

Packaging Extended Producer Responsibility

Lead department	Department for Environment, Food and Rural Affairs
Summary of proposal	The proposal reforms existing regulations to introduce a full net cost recovery system that requires producers to pay the full costs of household packaging they place on the market.
Submission type	Impact assessment (IA) – 3 rd September
Legislation type	Secondary legislation
Implementation date	2025
Policy stage	Final
RPC reference	RPC-DEFRA-4343(4)
Opinion type	Formal
Date of issue	7 October 2024

RPC opinion

Rating¹	RPC opinion
Fit for purpose	The RPC considers the IA fit for purpose. Overall, the IA is well-structured, and the discussion of impacts are broken down by the key market players affected in the supply chain. The EANDCB correctly classifies the direct and indirect impacts and the evidence supporting the SaMBA is considered sufficient.

Business impact target assessment

	Department assessment	RPC validated
Classification	Qualifying provision	Qualifying provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£1,082.0 million (final IA estimate)	£1,082.0 million (2019 prices, 2020 pv)
Business impact target (BIT) score	£5409.9 million	£5409.9 million
Business net present value	-£9,141.5 million	
Overall net present value	-£161.4 million	

¹ The RPC opinion rating is based only on the robustness of the EANDCB and quality of the SaMBA, as set out in the [Better Regulation Framework](#). RPC ratings are fit for purpose or not fit for purpose.

RPC summary

Category	Quality ²	RPC comments
EANDCB	Green	The IA has appropriately reviewed the direct costs and benefits of the proposal on businesses, including sufficient justification of why these impacts are direct. The counterfactual appears to be supported by proportionate evidence and reasonable assumptions and correctly accounts for other proposed regulations in the waste sector.
Small and micro business assessment (SaMBA)	Green	The IA addresses the disproportionality of impact and proposes 'de minimis' thresholds that are supported by external research evidence. The IA could benefit from providing a more detailed assessment of the number of SMBs who will be in scope of the proposal above this threshold.
Rationale and options	Satisfactory	The IA provides a clear rationale for intervention, supported by a description of the problems under consideration and market failure arguments. However, the IA could benefit from the inclusion of relevant qualitative or quantitative evidence to support the description of these problems drawing more explicitly on evidence from the consultations and PIRs for similar measures.
Cost-benefit analysis	Satisfactory	The cost-benefit analysis appears to be based on a good range of data sources and the evidence base has been improved since the consultation stage. The IA provides a good discussion of risks and uncertainties but could expand its sensitivity analysis. The Department should ensure the impacts to material facilities are removed from the NPV calculation.
Wider impacts	Satisfactory	The IA includes a good assessment of impacts on greenhouse gas emissions, consumers and competition. The IA would be strengthened significantly by providing an assessment of impacts on innovation and on imports of packaging.
Monitoring and evaluation plan	Good	The IA sets out a clear monitoring and evaluation (M&E) plan, identifying the key data sources that will be used and external factors that may influence the outcome of the proposal.

² The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. The definitions of the RPC quality ratings can be accessed [here](#).

Summary of proposal

A producer responsibility system for packaging has been in place since 1997. It has helped businesses across the UK meet their packaging waste recycling obligations and the UK achieve its packaging waste recycling targets. However, the IA explains that the system has not been designed in a way that incentivises producers to exceed the recycling targets or produce more recyclable or reusable packaging. The UK Government and the Devolved Administrations are working together to reform the Producer Responsibility Obligations (Packaging Waste) Regulations 2007 to address several issues identified in the current system.

The proposal is to reform the current legislation and introduce 'packaging extended producer responsibility' (pEPR) for household packaging. These reforms will place costs on packaging producers for the environmental impact of their packaging, and for the costs of managing household packaging at end of life. The modulated fees paid by producers should fund:

- Better and more consistent recycling collections of packaging waste by LAs.
- Encourage more domestic recycling and reprocessing
- Deliver overall system savings.

The Department considers two options within the IA:

1. **Baseline – Do Nothing** – Do not reform the packaging regulations but implement the changes to municipal recycling collections in England as set out in the Simpler Recycling Collections IA and introduce the Deposit Return Schemes (DRS) for drinks containers in England, Wales, Scotland and Northern Ireland.
2. **Option 1 – preferred option** - Reform the packaging producer responsibility system such that producers pay the net cost of collection and end-of-life treatment of packaging waste from households (Kerbside and Household Waste Recycling Centres).

