

## **Extending the Single Use Carrier Bag charge to all retailers and reviewing the current 5p charge to 10p**

### **Department for Environment, Food and Rural Affairs**

**RPC rating: fit for purpose**

#### **Update**

3 February 2021

This opinion was issued to the Department in October 2019. The implementation of the policy was delayed to April 2021. The Department has revised the IA to reflect the change in implementation date only, including a discussion about how the Covid-19 pandemic might affect the policy impacts. This opinion therefore remains unchanged apart from this text box and the additional summary tables on page 12.

In the updated IA, the RPC would have liked the Department to explore the impacts of the Covid-19 pandemic on the analysis in more detail. While we would not expect the analysis to change, the IA could have included anecdotal evidence on potential long-term structural changes to the grocery market and in particular the growth of online shopping and the effect this could have on carrier bag usage and recycling.

The impact assessment (IA) is now fit for purpose, on the basis of information currently available, as a result of the Department's response to the RPC's initial review. As first submitted, the IA was not fit for purpose. Although the red-rated points raised in the initial review have been addressed, the Committee still has serious concerns about the quality of evidence in the IA. The analysis of the wider benefits of the policy, particularly in relation to the change in use of bags for life (BFLs), is not based on sufficiently robust evidence. Also, the Department has not assessed the possible behavioural impact of single use carrier bags (SUCBs) being the same price as BFLs, which raises questions as to the validity of the assumptions used to estimate the effectiveness of the policy.

#### **Description of proposal**

The Department states that the policy objective is to further reduce the number of SUCBs used and disposed of in England, by: (1) extending the mandatory plastic bag charge paid by consumers at the point of sale to small and medium sized enterprises and micro businesses (MSMEs), airport retailers and civil and voluntary

organisations' retail outlets (charity retailers); and (2) increasing the charge from 5p to 10p for all retailers.

In October 2015, the government introduced the mandatory 5p charge for SUCBs on all large retailers in The Single Use Carrier Bags Charges (England) Order 2015 (the 2015 Order). Since then, the policy has contributed to an 89 per cent reduction in the usage of SUCBs by these retailers. However, the policy excluded retailers with fewer than 250 employees from the charge to avoid placing additional regulatory burdens on medium, small and micro businesses. Given that MSME, airport and charity retailers supplied 4.3 billion SUCBs in 2018 compared to 0.9 billion bags sold by large retailers, the Department argues that further government intervention in these sectors is required.

The government has considered four main policy options. Option 1 is the 'do nothing counterfactual'. Option 2 is to extend the 5p SUCBs charging obligation to MSME, airport and charity retailers. Option 3 is to increase the current 5p charge on SUCBs to 10p for large retailers, and apply it only to them. Option 4 (the Department's preferred option) is to bring MSME, airport and charity retailers into scope of the charging requirement and increase the current 5p charge on SUCBs to 10p for all retailers.

## Impacts of proposal

Impacts are measured against the 'do nothing' counterfactual. In the absence of any further policy intervention, only large retailers would be obliged to continue to charge for SUCBs (at 5p per bag). The Department estimates that consumption of SUCBs would move from 4.1 billion in 2018 to 3.9 billion in 2029, and consumers would continue to pay for bags obtained 'free of charge' at MSME, airport and charity retailers through the cost of the goods they purchase (hidden costs), based on the Department's assumption of customer pass-through.

Under Option 4, the Department estimates a total cost of £910.2 million. Large business, MSME, airport and charity retailers are expected to face one-off familiarisation and IT costs of £0.4 million, £4.2 million, £0.02 million and £0.2 million respectively. Government and the public sector would see increased enforcement costs totalling £1.5 million. The cost to consumers of paying 10p for SUCBs in all retailers is estimated to be £549 million, and VAT paid as part of the 5p charge is estimated to be £110 million. Hidden costs to consumers from increased use of alternatives to SUCBs are expected to be £101 million for paper bags, £54 million for BFLs, £66 million for bin liners and £24 million for cotton tote bags.

