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Your Ref: -

18 June 2015

Zero Waste Scotland Limited
Ground Floor
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By email: lyndsay.parker@zerowaste.scotland.org.uk

Dear Ms Parker

DEPOSIT RETURN SYSTEM – CALL FOR EVIDENCE

Thank you for providing the Scottish Environment Protection Agency (SEPA) with the opportunity to comment on the above Call for Evidence.

SEPA is supportive of any policy measure that will improve recycling rates, reduce litter and drive a more circular economy in Scotland. Annex 1 gives our detailed response to the three questions in the call for evidence. In summary:

- There is a need to understand the current level of capture of beverage containers, since the introduction of the Waste (Scotland) Regulations 2012.
- Other studies looking at the costs of introducing a deposit return scheme at a UK level estimated costs to be proportionally much higher than the Eunomia report. The reasons for this difference need to be further explored.
- There is a need to further explore the impacts on local authorities - tonnages collected, recycling rates, costs and impacts on collections for other materials
- There is a need to further consider labelling systems to reduce opportunity for fraud
- There would be a need for an enforcement authority, with associated funding
- We have also taken the opportunity, to provide an initial SEPA view on the environmental regulation of the various DRS activities.

As a public body committed to openness and transparency, SEPA feels it is appropriate that this response be placed on the public record. If you require further clarification on any aspect of this correspondence, please contact Lorna Walker, Senior Policy Officer – Waste Prevention who is based at our Dingwall Office: Graesser House, Fodderty Way, Dingwall, IV15 9XB (Tel: 01349 860451; email: lorna.walker@sepa.org.uk).

Yours sincerely



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Annex 1: SEPA Response to the Call for Evidence on the Feasibility of a Scottish Deposit Refund System for Beverage Containers

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

Evidence on effectiveness of existing systems in extracting target items. The Waste Scotland Regulations (2012) have required the source separation of paper, card, glass, metal and plastic, since 1 Jan 2014. Beverage containers made of these materials are therefore targeted by local authorities in order to comply with these regulations. It is important to establish the extent to which existing systems are capturing beverage containers, and thus to derive estimates for the difference that the introduction of a deposit refund system could make. This evidence will come from:

- Waste composition analyses carried out by local authorities, post January 1 2014. This data is held by individual local authorities.
- Waste data flow data for 2014 – which collates information from all 32 local authorities on waste arisings and their destination. This data may not be available in a verified form for several months. This is particularly important given the difference in data estimated by Eunomia and Valpak for current beverage container recycling rates, as illustrated in table 5-10 of the report.

Evidence on costs of implementing a DRS system

“Have We Got the Bottle? – Implementing a Deposit Refund Scheme in the UK”, Eunomia for CPRE (2010). This report estimates the set up costs of a deposit return scheme for the UK to be £84m, and the net annual running costs to be £700m. Using the ‘rule of 1/10th’ it would be expected crudely that net annual running costs for Scotland would be around £70m. However this recent Scottish report estimates net annual running costs of £6-19m. It is important to explore the reasons for this difference.

Evidence on return rates – The report recognises that AJ Barr operates the only DRS in Scotland, but does not include this in the analysis because the scheme relates to refillable containers, as opposed to one-way containers. SEPA considers that the evidence on the effectiveness of the AJ Barr scheme is relevant to consideration of potential return rates achievable within the context of Scottish psyche / culture. For a consumer whether a container is being returned for refilling or recycling is unlikely to affect their behaviour.

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

SEPA would like to offer the following expert evidence with regards to design and management of a Deposit Return scheme:

Materials and products

SEPA agrees with the principle that as many beverage container types as possible would be included in the scheme to avoid switching between packaging types. Several common



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packaging types are not specifically mentioned in the Eunomia report - for instance pouches and drinks cups – and consideration should be given to including them in the scheme.

SEPA wishes the situation for refillable containers to be clarified. The model seems to suggest that the deposit would not apply to refillable containers. This could incentivise producers to move to more circular business models (refillable containers). On the other hand, it may give a signal to consumers that it is not so important to refill containers, as it is to recycle them.

Structure and Level of deposit

SEPA agrees with the principle that the structure of a deposit scheme should be as simple as possible. There is however the need to address the issue of level of deposit applied to multipacks. There is an argument that the level of deposit on individual items from a multipack should be the same as for items sold individually, in order to incentivise return. However this would have the effect of significantly increasing the cost of the multipack with economic consequences for the supply chain.

Labelling and fraud prevention

SEPA recognises the importance of labelling items in order to prevent fraud (reclaiming deposits on items for which deposits were not originally paid). SEPA is concerned that the option of putting a Scottish DRS logo on items sold throughout the UK, while more practical for producers, would introduce an incentive for fraud (transport of waste beverage containers from the rest of the UK to Scotland in order to 'claim' back the deposit). It would therefore be preferable for the DRS logo to only appear on items sold in Scotland, however it is recognised that this may pose practical problems for producers / wholesalers / retailers.

SEPA would also like to see consideration on the position for online sales – which could potentially be used as a route to circumvent payment of the deposit.

Infrastructure

SEPA agrees that the suggested model for take-back infrastructure be 'return to retailer' as this will maximise return rates.

