grows out of recession. While we share the Scottish Government's environmental aspirations we would call on them to think very seriously before adding extra costs and administrative red tape to the food and drink supply chain and extra costs to the food bills of Scottish families.

General sector concerns

The key issues for members who are wholesalers are:

- Lack of detail about scheme fees and costs
- increased costs of goods from suppliers
- cash flow issues

- reduced sales due to the included deposit and the fact that retail customers have less space to store stock
- potential need to use wholesale depots for clearing and compacting including potential costs of RVMs and lack of space
- inconvenience, complexity and more bureaucracy

Key issues for members who are retailers are:

- lack of space to store returned containers and the negative impacts of storage including the opportunity costs of using that space for returns rather than saleable stock
- being "out of pocket " to refund deposits to customers – cash flow
- the possibility of losing customers to supermarkets due to queues
- Cost of Reverse Vending Machines @£30k per unit
- Disputes with customers who bring items back that are not clean or are not part of the scheme
- Security/fraud issues particularly close to the Border
- health & safety implications of storing used containers in store and in the possibility of backhauling waste with other goods
- potential to be asked to contribute to cost of the scheme
- small retailers not able to take part in the collection/transport element of the DRS meaning extra costs

Key issues for members who are manufacturers/suppliers are:

- being asked to contribute producers' fees to cover scheme administration costs
- the need for specific Scottish labelling/packaging and increased stock lines leading to extra costs and extra warehousing requirements
- potential for the increased costs of deposit inclusive goods to reduce sales revenue
- fraud and costs of fraud prevention measures

Specific Concerns

1. Lack of engagement with Wholesale and other key sectors

The SWA and FWD are concerned that neither Eunomia, who conducted the research on behalf of Zero Waste Scotland, nor ZWS themselves have asked for input from the wholesale sector prior to 14th May 2015. The Eunomia report *A Scottish Deposit Refund*

System which claims to assess whether a DRS would work in Scotland neither sought nor contained direct input from wholesalers, retailers, local authorities or waste management companies. All of these groups will be directly affected by any Deposit Refund System (DRS). Active support from these groups is critical if a DRS was to be introduced.

SWA supplier members AG Barr who have operated a deposit return system in Scotland for 140 years were not approached for input into the feasibility report. AG Barr more than anyone are well placed to highlight the pros and cons of a DRS. They currently operate a DRS involving refillable glass bottles.

The reason that they were not consulted is stated to be because the proposed DRS was on one way packaging. This appears to miss the significant point that this scheme is able to provide actual return rates rather than speculation. The current return rate on this well-established scheme is 54% with a 30p refundable deposit. This compares to the report's predicted return rates of 85-95% with 10p and 20p deposits. The report fails to explain why the AG Barr figures will not be replicated in a new DRS.

The wholesale sector was not invited to take part in recent ZWS events in relation to DRS. We believe that groups which support the DRS, including companies which produce Reverse Vending Machines, did contribute to the report and were invited to take part in events.

We believe the lack of engagement with the wholesale sector is reflected in the Eunomia report which fails to recognise the wholesale sector as one of the "main actors" within a DRS. It is page 31 before wholesalers are mentioned and then only in relation to the deposit scheme labelling within the German system. The report continually refers to logistics companies to describe operations which could be and would be carried out by the wholesale sector. At no point within the report are the costs and benefits to the wholesale sector examined. In section 5, which looks at implications for business, there is no discussion of wholesalers but there is a section covering logistics companies.

It is essential that Scotland's wholesale sector is included in all further discussions with regards to a Scottish DRS. If a DRS is to be established we request that the Scottish Wholesale Association should be included on the Management Board which will be making crucial decisions about the DRS design and operation.

2. Lack of detail

At this stage there is a worrying lack of detail about what a deposit return system would mean for wholesalers or for other businesses within the supply chain. There remains a high degree of speculation and a series of different permutations and options which would make considerable differences to the operation and costs of any scheme.

SWA is concerned that a DRS would introduce an unnecessary burden on business and consumers and remains to be convinced that there will be a significant increase in recycling and a decrease in litter as a result.

