



**OFFICIAL REPORT**  
AITHISG OIFIGEIL

# Environment, Climate Change and Land Reform Committee

**Tuesday 12 November 2019**

**Session 5**



The Scottish Parliament  
Pàrlamaid na h-Alba



---

**Tuesday 12 November 2019**

**CONTENTS**

	<b>Col.</b>
<b>PROPOSED DEPOSIT RETURN SCHEME .....</b>	<b>1</b>

---

**ENVIRONMENT, CLIMATE CHANGE AND LAND REFORM COMMITTEE**  
**30<sup>th</sup> Meeting 2019, Session 5**

**CONVENER**

\*Gillian Martin (Aberdeenshire East) (SNP)

**DEPUTY CONVENER**

\*Finlay Carson (Galloway and West Dumfries) (Con)

**COMMITTEE MEMBERS**

\*Claudia Beamish (South Scotland) (Lab)

\*Rachael Hamilton (Ettrick, Roxburgh and Berwickshire) (Con)

\*Angus MacDonald (Falkirk East) (SNP)

\*Mark Ruskell (Mid Scotland and Fife) (Green)

\*Stewart Stevenson (Banffshire and Buchan Coast) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Calum Duncan (Marine Conservation Society)  
Colin Forshaw (Chartered Institution of Wastes Management (Scotland))  
Jim Fox (Food and Drink Federation Scotland)  
Stephen Freeland (Scottish Environmental Services Association)  
Richard Hands (Alliance for Beverage Cartons and the Environment)  
Samantha Harding (Reloop Platform)  
Craig Hatton (Society of Local Authority Chief Executives)  
Rick Hindley (Alupro)  
Jenni Hume (Have You Got the Bottle?)  
Silke Isbrand (Convention of Scottish Local Authorities)  
Dr John Lee (Scottish Grocers Federation)  
Susan Love (Federation of Small Businesses)  
Ewan MacDonald-Russell (Scottish Retail Consortium)  
David Macleod (Comhairle nan Eilean Siar)  
Jonathan Marshall (British Glass)  
Rolf Matthews (Glasgow City Council)  
Philip McKay (Aberdeenshire Council)  
James McLeod (Dumfries and Galloway Council)  
Gavin Partington (British Soft Drinks Association)  
Colin Smith (Scottish Wholesale Association)  
Andrew Tighe (Scottish Beer and Pub Association)  
Edward Woodall (Association of Convenience Stores)

**CLERK TO THE COMMITTEE**

Lynn Tullis

**LOCATION**

The Robert Burns Room (CR1)



# Scottish Parliament

## Environment, Climate Change and Land Reform Committee

*Tuesday 12 November 2019*

*[The Convener opened the meeting at 09:03]*

### Proposed Deposit Return Scheme

**The Convener (Gillian Martin):** Welcome to the Environment, Climate Change and Land Reform Committee's 30th meeting in 2019. I remind everyone to switch off their mobile phones or to put them on silent, as they can affect the broadcasting system.

This morning, we will discuss the proposed deposit and return scheme. Before we start, I thank all those who made a written submission to the committee. I appreciate that a number of organisations indicated their willingness to provide further evidence today, but it is simply not possible to have round the table absolutely everybody who wishes to be here. We are grateful to those who are here. We hope that we have a broad sweep of all the views surrounding the proposed regulations for the scheme. The point of this session and level of engagement is to ensure that we achieve an effective scheme in Scotland. I assure all the organisations and individuals who have responded to the committee that we place equal weight on written submissions and on the evidence that we will hear today. All of that will inform our session next week with the cabinet secretary and our report on the proposed regulations.

As you know, we are working with a tight timeframe for considering the proposed regulations. The deadline for our report is 10 December. This is the first stage in the process of parliamentary scrutiny and we anticipate that the Scottish Government will lay the draft regulations for consideration by the committee in the new year. This morning, we will hear from witnesses in three round-table sessions. The focus of each session is set out in the public papers for the meeting.

I appreciate that there is a lot to cover and we want to ensure that we address the main issues. I want to give everyone the chance to speak, but I will be prompted by my colleagues when it is not possible or necessary for everyone to give a response. I will try to chair the meeting appropriately, but please do not feel that you have to answer absolutely every question—it is a round-

table discussion, rather than a formal evidence session.

When you make your first contribution, I ask that you say who you are and which organisation you are representing. We have until approximately 10.15 and then we will then suspend and move to the next session

This first session includes looking at the materials in scope. What is the general reaction to the impact on recycling rates and the potential improvement in those, and are there any issues with regard to materials that are either included or excluded?

**Ewan MacDonald-Russell (Scottish Retail Consortium):** I am from the Scottish Retail Consortium.

I will kick things off, but I suspect that others will have lots to say. On the scope, we think that a targeted DRS will absolutely improve recycling rates and tackle litter. We are very much behind a scheme that is effective and exactly in line with what you outlined. We have been clear that the inclusion of PET—polyethylene terephthalate—plastic drinks containers and metal drinks containers is incredibly important, both for improving the quantity of recycling and for the valuable recyclate that the scheme will deliver.

We have consistently been opposed to the inclusion of HDPE—high-density polyethylene—containers, which are essentially milk containers, for a variety of reasons that are partly to do with storage and partly to do with the risk of increasing costs on a staple. We have also consistently been opposed to the inclusion of glass containers in the scheme, and we remain very concerned about the £50 million a year extra that it would cost retailers to manage. Doing so will put a huge burden and a disproportionate cost on that material and we are worried about the economic and markets impacts of that.

**Jenni Hume (Have You Got the Bottle?):** I am from the Have You Got the Bottle? campaign.

We see the deposit return scheme as a form of producer responsibility and therefore we think that it should be as comprehensive as possible in the material that it includes, especially with regard to those materials, notably glass, that are more costly to local authorities. There is currently quite inconsistent kerbside provision for glass across Scotland: 43 per cent of households do not have access to kerbside recycling for glass. To have a return-to-retail model for glass containers would make glass recycling significantly more accessible for people.

**Dr John Lee (Scottish Grocers Federation):** We have quite serious operational concerns about the inclusion of glass in the scheme, as small

retailers would find glass a huge challenge. We know from trial projects that we have conducted that an automated system using a reverse vending machine is best for small retailers. However, once we bring glass into the equation, it becomes much more challenging. The machines that are glass enabled tend to be bigger and more expensive and there is much less room in a store for them. If a retailer cannot use automated take-back, they will be forced to use a manual take-back system, which is hugely disruptive to the convenience model.

More and more of our members have a food-to-go offering and the idea of handling glass—which, with the best will in the world, is liable to break—anywhere near food preparation areas is extremely concerning and challenging. We want to see a system that is inclusive and flexible and which allows smaller retailers to participate. Despite all the challenges, small retailers want to participate in the system, as they want to offer their communities a service that boosts recycling and reduces litter. However, the inclusion of glass makes that much more challenging.

**The Convener:** Samantha Harding is joining us by videolink.

**Samantha Harding (Reloop Platform):** I am from Reloop Platform. I think that there is a two or three-second delay on the connection, but thank you for making it possible for me to join the meeting, and thanks in particular to your information technology team for all their work on that.

I will pick up on a previous point that was made about the £50 million cost to retailers to manage glass. We need to make it clear that the cost of the system will be met by producers, not retailers. Some retailers are producers, but it is important to make the distinction. There will be retailers who are part of the scheme but will not be liable for the cost of the system.

On the potential impact of excluding glass, we need to balance the unlikely event of there being broken glass in a retail store with the impact of broken glass in the environment. I encourage the committee to talk to the technology providers about the advances that are being made in new RVMs, which could be fitted into small stores, and I point to recent announcements of new systems around the world, including in Latvia, where glass is included. If Scotland is going to stick to its ambition to create a world-class system, glass absolutely has to be part of it, particularly when the primary objective of the Scottish deposit system is to protect the environment.

**The Convener:** You mentioned Latvia. Some countries have included glass later on. What has

been the impact of that on cost and why have they made that decision?

**Samantha Harding:** We know that Lithuania decided to include larger glass bottles in the system later on, which was a result of consumer pressure. Consumers were finding the system very convenient and they could not understand why they could not take some of their beverage containers back to the store for the deposit. That led to a cost to the system because certain parts had to be retrofitted to accept glass. The important point is that a deposit system is a collection system for beverage containers and, if you start to exclude certain containers on the basis of concerns that international experience shows are generally unfounded, you risk causing consumer confusion and lack of convenience. Avoiding both of those is imperative for the system to work.

**Rick Hindley (Alupro):** I am from Alupro, the aluminium packaging recycling organisation. We fully support the inclusion of drinks cans in the proposed system, but our primary objective is to ensure that there are no market distortions as a result of it. We believe that all competing beverage packaging should be collected together.

We also think that it is important to recognise what the current baseline recycling rates are. The rates that are used in the full business case that Zero Waste Scotland prepared are way out of date and we do not recognise them. It quotes a recycling rate of 49 per cent for aluminium, which was based on a 2014-15 report that Zero Waste Scotland said itself should not be used to determine the national recycling rate. Last year, the United Kingdom recycling rate for aluminium drinks cans was 75 per cent, which is significantly higher, and we do not anticipate that the rate in Scotland will be wildly different. That would apply for all materials.

**The Convener:** Do you not have Scottish figures?

**Rick Hindley:** We do not have Scotland-specific figures because it is difficult to determine the levels of materials that go on to the market. Zero Waste Scotland had the same problem. Equally, because of the way in which material is collected for recycling, it is difficult to determine the exact volumes from Scotland, but we have no reason to believe that the Scottish rate is very different from the average UK recycling rate.

We are not saying that that is an argument for not including aluminium. However, if the deposit return system is established, it is important to have an accurate baseline recycling number so that we can validate the system's contribution to improving performance. We have questioned the validity of the baseline recycling rates that have been quoted by Zero Waste Scotland and the Scottish

Government. The data is from a report by Zero Waste Scotland that it said should not be used to determine the national recycling rate.

**Jonathan Marshall (British Glass):** Thank you for the opportunity to give evidence. The glass industry is committed to recycling, which is a fundamental part of our process. We need recycled materials to be able to operate effectively. We are not anti-DRS. The industry supports many different types of recycling systems around the world. I have been involved in a number of those and can give the committee some examples of successful schemes, both DRS dependent and not.

09:15

In Scotland, we are starting from a slightly different perspective because we enjoy a very high recovery rate of glass to the furnaces here. We have two glass plants that support the spirits industry, and we have a recovery rate of around 64 to 67 per cent, which is quite reasonable considering the targets that are set at the moment under extended producer responsibility and the way in which the packaging recovery note—PRN—system works. Our concern is that introducing glass into the DRS will add significant costs. We have heard that it will add significant complexity and undermine the current glass recycling rates.

For the Scottish glass industry and the two plants that support the spirits industry in Scotland, clear glass—we call it flint—is critical to the process. The DRS will not in any way support an increase in the flint glass recycled material that we can make available for the furnaces. Currently, 26 per cent of our material comes from the kerbside system, and it is critical that we increase that. The DRS will certainly increase the amount and quality of glass, but it will be amber and green glass, because it will be predominantly from the beer and soft drinks industries. We already export such glass out of Scotland, so it is not a circular economy solution.

It will undermine the current glass recycling rates and will create some significant market distortions. In other international markets—I have been involved in some of the markets that have been mentioned today—we have seen that, over time, glass is gradually disadvantaged as producer and deposit fees increase, which encourages distortion. The effect of that has been seen in Germany and other markets such as Finland and Croatia, where there has been an increase in the amount of PET in the market and a reduction in the amount of glass.

The impact of upsizing has also been seen. With a flat deposit rate, the proportion of deposit

that is charged for different sizes of containers is not consistent, so retailers and the supply chain tend to gear up to supply larger containers, which is not in the spirit of what we are trying to do. We have some major concerns.

**The Convener:** I am struggling to see how wine and spirits bottles could be upsized.

**Jonathan Marshall:** In the countries that have introduced DRS for beer bottles, there has been a dramatic decline in the number of smaller beer bottles, such as 25cl or 33cl beer bottles, which might be made from green or amber glass. There tends to be an upsizing to larger bottle sizes because the deposit is consistent—in Scotland, it will stay at 20p. The majority of green and amber glass that will be collected through the DRS will be from beer bottles. There will be wine and soft drinks bottles, too, but the larger proportion will be beer.

**The Convener:** I want to probe that a little bit more. I struggle to see how another route to recycle glass will decrease the amount of glass.

**Jonathan Marshall:** We have seen in other European markets that, as the more valuable recyclables are taken out of the kerbside system—in this case, it will be aluminium, plastic and glass bottles—what is left has less value and there is less of it, which puts a lot of pressure on the kerbside system. That is where we get the majority of our clear glass, which is what we need for our furnaces in Scotland to support the spirits industry.

**The Convener:** We have the local authorities represented on the third panel, so we can pick that up with them.

**Mark Ruskell (Mid Scotland and Fife) (Green):** I want to ask producers about the cost of using glass. Is it possible that the cost of using glass under extended producer responsibility and with the use of packaging recovery notes is higher than the cost of simply renting glass through a deposit return scheme?

**Ewan MacDonald-Russell:** We have some producers in our membership.

One challenge is that we do not know what PRN fees will be when extended producer responsibility reform comes in.

The Scottish deposit return scheme speaks of having modulated producer fees. Another challenge is that the fee cost of the glass that is put on the market in Scotland will have to reflect the cost—primarily, the retailer cost—of that. That fee will be quite high because retailers will accrue specific costs for glass for which they will expect to be recompensed. In the short term, there are likely to be different incentives because of those costs.

**Jonathan Marshall:** There are examples in Europe, some of which we have heard this morning, where the rate for both the deposit and producer fee has increased for glass over time. That makes glass less competitive and creates the market distortion that we are trying to avoid. There is evidence of that in Germany, where there has been a dramatic increase in the amount of PET, which has resulted in closures.

My colleagues in the industry and I have been involved in closing glass plants, which has an impact on jobs, because of the reduced demand for glass in certain formats. I do not want to be doing that again. We want to support further investment in our Scottish plants to support the growth of our spirits industry. We are very lucky to have a very successful spirits industry, but it will be undermined because it cannot achieve its sustainability targets unless we increase the amount of clear cullet.

**The Convener:** I think that Samantha Harding wanted to come in on that.

**Samantha Harding:** Sorry, but I do not—I just had my hand up by my head.

**Mark Ruskell:** Will that cost pressure not exist one way or another, whether that is through renting glass in the DRS or through extended producer responsibility? Glass is heavy stuff and is difficult to handle. It looks great in a whisky bottle, but it is a tough material to use. Surely that cost pressure will be there, regardless. That is a challenge for the industry, but is it not a question of how you respond to that?

**Jonathan Marshall:** That is a very fair point. That cost pressure is there, but the challenge is how to engineer a more efficient recycling system so that the cost reflects an improvement in the recycling rate. The danger is that we could be adding cost. British Glass has tried to model the impact of the DRS. We believe that an improved extended producer responsibility scheme would be more efficient. That would add cost but would help us achieve the targets that we want to set.

The danger of the DRS for glass—I am not suggesting that it is the same for other materials—is that we will dramatically increase the cost but we will not take the cost away from kerbside and will not meet the targets; we will not charge the consumers lower rates because we will still have to keep the kerbside system, but we will add incremental costs that will not achieve the targets for glass. There is a cost issue there.

It is not just a cost debate. There is also a debate about the carbon footprint and the impact on CO<sub>2</sub>. The business case that Zero Waste Scotland produced made some very large claims: 52,000 tonnes of CO<sub>2</sub> saving as a result of including glass in the DRS. When we model the

scheme using the data that British Glass has, we get to a figure of about 9,500 tonnes, which is a fraction of the larger estimate. We would be committing to the cost, but we would not see those CO<sub>2</sub> savings. We have modelled what we could achieve through an improved EPR scheme. We estimate that we could achieve somewhere between 16,000 and 17,000 tonnes, which is greater than the 9,500 tonnes that we model for the DRS. That is not the figure in the Zero Waste Scotland business case, but we do not believe that that number is correct. We are actively working with Zero Waste Scotland to review that.

By investing differently and investing more collaboratively through the supply chain, we can achieve better results. However, the risk is that we could be investing a lot in a DRS on top of an already relatively successful kerbside scheme and end up reducing the glass recycling level.

**Jenni Hume:** It is worth remembering that we have a problem with glass as litter and that that is an issue that we are trying to tackle with deposit and return. Eunomia estimates that 9,000 glass bottles are littered every day in Scotland. We know from the Marine Conservation Society's yearly beach cleans that glass is the second most commonly littered item.

If there is a way to improve glass recycling I would question why that has not already happened. The data has been built up over many years—the MCS has been carrying out beach cleans for the past 26 years. It is a long-standing problem and we need a solution.

One of the key things about deposit return is that it introduces a behaviour change element, which improvements to EPR for kerbside recycling does not. EPR does not change the incentive for people to put their glass bottles into kerbside recycling but, as we know, deposit return gives the consumer an incentive to take their bottle back to the shop, because they get their money back.