SEPA would like to see further consideration of the impact of new collection infrastructure on existing collection systems.

Beverage containers are currently collected by local authorities and contribute to recycling rates. If a DRS scheme was implemented, materials would be diverted from local authority collection systems to the DRS infrastructure at retailers and reverse vending machines. This could have an impact on:

- Targets – while any DRS would increase recycling of beverage containers at a national level, the effect on individual local authorities would be to reduce recycling rates.
- Economic viability of existing collection systems. The report estimates that local authorities will make net savings in collection and disposal costs of £13m. SEPA considers that these theoretical savings would be difficult to achieve, particularly in rural areas, and therefore cautions against putting too much reliance on these projected savings. It is important to seek evidence from Local Authority waste managers on impact on viability of existing collections.
- There is a particular impact on glass collections. The existing system involves smashing of bottles at bottle banks. However in a DRS scheme, bottles would have to be transported whole to a counting centre. The bottle banks therefore couldn't be used as part of a DRS and so would only remain in use for glass jars, at a much reduced

volume, thus reducing economic viability. Consideration could be given to including jars in the scheme.

Ownership of material revenue

SEPA agrees with the suggestion that the ownership of the material should rest with the DRS, as this would provide best fit with the existing PRN system.

SEPA notes that in the model presented, none of the revenue reaches the reprocessor. It does not necessarily follow that increased volumes will improve economic viability of reprocessing, which depends on value of recyclate on world markets. Ideally there would also be strong policies in place to develop markets for increased levels of recyclate.

Governance

SEPA notes that there is no consideration given in the report for the establishment of a regulator to enforce the requirements of any DRS scheme. A regulatory body would be required to ensure correct labelling of items; charging of deposits; refunding of deposits and investigation of fraud. Regulatory activities need to be adequately funded.

SEPA notes that net operating costs of the scheme would essentially be paid for by consumers (unredeemed deposits) and producers (meeting any shortfall). However this creates a perverse incentive: if the scheme performs well, then there would be fewer unredeemed deposits, and producers would have to pay more. It would therefore be in the producers' interests to ensure that the scheme performs badly.

Timing

SEPA notes that the report advises at least a two year lead in time to introduction of a DRS. SEPA also notes that the 'Have We Got the Bottle?' report, also written by Eunomia, says: "Four to five years appears to be an appropriate time to allow for infrastructure development and communication with all stakeholders. In addition, this would allow for some transitional issues to be considered. For example, local authorities' collection schemes will be affected by the implementation of a DRS. In order to realise the financial benefits to authorities from the DRS's operation, time to consider contractual positions and service design would appear appropriate.

In SEPA's view a 4-5 year time horizon appears more realistic.

Fit with existing regulatory regimes

SEPA agrees with the approach suggested in the report, namely:

1B: Deposit material does generate PRNs

2A: Manufacturers of beverages are subject to existing packaging regulation obligations in addition to the DRS.

SEPA is of the view that any DRS will help to meet the targets in the existing packaging regime which are set to become increasingly challenging over the coming years.

SEPA advises that more analysis be undertaken on the impact of a Scottish DRS on the price of PRNs more generally. It is important to understand any potential impact as PRN price impacts on the economic viability of reprocessors, and also indirectly on the price that local authorities receive for collected packaging waste (which in turn affects economic viability of collection systems).

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? (e.g. costs to businesses; costs to the public; public acceptability)

Section 4.1.4 of the report addresses the issue of compliance with environmental legislation for each of the activities / players in the DRS, and requests advice from SEPA. Our initial thoughts on the regulatory requirements at each stage of the chain are as follows:

- Retailer collecting used beverage containers – This would be covered under a paragraph 40 exemption from waste management licensing. This exemption does not have to be registered with SEPA.
- Reverse vending machine collecting used beverage containers – This would be covered under a paragraph 17 exemption from waste management licensing (as for bottle banks), which does have to be registered with SEPA.

There may be an opportunity through the regulatory reform process to reduce the level of regulation of collection activities.

- Waste management company collecting from retailer / reverse vending machine – would require registration as a waste carrier (which waste management companies will already hold)
- Wholesaler collecting used beverage containers while delivering to retailer (reverse logistics) – the activity of carrying someone else's waste requires registration as a waste carrier (Waste Framework Directive requirement, so little scope to vary this requirement)
- Retailer transporting used beverage containers back to wholesaler –strictly speaking the activity of carrying someone else's' waste requires registration as a waste carrier. There may be scope to argue that the retailer is carrying their own waste, and therefore registration as a professional carrier (at no charge) may be possible.
- Counting centre. SEPA would need to better understand the activities being carried out at a counting centre. If the centre was not treating the waste in any way then the activity would fall under a paragraph 40 exemption from waste management licensing (no requirement to register with SEPA). However if the waste was being sorted, shredded or baled, then this would fall under a paragraph 11 exemption, which must be registered.

Should the Deposit Return Scheme progress onto the next stage of development, SEPA would be happy to look at these issues in more detail.

Please also see earlier comments on:

- Governance – need for a scheme regulator
- Impact on sales of multipacks
- Impact on local authority collection systems
- Impact on reprocessors
- Impact on producers / wholesalers / retailers

SEPA
18.06.15