

Scotland Food & Drink - Deposit Return Scheme (DRS)

Industry Update – November 22

DRS continues to cause concern among our members and the wider drinks industry. It has been publicised again in the media this week, partly because of a letter that was signed by many hundreds of businesses. We understand the concerns of those who signed the letter. The situation has been changing rapidly in recent weeks and we hope this progress update proves useful.

For background, in September, we outlined five key areas of DRS that we felt needed to be addressed to reduce negative impacts whilst protecting environmental outcomes:

1. **VAT** – HMRC applying it to the deposit will unfairly increase all DRS costs.
2. **UK Bar Codes** – should be both allowed and not penalised as requiring a Scotland specific label/barcode could distort the market.
3. **Producer Fees** – too high and an unbearable upfront cost for many.
4. **Online Take Back** - unworkable, especially for those using couriers.
5. **Disproportionate Impact on Smaller Producers** – put simply, the cost and time implications to be part of the scheme are too much for the smallest producers who are already under enormous pressure, and, in principle, it is unfair to burden those who make low volume, premium products which are not a significant part of Scotland's litter or recycling challenge.

As part of a responsible industry, we know our members stand willing and ready to make changes to help Scotland become sustainable. If set up properly, Scotland's DRS can reduce litter and increase recycling rates as part of a Circular Economy. A closed loop system for packaging is good for business and the environment. No responsible business wants packaging to end up as litter or in landfill. We also recognise that other countries have successful deposit return schemes.

Our principal issue with the scheme as it was proposed is that it could *needlessly* drive products out of Scotland, cause job losses and risk business closure. "Needlessly" is a key term here. We believe pragmatic changes to the scheme can protect environmental benefits whilst avoiding harm to the most vulnerable businesses, with job losses and business closure a real risk.

In fact, it would be hard to overstate the concern felt by those involved in the industry. This includes producers, wholesalers, retailers, and the hospitality sector. We consider that many of the concerns expressed about DRS are legitimate and, as such, became increasingly actively involved in discussions to address them.

It is positive that, through a concerted and collective effort by us and many others, we have achieved constructive dialogue with those making decisions. We have had extensive dialogue with trade bodies and stakeholders, including the Scottish Government. This includes many meetings and frequent correspondence.

This has recently led to confirmation that some of the key issues we and others have raised are being addressed. These include:

Online Take Back

The need to address this was mentioned in both the [Emergency Budget Review](#) and subsequent correspondence we received directly from the Lorna Slater MSP and Circularity Scotland Ltd. We do not yet have all the details, but we trust that the solution will properly address the legitimate concerns raised about this issue. In short it is not feasible or affordable for most businesses who sell online, especially those who use couriers, to arrange and pay for collection of waste materials from individual households.

UK Barcodes

Requiring a Scotland specific barcode and label/SKU would cause challenges along the whole supply chain and drive product and business out of Scotland. We understand it has been confirmed that UK Barcodes will be accepted, and the fee is being reviewed to avoid over-penalising businesses who need to continue using them. The situation for price marked packs (PMPs) is still being reviewed but we understand a workable solution will be found here too.

Producer Fees

The producer fees are being revised, another positive step, seeing as these are a non-returnable fee that will be inflationary on the price of drinks sold in Scotland.

Return Point Operators

Previously, most retailers would have been required to accept returned material, with limited exceptions. It will now, in effect, be easier to opt out. Businesses with less than 100m² of retail space will likely receive an exemption as will “food to go” operators under 280m². Some real-life examples of who the change will benefit includes distillers, brewers and soft drink producers who have a small on-site retail space. Also, small bakers and other small retailers, including many grocery stores, will no longer need to accept material if they choose to opt out. This is a welcome change. The proviso to this is that some “spatiality” analysis will be needed to avoid return point blackspots. New guidance will be made available on Zero Waste Scotland’s website [here](#) within a month and you can also gain support via this [form](#)

It is positive to have achieved dialogue and to see key issues being addressed, but there are some outstanding issues. One of these is the **timescale**, where it may simply not be achievable for the supply chain to implement the changes still needed in time for the proposed launch date. The other issue, which is key for many of our members, is the **disproportionate impact on smaller producers**.

It is our view that products made by Scotland’s smaller producers, which are premium and sold in relatively low volumes, are not a significant part of Scotland’s litter or landfill challenge. These same producers would be disproportionately harmed by the costs and administrative challenges of a DRS. The upfront and ongoing costs and time burden are, quite simply, not achievable and businesses will lose staff and/or stop trading. The sacrifice in terms of material into the scheme from an exemption is estimated to be very low, perhaps less than 1%.

This is why we have asked that smaller producers are fully exempted at launch, with their products treated as non-scheme articles (i.e. no deposit or producer fee is payable and essentially trade can continue as it does today). This should of course be reviewed after launch, and a decision made based on an up-to-date analysis of the scheme's success. Smaller businesses will need to be defined, perhaps by combining a turnover threshold with the number of articles put onto market.

We have been assured that this last point is under consideration. Our view is that it is likely to be the only way to make the scheme viable at launch and we are pleased it is still being actively considered.

It is important to note that Scotland Food & Drink and others have previously asked for further major revisions, such as the removal of glass, which we made because we felt the costs and logistical challenges outweighed the benefits. These have been reviewed by government at the highest level and we need to be pragmatic at this critical juncture. We also need to recognise that some retailers have invested in return point infrastructure; some larger producers are actively gearing up for launch and there are also collection contracts in place (with BIFFA).

We welcome the recent changes made and the continued constructive dialogue and desire to be solutions-focussed. We hope a further announcement that provides the reassurances people are looking for will come before the CSL Conference later this month, which we shall attend.

Other changes may also need to be made to meet the needs of the retail, wholesale, and hospitality sectors where discussions continue. We await the next announcements with interest and will aim above all to maintain constructive discussions to ensure the legitimate concerns raised by those affected are addressed, whilst protecting the environmental benefits a successful DRS can bring.

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