Non-monetised costs include consumers being inconvenienced by not having access to 'free' bags, but the Department argues that this will be mitigated by behavioural responses to the charge, such as increased re-use of bags.

The Department estimates that Option 4 will result in benefits totalling £1,241 million. Large retailer savings are expected to be £60 million from reduced SUCB stocks and £5 million from the retained 10p charge (the rest of the revenue from the 10p charge is expected to be donated, as set out below). MSMEs retailer savings are estimated at £201 million from reduced SUCB stocks and £118 million from the retained 10p charge. The Department estimates that airport retailer savings will be £11 million from reduced SUCB stocks and £1 million from the retained 10p charge. Charity retailer savings are expected to be £74 million from reduced SUCB stocks and £34 million from the 10p charge income. The Department assumes that donations of the 10p income to charitable causes will be £14 million by large retailers, £374 million by MSMEs and £3 million by airport retailers. Greenhouse gas emissions savings are expected to amount to £11 million and waste management savings £3.9 million from reduced circulation in SUCBs and increase in the use of alternatives. Amenity benefits to society from reduced litter are estimated to be £154 million and increased amount of recycled carrier bags £0.9 million. Government revenue from VAT paid on the 10p charge is equal to the VAT cost to consumers of £110 million. Savings from reduced litter costs are expected to be £66 million.

The major non-monetised benefit is expected to be the benefits to wildlife in the marine and terrestrial environment, with less damage to organisms from fewer littered bags or pieces of bags.

The NPV (in 2016 prices and 2017 present value) of the preferred option is £280.8 million and the Department expects the measure to result in a net benefit to business, with an EANDCB of -£87.8 million.

## **Quality of submission**

The IA provides a breakdown of costs and benefits for each option considered. The Department monetises many relevant costs and benefits and explains the methodology and assumptions used to estimate them. The RPC considers the evidence in support of the EANDCB to be fairly robust and the small and micro business assessment (SaMBA) to be sufficient. However, there are some areas of the IA relating to the rationale, the assumptions used and wider impacts of the measure that could have been better evidenced. For example, the evidence underpinning the increase to 10p could be more robust. The Department could also

have made use of behavioural economics to support its assumptions around the expected impacts of the policy.

### **Issues addressed following RPC's initial review**

As initially submitted, the IA included several issues that meant that the RPC did not consider it fit for purpose. The initial review also highlighted further areas for improvement. In response, the Department has revised the IA as follows:

1. **Equivalent annual net direct cost to business (EANDCB).** In the initial review notice, the RPC advised that the following areas affecting costs to business must be revised:
  - a. **Indirect benefits to businesses treated as direct.** The RPC did not consider either the benefits to business of consumers using alternative bags (such as BFL or cotton tote bags) or the revenue gains to recycling facilities to be direct. The Department has now removed benefits to businesses of selling more alternative bags, to reflect the costs of supplying these alternatives. Also, recycling revenue increases are now considered as indirect business benefits, so have been removed from the EANDCB calculation.
  - b. **Total revenue rather than profit treated as benefit to business.** The Department had incorrectly categorised the impact of consumers purchasing alternative bags as an economic transfer. Following the changes outlined above, the Department has now corrected this categorisation. The impact is now considered a cost to consumers only, as businesses are implicitly assumed to make negligible profit from the sale of alternative bags.
  - c. **Unclear business training costs.** It was unclear whether the Department had included costs to businesses of making staff aware of the new measure in the EANDCB. The Department has now clarified what has been included in familiarisation costs, and explained that the measure is not expected to result in ongoing training costs. The Department has provided evidence in support of this argument from the Association of Convenience Stores (ACS), which suggests that training on carrier bags is already embedded in staff training.
  - d. **Assumption underpinning airport shop estimates.**
    - i. **Number of airport shops.** The Department had significantly underestimated the number of airport shops affected by the measure, having based its estimate on the number of duty-free shops only. The Department has now revised this estimate and

assumes there are 891 retailer outlets at English airports, based on a more robust methodology.