**The Convener:** Has there been an improvement in glass littering in other countries where they have a DRS that includes glass?

**Jenni Hume:** There are no up-to-date surveys comparing the litter statistics pre and post the introduction of deposit return. We are really pushing the Scottish Government to carry those out so that we can demonstrate the impact of deposit return on litter in Scotland. In general, in countries that have deposit return systems, there are not a lot of drinks containers in the litter stream.

**The Convener:** We will move on to talk about other types of materials.

**Finlay Carson (Galloway and West Dumfries) (Con):** I know that we will come back to glass, but



I want to ask about the scope of materials. Should the regulations enable the materials in scope to be reviewed to cover things such as Tetra Pak pouches and cartons, which are potentially highly recyclable, but which currently have a low collection rate, and HDPE containers, which can carry drinks other than dairy products? Should the regulations allow the administrator to include other materials in the future?

**Jenni Hume:** We think that, if the Scottish Government and any directly registered producer or system operator agree that materials should be added, that should be possible without a statutory instrument.

**Richard Hands (Alliance for Beverage Cartons and the Environment):** I am from the trade association and recycling organisation for the beverage carton sector in the United Kingdom. Around 250 million beverage cartons—or around 5,000 tonnes of them—are used every year in Scotland.

We welcome the Scottish Government's clear policy to introduce a DRS, but we, too, think that it could go further—for example, by having a clear mechanism for reviewing the materials in scope in the future, and for adding materials if it makes sense to do so. Beverage cartons could be among those materials: they are currently excluded from the proposal.

However, to go back to the question about recycling rates, cartons could benefit from being in the system because carton recycling rates are somewhat lower—currently around 39 per cent in Scotland—than the rates for the materials that we have talked about.

Kerbside systems tend to look after other materials quite well, but that is certainly not the case for beverage cartons. Collection of beverage cartons is less consistent, although they are fully recyclable, and consumer information gives mixed messages.

We would like the regulations that are currently being consulted on to be amended to explicitly allow more materials to be included at a later date. We also propose that a trial of all materials be undertaken before a final decision is made on which to include. If cartons can be successfully collected through the DRS, they should be added to the system. Other countries have shown that that is viable—Australia and Canada in particular collect cartons through DRSs, and that works well. In some states in Australia, that is even done through the reverse vending machine system.

**Finlay Carson:** We are talking about packaging. It is my understanding that, in Canada, dairy products are included because of their health benefits and because it was seen there that products that were on shelves but not in the

deposit scheme were somehow undervalued or devalued, with consumers assuming that their environmental credentials were not so good. What are your comments on containers—rather than what they contain—and ensuring that there is not market distortion as a result of consumers interpreting labels differently?

**Jenni Hume:** I think that all products are currently included and that any exclusions have been made completely on the basis of packaging. If Tetra Pak packaging were included, for example, products that were sold in it would be included in the system. The only reason why milk will predominantly be excluded is that it is normally sold in HDPE.

**The Convener:** Is the issue with milk cartons the material or the residual milk and contaminants hygiene element? When I went to one of our convenience stores, it said that it did not want the smell of milk in the shop.

**Jenni Hume:** I think that that is the concern among retailers. It is possible to recycle HDPE.

**Ewan MacDonald-Russell:** I can confirm that—I can probably answer for the retail sector. It is partly to do with hygiene and smells in stores, but there has also been concern about putting an extra cost on a product that is seen as a staple. I know that the farmers unions were quite concerned about that, as we might expect.

**Dr Lee:** The SGF was keen to have milk and dairy products excluded from the system. We were concerned about the impact that increases in the price of a pint of milk could have, particularly on families who are on a budget. Our understanding was that exclusion by product type is not best practice in deposit and return schemes; rather, there has to be exclusion by material type. Dairy products and consumers would be protected by excluding the material type HDPE, and we would prefer that to continue.

09:30

**Stewart Stevenson (Banffshire and Buchan Coast) (SNP):** Jenni Hume and Richard Hands brought up the idea of extending the scheme. In particular, Jenni Hume said that that should be quick and easy and should not involve Parliament. Should extension be included in the scheme administrator's powers, and should the Government's relationship with the administrator therefore be one in which the Government lays down the objectives and outcomes, but lets the scheme administrator determine the methods and charges? That little part of the discussion seems to be going in that direction.

**Rick Hindley:** We fully support that model, which can be seen elsewhere, for example in

Scandinavia. I would even go as far as to say that the scheme administrator should determine the deposit level. All such levers should be in the control of the system operator, who would ultimately be charged with hitting the—in my opinion—very ambitious recovery and recycling targets that have been set. I fully support the view that the regulations need to be minimal in order to empower the scheme administrator to pull all the levers that would be required to hit the targets.

**Samantha Harding:** We urge the committee to consider seriously whether the system operator should be allowed set the deposit. In New South Wales, where that is the case, the system operator runs a below-par system and keeps the deposit very low, so that consumers do not perceive that the price of the product has increased. Any system operator that is allowed to set the deposit level will set it too low and will then not be open to increasing it. The Government should retain the ability to set the deposit level in order to prevent the beverage industry from disincentivising consumers to return bottles.

**Jonathan Marshall:** That is interesting. I have direct experience in my previous role, which was running glass businesses in Australia and New Zealand. Our business built a glass recycling facility in Brisbane to support the legislation and to try to improve recycling of glass back into the market.

New South Wales is perhaps a good example of what can happen when legislation is rushed through and the solution is not engineered in a way that meets the expectation of either the consumer or the industries involved. The New South Wales scheme is not considered to be performing well. That might be partly because of the deposit, but the issue is the efficiency and cost of running the system, which is not as effective as it could be. The impact in terms of glass there is the same in Scotland, where the cost of processing is increasing because the right infrastructure is not in place. The model that was used in New South Wales was not quite what was needed and is a good example of what can go wrong.

**Jim Fox (Food and Drink Federation Scotland):** I represent the Food and Drink Federation, today. Normally I am with Coca-Cola.

We do not think that the deposit should be set by the Government. The scheme administrator's ability to set it will be an important lever for achieving the targets. The 70, 80 and 90 per cent targets are stretching. Either you want the scheme to achieve those targets or you want to control the scheme by setting the deposit level: you cannot have both. If you really want to hit the targets, allow the scheme administrator to set the deposit levels but insist that they hit the targets. It

is simple. You cannot tie both their legs together and expect people to make progress.

**Jenni Hume:** I have a quick question. Although we hope that it will not happen, because of how the regulations are written we could end up with more than one system operator. If that were to be the case, what would happen if each one was allowed to set its own deposit level?

**Jim Fox:** We hope that there will not be more than one scheme administrator. For various reasons, that would be bad. Competition should not be an issue, because the scheme will be run as a not-for-profit system. If there were to be more than one scheme administrator there would have to be an agreed unifying form of control on deposit levels. However, that is not to say that the Government should set them; the scheme administrators should still be in control of the levels.

**The Convener:** We will have a wider conversation on administration of the scheme with our next panel. I do not want to move into that area yet, because we still have a lot to cover in this one. Ewan—is your point about scheme administration?

**Ewan MacDonald-Russell:** It is about the deposit level. I will keep this very short, convener.

First, retailers will want a consistent deposit level. They will be the ones who give deposits back to customers, so they will not want differential levels.

On the separate question of who should decide the level, the Scottish Retail Consortium agrees that the scheme administrator should do so, but we are relaxed about the initial level being set by the Government. That is both for consistency and—if I might be candid—so that my store colleagues will not have to deal with irate customers and instead can blame it all on the Government. *[Laughter.]*

**The Convener:** That is refreshingly honest.

We will move on to talk about the return-to-retailer model, and will kick things off with a question from Angus MacDonald.

**Angus MacDonald (Falkirk East) (SNP):** As we all know, the draft regulations will require retailers that sell drinks that are covered by the scheme to accept returns, although possible exemptions by the Scottish ministers are being considered. What are panel members' views on the implications of the proposed return-to-retailer model, including for small retailers, and on the scheme's overall accessibility for consumers? How will that pan out?

**Dr Lee:** We have been supportive of the return-to-retailer model, because it always seemed to be

the case that that would be the way in which the scheme in Scotland would develop. There was some discussion about what is known as the on-the-go model but, to be frank, that never seemed like a serious proposition. From the federation's point of view, the return-to-retailer model has always seemed like the only show in town.

As I said earlier, most smaller retailers want to participate in the scheme because they see its value for their customers and communities. Our concern has always been to achieve the most effective scheme for Scotland and for all retailers.

We think that an automated take-back system would be best for retailers, because the manual version is usually disruptive for them. We are also very supportive of the proposal that there should be exemptions. We will probably have a wider discussion about what the criteria for those should be, but I can say that we are pleased to see a facility for exemptions being included in the regulations. We would prefer that the scheme administrator—rather than the Scottish Government—manage the process.

One of the criteria in the regulations is proximity to another return point, which we think is a reasonable starting point. Unfortunately, the way in which the market has developed in Scotland is such that most convenience stores find themselves situated close to large retailers. However, it should therefore not be too difficult to make an arrangement whereby containers could be collected by other retailers. However, most of our members will want to participate, and we would encourage them to do so.

In summary, we are supportive of there being exemptions and are glad to see provision for them in the regulations. We think that proximity to another return point is a good starting point for the criteria for exemptions, but there could be others.

**The Convener:** The manual take-back scheme has a history. Many years ago, it operated in convenience stores in the form of the 20p deposit on Irn-Bru bottles and so on.

**Dr Lee:** Everyone is very nostalgic about that practice, but it went seriously out of fashion with consumers. Return rates dropped to about 50 per cent, against a deposit level of 30p. Furthermore, it was never popular with retailers and the system for returning deposits was very ad hoc. The bottles had to be stored in quite bulky crates that took up a lot of space, and collection was intermittent. The system was, therefore, limited and it ultimately proved to be unpopular with retailers and consumers. Everyone gets nostalgic about that system, but I do not think that it offers us a particularly good template for manual take-back in a deposit and return scheme.

**Edward Woodall (Association of Convenience Stores):** I endorse what John Lee said about there being some real challenges, particularly around manual take-back. We would like a system that designs out the need for manual take-back for stores. We can do that by thinking a bit more strategically about locations. I am pleased that the draft regulations include exemptions to do with assessing proximity, but those provisions—in chapter 3—are not clear, so we would like more clarity about exactly what that proximity is. There are good proxies out there, including post offices and the automated teller machine network, which are based around 1km proximity and on population density.

Other factors that the Scottish Government should think about include capacity and demand—for example, regarding the size of a convenience store and its capacity to take back items—and they should be reflected in the regulations. The fact is that 60 per cent of independent retailers in Scotland have small stores of less than 1,000 square feet. Such stores will have only a very small amount of space for taking back what will be a wide range of products, particularly glass. I am sure that if people reflect on their local shop, they will realise how little space there is behind the counter. Those small stores might offer multiple services, including running a post office or a food-to-go service, but they will also have to take back glass and plastic products.

**The Convener:** What feedback have you had from your members in rural areas, where they might have the only shop in a small village, for example?

**Edward Woodall:** That aspect reinforces my point, because retailers take different approaches in different locations. Some convenience retailers will want to engage meaningfully with the DRS and deliver that service for their customers because, in a rural location, they will have sufficient volume to justify having a reverse vending machine and they will make it pay. However, manual handling is very different and requiring all retailers to do that will be a significant challenge, given small stores' capacity. It will therefore be important to map strategically the locations of return points, and that should be reflected in the regulations.

Another proxy that does it well is Camelot's national lottery terminals. Obviously, Camelot wants to maximise its sales, but it recognises that those terminals cannot be in every location, because there is a cost to running them. Camelot has a complex approach to assessing the demand and need for its service in a location, and it locates its terminals strategically on that basis.

There are a lot of proxies that we can use with regard to issues of proximity, capacity and demand to help us to design a more efficient and

cost-effective DRS system for the whole of Scotland.

**Susan Love (Federation of Small Businesses):** First, we broadly agree that, in principle, a return-to-retailer model will work and that everybody will understand it. However, we want to ensure that every citizen across Scotland can benefit equally from being able to receive their deposit. It is fair to acknowledge that a large number of very small businesses will have practical difficulties with the DRS. That is because of the assumption in the figures that I have seen that the vast majority of retail premises will use manual take-back rather than machines.

We should think about not just grocery stores, although those are generally what we are discussing, but all the types of business that sell the containers that will be involved in the scheme and which will be affected by it. Those include, for example, sandwich bars and cappuccino vans, which some of our members run in workplaces, train stations and so on. We are trying to think about all those types of small business.

For that reason, we said to the Government from the start that there should be a de minimis exemption for the smallest businesses, which will genuinely struggle with the capacity issue because they have no storage space. People have been sympathetic about the practical difficulties that some businesses will face, however well intentioned the scheme is. However, the Government said that it did not want an exemption for smaller businesses mainly on a geographic basis, because that would leave too many areas of Scotland without a retailer that was required to take products back.

In effect, we are saying that if we rely on a mandatory return-to-retailer model, the only way we can deliver that is through a very small number of businesses in rural and remote areas. Our concern is to ensure not only that it is possible for alternative return points to exist, but that that is enabled. In a rural area where there is only one small retailer, what is the process for making sure that an alternative point can be set up?

09:45

An exemption has been written in, which suggests that such a model could be looked at. Three points arise on that. First, because of the way that the regulations are written at the moment, in rural and remote areas all the burden is on the very small business to come up with an alternative return point. In our view, that is unrealistic and unreasonable. There needs to be some kind of intervention or support, and another body—whether it is the Government, the scheme administrator or the local authority—needs to have

the role of stepping in and putting an RVM in the community centre or wherever. That burden cannot be on the shoulders of the very smallest businesses.

Secondly, in highly populated areas where an exemption is mentioned because of the proximity of other retailers, again the regulations are written in such a way that the tiny business has to come up with the alternative arrangement. The police box coffee business in Buchanan Street has to do a deal with the nearest Asda or Tesco, and we cannot practically see how on earth such relationships will happen. Again, there is a role for the scheme administrator to broker such discussions or solutions where it is clearly impractical for the smallest businesses to do that.

Thirdly, because the Government has been sympathetic to the need for a proportionate approach for different types of business, it said that it might be possible to have a reasonable-refusal exemption. If I have a very small business and someone walks in having saved up six months-worth of wine or beer bottles, I should be able to say that I cannot take them because it is not reasonable or proportionate for my business to take returns on that scale, or that something has happened with the collection and I cannot take them because I am full. The regulations do not mention that approach at all, and it needs to be in there.

As others have said, the way in which the exemptions are currently set out is exceptionally vague and there is a lot of work to be done around how the scheme will work for the business, the scheme administrator, SEPA and the ministers.

**Jonathan Marshall:** One of the concerns that we shared—it is true across all the packaging substrates—is that the Zero Waste Scotland model dramatically underestimates the number of containers in the market, which will obviously add to the challenge for the take-back. A good example is Barr's Irn-Bru, which was a returnable system that was not designed for one-way packaging. A lot of the success of deposit return schemes in Europe, where those models are seen, is because there is a returnable market that the DRS sits on top of: the consumer has the awareness and experience of taking back the product and dealing with crates, bags or whatever. We do not have that in Scotland and it will be a massive step.

My last point is around glass. A lot has been said about the complexity that glass brings to the take-back, but if glass is taken out of the system, that makes it a lot easier to handle plastics and cans—the safety issues do not arise, the material is not so heavy and the potential of using other types of bags makes the system more effective. The value of glass in an RVM—for instance, in the

one that is being trialled in Scotland at the moment—is about 60p. You get about 200 to 250 bottles in an RVM and it has to be emptied four or five times. That does not seem very effective for small retail businesses, which is why we continue to have a concern about glass being part of that system.

**Claudia Beamish (South Scotland) (Lab):** Nobody has spoken positively about manual return. That is not a criticism; we are here to listen. However, some of us went to Norway and saw that model working effectively with the support of an app; it was under the counter in a couple of places that we saw. The retailer would ask for the local business, which was a transport business, to come and remove what they had—I stress that the business was local—and that would happen within a day, if not more quickly.

Does anyone have a brief comment on that? I am not asking for a positive comment, just a comment.

**Samantha Harding:** That is good timing, because I wanted to make a point about the logistics of the system. As Claudia Beamish highlighted, when it comes to regular collections it is simple for retailers to be supported within a well-designed system. Scotland's topography will present challenges, but Norway provides a perfect example of isolated communities in which return to retail is possible. It is worth stressing that the return-to-retail model is critical to the system's success, and that relates to the point about it being convenient for the consumer.

When it comes to the step that Jonathan Marshall highlighted, it is true that Scotland is in a different position from that of some other European countries. However, the polling that many non-governmental organisations have done in Scotland and across the UK shows that, following the success of the Scottish Government's carrier bag charge, the public are ready for that next step. A well-designed system would make a return-to-retail model work well.