There will, however, be extra administration and transport costs for SWA/FWD members. Our understanding is that under a DRS, the price wholesalers pay to suppliers for a relevant product will be increased to include the deposit cost and extra admin costs incurred. That extra cost is then passed on to retailers by wholesalers. The extra cost is then passed on by the retailer to the consumer. The retailer is then expected to reimburse the consumer when they return the container. The retailer is then centrally reimbursed by the DRS.

The Eunomia report states that financial transactions are made between different groups in order to ensure that the costs and revenues are distributed appropriately. This includes a handling fee to retailers for facilitating the take back from consumers.

SWA is unclear what level of payments would be made to wholesalers through the "clearing" process to facilitate the payment and movement of the deposit and to cover costs. The report is unclear about the wholesale sector's role generally so it is difficult to discover what the costs and potential payments might be. These issues might be addressed at the implementation phase. However, SWA and FWD believe that wholesale businesses need to know at this stage what likely costs on their business would be. There needs to be more specific sector information now rather than after a decision to proceed has been taken. The evidential base at this stage is partial and biased in favour of those who would benefit from a DRS.

There remains a lack of clarity about costs. As an example, producer fees are quoted as being between £5.7m and £17m. This represents a broad range. However, it is also predicated on container recovery levels of up to 95% which we believe are overly optimistic.

There is contradiction within the report. One example is around the purchase of RVMs. The new models which clear and compact beverage containers are extremely costly pieces of machinery. According to the report, the purchase costs of these machines might be met by retailers or by bulk buying by the central system.

The report suggests that larger supermarkets will back haul containers back to their depots and then to reprocessing as they will have been counted/cleared and compacted by RVM in store. However, it suggests that other retailers will have empty containers collected by the central system while other, smaller retailers will have to organise for containers to be taken either to their suppliers' depots, a counting centre or to another reception point.

Whatever means are used this will add a significant amount of extra upfront costs to the price of goods as well as adding considerable levels of administrative tasks at further significant cost to all points on the supply chain.

We appreciate that retailers are expected to be reimbursed for space used and for time taken by staff to undertake manual take back. However, the report also says that retailers may be asked to pay for the system. Until there is further detail we are not able to know whether this will be a negative, positive or neutral financial impact for our members.

Many SWA members felt that there had been insufficient analysis of the costs and benefits of a DRS. They note that producers, and possibly retailers, will be expected to contribute to costs and that, otherwise, the scheme would make a loss. However, the system-wide figures used don't include any comparators between business costs prior to DRS and after DRS.

Some supporters of DRS are suggesting that the proposal is similar to the Carrier Bag charge. SWA feels this is a false comparison as under a DRS consumers have no alternative but to pay the deposit. The only choice they have is whether or not to forfeit that deposit and continue to put their empty containers in kerbside containers or to landfill instead of returning them to retailers. This 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.

The DRS described suggests the potential for a significant number of extra vehicle journeys. This includes consumers driving to supermarkets to redeem deposits at RVMs; logistics companies being employed by small retailers to pick up waste to take to counting centres; wholesalers/suppliers carrying empty containers to depots for counting and compacting. While some of these journeys might involve backhauling there are likely to be others which don't and represent extra journeys. There is no attempt to quantify the scale and the environmental impact of these journeys. We remain particularly concerned that the plan is to have only two counting centres for the whole of Scotland – one in the Central Belt and one in Inverness - which may mean members having to drive considerable distances to redeem containers. The report, however, suggests these locations will "ensure collection vehicles don't have to travel a significant distance from end of round to a counting centre".

3. Disruption of current environmental schemes

SWA and FWD believe a DRS would have a negative impact on Local Authorities and recycling. A DRS would divert recycling away from local authorities and could impact on the sustainability of kerbside household recycling as a whole. Real progress has been made in household recycling which could be reversed if many containers are no longer recycled at home. Local authorities would lose the scrap value of bottles and cans but still need to collect household waste and other recycling.

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. Valpak has estimated that the lost revenue to local authorities would be £8.7 million a year, if the DRS achieved an 80% return rate.

It is likely that local authority schemes might therefore have to re-negotiate existing waste contracts at considerable cost.

"I'm concerned that the arrangements for returning packaging will increase the carbon footprint as people have to travel to designated return points. The huge investment in recent years by local authorities in the promotion of recycling and in equipment and facilities to allow kerbside collections would be negated – DRS seems like a backward step"

(Wholesaler)

The Eunomia report itself accepts that collection cost-savings are small compared to overall service costs. We are aware of one local authority which has already raised concerns with COSLA on the impact. They were intending to invest further in pre-treatment of residual waste to capture more metal cans.