- ii. **Number of carrier bags per passenger.** The Department used an assumption of half a bag per passenger, which it stated was based on a proxy, but it was unclear what this proxy was. The Department has now produced a revised estimate based on the total retail turnover at airports. The IA could be improved further by including a more detailed account of the steps taken to arrive at the final estimate.

e. **Scope.**

- i. It was unclear from the original IA which bags were in scope of the SUCB charge - for example, it was not clear whether the thin bags used in supermarkets to carry fruit and vegetables were included. The Department has now clearly defined SUCB and has explained that – as under the earlier policy - the sales of unwrapped food (such as fresh fruit), meat, knives and returnable multi-reuse bags (BFLs) are exempt.
- ii. The impact of the policy change on civic and voluntary organisations was not clear in the IA. The Department has now included a section on civic and voluntary organisations under each policy option, and explained more clearly that charity retailers were previously exempt because of the MSME exemption.
- iii. The original IA outlined the removal of the airport exemption but did not mention shops in other transit venues. The Department has now clarified that the removal of this exemption will bring airports into line with some other transit places such as bus and train stations. The exemption will continue to apply to the sale of goods in transit (such as on trains and aeroplanes) because the Department argues in such circumstances they would cross borders in which legislation on supply of SUCBs will vary, making it difficult for transport operators to apply the appropriate requirements. The IA could however be clearer as to whether transit shops such as those at ports will still benefit from exemptions.
- iv. Product producers were mentioned a number of times in the IA, but their relevance was not entirely clear. The Department has now explained in the IA that producers (manufacturers and importers that supply SUCBs to retailers) would in future be required to report separately the number of SUCBs placed on

the market as part of their annual data return. The Department expects the costs of doing so to be negligible given that these producers are already required to generate SUCB data under the Producer Responsibility Obligations (Packaging Waste) Regulations 2007. While this assumption seems reasonable and appears to be supported by a consultee, the IA would benefit from further supporting evidence.

2. **Small and micro business assessment (SaMBA).** The Department stated that the IT costs were only applied to 50% of small and medium sized enterprises and were not applied to micro businesses. This approach was based on the assumption that half of small businesses and all micro businesses do not make use of any IT systems. The RPC advised the Department to provide evidence to support these assumptions and consider the different impacts if the measure was to exempt micro businesses but not small businesses. The Department has now revised its assumptions based on evidence provided by the ACS. The IA now covers costs of IT changes to both micro and SMEs. In addition, the SaMBA now includes a more detailed breakdown of the number of SMBs affected by the measure and the number of SUCBs used by business size, which further justifies not exempting SMBs.

### 3. Assumptions

- a. The Department had used evidence from Ireland incorrectly to support the assumption that increasing the charge to 10p would reduce SUCB use by large retailers by 64%. The Department has now corrected this assumption.
- b. The policy objective was not sufficiently clear in the original IA, and the RPC advised that it should be made more specific than just to “further reduce” the number of SUCBs in circulation. The Department has now more clearly defined the objective, which is to reduce annual consumption of SUCBs to no more than 40 per person by 31 December 2025, in line with EU targets. Previously, the unclear policy objective made it difficult to determine whether the objective could be achieved without extending the charge to MSMEs. The Department was advised to consider MSMEs in isolation, for example by examining comparative data on the distribution of SUCBs by MSMEs over a longer period of time, to determine if their distribution is also being affected by changes in consumer and retailer behaviour generally, such as the voluntary compliance by 46% of convenience shops. The



Department has now amended the baseline and more clearly defined the objective as set out in the point above. The Department had also stated that requiring MSMEs to charge would assist it in meeting the EU target set for reducing SUCBs but did not explain in the original IA how continuing to exempt MSMEs would affect its ability to meet the target. The Department has now set this analysis out in the SaMBA.

- c. The IA assumed in a number of cases that MSMEs' behaviour will be the same as that of large retailers, without any evidence for the assumption (for example, in relation to passing back the charge to customers through reduced prices and product offers). The Department has now removed the passing back assumptions due to the lack of evidence. The IA also uses evidence from Ireland to refine its assumptions of what MSMEs might do differently to large businesses, such as still offering SUCBs.