**Ewan MacDonald-Russell:** I agree with all the points that other retail groups have made about small retailers. For clarity, I will pick up three examples that we have not spoken about.

The large-format stores will take the containers back. We will have to do a lot of building and infrastructure in order to take back the vast majority of the containers, but there are ways of doing that. The system works elsewhere and we have members who already operate in Europe. We are confident that, given the time to do it, we can do that well.

The areas that concern us are twofold. We have members that run quick-service restaurants, so they operate from small premises. As Susan Love

mentioned, there is a space issue. There is also a food safety issue with having glass containers in food preparation areas. Our members would generally avoid taking glass into those areas, because glass might get into a sandwich. That risk is low, but the reputational and health and safety risks are considerable. That is a big concern. On the manual take-back side, a lot of those businesses are concerned about the fraud risk of having a bag of valuable containers that someone might get access to.

I will flag an area in which we have a dearth of detail. We are concerned about how online is going to work. There will be an obligation on retailers to take back their own containers. Susan Love made the point that while there are no regulations on fair take-back for physical retail, there are regulations for online retail. We can just about see a way for people who run their own logistics systems to do that, but we are concerned about retailers who rely on third parties, such as delivery companies. First, those companies might choose not to do deliveries because they do not want the challenges that are involved. Secondly, we are concerned about the single, isolated retail situation, in which someone might be delivering containers late at night, using their own car. Suddenly, they are in an awkward position. We do not know how to resolve that.

There are big questions about online, and the Government does not have clear answers on that. Before we can come up with a system that works and does not create odd market imbalances, we will need more guidance. Because of the way in which the scheme is currently envisaged, businesses are looking at parts of Scotland and saying, "This will be so complicated and expensive that we might have to review the service that we provide." That will need to be thought about again.

**Edward Woodall:** The convenience market here is different from the European equivalent. In Europe, there are kiosks, which are exempt, and there are supermarkets; convenience stores are somewhere in the middle but are not clearly represented, so it is not easy to make the parallels. We must be conscious of the impact on people, and the time and cost of manual handling in store, as a challenge for Scotland's retailers.

I agree with Samantha Harding that we should make the scheme convenient. That means thinking about the best places to put the scheme, not putting it everywhere. I largely agreed with Susan Love's point about the current exemptions and the considerations that the Scottish Government has taken around competition law. For the smallest businesses, it will be difficult to have conversations with big retailers but different sizes of business will need to have conversations with each other. The regulations will require

competitors to go into a room together and agree their approach and strategy in the future. That will also be a big challenge.

**Jenni Hume:** I agree with a lot of what Susan Love said. We have worked closely with the FSB to think about how we could be supportive of ways to make the scheme work well for small businesses. On exemptions, we have three suggestions, which we will make in our formal response to the Scottish Government's technical consultation. I would be happy to share those with the committee in writing, if that would be helpful.

**The Convener:** Yes, please.

**Jenni Hume:** I will do that. Essentially, we think that it should be possible for small retailers to apply for partial exemptions, so that, for example, if they do not sell a certain material, they do not have to accept it. That could be a way of getting round the glass issue, if glass is included broadly in the system.

We also think that retailers who do not sell alcohol for religious reasons should not be required to accept alcohol containers.

With regard to the online requirements, I think that there are some small producers who are concerned that, if, for example, they sell six bottles of beer to somebody in Shetland, they will be required to arrange for those bottles to be posted back. We can see that that presents challenges, which is why we think that very small producers should be able to apply for an exemption for the requirement around online suppliers. However, in general, we think that online returns should definitely be part of the system, because that makes the system much more accessible for people who are housebound or who are not able to go out to do their shopping easily.

**The Convener:** So, there is a different situation for big supermarkets and small craft beer companies in terms of the impact.

**Jenni Hume:** Yes.

**Jonathan Marshall:** Clearly, the Norwegian DRS has been successful. That is being used as a potential model, and it is worth noting that Norway shares the same sort of geographic challenges as Scotland. However, Norway took the decision to keep glass out of the DRS, for some of the reasons that we are facing. I am, therefore, interested in why we would include glass in Scotland, given that Norway seems to have decided that that was not a requirement for its DRS.

**The Convener:** I am conscious of the fact that we have only 20 minutes left, and I really want us to discuss the implications of the deposit. However, a few of my colleagues have indicated

that they have questions to ask, so I will let Rachael Hamilton in at this point.

**Rachael Hamilton (Ettrick, Roxburgh and Berwickshire) (Con):** Thank you, convener. I have a comment on the flat rate as well, but I am interested to know who the members of the panel think should be responsible for the exemptions and what criteria the exemptions would use. That is an important consideration, because two people on the panel today have mentioned very small retailers. What is the definition of a "very small retailer"?

**The Convener:** John Lee had his hand up to speak before. Do you want to handle that question, John?

**Dr Lee:** I would like to say something quickly in response to Claudia Beamish's point about the Norwegian model. It has some useful elements, such as the take-back infrastructure and the app, but those things are delivered by the scheme administrator. The scheme administrator in Scotland does not exist yet, obviously—frankly, it does not look as though one will exist any time soon. Part of the issue is that retailers and other stakeholders have always been asked to take a bit of a leap of faith in this regard, because some of our concerns can be addressed only when the scheme administrator is in post and the scheme is up and running. We have been told that there will be take-back on demand, that there will be an app and so on, but, at the moment, we have no assurance that any of that will ever be put in place, and the regulations do not address that.

The elements that would make manual take-back work for retailers might exist in other countries but, at the moment, they do not exist in Scotland, and there is no guarantee that we would have them.

**The Convener:** Before we come to the issue of the deposit, Mark Ruskell has a question.

**Mark Ruskell:** My question is about handling fees. I wonder whether the handling fees that retailers would receive are genuinely inclusive of all the time that will be required to manage a collection point. The issue extends to the hospitality sector as well.

**Dr Lee:** Handling fees are a key part of the scheme. We think that they should include things such as the loss of selling space that will result from the installation of an RVM and the staff time that will be taken up with maintenance and so on. Additionally, the cost of leasing an RVM and the cost of associated maintenance should be taken into account.

The system should be designed to ensure that it is cost neutral for retailers. However, we recognise that, ultimately, the handling fee will have to be

arrived at through a process of negotiation with the key partners and the scheme administrator. We would not expect the regulations to specify that. We appreciate that our manufacturing colleagues will desire to keep costs down, and we are fully aware that the handling fee will be the result of collaboration and negotiation by the scheme administrator. Ultimately, though, the scheme administrator should ensure that the scheme is operated on a cost-neutral basis for retailers.

10:00

**Susan Love:** I want to return to the questions from Claudia Beamish and Rachael Hamilton. It sounds like we are all being terribly negative but, as John Lee said, most businesses will want to provide this service to their community and their customers, and we anticipate that a lot of businesses will want to participate. However, there will need to be some support for those businesses that will find it difficult, so that the burden does not fall on them. There will need to be an escape valve for those who will genuinely struggle, although others can still participate voluntarily if they want to.

For the very smallest businesses, for the purposes of the regulations we suggest a floor space definition of 200 square feet. However, as Jenni Hume mentioned, there are other types of exemption, so you might want to think about small businesses in terms of the criteria that we traditionally use to define them, for example the number of employees.

**Stewart Stevenson:** This is a totally different subject, but it is related to exemptions. When there is an ATM in a small convenience store or post office and the operator of the ATM is different from the owner of the store, there is a business rates charge. I do not know at this stage who will own the reverse vending machines or whether we will have the same problem. Should the business rates issue be addressed as well?

**Dr Lee:** Helpfully, the First Minister announced in October that a new relief will be introduced—from April next year, I think—that will essentially guarantee that RVMs will not attract business rates. That is very welcome, because it will take away the potential barrier to retailers investing in the kind of technology that they would need. The Scottish Government has taken some positive action on that.

**Stewart Stevenson:** I am sure that the First Minister will chastise me for not listening to her more closely.

**Samantha Harding:** On the cost to retailers of RVMs, it is important to realise that if the system is well designed, the cost should be borne by the

producers and the system operator and not by individual retailers.

On exemptions and floor space, I want to offer a resource. There have been some excellent contributions about the nuances in that regard, and there is an overview of all the global systems, which highlights how those exemptions are managed. I could send the clerk a link to that if that would be helpful.

**The Convener:** Yes, it would.

**Edward Woodall:** Rachael Hamilton asked about store size. Generally, convenience retail is defined as around 280m<sup>2</sup>. We have recommended a floor-space exemption, with an opt-in allowance for retailers under 280m<sup>2</sup> who want to participate in the scheme.

The scheme administrator definitely has to play a role in assessing which retailers would be exempt. The criteria need to be made clear in the regulations, and the administrator would deliver on those criteria.

I agree with John Lee's points about the handling fee. Again, the scheme administrator will have to lead on that, but the estimations and modelling that the implementation advisory group is doing grossly underestimate the amount of time required, particularly in relation to manual handling of returned packaging in the scheme. The time involved would produce a much lower handling fee for retailers, which would mean that the scheme would not be cost neutral. In other words, it would cost money to handle goods manually under what is currently being assessed and modelled.

**Finlay Carson:** We are about to move on to the level of deposit, but before we do, I would like the panel's opinions on something. I have had no comfort from what you have said today that rural constituents will not be adversely affected by the scheme.

Exclusions or exemptions for small village shops may be fine for the village shopkeeper. However, many consumers in rural areas shop slightly differently from other consumers. They often still do one big shop—nowadays, that is done online, and they get deliveries from some of the major supermarkets—and they use the small retailers to top up. Given that my constituency is right on the border, many people shopping online have products delivered from wholesalers or supermarkets south of the border. Currently, online sales is a reserved matter, so it might be very difficult to have regulations here that would require those retailers to get bottles back. What comfort can you give me that my rural constituents would not end up paying disproportionately more? If their small local shop has an exemption, they would be more likely to put their returns in the recycling bin than they would be to make the effort

of travelling 11, 12 or 15 miles to another shop. What comfort can you give me that rural taxpayers would not be disproportionately affected by the proposed regulations?

**The Convener:** Susan looks like she wants to answer, or at least discuss that.

**Susan Love:** Yes, although maybe Ewan MacDonald-Russell could answer the supermarket delivery point.

As I have said, how the proposal is written would enable every citizen to return to their shop. You will be aware how small some shops are in rural areas. I think that most of them would undertake delivering the service, because they would want to provide it to their customers. However, they will be limited in how much it is practically possible for them to take back.

At the moment, such shops will be included in the scheme, because there is no easy way to write an exemption for them and we want to ensure that they can have the option of providing that service. However, because of the issues with rurality, the scheme will be expensive. Claudia Beamish mentioned that in remote parts of Norway, collection happens within a day of a shop requesting it. I would love to think that that would happen in Scotland, but small businesses in a rural area are sceptical about whether they would get a quick pick-up.

The issue is not that there would be a problem with a return to retail; it is about having alternative options to cope with our geography in different areas. Why would we not want, for example, the scheme administrator or the local authority to have a duty to make sure that there is coverage of facilities by installing machines in a transport hub or a community centre? That would solve that problem.

**Ewan MacDonald-Russell:** I will pick up on the issue from the perspective of larger retailers. First, those are good concerns to have, and the concerns about rural areas are as true for island communities, which will need a separate system.

On where my members are, we have probably done most work with retailers who operate their own systems and have their own vans. We can definitely see ways in which we can offer a return system. At the moment, I think that the inclination is not to follow the letter of the regulations, but to be much more open on taking back a fair proportion of containers. However, there is a caveat. If people were to save up two months' worth of containers and ask for them all to be taken back, the fact is that there is only finite space in a van. If that became an operational issue, there would be massive cost increases.

It is really hard for glass mixes, too, because of the volume that glass takes up. Obviously, in that case, it would be a soft drop. Adding glass and lots of containers would put pressure on routes that are not especially profitable. Therefore, it is about getting the balance exactly right.

As I have said, a lot of work needs to be done on the online element. I think that we are still stretching slightly, and it feels as though we are having to come up with solutions to a large problem that has been given to us. I think that we can find solutions to what is a big concern, but they will be challenging and will require flexibility from Government.

**The Convener:** We are up against it, time-wise. I ask Rick Hindley to briefly cover the issue, then we will move on to deposits.

**Rick Hindley:** I want to share recent research that we have done, which illustrates Finlay Carson's point. Through Censuswide, we surveyed people across Scotland. One in five of them told us that because of lack of facilities, they would be prepared to lose their deposit and would put a container into the recycling system. Some 22 per cent will struggle to take back their empty containers to a collection point. Therefore, we cannot assume that everybody will be motivated to return bottles and we must have provision for those people who are not prepared to take part or to lose their deposit.

**Finlay Carson:** We will move on to the deposit level. We have already touched on that, but I want to tease out a couple of aspects. There appears to be the assumption in some quarters that a variable fee will be too difficult for the Scottish consumer to deal with. I find that view quite startling, given that other countries have variable deposits; for example, Norway has two, Sweden has two, Denmark has three and the very clever people in Finland cope with four different deposit levels. Why would Scottish consumers struggle with that?

I would also like your opinions about potential market distortion. We know that about 90 per cent of the beer market is sold in bottles of 33cl or below, so the scheme might encourage upsizing to larger beer bottles or upsizing from multipacks of soft drink cans. Personally, I like the small cans of tonic to ensure that my gin and tonic is the same every time. Is it appropriate to have a single value for the deposit when that might result in market distortion?

**Rick Hindley:** We are acutely aware of that issue and are very concerned about it. We recently undertook research with Censuswide that showed us that two thirds of the population of Scotland would choose to upsize to 2 litre PET bottles rather than purchase multipack cans. Typically, there are 24 cans in a multipack, so a



20p deposit on every can amounts to £4.80. However, people can buy the same volume of a drink such as Irn-Bru in four 2 litre bottles, with a deposit of 80p. We hear a lot about price sensitivity. Yes, people are more interested now in doing positive things for the environment, but price is the key driver. We firmly believe that at the point of purchase, people will shift from buying multipacks of cans to buying 2 litre plastic bottles or alternative plastic packaging. Our survey concluded that that would potentially result in 8.2 million additional plastic bottles being sold in Scotland.

Deposit schemes work elsewhere, but we must remember that the Scottish and UK markets have very different dynamics from the countries that have been used as comparisons, such as Norway and Sweden, where multipacks of cans do not exist. The figures show that 78 per cent of all cans sold in the UK are sold in multipacks, but the position is the opposite in Scandinavia.

Picking up on the issue of simplicity, a piece of research was done by A Plastic Planet, which is also concerned about additional plastic pollution, and its survey concluded that 87 per cent of Scots understood the reason for having a variable deposit scheme based on container volume and would be happy with it. I therefore agree with Finlay Carson that there is no reason why the Scottish consumer would be any different from the Scandinavian consumer in that regard.

**The Convener:** We are running out of time, so I would like brief comments, please.

**Jonathan Marshall:** I support what Rick Hindley just said. There is significant evidence of schemes' impact on glass in the countries to which Finlay Carson referred. We closed our only glass plant in Finland as a result of a combination of things, including the changing market dynamic that was mentioned. The situation was similar in Germany, where we saw a significant impact on the glass industry and a growth in PET. It is therefore very likely that we will see a change in the dynamic in the market here that would disadvantage glass at a time when we should be investing more in glass because it is 100 per cent recyclable and very sustainable.

I believe that the challenge is to improve the current system rather than try to superimpose a DRS system on it. The glass industry has an alternative solution that we have been discussing with Zero Waste Scotland that would also address concerns expressed earlier about the Highlands and Islands, which would probably function better with more bottle banks and drop-off centres as opposed to relying on retailer drop-off points.

**The Convener:** Three of our guests want to comment, but Mark Ruskell has a short supplementary question to throw into the mix first.

**Mark Ruskell:** My question is for Rick Hindley. Would you support having a higher deposit for a larger bottle, such as £1 for a 2 litre bottle?

**Rick Hindley:** Absolutely. The models in Scandinavia start from a lower point, then move up.

**Mark Ruskell:** So you would support a higher deposit rate.

**Rick Hindley:** Absolutely. The base level could be 20p, and the rate could move up to other levels.

10:15

**Jim Fox:** First, we do not think that the level of deposit should be left to the Government or regulations; it must be set by the system administrator. The regulations should allow flexibility so that it can be moved up or down, although it will usually be moved up because of the dynamics of how consumers are charged.

Finlay Carson made the point that differentiated deposits work in other places. We do not see why they should not work here, but that is not our main concern. We think that the move from pack to pack should be considered. If plastic is the big concern, a single deposit level will incentivise a move towards plastic.

On top of that, if there is a 20p deposit, the value for a truckload of Coca Cola will be just under £15,000—that is just the deposit; not the value of the stock. Therefore, anyone buying a truckload in England and moving it to Scotland immediately makes £15,000 of profit. That will incentivise fraud on an industrial scale unless you start putting border checks between Scotland and England. We see stock moving across borders from Europe, Russia and such places for far less incentive than £15,000 a truckload.

