



ZERO WASTE SCOTLAND DEPOSIT RETURN SYSTEM: CALL FOR EVIDENCE RESPONSE FROM THE SCOTTISH RETAIL CONSORTIUM

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ABOUT THE SRC AND THE RETAIL INDUSTRY

The Scottish Retail Consortium (SRC) is the lead trade association for retailers operating in Scotland and has been representing the interests of the retail industry since the Scottish Parliament's inception in 1999. The SRC membership includes retailers large and small selling food and non-food and operating on the high street, in rural communities, out of town and online.

Retail provides 257,000 jobs and is Scotland's largest private sector employer. Many of our indigenous retail brands are market leaders both domestically and internationally and millions of Scottish consumers benefit from a quality retail experience every day. On average, consumers in Scotland pay around 5% less for their basket than the Eurozone and despite challenging economic conditions impacting household budgets and squeezing retail margins, retailers continue to make a substantial economic and social contribution to Scotland through the taxes they pay, the jobs they create, by keeping down costs for households and through the routes they open up to markets elsewhere in the UK and overseas for local producers and manufacturers.

RETAIL ACTION ON ENVIRONMENTAL CONCERNS

Retailers are playing a leading role in helping to mitigate and adapt to the environmental challenges of climate change and the need to move to a more circular economy. In 2005 a leading group of retailers announced five targets on reducing the direct environmental impact of the retail industry. These targets came to an end in 2013 and all have been exceeded. In January 2014 we launched a new set of targets and commitments up to 2020¹.

Retailers are not just trying to minimise their own waste, they are working hard to help households reduce both their food and packaging waste, and have made significant progress in this under the Courtauld Commitments facilitated by WRAP and supported by Zero Waste Scotland.

Alongside increasing the proportion of recycled material used in packaging, retailers have improved communication to consumers by setting up the highly successful On-Pack Recycling Label (www.oprl.org.uk). This scheme was established to help increase recycling rates across the UK and delivers a simple, UK-wide recycling message that can be used on retailer private label and brand-owner packaging to help consumers recycle more material, more often. The scheme has over 165 members, including major retailers, and the label appears on over 75,000 product lines.

¹ A full list of targets and commitments with more detail on what has been undertaken and achieved can be accessed here: http://www.brc.org.uk/downloads/2015_Scottish_ABRC.pdf

SUMMARY OF KEY POINTS

- The retail industry is opposed to the introduction of a deposit return system (DRS) in Scotland.
- We have serious concerns with the Eunomia report (*A Scottish Deposit Refund System*) including:

- 1) Its failure to fully analyse the effect on consumers in terms of behaviour change.

We believe that a DRS would place a significant burden on vulnerable consumers at a time when household budgets are already under severe pressure and retailers are working incredibly hard to insulate consumers from higher prices.

- 2) Its failure to consult with the retail industry and those businesses that will be impacted by the measure.

We believe that a DRS will place a wide range of costs (direct, opportunity and administrative) on business and does not, in our view, pass the Scottish Government's own Better Regulation test, namely that regulations should be proportionate and well-targeted.

- 3) Its failure to fully account for the wider environmental impact of a DRS.

We believe that a DRS will have a significant and deleterious impact on wider environmental concerns including increasing carbon emissions from increased retailer and consumer journeys and undermining existing recycling infrastructure.

- 4) Its failure to assess the full impact on existing recycling infrastructure

We believe that a DRS will undermine existing kerbside recycling infrastructure that is providing year on year improvement and could provide further improvements with investment and the right support from industry.

- 5) Its failure to undertake a full cost benefit analysis of the proposals vis-à-vis alternative solutions for increasing recycling and reducing litter.

The report provides no independent evidence that DRS will reduce litter. We believe that further, truly independent, analysis is required on the impact and benefits of a DRS compared against alternative options to increase recycling and reduce litter. In line with the Scottish Government's Better Regulation principles we believe that a full Business Regulatory Impact Assessment should be undertaken on the proposal for a DRS.

- As a signatory to the Packaging Recycling Group Scotland we fully endorse the partnership's response to the call for evidence.
- The SRC is continuing to engage with our members and will be pleased to share further information beyond the call for evidence.