The original IA did not clearly justify the assumptions that BFLs 'are generally assumed to be used up to nine times and are assumed to be returned to retailers when worn out to be replaced by a new bag'. The Department has now provided a source and further supporting evidence for these assumptions.

#### 4. Options.

- a. The IA stated that the Government had discounted the policy option of banning the distribution of SUCBs. The RPC believed it would have been informative to know whether such a ban would have a larger or smaller total NPV than Policy Option 4. The Department has now made set out its research more clearly and has explained why a ban was not considered alongside the other options.
- b. The policy options outlined in the 'policy objective and intended effects' section of the IA did not align with the four policy options analysed in the IA. The Department has now corrected this.

5. **Unintended consequences.** The Department was advised to consider unintended consequences and assess the impact these could have on plastic waste, including the disbenefits associated with the increased production of alternatives such as paper and cotton tote bags and associated increased use of resources. The Department has now included the resource use difference in its analysis.

6. **Impact on civic and voluntary organisations.** The impact on civil society organisations was not separately assessed in the original IA. The Department has now defined charity retailers and added a separate section under each option describing the impacts on charity retailers.

The RPC welcomes the Department's revisions, but believes some points could still be improved materially:

1. **Rationale.** The Department stated that '*increasing the charge will have a relatively low behavioural impact on consumers that are already accustomed to the existing 5p charge*'. This assertion raises the question of whether or not this form of intervention is necessary and whether or not the benefits assessed under Options 3 and 4 are robust. The Department was advised to carry out an analysis of the price elasticity of demand for SUCBs, as it was not clear why 10p had been chosen as the charge amount. The Department has now drawn on input from consultees, stating that 74% of consumers supported the move to increase the charge to 10p and those who did not support the increase to 10p charge generally felt it should be set even higher. However, the RPC does not consider that this supports the rationale for setting the charge at 10p. It could be the case that many of the 74% of consumers are content with the 10p charge because they are willing to pay it, which is the opposite of what the measure is aiming to achieve. The Department also does not appear to explain why options for a higher charge have not been modelled, especially in response to the consultation suggestion that the charge should be set higher. The IA would therefore benefit from further explanation on these issues.
2. **Assumptions around the change in use of BFLs.**
  - a. The increase in the use of BFLs was assumed to be 109%. This was based on an initial observed increase in Welsh supermarkets, and evidence from Ireland where '*SUCB fell by 32 percentage points less when the charge was raised from 15 cent in 2002 to 22 cent in 2007. Therefore, using estimates from Wales of a 141% increase in BFLs when the charge was first introduced, we assumed BFLs increased by 109 (32 ppt lower) following an increase in the charge.*' The RPC advised the Department to explicitly recognise the weakness of this assumption as it is based on two pieces of evidence that may not be directly applicable to the current measure. The RPC also advised the Department to consider the behavioural impact of BFLs now potentially being the same price as SUCBs. This situation could result in



consumers being more willing to purchase a BFL than they otherwise would have been, as they feel they are getting value for money (drawing on the behavioural economics theories of framing and anchoring bias). The RPC would advise that the Department should provide further discussion to address these concerns, to strengthen the assumptions on the change of use of BFLs and analyse the affect this might have on SUCB sales, and therefore on the business impacts.

- b. The Department's assumption in the original IA that BFLs and bin liners are not littered was not supported by evidence. The Department has now provided evidence on the number of BFLs littered and revised its assumption in response to that evidence. The IA would still however benefit from evidence supporting the assumption that the number of bin liners that are littered is negligible. If BFLs being the same price as SUCBs results in an increased number of BFLs being used as disposables, it is likely that the littering of them will also increase. This should be reflected in the benefits analysis of the policy, particularly given that BFLs contain more plastic than SUCBs and are more durable.
  - c. The Department has considered the savings to business of transporting and stocking fewer SUCBs, but does not appear to have considered the costs of transporting and stocking more BFLs. This cost should be fully estimated in the IA.
3. **Enforcement costs.** The RPC advised that the IA would benefit from the inclusion of further justification for the assumption that enforcement costs are the same under each of the policy options. The Department justified this assumption by stating that '*MSMEs have no incentive not to charge for SUCBs as they can retain all of the net revenue from the charge*'. However, on page 6 of the IA the Department stated that many MSMEs '*are not prepared to charge*' at present because those who charge lose customers to other local retailers who do not charge. This circumstance suggests that increased enforcement could be required under some options. The IA could benefit from drawing on evidence of compliance rates from analogous policies.
4. **Monitoring and evaluation.** The 2015 Order implementing the original 5p charge calls for a statutory review in 2020. The IA as originally submitted did not explain whether the 2020 review would still be required, or whether the Department would attempt to review the original charge and the present proposal together. The Department has now clarified that a Post