In countries such as Germany where DRS has been introduced people have made a business out of scavenging for beverage containers. This led to litter on the street around bins and ultimately to the redesign and replacement of litter bins. Scavenging from litter bins and kerbside boxes will also reduce the amount of beverage containers uplifted by local authorities.

The Eunomia report suggests the scheme should cover beverage containers – metal cans, PET or HDPE bottles and glass bottles – however, a review to include a wider range of bottled and canned products is recommended. Which containers are and are not covered will have an impact on costs. However, it's also clear from the international comparisons that any discrimination against particular types of containers can skew the market. It is clear that the Scottish Government could use such a scheme, as Germany did from 2006, to exempt certain types of packaging which were felt to be more sustainable and they could also choose to exempt certain beverages e.g. milk because of wider concerns for the dairy market or because of health and safety concerns. The detail around which containers and products are included and not included will have an impact on the viability of the scheme, the sectors and costs involved as well as on levels of public support.
http://www.talkingretail.com/category-news/supermarket/the-price-of-being-green

SWA members who are wine and spirit wholesalers have raised the issue of potential exemptions for wine. They deal with international suppliers whose bottling and labelling operations are almost exclusively based outwith Scotland and the UK at small, local bottling plants in the country of origin. The Eunomia report acknowledges (Page 7) that the effort to label some bottles in such circumstances can be considered too excessive. If such an exemption were made for foreign spirits imported from overseas there might be issues in terms of a level playing field for home spirits such as whisky. The report is unclear on whether wine would be included or not.

It is also not clear how the DRS would interact with the existing PRN system which was set up after a significant period of negotiation. Wholesalers are already required to make a contribution to the recycling costs of product packaging under Packaging Waste Regulations. Introduction of a DRS effectively penalises businesses twice.

4. Impacts on consumers

A DRS is effectively a tax on people's time. Members of the public will have to walk past their kerbside recycling bins to take their containers back to shops and supermarkets. The Eunomia report put an unverified value of £770m on indirect costs of litter but it didn't attempt to quantify the value of the additional time spent by consumers as a result of DRS introduction. In fact, it suggested that as recycling was something householders ought to do it shouldn't be quantified as a burden or cost.

DRS is an extra inconvenience on everyone including those people who already recycle at home. However, it is a particularly great inconvenience and cost to those Scots who:

- don't have access to a car
- are elderly
- are disabled or have mobility problems
- have smaller homes with less space to store recycling
- live in rural areas

SWA and FWD are concerned that DRS will actually hit the poorest consumers hardest. Those consumers listed above are less likely to return bottles and containers to stores and more likely to forfeit deposits. This, added to the extra point of sales costs, due to the in-built deposit and extra admin costs and producer fees, means that a DRS would hit the poorest and most disadvantaged consumers most. Consumers who spend more on beverage containers, including families with children, will be hit hardest.

Consumers would need to pay an extra £1.40 per week for a daily bottle of milk, £1.20 on a six-pack of beer and almost double the cost of a 30-can multipack of soft drinks, which they could lose if they don't return the empty for a refund.

Consumers will have the inconvenience of having to store empty DRS containers at home separately from other containers. They may be confused by which containers carry a deposit and should be returned to a shop and which should be recycled by the local authority. There is a need to keep any system as simple as possible so the public know what they should be recycling in this manner.

The Eunomia report accepts that consumers are negatively impacted. It states "The greatest costs resulting from the introduction of DRS fall upon consumers who are not returning the containers for recycling". The report suggests the costs in unredeemed deposits is between £23.9 and £35.9 million. Once again, we believe this under estimates this figure by over estimating the recovery levels.

Leading environmental consultancy Environmental Resources Management Limited (ERM)[1] examined the potential implications of introducing deposit return systems for beverage containers and concluded it would **cost Scottish consumers an extra £155m per year, or £65.30 per household.**

<u>5. Impact on businesses</u>

SWA and FWD members felt that DRS would have a negative impact on their businesses and on other businesses in the supply chain.