Background

This proposal is part of the wider set of government initiatives to tackle littering, increase recycling rates and to incentivise producers to take greater responsibility for the environmental impacts of their products. Other such initiatives include Simpler Recycling and the Deposit Return Scheme (DRS) for drinks containers, which the RPC has issued opinions on these IAs. DEFRA consulted on these reforms in 2019 and 2021 and explains that the current IA updates the analysis from the previous IAs to reflect the final policy decision.

The RPC previously opined on the 2022 IA for Reforming the UK Packaging Producer Responsibility System, issuing an opinion which rated the IA fit for purpose and validating an EANDCB of £1,206.8 million. Since, then the proposal has been updated, requiring a re-submission to the RPC. This IA updates the proposal, reducing the scope of pEPR by removing mandatory take back of cups, mandatory labelling and binned packaging waste payments from 'on the go bins' functions from the proposal. The IA has also updated the implementation date and input data used in the analysis. This updated IA estimates a reduced EANDCB of £1,082 million

(2019 prices; 2020 present value base year), with a net present value of -£161.4 million over a 10-year appraisal period. Most of the key impacts have been monetised and costs are estimated to be £11,803 million, mainly accounted for by the full net cost payments from packaging producers. Benefits are estimated to be £11,602 million, with savings to local authorities being the largest benefit.

EANDCB

Changes since 2022 IA

The EANDCB estimate is £1,082 million, reduced from £1,206.8 million in the 2022 IA. The main reason for this reduction is the removal of the impacts related to mandatory recyclability labelling, mandatory takeback of fibre-based composite cups, and binned packaging waste clean-up costs. This IA also sees the impacts on material facilities removed from the EANDCB as these impacts are introduced under separate regulations. Additionally, this IA has updated input data and estimation of certain costs (such as producer familiarisation and regulator costs) based on more recent evidence.

Direct and indirect impacts

In line with Green Book guidance, the IA classifies the net cost of collection and end-of-life treatment of packaging waste from households (Kerbside and Household Waste Recycling Centres) cost to producers as a transfer cost from local authorities. This is correctly included in the EANDCB figure. The IA has appropriately reviewed the direct costs and benefits of the proposal on businesses, including sufficient justification of why these impacts are direct, a summary of the data used and an assessment of the robustness of these estimates (table 59, pages 69- 72). The IA has now correctly classified the benefits to businesses as indirect and the EANDCB estimate has been revised appropriately. The RPC is content with the classification of these impacts and commends the clear structure

Counterfactual

The counterfactual appears to be supported by proportionate evidence and reasonable assumptions. It captures the expected decline in the use of plastic polymers before 2025, which is driven by the anticipation of the pEPR measure and other incentives such as the UK Plastics Pact. The counterfactual also accounts for other waste regulations that are expected to be in place by 2027, including the Deposit Return Scheme. The IA provides a detailed discussion of the methodology used to estimate the baseline and the key sensitivities. The counterfactual position for each packaging material is clearly set out in table 1 in the IA (page 27). The IA would benefit from assessing the extent to which some producers may have already made changes to their packaging ahead of policy implementation, and the potential

impact of this on the EANDCB estimate. Furthermore, as the IA notes that the implementation of the Deposit Return Scheme differs slightly across devolved nations, the IA would benefit from clarifying how these differences will be accounted for in the counterfactual calculation.

Under the preferred option, producers will continue to be required to purchase Packaging Recycling Notes/Packaging Export Recycling Notes, and the IA states that these costs will be largely the same as those faced under the baseline, meaning there will be no additional cost to producers. Therefore, these costs do not contribute to the Net Present Value estimations or the EANDCB estimate. However, as the Department states that this is an interim measure, the IA could benefit from clarifying how long this interim period will be as these costs appear to be estimated over the whole appraisal period (up until 2034).

Evidence to support assumptions

The EANDCB estimate appears to be informed by a wide range of evidence sources, such as external research and engagement with key stakeholders. The IA helpfully highlights the key risks and uncertainties affecting the main assumptions underpinning the EANDCB figure and explains how the Department has sought to mitigate these uncertainties, such as by presenting a costs range and conducting sensitivity analysis. The RPC considers that the IA has presented proportionate evidence to support the proposal. The IA would be strengthened by discussing the Department's plan to address the key evidence gaps in the future.