**Jenni Hume:** We are concerned about plastic—absolutely—but also about all materials in terms of both litter and recycling. The risks of people switching between materials are introduced when we have a system that is limited in terms of the materials that it includes. That is much more of a concern than the variable deposit levels.

On Finlay Carson's point about the capacity of people in Scotland, they will easily understand that when they buy their drink, the deposit is only borrowed from them and they will get that money back.

I have another quick example. In 2015, Estonia decided to switch from variable deposits, which used to be 4 cents and 8 cents. It standardised a

deposit of 10 cents for all items, which had a significant impact on increasing the return rates.

**The Convener:** There are examples in other countries. For example, in the European Union, Spain has a scheme whereas France does not. What happens there in terms of fraud? Is it an issue?

**Jenni Hume:** The Baltic states are a good example of that. Estonia had a system and the neighbouring country, Latvia, did not. Measures to prevent fraud, including measures around bar codes and labelling, had to be introduced there. Jim Fox is probably more of an expert on that than I am.

**Jim Fox:** Fraud goes on everywhere—certainly in the Baltic states. In Estonia, when it set up the scheme, more than 100 per cent—I am not sure whether it was 130 per cent or 160 per cent—of the number of containers that went into the market came back. If it was 130 per cent, that is a fraud rate of 30 per cent. The deposits paid out on that certainly undermine the financial viability of the system.

What is different in Great Britain—and much more important than general fraud—is the fact that we have worked on an integrated supply chain across GB for what seems like forever. England, Wales and Scotland are interconnected and this proposal is the first time that the food and drink sector faces a clear difference between one side of the line and the other.

**The Convener:** Here is the thing: just because the rest of the UK is dragging its heels on introducing a deposit return scheme, does that mean that Scotland should wait and see what happens?

**Jim Fox:** We are not asking you to wait. We are asking you to put in good fraud controls and to design the system so that it reduces the risk of fraud.

**The Convener:** Okay. We will have a final comment from Samantha Harding in Mumbai before we end this evidence session.

**Samantha Harding:** I repeat my point that I do not think that the system operator should be allowed to set the deposit. It is very unlikely that a beverage company will do something that would increase the price of its product. In Finlay Carson's point about his gin and tonic cans, he said that he likes to have his drink the same every time; that pretty much sums it up. It is unlikely that people will start buying a 3 litre can of tonic water or Coca Cola instead of a multipack when multipacks and those smaller items are designed to be used in very specific ways.

**The Convener:** Thank you very much, and I thank all witnesses for their contributions this

morning. You have given the committee a lot to think about. It has been very valuable.

10:19

*Meeting suspended.*

10:29

*On resuming—*

**The Convener:** We will continue our round-table discussion on the proposed deposit and return scheme. I welcome those who have joined us for our second panel—and welcome back those who were here for the first panel. As I said earlier, we have an awful lot to cover, but I want to ensure that we address the main issues. We will ask this panel about operational impacts and costs, timeframes, the wider waste policy and context and scheme administration and governance.

There is no need for everyone to answer every question. It works quite well if people put their finger in the air if they want to speak on a particular topic. I will try to ensure that everyone gets a chance to speak. We have until 11.45, when I will need to suspend the meeting before moving on to the next panel. I ask those who are joining us to say which organisation they represent the first time that they speak.

I will start with a question on the operational impacts at different points in the supply chain—packaging, producer, wholesale, retail and so on. First, let us talk about labelling, identification and traceability of DRS items. Who wants to give the committee their thoughts on those issues?

10:30

**Colin Smith (Scottish Wholesale Association):** I will start. The Scottish Wholesale Association represents not just wholesalers in Scotland but wholesalers operating in England. In essence, we are the wheels of the food and drink industry: we distribute all the beverage containers to—for the purposes of this discussion—the 4,972 convenience stores and 39,000 food service outlets, restaurants, pubs and clubs the length and breadth of Scotland.

You mentioned labels, convener. To differentiate their model from those of their competitors, wholesalers also produce own-label products. We are not just wholesalers distributing goods to those outlets but are now obligated in the DRS as producers. One of the arguments is that wholesalers are not a homogeneous group—we are also producers, importers and retailers. Our own-label products, such as bottles of water, which are currently distributed across the UK, will now have to be differentiated because we will

have to produce Scottish and English versions of the bottles.

Jim Fox made a comment about the integrated supply chain. We are creating a trading border—between Scotland and England and Scotland and the rest of the EU. We have been talking about other European countries, such as France, Spain and the Baltic states, but the divisions there are between the different countries, rather than internal borders, which is what we are creating here. It would create a lot of difficulties for us as manufacturers and producers.

**The Convener:** What is the difference between the countries on the continent and the countries in the UK?

**Colin Smith:** We are talking about cross-border trade between geographical countries, rather than cross-border trading within a country.

**The Convener:** All those countries are in the EU so they do not have any customs borders.

**Colin Smith:** I am talking about fraud prevention and non-deposit-bearing stock being transported into countries that have a deposit scheme.

**Andrew Tighe (Scottish Beer and Pub Association):** The Scottish Beer and Pub Association represents brewers across Scotland and the UK, producing the vast majority of beer sold in Scotland and the UK. Our members operate about 20,000 pubs across the UK.

As Colin Smith said, if we have a separate label in Scotland for DRS materials, it will create challenges for brewers that operate a UK-wide or EU-wide supply chain with a common label. For example, a Scottish brewer will produce not to order but based on forecast demand for their product. If they have a Scottish-specific label and stock, they might not be able to fulfil an order that comes in from another EU member state or from the rest of the UK. That is potentially a missed opportunity for exporting. Similarly, if they overproduce stock, there is the risk of wastage.

Everyone recognises that, to mitigate the fraud risks, there will have to be an element of specific Scottish labelling, but that will create many challenges that could restrict choice and opportunity.

**Gavin Partington (British Soft Drinks Association):** The British Soft Drinks Association represents producers of soft drinks, juices and bottled waters in the UK. Thank you for the opportunity to participate in this discussion.

As a sector, we are in principle supportive of a DRS across Scotland, England and Wales, although we think that Scotland going first poses challenges, particularly in relation to labelling. In

all honesty, some of our members have not finally decided how they will address that. Some may believe that they can go for Scotland-specific labelling for some product lines, but for some other companies, that will not be financially or economically viable. I know of at least one premium soft drink producer that operates 28 stock-keeping units, or product lines, in the UK marketplace. It has told me that, if a Scotland DRS goes ahead on its own, ahead of the rest of GB, it will in all likelihood not send 23 of those 28 product lines to Scotland because it will simply not be economically viable to do so. It will focus on its biggest selling product lines and deliver them to the Scottish marketplace.

There is an additional challenge in relation to the proposed 20p deposit. I know that that was touched on in your previous session this morning. Setting the rate at that level would pose a number of challenges. To be frank, it is counterintuitive to set a target for industry and then dictate the mechanism for delivering on it, rather than allowing flexibility under the operations of the scheme administrator.

Depending on how the labelling issue is addressed, the proposal might—unfortunately—provide an additional economic incentive for some unscrupulous operators to trade product into the Scottish marketplace that has not had a deposit paid on it. Setting the deposit at 20p raises the barrier to that. For example, a 12-pack of cans of Coke or beer would have an extra £2.40 added to it, which would increase the economic incentive for that unscrupulous trade. It is unfortunate, but I fear that the proposal makes tackling such trade more challenging.

We want the scheme to work, so we feel duty bound to highlight issues that pose a challenge.

**The Convener:** We touched on that in the previous session. We will come to Jim Fox, who said, “We don’t want it not to happen; we just want it to be managed in such a way that fraud is averted or minimised.” How do you see that being done?

**Gavin Partington:** First, the intuitive way to address the issue is to allow the system administrator to set the fee. If they are being set a target, they should have the flexibility to use the fee lever to dictate delivery against that target.

Secondly, the Government’s analysis suggests that it might be desirable to have a lower fee to start with, which would help to meet the initial targets. If a lower fee is set, it will diminish the economic attraction to unscrupulous operators of buying non-deposit-paid product in England and shipping it across the border.

In addition, if the Government is determined to proceed with a 20p deposit, I think that you will

want to have greater investment in the Scottish Environment Protection Agency resources for the monitoring of product movements across the border.

**Jim Fox:** It might be helpful for me to say how complicated it might be so that people understand what we are dealing with. I am representing the Food and Drink Federation Scotland today, but I have a better understanding of Coca-Cola and its stock-keeping units, so I will speak about that. We have 700 different stock-keeping units for Scotland, and the artwork changes would be threefold. For every stock-keeping unit, we need shrink film, trays and the cans or bottles. It costs not only a lot of money to change all that artwork but a lot of time, and the print works and artists have limited capacity.

With the current proposal, we would get everyone to dump all the stuff on a fairly small group of suppliers, so it would extend the process. In normal circumstances, an artwork change might take weeks—

**The Convener:** Are we talking about a barcode change?

**Jim Fox:** The whole thing has to change.

**The Convener:** Why does the rest of the artwork have to change?

**Jim Fox:** First, the barcode would probably need to be accompanied by a written declaration to the consumer. The consumer cannot read the barcode. It would need to say something like, "This is a deposit container", "This is for deposit in Scotland", "Not for sale in England" or some version of that. When we change that, we move everything else on the container.

Once the pack is made, it has to be stored somewhere. At the moment, a GB-wide group of products would need to double, not in volume but in complexity. It is the square root rule. The square root of products is the extension of the producers' range. They need more warehousing, more product lines, more production space and more time. It is costly. It gets to the stage where they have to make a big decision about whether they keep products in the market or take them out.

At the moment, we cannot make those decisions easily, because we do not see the final regulation. People are pressing us to make decisions about whether a pack should have a different code on it. We would love to make that decision but, unless we see the end regulation, we cannot commit the business to hundreds of millions of pounds' worth of artwork changes.

**The Convener:** Looking at it holistically, the litter that is produced by food and drink companies and ends up in our environment is also costly.

**Jim Fox:** Absolutely. We are not here to fight against DRS. We are here to get the right deal. I am trying to keep it in context. If you want to change the way that Scotland does business within GB, you need to understand that it takes time for producers to make that change. It is not that we want to go slowly. The capacity of the people all the way down that supply chain is limited. If we want to get artwork done tomorrow for one pack, that is easy. We just phone the supplier and say that we want it changed. When we want to do it thousands of times across the marketplace, with the beer guys, the spirit guys and the wine guys—

**The Convener:** Therefore, it is also a question of timescale.

**Jim Fox:** It is timescale and capacity. When we come on to talk about timescale, it is not just about how long it takes to change the artwork on the pack; it is the impact of all those pack changes on the marketplace.

**Mark Ruskell:** Does having different artwork not bring branding advantages? You could have Scottish Coke with a wee DRS symbol on it.

**Jim Fox:** I will keep that in mind.—[*Laughter.*]

**Mark Ruskell:** Is that not a good thing? You say that it creates time for somebody to draw the symbol and make new artwork, but are there no branding advantages to that?

**Jim Fox:** We do things like that. On a limited scale, we can do a slightly different pack in England and in Scotland. If one pack looks better in Scotland and one is better in England, we can do that. That is one pack at a time. It is not 700 packs with 2,100 pieces of artwork.

**The Convener:** Stewart, you had your hand up a while ago. Do you still have a question?

**Stewart Stevenson:** Oh, yes.—[*Laughter.*]

**The Convener:** I realise that I forgot to come back to you. I am sorry.

**Stewart Stevenson:** That is all right, convener. You are forgiven. In the meantime, I have acquired two questions.

This is perhaps an opportunity for Colin Smith to clarify. He appeared to say that there are unique issues about intrastate borders. In principle, how does that work in the States, where every state can have a different level of sales tax? Some have none and some have high levels. The same is true in Canada. I suspect that the Faroes and Denmark are not a good example, because the geography separates them, but I know that there are significant differences. I ask about that principle. That is different from deposit return.

I say to Jim Fox that I cannot walk down a single aisle in the supermarket without seeing promotional labels that are introduced at short notice.

I wonder how often producers are changing their labels anyway, because I have a very strong impression—do forgive me—that it is a very regular and standard part of marketing efforts.

10:45

I am not quite buying what you say. You could perhaps address that point if you were to give us some numbers, although not necessarily today. I see the packaging changing all the time on lots of products, so I am not clear about that point.

**The Convener:** We will go to Colin Smith to answer your first point, and then to Jim Fox.

**Colin Smith:** We need to recognise that the distribution of food and drink in the UK is totally different from any other country, such as European countries, America, Canada and New Zealand. We have a wholesale supply chain, which is a £2.9 billion industry, that sits in the middle between the producers and the manufacturers and the retailers and food service outlets. In most European countries and America, there is a direct supply, so the producer or manufacturer directly supplies—

**Stewart Stevenson:** Just to intrude, are there not distribution points in West Lothian that supply the Republic of Ireland, for example?

**Colin Smith:** There are, and that is where—

**Stewart Stevenson:** Therefore, we are doing it.

**Colin Smith:** Yes, but we are not having to differentiate the product offering. We are offering the same bottle of Coca-Cola to the whole of the UK market and Ireland and potentially exporting that UK product to Europe. We do not have a trading border with those countries that we supply. It is the way that we have done business for the past 100-odd years. Now, when my members that are based in Scotland are buying product, they would have to know how much they are going to sell in Scotland so that they can buy the Scottish product, and how much they are going to sell in England so that they can buy a separate product just to sell down there. That is totally unique—it has never been done before.

I have surveyed my members and we have produced an impact assessment report that we will present to the committee, although we have not yet finalised it because we are waiting for the Scottish Government to come back to us on new information that came to light just in the past four weeks. Jim Fox mentioned Coca-Cola having 700 products; our members are stocking about 4,000

beverage products and if we want them to continue servicing England, as many of our members do, they will have to double the number of items. Where will they suddenly find the additional warehouse capacity?

I know that we will talk about costs later, but I will give you an idea of the shock impact. In the session with the previous panel, Jim Fox said that £14,000 or £15,000 is the deposit value of a truckload of Coca-Cola. Our members will suddenly have to find another £298,000 a week just to buy the same number of beverage containers that they currently buy to keep their business running. I do not know where they are supposed to find £298,000 a week—it will eventually come through in the sale of material, but at the initial start-up, that is how much it will be.

**The Convener:** We will come to Jim Fox to address Stewart Stevenson's other point.

**Jim Fox:** I will go back to the interstate point briefly, as I have something to add. In America, Canada and Australia, there is a different geography involving large distances, which, to some extent, protects against the issue of interstate movements. The logistics in those countries are much more about direct-to-store delivery by the producer, whereas in this country, we have a well-developed wholesale strand in our supply chain. We supply to wholesalers. We do not even supply to Tesco stores; we supply to the regional distribution centre. Therefore, there is a level there that is not present in America, Canada and Australia.

On how often we change labels, there are two different answers. I suspect that when you go into a store, you will see lots of promotions, but they are not all label-change promotions; they are primarily price promotions with shelf-edge stickers that make it look different. The actual pack is not necessarily different to the pack that you bought the week before.

When we change labels—when Coca-Cola sponsors the world cup, for instance, and it does a nice can label specifically for the world cup—the planning goes on for six to nine months beforehand. The stock is made and it gets phased in with careful collaboration between us and our retailers so that we get it on the shelf at the right time and get it off the shelf at the right time and no more stock comes through. It is quite a major operation to get that one pack on the shelf at the right time in the right format.

The DRS will change the whole market; that is why I keep coming back to the same point. In terms of scale, what is being asked for is far different from what we see day to day.

**Ewan MacDonald-Russell:** On behalf of the Scottish Retail Consortium, I can substantiate Gavin Partington's point about brand ranges. Our members sell an awful lot of own-brand products; they are having exactly those conversations and they are looking closely at small ranges and trying to determine whether they will still be profitable after all these changes come in. The complexity challenge for us is enormous; we have a huge quantity of things to consider.

On the second point, I think that Jim Fox gave a really good explanation and I will not repeat it. On the point about RDCs, our members tend to have a distribution hub; it will cover not only Scotland but other areas, such as Northern Ireland and sometimes the Republic. It will cover the north of England as well. In those places, these changes will require the segregation of lines. We will have our Scottish products and then there will be products for elsewhere.

That is not impossible and I would not for a second want to say that this cannot be done, but it is difficult and complex to do and to make sure that it is right. That is because at the final stage of this, every product in store has to be right. We are talking about 2 billion containers a year—each of the containers has to be right so that we are compliant with the regulations. That requires a labour cost and it requires segregation. That is not by any means impossible, but it is hard for us to do. From my members' perspective, that all has to be sorted out before we even think about the take-back side. It is an enormous challenge and Jim Fox has expressed very well the details of why it is so complex.

