

## Zero Waste Scotland Deposit Return System: Call for evidence

### Introduction

The Wine and Spirit Trade Association (WSTA) is the UK body that represents the wine and spirit industry representing over 340 companies producing, importing, exporting, transporting and selling wines and spirits (other than scotch whisky) and whose members' products account for over 40% of the total amount of glass packaging in circulation in the UK (ref WRAP VALPAK GlassFlow 2012 - October 2013).

The wine and spirit industry is economically significant: it is worth nearly £45 billion, generates over £14.5 billion in tax revenue and supports over half a million jobs in the UK. WSTA members take their environmental responsibilities seriously and are committed to reducing the environmental impact of their products wherever possible. For example, WSTA members have worked closely with UK glass producers to reduce the average weight of glass bottles by over 30% over recent years and wine imported and bottled in the UK saves on average 137g of carbon per bottle when compared with wine imported by the bottle from the southern hemisphere.

As the trade body representing the single largest sector responsible for glass packaging, the WSTA welcomes the opportunity to contribute to the call for evidence but we were disappointed that we were not one of the specific organisations contacted when the feasibility study was undertaken. Together with the acknowledgement in the study that a proper cost benefit analysis was not undertaken, the WSTA believes there to be insufficient analysis to take the introduction of DRS forward. It is also regrettable too that the call for evidence is restricted to three questions and there is no formal opportunity to correct a number of assertions made in the study the basis for which are unfounded.

As a signatory to the Packaging Recycling Group Scotland, **the WSTA fully endorses the partnership's call for a proper cost-benefit analysis.** Moreover, in line with the Scottish Government's Better Regulation principles the **WSTA believes that a full Business Regulatory Impact Assessment should be undertaken on the proposal for a Deposit Return Scheme in Scotland before further discussion takes place.**

Turning to the specific questions posed.

Q1. Are you aware of additional evidence that is relevant to any consideration of the suitability of a deposit return system in Scotland?

The complexity of the flow of glass packaging for recycling was detailed in the report of the GlassFlow 2012 project (referenced earlier) which was established to review the flow of glass packaging through the UK supply chain and to identify and evaluate the key market risks that could prevent the UK from meeting its glass packaging recycling targets. The review stemmed from a steep rise in glass PRN prices in the latter half of 2012 which had imposed unexpected and therefore unanticipated financial costs on obligated businesses and which, in some instances, had threatened the financial viability of a number of WSTA members. The review ultimately led to a downwards revision to the estimated annual total glass packaging consumption and also a downwards revision of the recycling rate required to meet EU recycling targets.

The report highlighted the link between availability of material for recycling and PRN prices. It was surprising therefore that the report was not referenced in the study particularly when it was assumed that the PRN system would continue. As such, **the WSTA believes it is critical to revise the feasibility study to take account of the GlassFlow report and to assess the possible effects on PRN prices.**

The PRN price is designed to reflect the additional cost of meeting EU recycling targets. One of the reasons cited for a return to stability of glass PRN prices is that past investment in recycling infrastructure, such as the introduction of more efficient separation lines, is now beginning to show fruit which in turn is bringing down the cost of recycling glass. The market-based approach to manage glass packaging would appear to be working without the need for a costly and potentially market distorting deposit return system. More than enough glass is being collected to meet recycling targets and there is scant evidence to suggest that glass bottles from beverage alcohol constitute a significant element of litter. Given the vast majority of wines and spirits bought in the off-trade are consumed at home, and the bottles placed in domestic recycling, there is no evidence presented to suggest that these find their way into the litter stream.

Given that EU recycling targets are also under review, with the European Commission expected to publish its revised proposals for a circular economy, including revised recycling rates, towards the end of the year, **the WSTA believes it to be wholly inappropriate to embark on an initiative designed to increase recycling rates in advance of publication of those revised targets.**

Moreover, given the UK is currently exceeding the minimum EU recycling rate for glass, **the WSTA believes should it be necessary to increase further the EU-wide recycling rates for glass, this could be achieved within the existing PRN system without the need for costly and burdensome deposit return system.**

Q3. 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)

## Costs to Business

Both labelling options suggested in the Eunomia report, a Scotland specific label and barcode or a UK label that would only be active for goods sold in Scotland, present significant regulatory costs for producers. In the short time available it has not been possible to assess whether the costs to business presented in the report are accurate. But the figures quoted do not appear to stand scrutiny. The report estimates there are 2000 product lines in Scotland. This is a substantial underestimation. One major retailer alone has over 1,400 wines available online. It would not be unreasonable to suggest that for beverage alcohol alone there are between 5,000 – 10,000 product lines available.

The Eunomia research suggests an overall position of cost neutrality, it does however represent a significant transference of cost from Government to the retail sector (just under £37m in set up and up £20m in annual operating costs). The £20m figure is significantly understated as it includes very low estimates for transport (up to £12.9m) and nothing at all for storage or the value of lost retail space. We believe that this figure should be at least double, and such a significant transference of costs would impact store profitability and may affect future investment decisions.

Small businesses, in particular, would be hit by the introduction of DRS. The cost and the potential loss of retail space required to install a DRS machine and to store returns would have a disproportionate impact on small businesses as would the responsibility for onward transport of returned containers. **The introduction of DRS runs entirely contrary to the drive to reverse the decline in small retail businesses and more to generally reduce the burdens on business.**

**The WSTA calls on ZWS to commission, as a matter of urgency, a revision to the estimate of potential costs to business, both one off and annual, in light of the gross underestimation in both the number of product lines likely to be affected and the potential costs to the retail sector.**

The report acknowledges there may be implications for stock keeping if there were separate labelling requirements for the Scottish market. To be clear, **there will be implications as products destined for the Scottish market would require a segmentation of the UK market.** Were all products currently distributed UK-wide to continue to be made available in Scotland, this would require a huge increase in the number of stock keeping units although it is too simplistic however to estimate a doubling as the study concludes. It is also far from certain that all products would be made available for the Scottish market as some small producers, of which there are many in the wine sector, would simply choose not to continue

to supply the market. This would not only impact on consumer choice but has the potential to undermine the business models of independent retailers and specialist stores.

The study also completely fails to address the issue of distance selling such as online sales or via catalogue. A sale in another part of the UK would not attract a deposit, whereas one in Scotland would. What criterion would be used to determine site of sale – where the sale was appropriated as under the Licensing Act or the location of a retailer's head office? In many instances the latter would be outside Scotland even for retailers with multiple physical outlets within Scotland. This raises serious competition issues. As such, **the feasibility study should specifically address issues relating to distance selling.**

Many of the countries cited as examples where a DRS system operates are countries where a system of state controlled alcohol retailing restricts alcohol sales to a limited number of state controlled outlets (Canada, Sweden, Norway, Finland). **It is disingenuous to draw any parallels with DRS systems operating in countries where the sale of alcohol is highly restricted to limited retail outlets and the complexity of the supply chain is reduced and, as such, these examples should be removed from the study.**

As well as deterring small producers from supplying the Scottish market, and potentially the UK market too, **the introduction of DRS would almost certainly be viewed as a technical barrier to trade for products imported into the UK and contrary to WTO rules and also against single market provisions of the EU for goods produced elsewhere in the EU.**

In conclusion current system for managing the recycling of glass is now working effectively and there is no evidence that the additional costs of introducing DRS would be justified by the benefits of increased recycling. **As far as glass packaging is concerned, DRS is a solution in search of a problem: the WSTA is opposed to its introduction.**

**WSTA June 2015**