"**There would be an immediate and catastrophic effect on my business cash flow. The additional deposit costs when applied to the volume of stock handled by my business are very significant"**

(Wholesaler)

Many wholesalers felt that DRS, which ties up deposit payments and increases costs, would reduce consumers' ability to spend on other products. The report states at section 3.2 that

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[1] An Evaluation of the Financial and Environmental Impact of changes to Recycling Systems in Scotland: including a Deposit Return Scheme" by ERM commissioned by Coca-Cola Enterprises, Feb 2013 - The report, it's modelling and assumptions were peer reviewed by an independent environmental expert.

“There is no clear evidence regarding these effects in the public domain”. However, the impact is then asserted to be “relatively limited”.

“It will add costs and impact considerably on already beleaguered small business, trading at the margins, playing right into the hands of the corporate giants and creating even less competition and choice for the consumer. More bureaucracy suits large-scale business and helps squeeze the smaller operators out. Though well meaning there are many huge, hidden costs to everyone in the supply chain. A definite step too far that could hugely damage small businesses still trying to recover from the recession”

(Orkney - Grocery Wholesaler)

Many respondents highlighted the probable problems faced by retailers who will be obligated to take back bottles and other containers. Many highlighted the problems of finding storage areas for returned containers. Some mentioned the health & safety implications of using RVMs and cited previous schemes where flies, wasps and vermin were attracted to the machines. A number mentioned the need for security of waste areas to prevent theft and fraud. There’s also the potential for deposits to be denied leading to altercations with customers.

“Many if not almost all of our customers don't have enough storage space for goods for sale let alone storing empty containers awaiting collection” (Wholesaler)

“**What would happen if the retailer had no space to store the items? Would he store them in his selling space making his store less desirable for consumers to shop in due to smelling cartons, trip hazards, reduced disabled access? It’s likely he’d have to store them outside waiting for collection thus creating more refuse mess and potentially a situation where consumers could pick up no-cleared items and expect the retailer to pay the deposits again.” (Wholesaler, Retailer and Exporter)**

Crucially, 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 customers had to queue at checkouts to return containers manually. This also meant that people travelled by car, instead of walking. It is suggested consumers return 15 containers at a time on average. A DRS risks turning people away from shopping in convenience stores on high streets and also risks increasing carbon footprint.

The report acknowledges the possibility of retail shift: “Consumers may take more empty containers to larger stores in bulk at which point they may purchase groceries they would have purchased from smaller local stores”

Any possible exemption of small convenience stores from the DRS also risks distorting the market, sending customers to supermarkets. On page 93, the report states that: “Small retailers with low staff levels/sales will be allowed to opt out of the system." However, the Eunomia report is unclear about what an "exemption" for small retailers means. It appears as if they will still have to accept containers and pay out deposits but they won't be part of the collection programme which will be available to larger premises. This represents an even greater burden on small retailers who will have to pay wholesalers, suppliers or logistics companies to take away the several hundreds of cans they've collected each week.

Alternatively the report says at page 151 that they might return containers to a cash and carry when purchasing new goods. This is the first time the option of wholesale depots being used for this purpose is mentioned.

Several SWA members have raised concerns about the Health & Safety elements of having RVM machines in store which may well attract insects and vermin or of storing unclean containers in store or in back hauling vehicles which are used for fresh stock. Retailers may require a relevant environmental permit or members may need to register as a licensed waste carrier to store and transport waste. This would mean further costs and administration.

6. Costs

SWA and FWD are keen to work with both the Scottish and UK Governments to reduce the bureaucracy, paperwork and red tape which confronts Scottish businesses. This DRS proposal increases the administration costs on Scottish businesses and introduces new complexity into the food and drink supply line at every step. Businesses seek clarity in relation to costs. So far, such clarity is lacking from this proposal.

The set-up costs for DRS would be substantial including the costs of RVMs, counting centres, administration and training. The set-up costs of DRS could be better spent improving the more convenient kerbside systems.