**Jenni Hume:** From an environmental NGO point of view, we recognise that this brings logistical challenges for stakeholders within the industry. However, we need to be aware of the context. Colin Smith said that business has been operating as it does now for the past 150 years, but we are living in a recognised climate emergency and we cannot keep doing business in the way that we have done for the past 150 years. Deposit return is a tiny part of the overall solution in relation to what we will have to implement. We have spoken a lot with Jim Fox and Ewan MacDonald-Russell about this and, although we recognise that there are challenges, we welcome their participation in the IAG, which is a positive step towards finding solutions to these problems.

**The Convener:** I will open this up to members who have asked to contribute.

**Rachael Hamilton:** We are hearing about a lot of challenges around labelling and, in the previous session, we heard a little bit about fraud. Should the DRS, which everyone seems to agree with, be paused and rolled out as a UK-wide scheme, with

co-operation between the Scottish Government and the UK Government?

**Andrew Tighe:** The simple answer is yes. Everybody's desire is to have a single UK-wide scheme, which would create the most efficient DRS. We recognise that, from the Scottish Government's perspective, there is some uncertainty about Westminster timings and when Westminster would be ready. We appreciate that. However, for us and our members, should the two schemes not start at the same time, the closer the timescales for their introduction, the better. That would mitigate a lot of the challenges that we are talking about today in relation to separate SKUs and fraud risk.

**The Convener:** As Jenni Hume said, we have a climate emergency and the Scottish Government has very challenging targets on emissions and waste. As a society, can we afford to wait?

**Andrew Tighe:** There is a balance to be struck, and we certainly appreciate that. There is also wider EPR reform that is due to come in from 2023. We hope that that will supplement and complement what is being put in place here.

**Calum Duncan (Marine Conservation Society):** I thank the committee for the opportunity to give evidence.

I appreciate that everybody wants to deliver the deposit return scheme and that we are talking a lot about the detail—the logistics and the practical measures—which is understandable, but, to pick up on what Jenni Hume and Mark Ruskell said, Scotland has to be zero carbon five years ahead of the rest of the UK. We have a small window in which we must make the changes. I was encouraged by the exchange in the first round-table session, because I do not think that I heard people saying that they want the Scottish Government and Scotland to drag their heels because we are waiting for a wider system and context. It is important that the systems harmonise across the UK, but it is also important that Scotland gets on and delivers, because we have to meet those more challenging targets.

We heard from Zero Waste Scotland that there is a potential to save 4 million tonnes of carbon over 25 years. Glass was mentioned in the first session, and I understand that 1.2 million tonnes of that saving would come through glass. We are really keen for glass to be in the system because, as we heard from Jenni Hume, it is a top-three item on beaches. It is a big waste problem.

I was interested to hear the point about people being nostalgic about taking back glass bottles, but that was a 50 per cent return rate, and 48 per cent of households still do not have kerbside recycling or access to glass recycling.

**The Convener:** To turn the question on its head, rather than pausing a Scottish system, as Rachael Hamilton suggested, perhaps pressure should be put on the UK Government to catch up with Scotland. I see nodding heads round the table.

**Gavin Partington:** On exactly that point, we have consistently asked civil servants at the Department for Environment, Food and Rural Affairs to work extremely closely with our colleagues in the environment departments in Scotland and Wales, because we see the merit of that—it would be the optimum situation for us.

To respond to Calum Duncan's point about the timetable, the ideal situation would be for the whole of the UK, or certainly the whole of GB, to have a countrywide DRS in place. However, we accept the political reality that Scotland is in an advanced position. Therefore, our drive at the moment is to ensure that the Scottish scheme is the best designed scheme with the best chance of success. That is why we have genuinely made points about the fee level and the timetable for delivery, which, frankly, we think is pressing. Delivery by April 2021 is very challenging indeed. There is unlikely to be a successfully launched scheme at that stage.

We accept the political reality here. We want the scheme to work and, for that to happen, the Scottish Government must address genuine issues, which we urge it to do.

**Jim Fox:** Rachael Hamilton asked about the difference between England and Scotland. We honestly want to respect Scotland's devolved powers. We are absolutely not trying to align with England for any reason other than practicality. Jenni Hume asked about the climate emergency. We want to respect environmental concerns. We do not want litter, and we do not want recycling rates, which have pretty much stalled, to remain the same.

However, we ask you to recognise where business is at the moment. We have a GB or UK supply chain that will be very difficult to break up, but you are asking us to separate England from Scotland in a very physical sense, and you are asking us to do that against the background of Brexit—this is the first time that it has been mentioned today—and the fact that all our businesses are concerned about how things will go in the next two to three years. Really difficult decisions are being made right across industry.

You are also asking us to make up our minds and be positive about the scheme. I know that you are a committee and not the Government, but the Scottish Government is asking us to make up our minds when it cannot give us clear responses on extended producer responsibility. It cannot say

whether, if we are in the DRS, we will be exempt from EPR.

You also cannot give us a clear indication about VAT, which is an essential part of how we plan our business. Yes, we could put more pressure on the UK Government, but now is not the ideal time. We go into Government departments at Westminster and there is not a lot of other work going on. We are trying to talk to people who are facing the other way. Equally, I believe that when Scottish Government officials go to Westminster at the moment, it is difficult even for them to get people's attention. We are asking you to be more understanding of industry's position.

If we wanted to join up in a GB fashion, that would cause concern at Scottish Government and NGO level in Scotland, and we do not necessarily expect to do that. Perhaps we should be talking about some kind of compromise for some parts of this, at least for the next two years. That is where I think that we need to be.

11:00

**The Convener:** There is lots more to say about that, but I want to move on to the impact on recycling infrastructure. We have people around the table who are from waste management. What is the potential impact of the scheme? Will it have an effect on capacity or cost? Are there upsides, too, for example in relation to the volume of material that might make it into the recycling chain?

**Stephen Freeland (Scottish Environmental Services Association):** My organisation represents the waste management contractors. There are two aspects to this. Clearly, the waste industry and local authorities have been highlighted as potential losers in the system. That is basically because material that we have been handling and processing will be diverted off to the scheme administrator instead, so there is an impact there. Waste infrastructure has been built up in the past few years to meet our waste regulations, and there is a lot of recycling capacity at the moment.

On the opportunities, we have that infrastructure, so should we not at least be looking to utilise it as part of the deposit return scheme? That is where the conversation with the Scottish Government seems to have stalled—we do not know what its intentions are. I would have thought that, to keep the scheme costs to a minimum, we should be utilising existing systems and expertise, which could be tweaked and modified to fit into the deposit return scheme.

**The Convener:** Do you have any specific suggestions?

**Stephen Freeland:** We have recycling facilities that can sort a range of materials that come in via the commingled blue kerbside recycling bin and separate it into different grades. It is the same process for deposit return, which will collect metal cans and plastic bottles. It requires some sorting at the back end before the material goes to market. That capability is in the system already. We are not too sure whether Zero Waste Scotland or the Scottish Government wants to build brand-new shiny kit from scratch.

**The Convener:** You are saying that the capacity is already there in the existing infrastructure to handle the proposed increase in materials coming in via the DRS.

**Stephen Freeland:** The tonnage capacity is there, because you are just displacing one system for another. It would require tweaking, though, because a different composition of material would be coming into the system. The challenge is to modify the system in some way to take the new composition of material that would come in, but we do not know what the system parameters and boundaries would be in a deposit return scheme world.

**Claudia Beamish:** Could I push that a bit further? If I understood you correctly, you were talking about the need for similar capacity. Surely one of the points about deposit return is to increase capacity. If everything is included—for example glass litter in playgrounds, glass on beaches and plastic that has been chucked out on to the roadside on motorways—surely that will increase the amount of material for recycling, and indeed for remanufacturing.

**Stephen Freeland:** There are two angles to that. I am not convinced that a huge amount of additional stuff will come in—

**Claudia Beamish:** The figures show that it will. Sorry; go on.

**Stephen Freeland:** There are two elements: the stuff that is lost to landfill bins and the stuff that is lost to litter. That will have to come through a system. The industry would be equipped to handle that if we had the opportunity to do so, but we are not sure whether we will have that opportunity.

The second strand is at the back end. It is all very well collecting, sorting and processing the material, but it then has to be reprocessed back into plastic chips and suchlike. There is an opportunity with the cleaner stream of material coming through.

**The Convener:** Do we have the capability to deal with that at the moment?

**Stephen Freeland:** No. At the moment, we rely on export to cover that. The big issue would be to ensure that we invest in this country to deliver that.

However, I do not see anything in the regulations that say that the scheme administrator or the Scottish Government will apply pressure to ensure that that happens. They are focused on the front end, and there is nothing to say that we should ensure that stuff is retained in Scotland.

**The Convener:** Obviously, we want to minimise the environmental impact. If reprocessing happens in Scotland, that would meet that objective.

**Stephen Freeland:** It would help, particularly given the fluctuations in the Chinese markets. With international markets being closed, we are struggling to find outlets for the material. It would help if more of it was sorted and processed in Scotland, but that is a challenge.

**Colin Forshaw (Chartered Institution of Wastes Management (Scotland)):** I represent the Chartered Institution of Wastes Management. I thank Stephen Freeland for stealing nearly all of my points. However, I can expand on some of them. He made some good points.

On timescale, Stephen Freeland outlined the issues with infrastructure. In Scotland, we have capability in the industry that handles kerbside and source-segregated recycling materials from local authorities and commercial operations. Similarly to the producers, although on a much smaller scale, we would have to look at batch processing the material, which has an associated cost that is related to how the facilities function, and associated operational costs to keep certain materials separated from the commingled materials. That needs to be looked at, and there is a timescale issue there.

We would have to bring in some form of new facilities to be able to process the material. The scheme may lead to additional quantity, as Claudia Beamish suggested, and there will also be quality issues. Again, you want to try to keep the materials separate.

Stephen Freeland hit on a good point about the end market. I operate a facility in Aberdeen, and it is a source of constant frustration that the majority of my recycling products have to go south of the border to be processed. It would make a lot of sense to have facilities north of the border; it would help to stimulate the market. I am sure that some manufacturers and producers round the table would be interested in that as well. That is one aspect that we would like to see in a well-designed scheme.

To come back to the timing and roll-out issues, I want to raise a point about the tonnage. I have reviewed the business case and I do not believe that the tonnage has been adequately modelled. The figures on diversion of material from existing well-performing schemes to a DRS must be reviewed. That underpins a lot of the issues



around processing ability in my resource sector as well as among the producers. That is a key point relating to the timescales.

**Mark Ruskell:** The discussion about pure tonnages is interesting, but there is also an issue about quality. For example, the material that comes through a commingled waste collection for PET is pretty dirty and it is difficult to get the bulk of it back into food grade PET bottles. Is there an issue there, in that, by not segregating through a DRS or perhaps some other technique, we lose that PET and it goes into making car parks, resurfacing roads or some other low-grade usage when it could be used as bottles again? I am thinking about how we increase the quality of the recycling and the reuse.

**Colin Forshaw:** The quality is critical. In the majority of commingled processing plants, we sell various different grades of plastics—PET and HDPE—into the market, and they have to meet a quality specification. It is at the next stage of the process where we have to get the cleanliness levels and so on correct.

**Mark Ruskell:** What proportion of the material that comes through your materials recovery facilities goes back into remanufacturing drinks bottles?

**Colin Forshaw:** I do not have those numbers directly in front of me, but I am happy to supply them to the committee, through the CIWM, at a later juncture, if that is possible.

**The Convener:** Okay.

**Finlay Carson:** I want to wind up and summarise on the operational impacts and costs of the system. We hear from industry that the DRS as proposed will increase costs for businesses significantly and will potentially lead to a decline in choice for Scottish consumers because some retailers may decide not to sell into Scotland.

The DRS will increase fraud because it is not a UK-wide scheme and there could be a significant impact on Scottish producers that sell elsewhere in the UK because of the additional costs of having separate Scottish and UK markets. We have also heard that there is not the recycling capacity in Scotland to deal with the plastic waste that the DRS would collect.

We have already seen that there is evidence of a significant business preference for a UK-wide scheme. I have a question for the NGOs. There are 18 months before the introduction of the scheme, which will happen just prior to the 2021 elections. Is it your opinion that the decision to bring in the scheme is a political decision, or is it a realistic—

**The Convener:** The discussion has not been political up to this point. It is a little bit unfair to ask

our guests to make political comments. This session is about the operation of the scheme, so behave yourself.

**Finlay Carson:** Okay. On an operational basis, we have talked about a Scottish scheme and a UK scheme; the Scottish Government has tried to go further. Is it realistic or sensible for the Scottish Government to push ahead towards an introduction date of spring 2021, when all the evidence suggests that the timescales are not realistic and we might have a system that is not sustainable or fit for purpose?

Would the NGOs suggest that more work needs to be done to create a UK scheme, which would deliver straight away and give longer-term benefits?

**Jenni Hume:** That is an impossible ask at this stage, if we look at where the rest of the UK is with deposit return. We have had primary legislation here since 2009; Westminster has not even managed to get primary legislation. Westminster's Environment Bill has just fallen because of the general election.

I know that people in industry would like a bit more time, but I do not think that they are asking Scotland to wait until the rest of the UK has a scheme, because I think that we all know that the very earliest the rest of the UK could introduce such a scheme is 2023. That date has probably been massively pushed back because of the general election.

I am not the person to ask about the ins and outs of the practicalities of the system but I know that the industry has been represented on the implementation advisory group for about a year now. People have been talking about this for a really long time. Everything that we are hearing today I heard around two years ago. I have sympathy—I understand that there are challenges—but no, we cannot afford to wait any longer.

**Finlay Carson:** Is 2021 realistic?

**Jenni Hume:** I think that it is. Lithuania introduced its scheme in six months and it got 90 per cent return rates within the first three months.

**Calum Duncan:** Jenni Hume has just made the point that I was going to make, about Lithuania managing it in six months. I had a bit of an opening gambit, which was environmental, but there is also a business case, which I think that we have already heard. We want to increase quality recycle and to encourage circular economy businesses in Scotland; we also want to use the existing ecosystem of waste sorters and recyclers. There are lots of social enterprise opportunities there.

I am sure that we could come up with systems in local communities for agreed collection points if there are exemptions. Such systems would help to fund the transport costs of the recycle to adequate recycling facilities so that that cost is not borne by local authorities and therefore the taxpayer.

I cannot help but think that there are marketing opportunities as well. Scotland is the only country in the world that has a soft drink that outsells Coca-Cola. I am not making a marketing point, but I am trying to flip the narrative.

Just to be absolutely clear, our ideal is to have harmonised integrated schemes right across the UK as soon as possible. However, from an environmental perspective, if we see that progress is stalling—as Jenni Hume said, Westminster does not even have the primary legislation in place for the rest of the UK—we need to get on and do this here.

**The Convener:** There is a precedent because environmental schemes such as the plastic bag charge have been introduced in Scotland and the rest of the UK has followed. There is a precedent for Scotland being almost a test case for such a scheme, which will then be followed elsewhere.

11:15

**Ewan MacDonald-Russell:** Because of the carrier bag charge and minimum unit pricing, we have some experience of doing things differently in Scotland.

I will describe what my members, particularly those who work in property and planning teams, are telling me about the retail build. This all dependent on a scheme administrator being established and our having some idea of what that will look like, which we cannot wait for. The scheme administrator cannot be convened until, I think, at least April or May next year, once the regulations have been approved.

Once all of that is in place, our members will have to build a scheme in about 2,500 stores to take back 2 billion containers. We reckon that that will cost us about £0.25 billion—it is really significant. We think that about 500 of those stores will need serious work, such as store extensions or major refits. The construction work alone is a six-month project, and in most cases it will have to go through planning and building warrants. There may be licensing changes, if we have to move stores. For those of you who are taking note, a lot of the regulations that we need to come into force may not do so before April 2021. If we commit to that date and the Government does not move—although it has indicated that it might consider moving—there would be a manual handling system. Such a system has generally not been

very popular—in a supermarket on a Saturday, we are talking about an item being returned every two seconds.

That sort of refit process would normally take five or six years. We think that if there is an absolute push and a huge focus, and if it is what retailers can commit to do, it is likely to be at least the middle of 2022 before we have the physical infrastructure for take-back. That is simply based on an outline of those premises. The timescale may be shorter or longer—there is some variability there—and there are unknowns. For example, we do not know whether VAT will apply. However, that is just how long that we think the build process will take; certainly, that is what my property experts are telling me.

**Colin Smith:** Ewan MacDonald-Russell has said a lot of what I was going to say. We have sat on the IAG for the past seven months and been involved with the DRS since at least 2015. I do not think that there is any disagreement that there is a climate emergency, and we are all trying to work with the Scottish Government to implement the best possible deposit return scheme. However, as an industry, we are being hampered in giving you the best solution—and, potentially, the quickest solution—by the fact that there is a predesigned scheme that we have been told that we have to operate within. We are not allowed to bring in alternative solutions that could speed up the scheme and make it better.

