

SWA Submission – Introducing a Deposit Return Scheme in England, Wales and Northern Ireland

The Scottish Wholesale Association (SWA) is the official trade association for Scotland's food and drink wholesaling and distribution businesses.

As the 'wheels to Scotland's food and drink' industry, our members are vital in the supply of food and drink to Scotland's 5,000 convenience stores and 39,000 foodservice outlets.

The wholesale market in Scotland was worth £2.9bn (*FWD Whole Society Market Report 2018, [Scotland taken as 10% of UK total]*) meaning our sector represents a significant part of the Scottish food and drink industry.

Our members include single-depot, family-owned businesses as well as national wholesale companies and buying groups. Over 90% of Scotland's wholesaling businesses are SME's and operate from over 120 depots located the length and breadth of Scotland.

As well as providing "cash and carry" services, wholesalers also provide foodservice and on-trade delivery services to public and private sector customers including schools, hospitals, care-homes, restaurants and the hospitality sector. While some also manufacture, produce and supply their own brand products, including soft drinks and alcoholic beverages.

For the benefit of our national wholesale members, and the UK wholesale industry collectively, SWA work closely with our colleagues at the Federation of Wholesale Distributors (FWD) and where we also refer you to their Introducing a DRS in England consultation response for deeper clarification on the wholesale asks at a national level.

SWA are founding members of Circularity Scotland Ltd (CSL), Scotland's appointed DRS Scheme Administrator. We have been involved in the creation and evolution of Scotland's DRS proposals for over 5 years and were members of the Scottish Government's Implementation Advisory Group (IAG).

SWA would like to make comment within this consultation response, on England's proposed introduction to a Deposit Return Scheme, to provide support to our colleague's requests at FWD and to ensure that our learnings, and the vast collective experience accumulated from across industry in developing Scotland's DR Scheme, maximises the benefits offered in creating an efficient, effective and world class DRS scheme across the UK. Ensuring open markets for all involved in the production and sale of beverage containers, regardless of which of the four nations they operate within, and that ensures consumers and business owners are not disadvantaged or penalised following the implementation of England's Deposit Return scheme.

As has been proven with SWA sitting on the IAG and now member of CSL, wholesalers are vitally important to a successful DRS. Wholesaler's sit in the middle of the beverage supply chain, taking the finished beverage product from the producer/manufacturer/importer on its' journey to the end user (convenience store, pub, restaurant etc) or direct to the consumer.

Beverage containers currently flow freely throughout the UK, unimpeded by any borders or market differences between the four nations. EU Exit has had a big impact on the importing of beverages, caused by delays at ports, custom checks, paperwork issues and rising costs. This has reduced the number and choice of beverage product coming into the UK by wholesalers and their suppliers.

As the voice of wholesalers, both as distributors but also as producers, within Scotland's scheme design we have always been concerned that Scotland's DRS will create a beverage trading border between Scotland and the rest of the UK/world. Having the potential to create similar impacts seen after EU Exit but which would now be created internally within the UK.

Such borders impede the free market movement of beverages and are only created by non-uniform markets. With the risk of cross-border fraud between England and Scotland only being fully negated by producers either producing two separate market products, one for Scotland and one for the rest of the UK, or stop placing the product on the Scottish market.

Both have a detrimental impact on everyone within the supply chain, from the producer to the wholesaler to the final consumer. Every one of those affected face increased costs, lost sales and loss of choice.

Wholesalers who operate in, or supply into, both England and Scotland are faced with having to 'dual-sku' their beverage business (stock both an English and Scottish variant) in order to continue servicing both markets. This is unfeasible, where storage and warehousing space is already at a premium, and creates a hugely disproportionate cost in having to adapt their business to accommodate DRS.

SWA's "Wholesale DRS Impacts Report" undertaken by Scott Moncrieff in Nov'19, highlighted that it would cost between £500k and £3m for wholesalers to adapt and increase warehousing space to allow them to continue servicing both markets. While in terms of time, it would take between 6 and 24 months to get ready for go-live.

Wholesale is a high volume, low margin business model with our report highlighting that average net margins are only 1.37%, the significant costs incurred by a beverage trade border could not be justified against such significant investment costs.

Meanwhile our report also showed the DRS cashflow impact on wholesalers, purely as a result of the added deposit value and producer fees, will equate to an average 16% increase in costs across their beverage ranges, equating to an additional £298k per week. A non-licensed wholesaler will face an average increase in stock costs of 38%, due to soft drinks beverage containers being of a lower sales value.

For all of the reasons highlighted above, SWA advocated for a UK wide roll-out of DRS but accept that this is looking increasingly unlikely. We are therefore imploring UK Government, and its' agencies, to ensure that any DRS in England is fully aligned with, and compatible with, Scotland's DRS system, particularly in relation to:

- Fixed deposit value of 20p.
- Same scope of material (PET, Glass, Can – Alu/Steel).
- Same labelling and any associated DRS marking.

Any deviation from those three key elements are likely to result in a permanent beverage trading border between England and Scotland. Impeding businesses on both sides of the trading border from free market access, increased costs to serve and reduced consumer choice. As well as causing confusion for consumers – both nationals and visitors.

We would also like to highlight that the recent announcement by HMRC, that the deposit value will attract VAT, has not only reduced the efficiency and increased the cost of any DRS scheme [by removing



part of its' funding stream] but added additional burdens and complications, in handling of the deposit, onto all the 'actors' within the scheme. From producer to wholesaler and end user to consumer.

The rationale for including VAT on the deposit is unclear and there was no consultation between HMRC, Scottish Government and the operators. We would ask that a review of this decision be carried out by HMRC and UK Government and to hear from them what this means operationally for the introduction of any DRS.

Fundamentally, SWA and our members ask that a uniform and aligned DRS system be introduced across all of the UK. One that aspires to meet Government's recycling targets and that provides the most efficient and cost effective scheme for all businesses and consumers and without the need for creating trading borders between our nations.

[REDACTED]

[REDACTED]