"Our main customers are £1 shops and small local convenience stores. The additional deposit costs will severely affect the pricing strategy and business model of the £1 shops. If these £1 retailers lose business then my wholesale business suffers too. Local convenience stores are struggling as it is to compete with the multiples. If they are unable to accommodate a reverse vending machine in their store then they may be bypassed by their customers who are drawn to the bigger shops where they can get their refund. Again if local convenience stores lose customers then my business is adversely affected." (Wholesaler)

There is no cost/benefit ratio within the report. However, there is an exceptional figure of £513m-£770m set out as the indirect costs of litter on a range of issues such as property values, mental health and crime. The report lacks evidence to prove that DRS will reduce this litter and its effect even if we accept the indirect figure.

Retailers would either bear the extra costs of manually dealing with returned containers albeit with a handling fee provided, or would have to find space for reverse vending machines. Using the report's own assumptions for the machine costs this would mean an investment of £86.4 million for the 2,700 machines the report says would be needed. In Section 5 of the report it states that "RVM costs would be compensated for if the system required retailers to finance them "or the central system may choose to bulk purchase RVMs potentially with public sector funding".

The report also suggests changes in business practice which would impact on wholesalers. Eunomia suggests that pubs and bars would alter their cellar practices so that glass bottles and cans could be returned to wholesalers for counting at their local depots. A return to practices which were common 15 years ago. Again the report suggests pubs would receive handling fees to cover costs such as staff time spent loading empties.

Any shortfall in the operation of the system would be absorbed by fees paid by the beverage companies and potentially by retailers. The Eunomia report cites revenue of £6m to £17m from producers' fees without making it clear who would pay and on what basis they would pay. There is a lack of clarity on what that cost would be likely to be for different sizes of retailers and drinks companies so it is impossible to say whether these fees are reasonable or affordable. Depending on different scenarios the extra costs included in a beverage could be significant. The report refers to smaller retailers which won't receive enough volume to warrant paying "the joining fee". We have no idea what the basis of any joining fee would be. Is this different to the producer and retailer fees mentioned elsewhere?

It is likely that costs will be passed on to consumers. Additional costs to set up the system and protect it from fraud would also need covered. A number of other costs will be passed on including higher production and handling costs.

The take back infrastructure favours larger retailers such as major supermarkets. They can use existing distribution logistics to backhaul containers to distribution centres at marginal costs. Smaller retailers will rely on dedicated collection rounds by logistics companies employed by the DRS or on negotiating take back with suppliers. Either of these options involves greater costs. The report suggests that the smallest retailers would be unable to join a central collection system so they would have to pay these extra costs or return containers to RVM in larger supermarkets as if they were a consumer. Either way smaller retailers will incur extra costs, inconvenience and will be out of pocket for a longer period. It is not clear whether the central system within handling fees would cover costs of a third party wholesaler picking up empty containers from retailers to take to a counting centre or back to their depots.

Retailers might also be supplied by wholesalers based elsewhere in the UK. How will this Scottish system be dealt with in that commercial arrangement? Those wholesalers will have to stock separated Scottish stock lines. The smaller retailer is unlikely to have the option of back haul in this scenario. This may lead to changes in the market. Valpak estimates that a DRS could affect 15,000 product lines, not the 2,000 estimated in the report.

Several SWA respondents were concerned about potential extra costs to businesses in the Highlands and Islands particularly if businesses were having to pay extra freight charges.

"Small country and island shops are our stock and trade. Giving island retailers the extra burden of increased goods cost and logistics will definitely lead to even more of these extremely fragile businesses closing down. We already have a recycling regime within our smaller councils that is actually starting to work on a local level. Leave it alone." (Island wholesaler)

SWA notes the suggestion at 3.6.7 of the Eunomia report that rural shopkeepers might be able to redeem deposits in a more pragmatic and flexible manner through self recording of returns made. Defaced containers could then be entered into the usual recycling channels to avoid extra costs.

7. Labelling and fraud

The report suggests two labelling options for containers with the choice of option being left to the producers (with potentially lower system fees for the Scottish specific label). The options are a Scottish DRS logo and barcode for beverages sold in Scotland only (Scottish specific label) or a Scottish DRS logo added to all beverages sold in the UK. 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.

Required labelling would mean more Stock Keeping Units (SKU). 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 wholesalers and retailers, would increase costs of goods and potentially reduce choice.

"We believe there will be additional costs and complexity added to our business. This will increase the costs of glass and impact on our line running speeds and secondary packaging. That will mean new packaging costs"

(Wholesaler, Retailer, Distiller and Producer of Spirits)

Putting a new identifiable monetary "value" on drinks containers could lead to fraud on a number of levels – from small-scale bin scavenging to large-scale cross-border trafficking between Scotland and the rest of the UK.