I said “better”. My members would want the scheme to be UK-wide to prevent all the additional costs and complexity that the Scotland scheme will bring. Also, a UK-wide scheme would enable us to capture more recycle—

**The Convener:** That is not on the table. We are talking about a Scotland scheme. How can that be made better?

**Colin Smith:** The environmental groups want us to clean up the environment—the beaches and so on. I am saying that there are options out there to enable us to do that better than just having a Scotland-designed scheme, or the design that you have laid before us. There are alternatives out there. If we go first and do not consider the other options that are out there, in 2023, or whenever, England will put in place a more technologically advanced system—using blockchain technology, quick response codes and whatever else—that will potentially allow people to continue depositing bottles in a kerbside collection system. Zero Waste Scotland is aware of the technologies out there that England will probably go with, and we—

**The Convener:** Which one of those do you think that Scotland should adopt?

**Colin Smith:** That is not for me to say, because this is to be industry led. I would need to consult—

**The Convener:** It is for you to say, because we are asking for your views. You have said that we should have a different type of scheme. What kind of scheme should we have, which you think England might introduce down the line?

**Colin Smith:** It could be one that involves products having QR codes on them, which would be scanned by an app and deposited into a kerbside bin, instead of people having to jump in their car or on a bus to return the item to a retail outlet.

**The Convener:** So not a deposit return scheme—a purely kerbside solution.

**Colin Smith:** That has not been examined. Zero Waste Scotland has not allowed us to look at the alternatives, because we have to work within the parameters that the Scottish Government has set for us. I cannot go into all the details. I would gladly have an open discussion with industry and the Scottish Government about the other technological capabilities that are available.

There are two alternatives. You could have a kerbside scheme, or you could be charged a deposit and still put it in your bin. There are opportunities out there.

**Dr Lee:** I have a point to make on the timeframe question. With the best will in the world, we simply do not think that the timescale is achievable. From a project management point of view, the key issue is the dependencies across the supply chain. As small retailers, we are dependent on our manufacturing colleagues making all the labelling changes and the pack changes.

It is not very sexy, but there is a huge issue about whole-systems testing. We have a wholly integrated system so we would have to test the registration process and the IT system. We would have to test that deposits were being reimbursed in a timely fashion and that handling fees were being paid out correctly from both automated and manual take-back processes. We would have to test that people's payment details were encrypted correctly. There is a procurement dependency.

There is a general consensus that the scheme administrator will not be formed until around March or April next year, which would give us a 12-month window to implement and resolve all those dependencies. From our members' point of view, there is no benefit in extending the implementation date. However, realistically, given the dependencies and project management issues, I cannot see the timescale being achievable, to be frank.

**Susan Love:** I will echo quite a lot of what John Lee said. We work on a lot of regulatory matters that affect small businesses in Scotland, so we have a lot of experience of what needs to be done

between Government deciding what it wants to do and Parliament passing regulations, and the next stage of implementation and delivery. One example is the waste regulations that were passed in 2014. Those regulations were probably the most similar large-scale pieces of regulatory change that affected most small businesses in Scotland, which had to move to a recycling system. I think that the regulations came into effect for businesses two years after they were passed. We use that as an example of a model that worked well. A lot of thought was put into what the enforcement model would look like, the training required for all the regulators to get it right, and the awareness-raising and marketing campaign.

That was a good example, but it was really just a tweak that required some action from businesses. This is about setting up an entire new organisation to do all this—a scheme administrator. As John Lee has said, it will be at least next spring before that organisation is set up. We do not have any experience of regulations being run by such an organisation and, although Jenni Hume is right that we have been speaking about such a scheme for a long time, there are no decisions on a vast range of details.

I spoke earlier about the exemptions. That scheme administrator needs to be in place. There need to be discussions about what all the exemptions might look like and what the text for those will be; the guidance for businesses needs to be written; and we will need a marketing campaign. Based on experience and our models of what good regulatory practice looks like in Scotland, it is very difficult to see how this could be done well in the given timescale.

Lastly, I know that people have referenced how well other countries have done in introducing such schemes. I do not know what their regulatory practices are and I would just caution people about the context that we are in. I am sure that we all wish that we were not in the economic context that we are in but there are multiple challenges coming down the road for businesses at the moment. We cannot escape that. There is a lot happening. We are going to ask businesses to do other things in relation to the climate emergency as well. We need to be cognisant of the context that we are operating in.

**The Convener:** I will bring in Angus MacDonald on the issue of timing, because he has some additional questions to throw into the mix.

**Angus MacDonald:** It is fair to say that we have already seen some slippage in the timeframe. For some time, February 2021 was the date put forward as the preferable date for the DRS to be operational, but the draft regulations now have the date of 1 April 2021. Furthermore, the Scottish Government states:

"The timetable for implementation of the scheme is the subject of ongoing discussion with stakeholders, supported through the Scottish Government's DRS Implementation Advisory Group. The various commencement dates included in the draft regulations are caveated for this reason."

Therefore, I think that it is fair to say that the Scottish Government is aware of the need for more slippage. I would like to ask the panel members who have not contributed to this section of the debate how achievable and how appropriate they think that the timeframe that is currently proposed by the Scottish Government is, taking into account the need to establish the physical infrastructure, such as the counting centres, to set up the administrative processes and establish the scheme administrator—whether we have one or three or whatever—and to put in place the enforcement mechanisms that we have touched on.

**Jim Fox:** I will talk about the general timescales, given the practicalities of where we are now and leaving aside the question of joining up with England.

The Government seems to be working to a timescale whereby it is intended that the relevant regulations will be in place by around March next year. The producers are responsible for putting together a proposal for a scheme administrator, which will mean, among many other things, borrowing £26 million. The producers will not be able to put together a joint proposal in advance, because they will not have seen the regulations. The clock will start ticking from the moment the regulations are in place, not from now.

We cannot do much preparation on this. It will take two months to get the system administrator people together, to borrow money, to set up heads of agreement, or whatever the contracts are, and so on, and it will then be another month or so before the Scottish ministers approve the scheme administrator. That takes us well into the summer of 2020—let us say July. If we add on a year for implementation—it needs to be a minimum of a year, given that we are talking about an extremely complex implementation—that takes us to July 2021. If we assume that there will be a bit of slippage, that will take us into September or October 2021. In the retail trade, if you go past October, you hit the Christmas period. It is not possible to implement such a scheme in that period.

If you guys get everything together and deliver the regulations in March and then everything goes smoothly and we have a scheme administrator up and working within three months, there is a chance that we will hit September or October 2021. If you slip on your timescale, you must give us the latitude to go over into 2022, because a Christmas implementation period will not work.

**The Convener:** Finlay Carson will take us on to the topic of extended producer responsibility.

**Finlay Carson:** I am looking for some very broad comments. The Scottish Government is proposing to introduce a circular economy bill and, at UK-wide level, we have had a consultation on reforms to the UK packaging producer responsibility system. The consultation set out proposed principles and features of an extended producer responsibility system across the UK. How should the DRS fit in with EPR? Does the process need to be accelerated for the two to work well together?

**Andrew Tighe:** As has been mentioned, EPR is coming and there will be wide reform. There is talk of consistent collections across local authorities and of businesses paying the full cost of packaging being recycled and reprocessed.

Jim Fox mentioned the timescales for the DRS, which will affect how it fits in with EPR. The DRS definitely has a part to play in EPR but, at the moment, there is an element of double counting. Under the existing regime, producers will be paying for PRN and producer responsibility up to 2023. I can give an example of what that means in relation to beer. In 2020, we estimate that it will cost around £2.4 million for the beer supply chain to meet the recycling targets for business for glass—the target for which is 80 per cent—and aluminium and metal.

We are waiting for Deloitte to break down by material type the producer fees that might come in from 2021 under the DRS. For glass, we estimate that that fee will be between 5p and 10p. For beer alone, that will amount to between £14 million and £28 million. If producers in Scotland have to pay that producer fee as EPR to deliver what we want on the DRS and they also have to pay £2.4 million in EPR costs on top of that, that will amount to double counting. We want the Scottish Government to work with the Westminster Government to make sure that that does not happen.

My point is that the DRS definitely has a role to play in EPR, but the costs of it should not come on top of the costs of EPR.

11:30

**Gavin Partington:** I will comment on the same point. We have asked whether there is a way to frame the regulations to ensure that there is not double counting. Producers obviously want to fulfil their extended producer responsibility obligation, and it is right that the DRS is a key element of that. Is there a way, through liaison with the UK Government, to ensure that they will not be also charged that extended producer responsibility obligation through the existing waste management

system? VAT is also germane for the same reasons, as Jim Fox said earlier. We would not want to see VAT charged on deposits, and officials have indicated that that is not their objective. However, we still do not have any concrete assurances that it will not occur.

**Jim Fox:** We are very supportive of EPR, and that is the case across Europe. The situation is relatively simple: anything within DRS should be exempt from EPR, because it is a form of EPR, as Jenni Hume said. Witnesses around the table are in strong agreement about that.

We are also quite happy that anything that is not in the DRS, such as secondary packaging and packs that are not obligated by the DRS, will be caught by EPR. There is a tiered system. Anything that goes around packaging, such as shrink film, or cartons that are not in the DRS should be caught by EPR. That system needs to be written into the regulation; it should not be just a half-hearted promise by the Scottish Government that, "It'll be all right on the night." We cannot afford that approach, because it involves tens of millions of pounds for our industry.

**Stephen Freeland:** The deposit return scheme will potentially come in by 2021, and EPR two years later in 2023. The impact on kerbside recycling of material that is diverted from kerbside to deposit return could affect the economic viability of providing a kerbside household recycling scheme. We have been told that EPR will be a saviour in 2023—all our troubles will be solved when it kicks in—but we will have that two-year window. The Scottish Government has said that we should weather the storm until EPR kicks in and helps to rejuvenate the fortunes of kerbside sorts. There must be a way to dovetail DRS and EPR rather than having the two-year gap.

**The Convener:** We will move on to questions about scheme administration and governance that we have not discussed so far. Stewart Stevenson will kick that off.

**Stewart Stevenson:** I thought that this was going to be simple, but every contribution is making it more complicated. I wonder—totally naively—why we do not just collect the 20p when we sell the product, as we do with plastic bags. Has that been looked at?

**Jim Fox:** I am sorry; I did not hear the first part of the question.

**Stewart Stevenson:** Why do we not collect the 20p when we sell the product? My question is about why the retailer has to pay the wholesaler the 20p—in other words, why not have the old purchase tax system rather than the VAT system where it goes all the way down the system and creates all the complexities and the need for the extra cash flow that we have heard about. I am not

trying to reinvent the scheme; I am only trying to establish whether that sort of approach was looked at.

**Jim Fox:** The answer is simple, Stewart. The whole scheme is about getting the container back—it is not a one-way system. VAT and a purchase tax are one-way systems. If the money followed the container, it would still need to be reimbursed, whatever you call the scheme. It would not be a deposit return system if it was a tax.

**Stewart Stevenson:** I may come back to that point in my own time.

**Colin Smith:** I will answer that. In our submission, which you have obviously read—hence the question—we proposed an alternative solution as to how the deposit could still flow through the system but not impact all the way through. It would be a reverse charge mechanism, in the same way as VAT is handled in the construction industry. Basically, there would be a paper entry. That would minimise the cash-flow impacts for wholesalers and retailers. In effect, the 20p would be paid to the scheme when the article was sold. We have proposed that alternative solution in our submission.

**Stewart Stevenson:** One issue that has emerged from Jim Fox and others is about when the administrator will be appointed and in post and the fact that we are putting in place a delay. Should the Scottish Government therefore start the process of setting up the scheme administrator in advance of the legislative framework being in place? For example, we have just passed the Climate Change (Emissions Reduction Targets) (Scotland) Act 2019, and the just transition commission that was talked about in that context was set up in advance of any legislative provision. It is possible to do that sort of thing if we choose to do it.

Would that approach be helpful? Would the witnesses encourage it? Ultimately, the administrator will be a private sector body but, nonetheless, the midwife could still be the Scottish Government in advance of the legislation. Am I just having one of my turns, or is that a sensible thing to think about?

**Gavin Partington:** Perhaps I can help. The implementation advisory group that the Scottish Government set up has involved a workstream that is looking specifically at the creation of a scheme administrator. Our understanding is that Scottish Government officials were advised that, if the Government set up a scheme administrator, that would in effect breach state procurement legislation, which requires a procurement process that is open to everybody. That is one reason why the Government hopes that a scheme

administrator emerges from the producers who will have obligations under the regulations.

There is much discussion about that. The issues that Jim Fox touched on in relation to the timetable are serious but practical ones. It is challenging for businesses to go out and raise £26 million, which is the estimated cost of set-up for a DRS in Scotland, when they do not already have a track record that can be used as a basis for securing loans from commercial banks. Businesses will have to provide guarantees without certainty that the system will go ahead as currently planned and that there will not be changes down the line in how it operates. There are pragmatic challenges.

**Stewart Stevenson:** To squeeze that down to its essentials, you are saying that the inhibition for the industry or industries in taking action in setting up an administrator now is purely financial and is about getting a guarantee for that £26 million, which is the estimated cost.

**Gavin Partington:** The reasons are not purely financial. There is also the requirement for certainty that the regulations have completed their parliamentary process, so that there is absolute clarity about that.

**Stewart Stevenson:** I was going to come on to that. I think that I heard a qualified yes to my question.

We have discussed whether powers should lie with the ministers or the administrator. One of the key things that would enable us to make faster progress and be more flexible and fleet of foot as we understand the practicalities through implementation would be for the Government to retreat from any detailed input beyond setting the objectives and let the administrator, working with the industries concerned, set it up so that they can get started and get going.

**Gavin Partington:** As I said in response to the convener, the good general practice from schemes that operate effectively internationally is for the Government to set the targets and objectives and then for the scheme administrator to go away and come up with the right policies and procedures to meet those targets. The approach that you have just summarised is good international practice.

**Jim Fox:** I think that I heard Stewart Stevenson aright. It makes sense that someone can go ahead and start to lay the ground rules, and I think that Zero Waste Scotland has started to do that. However, we have concerns about that. I think that there is a pressure on it to hit a deadline in May 2021 and therefore it is impatient that the industry cannot make progress. However, the industry cannot make progress for good reasons—it is not that we are procrastinating. Until we see the final regulations, we cannot see how the whole system

will work on the ground in hard logistical terms. For example, we cannot see how the IT systems will work. Zero Waste Scotland will have exactly the same problems, yet it is going ahead and trying to plan something even though it does not know how it will work either. I cannot understand how it will do that sensibly, because it could be that the further ahead it goes, the more it will have to unravel before we get started.

**Stewart Stevenson:** Are the IT systems of other countries available for purchase?

**Jim Fox:** The question that everyone was discussing earlier in the first round-table panel was whether glass will be included. That is a substantial question; unless it can be answered, it is difficult to understand what equipment will be needed in the sheds, and what size it should be, because how the material is handled is not just an issue for retail premises.

**Stewart Stevenson:** Forgive me, because we are now a couple of phases further down the line from the area that I am trying to examine, which is simply getting the administrator in place to start looking at what powers it should have. My instincts say that the more powers that the administrator has, and the more the Government simply sets the objectives, the faster progress we are likely to make, because the administrator will be accountable as a private sector body. Is that a fair comment?

**Jim Fox:** We agree with that.

**Jenni Hume:** I have a quick response to the question about whether glass should be included. The cabinet secretary has committed to glass being included, so it does not have to be a question—we can accept that that is the system that she is committed to. I understand that we have to scrutinise the regulations, but that is the commitment.

**Ewan MacDonald-Russell:** I agree with Stewart Stevenson's premise that the more powers the scheme administrator has, the easier it will be to have the discussions. That is not how the regulations lay it out. The Government is keeping the deposit level, retailer exemption, timeframes and a huge myriad of other things, which is challenging when we face legally binding targets. The directors of the company, whoever they are, could face sanctions including criminal penalties for missing targets that we do not believe they necessarily have the levers to achieve. That is a huge impediment to the people looking at the scheme, because they have to go through the process of considering a huge set of liabilities. We are concerned that the design that the Government has presented allows it to be simultaneously on the pitch and also the referee. I

do not think that that will necessarily lead to an good outcome.

**Susan Love:** I take the point that the easiest way to get this done is to give more flexibility to the scheme administrator. One of our concerns is that, if the majority of premises will be run by small businesses, which will be responsible for only a tiny amount of the containers that will be brought in and are in places that are expensive to get to, small businesses and the needs of rural and remote communities will end up at the back of the queue. In whatever system is set up, if we try to do it quickly and in the most cost-efficient way, we will need to think through the accountability to make sure that small businesses and those that are in rural areas are not disadvantaged by how the scheme administrator sets it up. SEPA is probably key, because of its role in approving the plans of the scheme administrator.

**The Convener:** Three more people want to make a point, and we will then have to wind up as we are running out of time.

**Andrew Tighe:** I have two final points. First, when the regulations are passed and someone puts in a bid to run the scheme administration, it is important that the £26 million, or whatever is needed, of loan funding to set up or build the counting centres is available for the scheme administrator to access in the form of loans. For individual producers without commercial facilities, funding it themselves would be quite a challenge.