THE IMPACT ON CONSUMERS

1. Cost to the consumer

With 28 million retail transactions per week in Scotland, retailers have a huge amount of contact with their customers and use this wealth of experience to understand their changing preferences and shopping habits. One thing we know for certain from this experience is that customers value a simple offer, where price is transparent and even modest changes to prices will impact consumer behaviour in a way that the Eunomia report has singularly failed to understand. Increasing the prima facie price on a wide range of products, many of which are everyday essentials like water (which would increase by around 160% with a 20p deposit on a multipack of 6 small bottles) or small lunchbox fruit juices, will have a wide range of responses and fall disproportionately on those on low and fixed incomes.²

Our own retail sales monitor shows the degree to which consumers have been highly price sensitive in recent years when household budgets have been squeezed. Consumers have responded by limiting and reducing the size of spend on any one shop, seeking out best value and making trade-offs between food and non-food purchases.

We estimate that there would be around a 5% increase on the average basket of goods, which for an individual or family on a fixed income will mean that different choices are made, some products are forfeited and ultimately choice is reduced. For these consumers the initial outlay will become too expensive and the cost pressure to recoup all deposits will be regressive and unfair.

Consumers may also seek to off-set the additional cost of the deposit by switching from more economical multi-packs to individual containers which would have a higher overall net cost. For instance, under a deposit scheme a 2 litre bottle of soft drink would increase by 20p but a 6 pack of soft drink, roughly equivalent to 2 litres of the same product, would increase by £1.20.

2. Impact on existing recycling infrastructure

The move from convenient mass-flow kerbside collections to store-based 'Bring' systems will compound the cost pressures for those with limited personal mobility such as the elderly or those without private transportation who will be financially penalised, through unclaimed deposits, for using the kerbside recycling facilities.

DRS will also undermine the existing recycling infrastructure that is delivering year on year improvement as it diverts valuable recycle away from kerbside with no clear indication from the Eunomia report about how this will impact the funding of existing schemes and therefore the wider collection rate of other materials.

3. Structural change – changing consumer demands

The retail industry is undergoing a revolution in the way in which consumers choose to shop and it is no exaggeration to suggest that retail has changed more in the last five years than over the previous fifty years. Driving this change is consumer demand facilitated by rapid technological

² These examples are based on the price increase of the deposit and do not factor in price increases arising from the additional business costs derived from administering a Deposit Return Scheme. Nevertheless, it is important to note that prices may have to increase in addition to the deposit to offset the regulatory burden.

development and progress. The result is that online sales now represent up to a fifth of total sales with double-digit year-on-year growth with all major indicators suggesting that this rapid pace of change is set to continue for at least the next five years.

There are a number of reasons consumers are increasingly using online deliveries for grocery shopping however the overriding reason is convenience. Consumers who are either time poor or have limited personal mobility can have their groceries delivered to their door at a time that is most convenient to them. This is anathema to the principle of DRS that supposes that all consumers can and should make additional trips to store.

The Eunomia report is silent on this fundamental way in which retail is changing and the way in which consumers choose to shop. It fails to give due consideration to how these customers would return their containers without increasing trips to store which in many cases will increase carbon emissions.

Suggestions that delivery vans could take away used containers are not viable. For reasons of environmental health vans could not carry used containers, essentially 'waste', alongside food. Vans would either have to be retrofitted with separate compartments, meaning less space for deliveries and more van miles and carbon emissions, or alternatively retailers would have to invest in a fleet of larger vans which would be an entirely disproportionate regulatory cost to business.

It would involve delivery drivers handling cash and issuing receipts, which would be a substantial regulatory burden increasing the time of deliveries and would alter the nature of the driver's job. It would also put drivers' personal safety at risk once it became known that they were carrying cash. Alternatively retailers would have to invest in new systems to refund customers online once the number of containers had been established. This would be complicated, burdensome and expensive and would still result in the same problems of vans carrying waste.

The lack of thinking about the changing nature of retail and the way in which consumers want to shop highlights how out of step a DRS is with an evolving retail environment.

4. Carbon impact of 'special trips'

The Eunomia report assumes that customers would not make any additional journeys to store to claim back deposits. However, as the online grocery example demonstrates this is patently not true as a DRS will result in additional journeys of online consumers that otherwise would not have occurred. If just 2% of customers make a special journey to claim back deposits this would have a significant additional carbon impact of around 6000 tonnes of CO₂ (enough to power 1475 homes for one year).