There are international examples of DRS fraud. 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 found that $30 million (£19 million) was being claimed for illegal redemption in the state each year. There has also been a case where Hungarian containers with counterfeit labels were sold in Germany (the German deposit is 3-6 times higher than the US deposit rate).

Small supermarkets, retailers or other outlets which don't use a RVM are more likely to be targeted for fraud as they have to undertake manual checks. How will they be able to check security characteristics? In the event of fraud are they able to claim that cost from the central system or does that fall as a cost to their business? Is it possible to set a limit on the number of cans a convenience store without a RVM can be expected to take in any one transaction?

Any new labelling system would incur significant set-up costs including new design and, possibly, the use of counterfeit-proof ink. These additional costs would be passed on by producers to Scottish consumers.

"Entrepreneurial individuals in the North of England could create quite a business model by collecting waste in England and returning vast quantities back to a small newsagent over the Border in Scotland. To get around this the supply chain would have to create a less efficient production process to apply bespoke packaging for products on sale in Scotland only. It would also create a parallel trade with companies in the rest of the UK and Europe selling non DRS stock to the trade at a lower cost. " (Wholesale, Retail and Export business)

"Any business buying stock through legitimate channels and paying the DRS charge is likely to become uncompetitive against unscrupulous traders who operate outwit the scheme. There will be no shortage of buyers for rogue traders offering cheaper products" (Wholesaler)

SWA and FWD believe that wholesalers are already playing their part in tackling illicit trade in alcohol and tobacco. Governments on both sides of the Border have introduced measures to hit rogue traders. A DRS would set up yet another potential illicit trade which would have to be dealt with by HMRC, Trading Standards, Police Scotland, the courts and other agencies at some additional costs. Illicit trade would also hit lawful businesses.

8. Recycling rates and litter

A DRS would target only a small amount of litter and have no impact on littering behaviour.

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. The report failed to consider AG Barr's current returnable glass bottle scheme. The number of people returning containers has decreased and significantly dropped in 2012 when the Government added glass bottles to kerbside collections. The return rate fell from 65% in 2012 to 54% today, even though the deposit has risen from 20p to 30p.

The report suggests that there could be a reduction in litter of around 17% but there is little hard evidence from anywhere that deposit schemes reduce littering.

Sweden has had deposits on drinks containers for 30 years and despite increasing the on-the-spot fines for littering drinks containers to £63 in 2011, it is still a problem. Only 30% of Swedish households have kerbside recycling compared with national coverage in Scotland.

Eunomia says beverage containers are 40% of litter based on volume. Studies that measure the number of littered items put it at between 3%-20%. No Scottish authority records the amount of litter collected. The report has ignored the most recent survey of the number of littered items in Scotland, carried out by Keep Scotland Beautiful Composition of Litter in Scotland 2104. Instead it has used an estimate of the amount of littered drinks containers by weight from a previous study by Eunomia.

The report includes information about DRS in selected countries but did not assess countries that have carried out impact assessments of DRS and rejected them – Czech Republic, France, Ireland, Latvia, Poland, Spain, and Switzerland. International comparisons don't compare like for like as different countries have different packaging histories and requirements as well as different recycling schemes.

9. Governance

SWA and FWD do not support DRS. However, if it is to go ahead, we agree that the DRS should be governed by industry so long as all partners in the supply chain are represented and there is an independent dispute mechanism. That arrangement is most likely to acknowledge the role of the wholesale sector and the other players in the supply chain in terms of the effective delivery of goods and the apportionment of handling fees and costs. SWA has FWD representation on its Council so we would suggest SWA should represent the wholesale sector in further discussions with Zero Waste Scotland and on any subsequent board.

Conclusion

SWA and FWD believe that a DRS which will see millions of beverage containers being returned to retail outlets every year has the capacity to de-stabilise the food and drink sector and existing local authority recycling schemes, increase costs and administration for businesses and hit the poorest consumers hardest. SWA and FWD call upon the Scottish

Government to reject the DRS approach and instead work with PRGS and other stakeholders including the wholesale sector to achieve a drinks container recycling rate of 80% by 2025.