Secondly, there will obviously be some challenges for small businesses and small pubs with regard to storage of materials under the DRS. Most pubs will be using 300 to 400 glass bottles a week, which will now have a value, so they will not just be able to put them in the wheelie bins outside but will have to store them inside or in some sort of secure storage. It is important that allowance is made for that in the regulations. The draft regulations do not appear to fully allow for that.

11:45

**Mark Ruskell:** Do panel members have thoughts on how we could minimise fraud? I am struck by the fact that we have several trade associations here and they would not want their members to be committing fraud. What is the model for minimising fraud?

**The Convener:** That is not a small issue, but perhaps Colin Smith or Colin Forshaw might want to address that last point in their final comments.

**Colin Smith:** I can answer Mark Ruskell's question within what I was going to say. The wholesalers will be critical to the success and implementation of the deposit return scheme in Scotland, but we are the only critical players who

will not be compensated in any way—either through a handling fee or by being recognised as a member by the scheme administrator. The wholesalers have direct contact with retailers and publicans and will be distributing the bona fide DRS-paid articles, so we can offer a potential solution by identifying fraud in our trading environment.

Whatever the scheme looks like and however the scheme administrator is set up, we would ask the Scottish Government to write into the regulations that the board membership must reflect the parts of the supply chain that are obligated, including the wholesalers—at this point, it is only producers, manufacturers and retailers, but not wholesalers, who are included. I ask the committee to do that both for reasons of fairness and for legal reasons. I mention legal reasons because, as we note in our written submission, we have a couple of questions about the legality of some of the regulations.

We would also ask the Parliament to amend the regulations to ensure that the scheme administrator has a mechanism for dispute resolution and to ensure that voices in the whole of the supply chain, including those that sit outwith the scheme administrator, are heard and taken into consideration.

**Colin Forshaw:** I have two quick points. To address speedy implementation, it would be common sense to tap into the current infrastructure and collection processes that are operated by local authorities and private contractors across Scotland. However, there appears to be a lack of communication with our resource sector to allow the scheme to tap into that. The scheme administrator will not be subject to public procurement, so any short-term benefit of working with our industry may be lost in the longer term.

We are calling for some representation on the implementation advisory group. We have experience of operating collection systems at the back end of the process and of working with the circular economy. That is a good resource to tap into but, at the moment, it is untapped.

**The Convener:** We have run out of time. Thank you all for coming this morning. You have given us a lot to think about. You have all sent in written submissions—as have many people who are not at the table today—and they will all be given equal weight. I expect that any points that you were not able to make today will be in your written submissions, which we will take into account when we put together our report.

11:48

*Meeting suspended.*

12:00

*On resuming—*

**The Convener:** I welcome the witnesses who have joined us for this third round-table discussion on the proposed deposit return scheme and those who are continuing from the previous session. As I said earlier, there is a lot to cover, and I encourage people to focus on the issue or theme that we introduce. If you want to speak, just raise a finger and the clerk and I will try to ensure that everyone—members and guests—gets heard.

The theme for this session is local authority impacts and integration with existing recycling collections and processing impacts, which has woven through a lot of our previous discussions. Mark Ruskell will kick off the discussion.

**Mark Ruskell:** The committee is aware that, over the past decade, local authorities' waste collection services have been through a huge amount of transformation. What are your initial thoughts on the impact of DRS? What further changes do you think will result from it, particularly in relation to kerbside sorts or other schemes that you are running for the collection of PET, glass and cans?

**Philip McKay (Aberdeenshire Council):** That is right—we have been through significant change, and recycling rates have increased on the back of that. Having said that, we have plateaued in Aberdeenshire. We stopped collecting glass at the kerbside a number of years ago and now do that through collection points. However, we have been able to maintain about the same volume, so that seems to be a successful methodology for us as a large rural authority.

Stripping out some of the materials that the DRS is focused on impact on what it costs us to treat our dry mixed recyclates. Those are high-value and high-quality sought-after products. If we take them out of our waste treatment, that will lead to an increase in costs.

**The Convener:** What led you to take glass out of the kerbside collection?

**Philip McKay:** There were some health and safety issues for our teams to do with tipping. A lot of that related to noise and the vehicles. We were uncomfortable with crews having to wear ear defenders when working on rural roads, where vehicles go at high speed in the dark, particularly in the winter. We looked at the available options and decided to take glass out of the collection.

**The Convener:** We have heard from representatives on previous panels about the

financial or economic impact for councils of not collecting glass, which has a high value. How has that impacted you?

**Philip McKay:** You are right: glass is a high-value product. When we took it out of the collections, we kept under close scrutiny the volumes going into the recycling containers and the residual waste—the black bins, as it were—and we have not seen any change. We are maintaining our collection rates and the contamination rate of glass in our residual waste is still quite low, so we are happy that it is working for us.

**Mark Ruskell:** I have a question on the back of that, which people who are coming in next can pick up on. Some 1 million in people in Scotland do not have kerbside sorts, but many more than that do. How do you intend to redesign kerbside sorts for glass and other materials? What will local authorities that do not currently do kerbside sorts for glass do?

**Rachael Hamilton:** I would like to ask a question as part of that. How can kerbside collections work in tandem with DRS?

**Craig Hatton (Society of Local Authority Chief Executives):** First, I echo the thoughts of Philip McKay. Local authorities have invested significant amounts of money in contracts and infrastructure to deliver the waste services that they provide. Any change that we go through is dealt with sensitively because waste collection is one of the things that the public sees that they get in return for their council tax. Clearly, there is a lot of focus from residents on recycling services.

Although I welcome DRS and I think that it is a way of trying to get people to recycle more, there are significant risks and implications for local authorities in terms of contracts, contract prices and waste-collection infrastructure, which will inevitably have an impact on employees.

You asked about how we would change our kerbside collections if DRS were implemented. The chances are that it will be implemented. There is an issue about the degree of capture through the DRS system. It is difficult to come to a firm conclusion on the matter. There are varying models but, clearly, we would have to look at doing something totally different with our kerbside collections.

**The Convener:** When you say, "we", are you talking about North Ayrshire Council?

**Craig Hatton:** Yes. I am sorry—I am here representing North Ayrshire Council and the Society of Local Authority Chief Executives and Senior Managers.

We could consider a lower frequency of collections. There would be concerns about the



material mix that went into the kerbside collections, because the materials would be of lower quality—by their nature, the materials that are covered by DRS will be cleaner. That might have an impact on contract prices and on markets, because the markets are sensitive to the quality of the material that comes through. If there is no market for the material, because it is either too expensive or it cannot be reused, the material will end up being disposed of, which is the worst possible situation in terms of the waste hierarchy. Those are some of the factors that we would need to consider.

**David Macleod (Comhairle nan Eilean Siar):**

Very little of what we collect in the containers on the islands has a net value. Anything that moves from our collections into a DRS system is positive. If it can capture even more, that is even better.

We are in the fortunate position in that we do all our collections ourselves, which means that we can redesign the system to deal with whatever is left to be collected. We see DRS as a net benefit to us, provided that it is rolled out in the islands to the same level as it is rolled out on the mainland. In the past, we have had problems with producer responsibility stopping when it gets to the Minch.

**The Convener:** David Macleod—sorry, James McLeod. There are too many Macleods today—or, perhaps, just enough.

**James McLeod (Dumfries and Galloway Council):** Until this time last year, Dumfries and Galloway Council had a public-finance initiative contract for waste. As members know, that contract fell and all services were brought in-house. That has allowed the council to roll out a kerbside collection service that we previously did not have in the majority of our region. Working with Zero Waste Scotland—and having regard to best practice across the country, including the implementation of the DRS in the future—we have developed a kerbside collection service that will work with the DRS.

Previously, we had a kerbside collection service in a small area, which required a lot of kerbside sorting—glass was separated by colour and so on. Our concern with that system is that, if you remove the high-value materials, which DRS will do, the cost of the service will be similar but the income that would be generated from the PET, glass, aluminium and steel will be lost. In designing a new system, which Philip McKay referred to, we will be moving back to collecting glass at community bring points, because there will be very little glass left in the market, if the DRS figures of 90 per cent recovery in 90 per cent of the market are to be believed.

**The Convener:** But the glass will be of the higher quality flint type. How is that factored in?

**James McLeod:** We are making a comparison between the broad costs of collection and the income that can be generated. Zero Waste Scotland has told us that we are making the right decision by not having kerbside collection of glass in the new system. Our new system for the whole region has been through committee recently—we are looking for the final funding arrangements to be resolved, but that should not be an issue. It will probably have a two-bin system for dry recyclates—paper and card in one; metals and plastics in the other—which will be collected by a single-compartment refuse collection vehicle. Every vehicle that we have running in the region will be of the same type, so they will be interchangeable with regard to residual waste and the two different streams of dry recyclates, on an alternate basis. For rural authorities—I am sure that others who represent rural authorities will agree with this—the issue is about minimising the collection costs, because DRS will take out a lot of the value from the material that is covered.

**The Convener:** With regard to the situation in urban settings, will Rolf Matthews say something about integrating DRS into the waste-collection system in Glasgow?

**Rolf Matthews (Glasgow City Council):** At this stage, we are working with colleagues in Zero Waste Scotland to model different options. Currently, we have a blue bin service for dry mixed recyclables, such as cans and plastic bottles, which we take to our materials recycling facility at Blochairn, where we do the sort. For glass, we have a mixed service combining kerbside collection for properties where that is appropriate, and a public-site model with communal bins for flatted properties. DRS, which targets glass, will reduce the amount of glass that we will collect, and we will need to review how we deliver that service. Like others, we would consider changing collection frequencies in order to make that service more effective. Further, as more glass and commingled materials come out of the stream, we will have to consider how we invest in our sorting plant in order to get the best out of it.

**Craig Hatton:** I echo the thoughts that have been expressed about net costs or savings differing between councils, depending on what investments they have made in their systems and the extent to which they have longer-term contracts. It will not be the case that all councils will experience a net cost reduction; a significant amount of councils are expecting additional cost to arise through the remodelling of their collection services and as a result of the materials that they will be left to collect.

**The Convener:** DRS will also have an impact on things such as street cleaning. Surely there will

be knock-on benefits in terms of littering. Has that issue been factored in?

**Craig Hatton:** There are two important issues with regard to street cleaning. First, we will still need to employ lots of street cleaners, because cigarette litter, chewing gum and other litter that will be outwith the DRS scheme will still be there, and we will still need to apply the same frequency of cleaning to that.

There is a risk of people scavenging from kerbside bins in search of material that has not been put into the DRS system. People might just knock over the bins to find the deposit return material and leave the rest of the litter on the ground. There is a policing agenda in respect of how that can be prevented, but, if people do that, the litter would just be scattered around the place.

12:15

**Finlay Carson:** I have a question about glass. I know that Dumfries and Galloway Council has had difficulties with its kerbside recycling over the past few years. What assumptions have you made about the DRS in relation to the new scheme? There is still no guarantee that glass will be part of the DRS. There are increasing concerns about the impacts of that. Do the councils have a contingency plan in the event that the Government changes its policy such that glass will not be part of the DRS?

**James McLeod:** The code of practice on household recycling in Scotland allows glass collection from community bring points or at the kerbside. From our point of view, if we go for a glass collection at the kerbside, we would add on a further route or change our vehicles to multicompartiment vehicles. As Philip McKay has said, the noise issues associated with tipping and so on and the fact that different materials have different weights mean that it is quite hard to mix glass with other materials. We would rather keep glass separated, because the code of practice requires us to separate it from other materials.

At present, if the DRS takes glass, we will have a number of containers across the region that will match the code of practice, but the capacities will be small, because most glass will be taken out by the DRS. If the DRS does not take glass, we will simply provide larger-capacity containers or collect the containers more frequently from community bring points. At present, I do not envisage that we would provide a kerbside collection service for glass, because the code of practice does not require us to do that.

**Philip McKay:** I want to pick up on the point about working in tandem with the DRS. As a big rural authority that does not collect glass at the kerbside, the volumes that we expect to be moving

are relatively small—5 or 6 per cent. I do not think that there will be a significant change in our routing or in the way in which we collect. Many of our vehicles are returning to the depot because they have run out of hours, not because they are full. If we take 6 per cent out of that, they will still not be full; that does not give us the opportunity to double up a route.

However, we could work in tandem on our household waste recycling sites, to identify whether they can become part of the infrastructure for voluntary DRS return points. We also have bulking facilities spread out across Aberdeenshire. Again, it is possible that they could be part of the logistics chain for the DRS.

**The Convener:** Do you mean that you might invest in putting in DRS machines in places where you have had bottle bins, working with communities and retailers?

**Philip McKay:** We have a slight concern about the number of small communities where we have lots of small retailers and whether each of those retailers will be able to comply fully. Perhaps there is an opportunity for us to use our HWR sites or our school sites, which we have not looked at in much detail, to provide community facilities that would help retailers to meet that requirement.

The issue of bulking facilities is a slightly bigger question. We are already bulking glass. We have the facilities to do that: we put it on to bulking vehicles, which are moved further south. We would not want the industry to replicate what we already have. There is an obvious opportunity for us to work in tandem at that point.

**Claudia Beamish:** I have a couple of further questions for Craig Hatton. When the DRS is implemented, why will the quality of the glass in the parallel system be lower? That is a neutral question—I ask it simply because I do not know the answer. As a layperson with limited knowledge, I would have thought that the jars that are used for things such as pasta sauce would be made of good-quality glass.

Nobody has raised with me—although they might have done with other members—the issue of scavenging. Where did you get the examples that you cited?

**Craig Hatton:** On scavenging, we do not know what will happen, because we do not run the system. However, we offer a textiles collection service. Although the income from the collection of textiles is quite high, people can take textiles to shops and get a value for them.

We found that, on our collection days, private entrepreneurs were going round in front of our vehicles and collecting the textiles, taking them away and getting the income. We had modelled

only small receipts from textiles and the financial income was relatively small, but we can imagine similar scenarios involving bins that contain lots of bottles with 20p deposits. North Ayrshire has areas of high deprivation and poverty, and people will take the opportunity to try to gain some additional income, so—

**Claudia Beamish:** I am a bit confused about that. Surely people in areas of high deprivation will put their bottles, cans and plastic back into the deposit return scheme. Are there examples of scavenging in other countries?

**Craig Hatton:** I am not aware of any examples from other countries. I am relating the issue to what happened with textiles. People were travelling to the wealthier areas, where people are less inclined to take their clothes to banks.

**Claudia Beamish:** I see. That helps me to understand it.

**Craig Hatton:** You also asked about the quality of materials. Drinks containers are by their nature the cleanest recycling materials, whereas things such as pasta sauce jars and jam jars need to be washed out—they are less clean than drinks containers. As we all know, after we have consumed a drink, the container is empty, with no residual stuff—

**Claudia Beamish:** It is not about the quality of the glass.

**Craig Hatton:** It is not.

**Claudia Beamish:** I understand now. I just wanted to clarify that. Thank you.

**The Convener:** Samantha Harding has indicated a few times that she wants to comment.

**Samantha Harding:** The argument about scavenging from litter bins is one that I have heard many times, but—happily—I can say that it does not reflect what happens in other systems around the world. There are some dignified solutions to the potential problem of having deposit-bearing containers in public litter bins. For example, a simple ring can be attached to the outside of the bin or a lamp post and, if someone does not want to reclaim a deposit but wants to dispose of the container responsibly rather than litter, they can put it into the ring. Someone else—I think that the term “private entrepreneur” was used—can come along and collect such containers, and they do not have to root around in bins. We have certainly seen that in other countries and, as I said, it is a dignified way of dealing with something that is actually not a risk.

Someone said that there is potential for job losses, but I refer you to the report “From waste to work: the potential for a deposit refund system to create jobs”, which was commissioned by the

Campaign to Protect Rural England. I apologise that the example is from south of the border, but that report showed that a UK-wide deposit system would show a net gain of up to 4,300 jobs.

I welcome the fact that Aberdeenshire Council is represented here, as it was one of the first two local authorities in Scotland to vote unanimously to support a deposit system. That was as far back as 2016. I am glad that it is still contributing and still part of the debate.

My final point relates to the strange anomaly that we are designing systems around what are and are not valuable materials. It is important to remember that the point of the deposit systems that are proposed in Scotland and across the rest of the UK is to establish the polluter-pays principle. The point is to establish an extended producer responsibility system whereby the people who make products pay for the service. I hope that the beverage container industry and the retail industry will take responsibility for the containers that they produce and will support councils with regard to the huge financial burdens that they are carrying. We must remember that the deposit system will present councils with opportunities to redesign kerbside systems and ensure that they are paid for not through the council tax but by the producers.

**Calum Duncan:** Building on those points, I note that recycling is a net cost to local authorities. A study by Reloop states that, globally, 32 studies have shown that local authorities benefit economically from deposit return schemes.