Implementation Review (PIR) on the existing policy will be completed by October 2020 and that it intends to publish this alongside the introduction of the proposals to extend and increase the existing mandatory charge.

The RPC would have expected the PIR for the existing policy to have been carried out before the introduction of the new proposals. This would have the Department stronger evidence on which to base new policy decisions or further revisions to the existing policy.

As work on such a PIR should already be well under way, the RPC would also have expected the Department to have collected more evidence of responses to the 5p charge to support this IA. For example, the Department should already have some evidence on pass through, on whether shop prices have decreased as a result of the 5p charge, and on the impact of innovations by retailers (for example, some online retailers refund the cost of bags if they are returned to the driver). The IA would also benefit from including evidence on whether the impact of the 5p charge on larger shops has affected the use of SUCBs by smaller shops. While the RPC recognises that a review is mentioned under the implementation plan for the present proposals, it would expect to see a more detailed monitoring and evaluation plan as part of this impact assessment.

5. **Waste management costs.** The Department's assumption that a 1% reduction in SUCB use results in a 0.8% reduction in clean-up costs is not supported by evidence. The Department was advised to provide evidence to justify this assumption, but it has not been able to do so and has not explained clearly why it cannot. The IA would benefit from a further explanation as to why this has not been possible.
  
6. **Reference to consultation.** It was not clear from the IA how effective the consultation process was. The Department was advised to provide a breakdown of how many responses were received and whether these represented a reasonable percentage of large retailers and of MSMEs. The Department could also have drawn upon consultation responses from charities regarding both the benefits of increased donations (of charges) or the potential impact of introducing charging in charity retailers to support its analysis. The Department has added some detail about the number of responses from consumers and charities but could have included more information about the views expressed.

While the Department has addressed the red-rated points and some of the points identified as areas for improvement, the IA would be strengthened by addressing these areas, particularly around the change in use of BFLs. The Department could also make the IA clearer by improving the drafting, for example some of the sections in Annex B appear to be in the wrong order.

### Departmental assessment

Classification	Qualifying regulatory provision (OUT)
Equivalent annual net direct cost to business (EANDCB)	-£194.7 million (initial estimate) -£87.8 million (final estimate)
Business net present value	£756.9 million
Overall net present value	£280.8 million

### RPC assessment

Classification	Qualifying regulatory provision (OUT)
EANDCB – RPC validated <sup>1</sup>	-£87.8 million (2016 prices, 2017 present value)
Business Impact Target (BIT) Score <sup>1</sup>	-£439.2 million
Small and micro business assessment	Sufficient
RPC rating (of initial submission)	Not fit for purpose

<sup>1</sup> For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

**Update**

3 February 2021

**Departmental assessment**

Classification	Qualifying regulatory provision (OUT)
Equivalent annual net direct cost to business (EANDCB)	-£194.7 million (initial estimate) -£118.1 million (final estimate)
Business net present value	£1,016.4 million
Overall net present value	£287.2 million

**RPC assessment**

Classification	Qualifying regulatory provision (OUT)
EANDCB – RPC validated <sup>1</sup>	-£118.1 million (2019 prices, 2020 present value)
Business Impact Target (BIT) Score <sup>1</sup>	-£590.5 million
Small and micro business assessment	Sufficient
RPC rating (of initial submission)	Not fit for purpose

**Regulatory Policy Committee**