

Scotland's Deposit Return Scheme (DRS)

Asks and Proposed Solutions

Below are a series of asks and suggested solutions that we believe would help make DRS more workable and address some of the biggest challenges to the delivery of a successful scheme. It is not exhaustive but they are priority areas that need quick action if businesses are to be as prepared as they can be.

Ask	Our Ask of Whom and Why	Proposed Solution & Reason
Allow the retention of UK bar codes/European Article Number (EANs) within scheme	We would ask that the Scottish Government urges SEPA to take a pragmatic and proportionate approach to its regulation of the use of UK wide European Article Number (EANs). SEPA must urgently review the industry proposed 'risk assessment' and communicate its process to limit and manage fraud. This is a top priority for industry and any further delays to publishing approved guidance risks preventing businesses from complying with the rules and adding unnecessary costs due to time constraints.	Supports producers in enabling them to make the key decisions on which EAN strategy they will take. Reduces the risk of further beverage products being unavailable in Scotland, as would happen if producers were being indirectly forced (by SEPA) to produce two Stock Keeping Units (SKUs) i.e., Scottish & Rest of UK. Prevents a reduction in the choice of beverages available for businesses and consumers to purchase, as would happen if the ability to use UK EANs were too restrictive, or costly for producers. We welcome the recent positive response from SEPA to this proposal but we await final confirmation on the detail.
Minimum size for small producers and importers who face disproportionate cost.	We would ask the Scottish Government for the introduction of a minimum size for small producers and importers. Smaller producers incur similar proportionate costs as larger producers, which reduces their price competitiveness against larger producers, and moves sales and purchases away from small, often local Scottish SME producers, to much larger businesses - often based out-with Scotland or even the UK.	A number of different options have been proposed for consideration, without consensus at this time. Small producers (defined by either volume or turnover) would still be required to charge a 20p deposit on all containers, however a number of options to reduce costs should be explored including: <ul style="list-style-type: none"> - Exemption from the UK EAN fraud surcharge. - Exemption from the SEPA registration charges - Producer fees and deposits paid a minimum 30 days in lieu of when their product has been laid on the Scottish marketplace. - Introduction of a defined 'grace period' for small producers, during which time they would not be required to pay deposit or producer fees - Exemption from the proposed day 1 charges
Extension to producer registration window	We would ask for the Scottish Government to revise the hard deadline of 1st March 2023 for producer registration. There is concern that even by this date, not enough producers will know about DRS, especially the smaller SME producers, and those out-with Scotland (i.e., rest of UK and abroad).	It has been estimated that around 4000 producers will register with SEPA but as of August 2022 only 10% were actively engaged with the Scheme Administrator Circularity Scotland. Their database only holds details of 2000 producers. While it's estimated that Scotland will lose between 20% & 40% of existing beverage products currently available for sale, this will rise further by not removing/extending the

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		<p>registration date. It will result in producers trading illegally (due to either being unaware of the scheme or not applying early enough) and then either facing penalty or inadvertently being forced out of the Scottish market. Placing any form of registration date discourages producers from entering the Scottish marketplace by putting up a barrier to entry.</p>
<p>Minimum size or 'opt-in' option for Return Point Operators (RPO) (retailers and hospitality venues and other locations)</p>	<p>We would ask the Scottish Government to change the Return Point Operator obligation to being 'opt-in' rather than 'opt-out'. For retail, an 'opt-in' system could be limited to only those under an agreed store size. For businesses which operate closed-loop and/or sell a minimum amount of containers for consumption off the premises, an ability to opt-in rather than opt-out as a return point would remove considerable complexity. A large number of hospitality businesses include the ability to do off-sales and will be caught unintentionally.</p> <p>We'd ask that there is the creation of a central repository of willing outlets that would be willing to take on others' RPO obligations, easing the burden on those looking for exemptions to find a potential suitor.</p>	<p>Removes cost from the scheme, reduces emissions and simplifies the collection process without reducing the amount of scheme articles collected. Reduces the costly burden currently being placed on retailers, especially smaller operators, but allows those that still want to operate as an RPO to do so. By reducing the number of RPOs it actively encourages retailers, specifically high street retailers, to become RPOs and install Return Vending Machines (RVMs) due to the higher number of scheme articles now available for return due to the reduced number of RPOs.</p> <p>For hospitality businesses, it would remove the situation of having both closed and open collections, and overcome the issue of space constraints for smaller premises.</p>
<p>Remove or modify obligation for on-line takeback for online retailers</p>	<p>We would ask the Scottish Government to reconsider the need for online retailers to collect empty scheme articles. To date there is no solution available either amongst international DRS examples anywhere in the world, or an industry designed solution. We ask that this element be removed completely or for a short fixed period with a sunset clause applied with a review in 3 years. This would omit one of the biggest obstacles to a successful scheme launch and allows a potential solution to be found.</p> <p>An alternative would be a requirement for online retailers to pay a small per-container fee which could be redistributed to retailers operating return points to increase their return handling fee. Alternatively, we would be open to a discussion on a limited online model which would only be available to those unable to return containers to a physical return point.</p>	<p>Simplifies the scheme, removes cost for Circularity Scotland Ltd (CSL), producers and resellers. Reduces the carbon emissions that would increase as a result of one-off collections of scheme articles from consumers' homes.</p>
<p>Exclusion of a deposit within price marked pack (PMP) labels & on point of sale/labels</p>	<p>Full detailed clarity from Trading Standards and SEPA is required on whether a deposit should, or should not, be included within the pricing marked on the pre-printed manufacturers label of a beverage container. There must also be complete clarity on how deposits should be displayed (i.e. as part of the full price or separate).</p>	<p>Enforcing the requirement to include the deposit in a price mark would result in producers either withdrawing price marked product from Scotland or having to produce two SKU's. i.e. a Scottish £1.20 price mark and English £1 price mark. Removing price marks removes both the value messaging and increases opportunity for 'resellers' to inflate the price of said products, increasing the basket spend of the consumer. As per the UK EAN impacts, the impact of this could reduce the number of SKUs placed on the Scottish market, reduce consumer and business purchasing choice and increase prices and reduce the value to consumers.</p>

