

 <b>Regulatory Policy Committee</b>	<b>Opinion</b>	
<b>Impact Assessment (IA)</b>	Plastic carrier bags charge	
<b>Lead Department/Agency</b>	Department for Environment, Food and Rural Affairs	
<b>Stage</b>	Final	
<b>IA number</b>	Not provided	
<b>Origin</b>	Domestic	
<b>Expected date of implementation</b>	October 2015	
<b>Date submitted to RPC</b>	08 August 2014	
<b>RPC Opinion date and reference</b>	4 September 2014	RPC14-DEFRA-2124(2)
<b>Departmental Assessment</b>		
<b>One-in, Two-out status</b>	<b>Zero Net Cost</b>	
<b>Estimate of the Equivalent Annual Net Cost to Business (EANCB)</b>	<b>N/A</b>	
<b>RPC Overall Assessment</b>	<b>GREEN</b>	
<p><b>RPC comments</b></p> <p>The IA is fit for purpose. The IA responds to the comments in our previous opinion of 10 July 2014. In particular, the Department now counts more of the benefits to business as direct, including the full revenue accruing to retailers from the five pence charge per single-use plastic bag. The RPC is able to validate the measure as a Zero Net Cost for ‘One-in, Two-out’ purposes.</p> <p>The IA now provides evidence to support the assumption that businesses will pass on the revenue benefits of the charge to charities and the cost savings resulting from the charge to consumers. The IA includes evidence that businesses in Wales have passed on the additional revenue made from plastic bags charges (less administration costs). The pass-through of cost savings by retailers is now correctly treated as indirect for OITO purposes. Furthermore, the IA now correctly excludes VAT from the EANCB.</p>		
<p><b>Background (extracts from IA)</b></p> <p><b>What is the problem under consideration? Why is government intervention necessary?</b></p> <p><i>“Over 7 billion single-use plastic bags (SUPB) were given out in England by supermarkets alone in 2012. The vast majority are given away free at the point of sale, with the cost of bags hidden in the price of goods, so consumers are not incentivised to limit their use to a socially desirable level. There are also negative externalities associated with SUPB such as the costs of littered bags and the greenhouse gas emissions associated with their production. Government intervention is required to tackle these externalities and bring the costs to</i></p>		

consumers of SUPB more in line with the costs to society. Requiring consumers to pay upfront for each bag they use has been shown to cut consumption dramatically, by around 80% in Wales.”

**What are the policy objectives and the intended effects?**

*“The policy objective is to reduce the number of SUPB used and disposed of in England, to be achieved through the introduction of a mandatory 5p charge paid by consumers at point of sale in large retailers. Even after accounting for substitution effects (e.g. increased bin liner use), reduced SUPB consumption is expected to reduce litter, greenhouse gas (GHG) emissions, resource use, waste generation and the associated costs of waste treatment. There will be no net cost to business from the policy as retailers will be able to retain a portion of the proceeds of the charge to cover their costs. The remainder of the proceeds is expected to benefit charities.”*

**Comments on the robustness of the OITO assessment**

The IA says that this is a regulatory proposal that is net beneficial to business (an ‘IN’ with ‘Zero Net Cost’). This is consistent with the current Better Regulation Framework Manual (paragraph 1.9.12) and, based on the evidence presented, appears to provide a reasonable assessment of the direction of the likely impacts.

**Comments on the robustness of the Small & Micro Business Assessment (SaMBA)**

The proposals increase the scope of regulation on business. Therefore, a SaMBA is required.

The Better Regulation Framework Manual sets out that there should be a legislative exemption for small and micro businesses where a large part of the intended benefits of the measure can be achieved without including them (Section 1.6.2). In line with this SaMBA requirement, the preferred option exempts small and micro businesses from the requirements of the regulation – they will not be required to charge for plastic bags. However, some small and micro business representatives, including the Association of Convenience Stores and the British Retail Consortium, have *“argued against the exemption on the grounds that it would deprive small businesses of the financial savings gained from having to purchase and stock fewer plastic bags and being able to recover the costs of those that were used”* (page 43) because businesses that are not required to charge may experience consumer resistance as consumers will know the business is not obliged to charge. Furthermore, the British Retail Consortium felt the exemption *“would not result in a level playing field as many SMEs (especially franchises) are in direct competition with larger retailers on high streets”* (page 43). Small and micro businesses could be at a competitive disadvantage compared to large retailers because large retailers will be able to recover the cost of plastic bags used via the five pence charge and remove the hidden costs of “free” plastic bags. These costs are currently included in the price of goods sold. This may enable large retailers to reduce the price of the goods they sell.

A second disadvantage faced by small and micro businesses relates to the rationale for government intervention requiring large retailers in competition with

each other to charge for single use plastic bags. The IA refers to a “*coordination problem as, although supermarkets can charge for bags voluntarily, there is a perceived risk that those who implement a charge first will see customers switch to competitors*”. While the preferred option does not stop small and micro businesses introducing the five pence charge, the ‘first mover’ problem will presumably apply equally to those small and micro businesses that might want to charge for plastic bags.

### **Quality of the analysis and evidence presented in the IA**

The proposals require large and medium sized retailers to charge consumers five pence for each single use plastic bag (SUPB). The retailer can retain all of the charge, but the IA includes an expectation that retailers will retain part of the charge to meet reasonable administration, reporting and transitional costs and the remainder (about three pence per bag) will be passed on to charities.

There is no regulatory requirement for any of the charge to be passed on to charities or consumers (through lower prices). Businesses will be required to report publicly on how the charge is dispersed.

The IA states that businesses will benefit from the proposal as reduced plastic bag use will result in reduced storage and transport costs. The Department expects the proposal to reduce plastic bag use by 80%. The IA estimates that the combination of cost savings and revenue from the charge, minus familiarisation and transitional costs, would result in £154.19 million of direct benefits to business each year. This was estimated as £107.2 million in the previous IA. The difference in the figures relates to the treatment of the revenue from the five pence charge in the previous submission. The total revenue from the charge has now been assessed as a direct benefit to business. As a regulatory measure of benefit to business, it is still assessed, correctly, for OITO purposes as a zero net cost measure.

*Administration, reporting and transitional costs.* The IA now includes further justification for the assumptions behind the estimated transition and familiarisation costs. However, the IA would be improved by including further explanation of how views raised during the call for evidence have been reflected in the calculation of the transitional costs.

*Transfers to civil society and consumers.* The Department expects that the reduction in hidden costs from ‘free’ plastic bags will be passed through to consumers in lower prices, and that they will transfer the five pence charge to charities after deducting an amount to cover administrative costs incurred. As the regulation will require retailers to report on how the charge is dispersed, it is reasonable to assume that at least some of the revenue will be passed-through to charities. The IA now includes further evidence from Wales on the proportion of the charge likely to be passed on and sensitivity analysis reflects the risk that some of the revenue may not be passed on.

**Signed**



**Michael Gibbons, Chairman**