THE IMPACT ON BUSINESS

There is a wide range of business costs that would arise from the introduction of a Deposit Return Scheme. We are currently working with our members to fully assess these costs but are disappointed that the Eunomia report hasn't given full consideration to many of them including the additional staff costs arising from training and the significant opportunity costs of staff supporting the scheme, logistical costs such as storage and distribution and the impact on sales from the loss of trading space. It is imperative that in line with the Scottish Government's Better Regulation principles that a full Business Regulatory Impact Assessment is undertaken.

1. Cost of reverse vending (RV) Machines

The Eunomia report assumes £30k per RVM and £2k installation across a total required 2,700 machines equating to a total cost of £86.4m. Our initial assessment suggests that this figure underestimates the true costs as it omits a range of additional costs including staff training to oversee the operation of the machines (including dealing with customer complaints and machine failure) and infrastructure changes to accommodate their installation such as installing power cables under car parks and store remodelling. It also doesn't reflect the true operational costs of the scheme when previously trialed in the UK retail environment.

2. Loss of trading space

The Eunomia report does not consider the costs of storage and the value of lost retail space. Many retailers consider their stores on a profit/square metre basis; therefore because this measure reduces the space available for sales it quite literally reduces the ability to make a profit. This is particularly problematic for smaller convenience format retailers, which we estimate will lose around £25k to £35k of sales per year per store. This is important, particularly given the challenging retail environment, as it makes new stores less economically viable which in turn jeopardises jobs, consumer choice and further community investment.

3. Labelling

Both labelling options suggested in the Eunomia report - a Scotland-specific label and barcode or a UK-wide label that would only be active for goods sold in Scotland - present significant regulatory costs for retailers. The main points of concern include:

- A Scottish-specific label would place substantial costs on businesses given that 75 to 80% of brand products and nearly 100% of supermarket own brand products are sold UK wide. This would require that, as a minimum, the top ten grocery retailers accounting for over 90% of the grocery market³ would have to change their business models at significant cost and loss of efficiency gained from operating UK wide systems. These additional costs may be reflected in the price that consumers pay.
- A UK-wide label would present significant opportunities for fraud that we believe has been under-estimated by the Eunomia report. Indeed, the Eunomia report is silent on who would carry the liability for fraud.
- Consideration must also be given to the length of time relabeling can take. For many products the full process could take years and not months, with sell-through being an important factor for non-perishable goods.

³ Covered by the Groceries Supply Code of Practice

4. Small producers and the single market

We are also concerned about the impact on the UK single-market from a Scottish-only DRS as this will undoubtedly create a barrier to trade in one part of the UK, especially for small and medium-sized producers and manufacturers in other parts of the UK. Conversely, labelling costs arising from DRS will make it harder for small Scottish suppliers, already unable to compete with established brands on price, to penetrate other UK markets, for example in England and Wales.

5. Backhauling

The report (pages 19-20 & 53-54) suggests that backhauling of returned items could be undertaken using existing retailer logistics. This would be extremely difficult to achieve in practice. For a retailer to use their own transport, they would need to be registered as a waste handling company and would need to complete and retain the relevant records.

As the materials to be collected would be of unknown cleanliness, retailers would be unlikely to want to mix collected waste and food for delivery on the same vehicle. As far as we are aware, there has been no consultation with retailers about the proposed use of backhauling and no consideration of the impacts.

Freight and logistics are a key part of retail operations. The link between the carbon intensity of goods delivered and the demand for convenience has led to considerable innovation within retail transport and retailers are continuing to make significant progress in addressing the carbon intensity of their logistics operations. This has meant, amongst other things, retailers developing better route optimisation models and processes to support greater levels of efficiency in deliveries and increasing delivery efficiency through further implementation of backhauling and double decker trucks.

A Deposit Return Scheme would significantly undermine the progress retailers have been making on this front in recent years and would make it more difficult to reach their commitment to reduce energy-related carbon emissions from store deliveries by 45% by 2020. We estimate that a DRS could result in an additional 6.5 million road miles per year for retailers in Scotland, which would equate to around 3700 additional tonnes of CO₂ (this would be sufficient to power 900 homes for one year).

6. Impact on colleagues

Customers rightly expect and retailers ensure that pricing in-store is clear and transparent. DRS will create a degree of opaqueness to prices, especially as the system is introduced or widened to include new and different products. We therefore expect that some customers will be aggrieved by the introduction of an additional charge that may, in some cases, appear arbitrary. Frontline staff will have to face complaints for an issue for which they are not answerable. Furthermore, and inevitably, there will be problems and issues with returning containers that staff will have to respond to, imposing a de facto cost on the business.