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		Currently the Price Marking Order and DRS regulations contradict one another in how they interpret display of deposits. The Scottish Government must seek a solution to this to establish who has the authority over this matter, whilst pushing for definitive guidance.
Suspension of deposits being paid while in a 'Bonded Warehouse'	Bonded warehouses are used by wholesalers and retailers as a way of 'hedging' against future prices as well as a way of controlling cashflow by drawing stock as and when required. Such warehouses are used to move stock between different markets all over the world, not just to hold stock for sale in the UK. We ask that an equivalent form of retrospective 'duty payment', is made available for deposits and producer fees, as and when the beverage containers are officially placed on the Scottish marketplace.	Any retrospective payment of deposits and producer fees, on beverages only when they physically leave the bonded warehouse and are placed on the Scottish Marketplace, will not only help protect the benefits of utilising such warehouses and protect cashflow but ensure that such operations remain viable in Scotland. Wholesalers and larger retailers use bonded warehouses for commercial benefit and international trading. This is now at risk as DRS adds more cost to this type of trading operation.
VAT	We would ask HMRC to urgently provide clarity on the application of VAT on deposits.	We would ask for either an exemption, or for the UK government to alleviate the 3p loss per unredeemed deposits through output VAT.
Creation of a cost-effective model for the backhaul of deposit return scheme articles	We would ask CSL and their logistics operator, BIFFA, to ensure that viable, commercial arrangements are made with existing fleet operators to ensure existing 'wheels' are used to collect scheme articles. Unless the model is commercially beneficial and flexible for fleet operators and requires minimum disruption to existing operations (including complying with health/waste certificates/licenses) encouraging such operators will be challenging.	Reduces one of the biggest costs to the scheme in respect of not having to procure new vehicles and more staff to operate such vehicles. Ensures the principles of DRS are met, in respect of lowering emissions by reducing the number of waste collections. An uneconomical and burdensome backhaul model will not appeal to operators that have faced rising fuel and staff wages and ongoing rising 'costs of doing business'. Fleet distribution costs are up to 30% of a wholesalers operating model, so a backhaul model that helps reduce these costs would be appealing to operators.
Glass	We would ask the Scottish Government to reconsider the inclusion of glass. We remain of the view that this adds unnecessary cost and complexity to DRS in Scotland and will have a negative effect on the availability of recycled glass. Whether included or excluded we would ask for the Scottish Government to incorporate a remelt target for glass either within the existing regulation or the proposed Circular Economy Bill. We believe that without this target there is a danger that glass collected in any system will be sold by price and not by end-use, i.e., for road aggregate, or other lesser value applications rather than remelt.	Remove or delay the inclusion of glass so that a simpler DRS can be implemented. If glass remains included then there should be a clear remelt target, as is the case for the UK EPR scheme for packaging. In Scotland, glass collected within the DRS scheme will not be subject to these targets and hence could be lost from the system for lower use. From a circular economy perspective, the industry collectively wish to see the maximum use of resources in a closed-loop scenario.

Glossary

EAN – European Article Number (bar codes specific to the European market)

RPO – Return Point Operator – a shop, hospitality venue or other location that accepts deposit returns

RVM – Reverse Vending Machine – an automatic collection and deposit return point.

SKU – Stock Keeping Unit