There are two sides to the issue: recycling and litter. Like Sam Harding, I welcome the fact that local authorities are seeing the benefit of the scheme, as David Macleod from Western Isles Council and Philip McKay from Aberdeenshire Council have said. I understand that, at a community recycling network event, Scottish Borders Council also looked at the scheme favourably. There is a net cost, which, ultimately, is borne by the taxpayer.

Unredeemed deposits that can be recouped by councils outweigh the value of the recyclate. There are opportunities in that, if councils reduce the amount of kerbside collection, they will reduce the amount of CO<sub>2</sub>. Bottles and cans are high-volume products, and councils would be able to collect a higher density of other recyclates from kerbsides, so the amount of CO<sub>2</sub> would be reduced.

The costs of cleaning up litter are also borne by the taxpayer, via the local authority. In the 26 years in which we have done our Great British beach clean, our surveys have shown that the rate of drinks containers has never gone below 31 per 100m. There will be similar figures for the amount of drinks containers on our streets. Since September 2016, we have run “wild bottle”

sighting schemes, and there have been more than 12,500 reports of bottles and cans throughout the countryside. Experience shows that the introduction of the carrier bag charge led to a 14 per cent reduction in the number of carrier bags on our beaches. That is why we support an all-in system that includes glass. One third of all the litter that the City of Edinburgh Council collects is the air inside drinks containers, and there are CO<sub>2</sub> implications to that, such as vans carrying around air—empty space.

The scheme will lead to a range of wins for the taxpayer, for the environment and for local authorities.

**Silke Isbrand (Convention of Scottish Local Authorities):** I am representing the Convention of Scottish Local Authorities. The questions have been about the impact on local authorities. Our members have been following the development of the deposit return scheme quite intensely for a while, and we welcome the scheme and want to make it work. In relation to the impact, as has been discussed, we want to be clear about how the deposit return scheme will work alongside kerbside recycling, because retrofitting the DRS into a quite sophisticated kerbside recycling scheme is clearly a challenge. It is essential that we understand what the impact of the scheme will be across the country, because it is clear that it will be very different across the different authorities.

Quite early on, we requested that there be clearer impact modelling. I do not know whether everyone around the table is aware that Zero Waste Scotland has now commenced that work. It has meetings with 31 of the 32 local authorities across the country, but it is very unfortunate for the committee that that process will not be completed until mid-December. We want to know what the impact will be, because we know that the impact will be different across the country and that there will be winners and losers. We need the detail.

The initial findings indicate what has been assumed for a while: the challenges vary from urban to rural authorities and across the different systems that are being used across the country. Local authorities have had such different systems because they have responded to their local opportunities and solutions. We are delighted that the detailed impact assessment is now being done, but we really need the results.

**Stephen Freeland:** I am from the Scottish Environmental Services Association, which is a trade body for the waste and recycling industry. As has been mentioned, there is perhaps a need to design the recycling system as a whole. We might be at a point at which recycling rates plateau, so

this is a good opportunity to rethink what needs to be done.

The plateauing is largely not related to collection; it is related to other factors such as international markets closing. If we are looking to redesign the system, it needs a jolt to get to these higher recycling targets. We should be looking at EPR as a whole and at the DRS as a small subset of EPR. EPR provides us with the opportunity to ensure that producers are fully funding collection schemes up front, making greater efforts to ensure that the materials that they place on the market are recyclable and making a greater contribution towards litter clean-up costs. We need to give EPR a chance.

12:30

Deposit return has been talked about as a form of producer responsibility. It is, but producers are accountable for only one third of the costs of the scheme, with the rest picked up through other means. Judging by international experience, there is the potential for cherry picking. The reason why there is no evidence of scavenging in other countries might be because other countries do not have kerbside recycling bins. DRS is their model, so there is no temptation to go to the kerbside and scavenge for DRS material. There is no question but that DRS is successful in other countries, where 90 per cent capture rates can be achieved, but that is where DRS was rolled out as the recycling scheme. Here, where we have a well-established kerbside scheme, there might be a temptation for some material to be leaked through that rather than diverted to DRS.

**Colin Forshaw:** I want to pick up two points. The conversation has rightly dwelt on collections. However, local authorities have to take the material somewhere and a lot of them operate or contract with material recycling facilities or processing facilities that handle the material. The CIWM is aware of one client that has done impact modelling that suggests a drop of 5,000 tonnes per annum of in-scope material that will be diverted into a DRS scheme. Facilities operate on a cost-per-tonne basis, so if a facility is operating at 20,000 tonnes per annum on a shift and that 5,000 tonnes moves across, that does not mean that 5,000 tonnes of capacity is automatically freed up, because you cannot necessarily go out and sell it. You still have the same costs and the same number of tonnes going through that single shift. That is the way that MRFs are generally operated. I am not saying that it cannot be changed, but that impact needs to be considered. The associated cost per tonne then increases. I do not feel that that impact has been considered, but it has been raised by some of our members.

I also want to pick up on the point about unredeemed deposits being a source of income or an opportunity for local authorities or processing facilities. That comes back to the fraud issue and the need to carefully control that aspect. You are looking at devaluing or changing the differential between values of materials, so a local authority customer may suddenly decide to focus on unredeemed materials, rather than other materials, which may change the dynamic of its collection or processing.

Those unintended consequences need to be looked at and modelled.

**Finlay Carson:** I want to explore the two options that Dumfries and Galloway Council and Aberdeenshire Council have adopted for collection of the more valuable flint glass such as jam jars and sauce bottles. I understand that currently, without a DRS system, about 65 per cent of glass is recycled, but it is the flint glass that is really important. With a DRS system, how are we going to get that valuable flint glass back if local authorities are not collecting glass at the kerbside?

**Philip McKay:** I will deal with that. We collect all glass and not just bottles at our bring points. As I said, we have been able to maintain a high recycling rate, and we expect that to continue and that people will recycle jars at those points. You are absolutely right that it is higher-quality glass but, as was said earlier, it tends to be a dirtier product, so there are swings and roundabouts. In all likelihood, our contamination rate will go up if that is the only glass being put into that system.

**James McLeod:** Likewise, we collect all types of glass—glass that is eligible for a DRS and other types—at our community bring sites and our household waste recycling centres. We see the DRS model being that people will store their glass in a box in their property and then either take it back to the supermarket or another location where they can get their 20p. People will put material in that box that is not eligible for the DRS.

Someone can correct me if I am wrong, but it seems to me that there is an opportunity for the DRS reverse vending machines to take glass that is not part of the scheme and either spit it out and say that it has no value or take it in because it is the same type of material, but not pay the deposit. The technology has the potential to make those two options available. If the machine were to spit out non-DRS items, as a local authority, we would want to locate our mixed-colour glass collection in the same supermarket car park, so that people could walk out with their box with three jam jars and a pasta sauce jar in it and put those in our collection. People would manage their glass in one process but get the deposit back on the items that had a deposit.

There should be an easy opportunity to dispose of everything. We think that the reverse vending machines should take and keep the material, even if it is not eligible for a payment under the DRS.

**Mark Ruskell:** Quite a few local authorities have signed contracts for incinerating residual waste. Does the DRS change the economics of that in any way? I am aware that some incinerators attempt to recover residual ash that has aluminium in it. We have heard about the MRF economics, but how would the DRS affect incineration?

**Craig Hatton:** As part of a consortium of five authorities, we have a 25-year incineration contract that has a threshold—an anticipated level—of recovery of material. We have not been able to model the changes that the DRS will make to that, but we clearly need to review that. The DRS may have a negative impact. I cannot give any more information than that. The contract includes an amount of recovery of recyclate material that we expect.

**Mark Ruskell:** When you say that it might have a negative impact, do you mean negative for the incinerator company rather than for the environment, or are you just saying that you will have to revisit your contract?

**Craig Hatton:** Our contract includes a percentage recovery of recyclable material. If the DRS is successful, which is what we all want, we would expect to struggle to hit that percentage of recoverable material, because the material will not be in the waste stream. That will have an impact on the contract and the price that we pay. However, that is unquantified at the moment.

**Mark Ruskell:** Okay.

**Samantha Harding:** I want to clarify the point about other countries' use of kerbside collections and deposit return schemes. There are indeed countries where a form of kerbside collection existed when a DRS was introduced.

The point that was just made about incineration is critical. The purpose of the Scottish Government and cross-party support for a DRS is to re-establish a better focus on the waste hierarchy. There is a problem with incineration and those fairly punitive contracts that councils have entered into with the waste management companies present another massive problem. I hope that the progress of the DRS will go some way towards resolving our reliance on incineration. Less than a year ago, the Suez group announced a £115 million investment in its seventh incinerator, just south of the border in north-east England. That is a real problem. We should be asking how we can attract investment into Scotland for recycling rather than incineration.

We have talked a lot about recycling rates and they are often conflated with collection rates: what comes out of the MRFs is not what we collect at the kerbside. The DRS offers Scotland as a whole the opportunity to capture a higher volume of high-quality materials, which can then be recycled in Scotland. That can attract investment and create new jobs in Scotland. I want that to be taken into consideration.

**Philip McKay:** Aberdeenshire Council is in the process of building an energy-from-waste plant along with our colleagues in Aberdeen City Council and Moray Council. We will own the plant and an operator will be in place for 25 years. When we were putting that in place, we discussed recycling rates and what size to make the plant. We have made it considerably smaller than the three councils need at the moment because we wanted to ensure that we did not fall into “Feeding the beast”, as I have heard it described. We have challenged ourselves to max out on our recycling and only put in what is left.

As I said, we expect that about 4 to 5 per cent of the total material arising will come out of our plant as a result of the DRS. That is already well modelled within the capacity of our energy from waste plant.

**The Convener:** Before I move to final questions from members, Calum Duncan has a point.

**Calum Duncan:** In the spirit of the discussion about getting waste up the waste hierarchy, it is another argument for having glass in the system early. That way, we can encourage refills and refillables.

**The Convener:** Claudia Beamish has a question.

**Claudia Beamish:** I have a quick supplementary, but I would also like to ask about the cross-border issue. Would you rather that I waited to do that?

**The Convener:** No—do it all at once.

**Claudia Beamish:** I will not quote figures for kerbside recycling, because they have been challenged, but I understand that a significant number of households in Scotland do not have kerbside recycling, for all sorts of reasons that we do not have time to go into now. Will the scheme have any implications for those who do have kerbside recycling and those who do not?

**Silke Isbrand:** We do not have definite figures, so it is exciting to look forward to the outcome of the Zero Waste Scotland modelling that is being done. Some initial findings point to the fact that those with the strongest sorting mechanisms might benefit least from a deposit return scheme. Those are initial findings; we do not have full figures.

Once we have clarity on that, we will be keen to take the issue further.

**Claudia Beamish:** Some organisations and individuals who I represent in South Scotland have raised their concerns about the cross-border implications of the deposit return scheme and the complexity of that. We do not have a representative from Scottish Borders Council here today, and I do not want to put the COSLA and Dumfries and Galloway Council representatives on the spot, but I would be interested in any comments on that issue.

**The Convener:** James McLeod, do you want to start?

**James McLeod:** I will give it a shot, convener. The issue probably lies not directly with the local authority but with businesses that are close to the border. Perhaps Gretna will become a deposit return venue rather than a wedding venue.

There will be a need for the industry to identify which products are bought south of the border, and the barcoding detail will be the way that that is dealt with. I do not think that that is outwith our capabilities, although I suspect that it will mean additional cost for the producers.

**The Convener:** The final question comes from Rachael Hamilton.

**Rachael Hamilton:** I want to go back to glass recycling. We know that four out of five of the most successful European countries that operate such schemes exclude glass. For example, Norway uses the extended producer responsibility scheme.

I am trying to work out whether local authorities have done any financial modelling on the glass collection schemes and whether they would no longer be economically viable if the higher-quality bottles went into the DRS. I am sorry if I am repeating myself, but I want to know what the financial impact will be and how it will affect local authorities.

**Philip McKay:** I will have a go at that. We have done some work with Zero Waste Scotland to produce estimates of that. We estimate that just under 5,000 tonnes of glass will come out of our systems. Our collection system is relatively efficient in that we collect in bulk rather than at the kerbside. However, we do get income from that. We will lose around £70,000 of income on that alone but, as a previous speaker said, we will save money as a result of glass not going to landfill because, at the moment, it is not the case that 100 per cent of glass makes its way into recycling. Therefore, it is swings and roundabouts a wee bit.

12:45

There is more of a concern about confusion around where to dispose of which type of glass. There could be confusion about whether something is a DRS piece of glass that can be taken back to the supermarket or shop where it was bought or a different type of glass that has to be taken to a glass bring point. We have had similar discussions about putting some of our recycling-on-the-go containers—our smaller containers—in supermarket car parks and the like. That would be convenient, but there is a worry about adding another layer of confusion to the system, which might mean that some of the high-quality glass goes into the black bin.

**Samantha Harding:** I want to pick up on that point about confusion. Obviously, a deposit return scheme is a collection system for beverage containers. If you begin to exclude some types of beverage containers based on their material, you confuse the consumer. I understand Mr McKay's point, but I do not see people being confused by an all-in deposit system that includes glass, plastic, aluminium and potentially cartons. People would not consider putting in a jam jar. However, if you were to ask your constituents to recycle plastic and aluminium through a deposit system and to take their glass bottles along with their glass jars, that would definitely add confusion. Again, my recommendation is to keep it simple and to stick to the principle of the deposit system, which is to collect every beverage container.

**The Convener:** We have run out of time, but I will let Finlay Carson ask a final question.

**Finlay Carson:** Thank you, convener—that is very kind.

My question is probably for Dumfries and Galloway Council and COSLA. In the past, changes in Government requirements through regulation relating to things such as kerbside separation or recycling have had an impact on councils' long-term contracts with waste companies. Councils have in some ways been helped by the Scottish Government with that. Do local authorities and COSLA foresee issues with long-term contracts that are in place as a result of the changes that DRS will bring? How do you foresee that financial gap being bridged?

**Silke Isbrand:** Craig Hatton might be able to answer some of that better than I can. We need to understand the impact that the scheme will have on individual authorities and we can then look at how the anticipated impacts would be addressed, what future service provision would look like, what that would cost and whether there would be gains or benefits.

The question is incredibly relevant, but we do not have the answers yet. We cannot even start

thinking about that, because we first need to be clear about the anticipated impact. That is where we are at the moment. Generally, all local authorities are open to looking at how kerbside recycling can be made most effective and what it needs to look like. They are aware of some of the impacts, financially and on consumer behaviour. Some consumers might feel that what they put in the deposit return scheme is valuable and that the other stuff is rubbish, or that kind of thing. It is a complex picture. That is exactly what we need to consider as the next step.

**Finlay Carson:** Specifically, if a council has a 20-year contract with the Acme Waste Management Company that guarantees a certain weight of recyclate, whether it is glass, plastic or whatever, can that council expect the Government to assist when it comes to addressing any contractual issues? A lot of councils will have signed up to 10, 15 or 20-year contracts. There is no doubt that the DRS will have an impact, so how do councils expect to bridge those issues with contractual obligations?

**The Convener:** I will bring in Craig Hatton, but this will have to be the final comment.

**Craig Hatton:** Councils entered into contracts on the basis of the legislation that was in place at the time. We spoke about the energy from waste contracts that have been let recently to meet the landfill ban. The landfill ban was absolutely the right thing to do, and councils reacted to it at the time.

We are currently doing the Zero Waste Scotland modelling. As Silke Isbrand set out, that is really important, and it has not been done for all councils yet. We will then need to review the implications. If councils will be financially worse off as a result of breaking contracts, different material streams and all the rest of it, we will need to look at transitional arrangements and transitional funding with the support of Government to enable councils to manage that effectively and efficiently.

**The Convener:** Thank you all for your time this morning. As I said at the end of the previous round-table sessions this morning, everything that you have said has been extremely enlightening and will be useful to us as we consider our report on the issue. We will raise a number of the issues that we have discussed with the cabinet secretary when she comes to respond to our questions on the scheme.

That concludes the committee's business in public today. At our next meeting, which will be on 19 November, we will hear evidence from the cabinet secretary on the proposed deposit return scheme regulations.

We will now move into private session, so I ask that the public gallery be cleared, as the public part of the meeting is now closed.

12:50

*Meeting continued in private until 13:13.*



This is the final edition of the *Official Report* of this meeting. It is part of the Scottish Parliament *Official Report* archive and has been sent for legal deposit.

---

Published in Edinburgh by the Scottish Parliamentary Corporate Body, the Scottish Parliament, Edinburgh, EH99 1SP

---

All documents are available on  
the Scottish Parliament website at:

[www.parliament.scot](http://www.parliament.scot)

Information on non-endorsed print suppliers  
is available here:

[www.parliament.scot/documents](http://www.parliament.scot/documents)

For information on the Scottish Parliament contact  
Public Information on:

Telephone: 0131 348 5000

Textphone: 0800 092 7100

Email: [sp.info@parliament.scot](mailto:sp.info@parliament.scot)

---



The Scottish Parliament  
Pàrlamaid na h-Alba