SaMBA

The Department has provided a sufficient SaMBA, considering whether exemption or mitigation for small and micro businesses (SMBs) would be appropriate. The IA sets out de minimis thresholds for the producer obligations proposal and provides clear justification for this approach.

In particular, the proposal intends to introduce two de minimis thresholds for the EPR scheme; a "higher" de minimis threshold (50 tonnes of packaging and £2 million turnover a year) and a "lower" de minimis threshold (25 tonnes of packaging and £1 million turnover a year). Only businesses above the higher threshold will be required to pay disposal cost fees; those that fall between the two, including distributors, will only face reporting obligations.

The IA states that while the average micro business will remain below the "lower" de minimis threshold, the average small business already meets the turnover threshold to be obligated under the current system. However, the Department provides clear justification for why these obligations would not impose disproportionate costs on SMBs and why it is important to collect data from producers meeting the "lower" threshold. Despite this, the IA could benefit from providing a more detailed assessment of the number of SMBs in scope of the proposal (regardless of if they

are above or below the de minimis thresholds) and could also benefit from a more detailed discussion on the potential risks and unintended consequences of these de minimis thresholds - for example, whether these thresholds might discourage businesses from growing in order to avoid additional regulatory burdens.

Rationale and options

Rationale

The IA provides a clear rationale for intervention, supported by a description of the problems under consideration and market failure arguments. It explains that, under the current system, local authorities (LAs) provide the services to manage packaging waste from households, funded through council tax. As producers do not bear full financial responsibility for the packaging that they place on the market, they are not accountable for the negative externalities this imposes. Under the proposals, producers will internalise the costs of managing packaging waste through the EPR scheme.

However, the IA could benefit from the inclusion of relevant qualitative or quantitative evidence to support the description of these problems. In particular, the rationale for intervention could be improved by drawing more explicitly on evidence from the consultations and PIRs for similar measures to demonstrate the current pressures faced by LAs.

The IA provides sufficient evidence to demonstrate that the problem will persist in the market despite voluntary initiatives, and therefore, government intervention is required to improve the rate of packaging recycling in the UK. It makes good use of comparable schemes in other countries to support the policy rationale (pages 37-40).

Options

The IA provides a qualitative assessment of alternatives to regulation, including voluntary initiatives for recycling labels and explains why they would not address the policy problem sufficiently.

The IA considers two options, a 'do nothing' counterfactual option and Option 1 (the preferred option) which will reform the packaging producer responsibility system such that producers pay the net cost of collection and end-of-life treatment of packaging waste from households through modulated fees. The proposal will therefore see producers taking financial responsibility for managing packaging waste, which will incentivise the correct behaviours by producers and consumers to address the issues set out in the problems under consideration.

The IA could benefit from including a long-list of the options that have been considered in previous IAs, but have been discounted for the shortlist presented in this IA.

Cost-benefit analysis

Methodology

The RPC considers the cost-benefit analysis to be satisfactory. The IA provides a clear explanation for the methodology used to estimate the impacts of the policy. The IA presents the impacts of the proposal for the most-affected members of the supply chain, including packaging producers, re-processors, online marketplaces and the public sector. A summary of the impacts of the proposal is set out on pages 8-9 of the IA; this helpfully includes whether there will be an impact on business and whether the impact is direct or indirect.

The impacts to materials facilities will be introduced under separate regulations but have still been included in the NPV calculation. The Department should ensure these costs are removed from the NPV calculation to avoid the double counting between the two measures.

The IA makes use of Waste and Resource Action Programme (WRAP) household modelling to underpin the cost-benefit analysis, but would be strengthened by providing more detail on the WRAP modelling. For example, the IA references the WRAP model as its source for the residual waste and net collection and treatment cost estimate, but could include more detail on how this estimate has been derived, particularly as these costs underpin the monetised costs faced by producers to comply with pEPR. Similarly, the IA could set out how the Eunomia model has been used to estimate the impact of modulated fees.

Evidence and data

The IA utilises evidence from a variety of different sources, including PackFlow reports and guidance from stakeholders. The evidence supporting the cost-benefit analysis is deemed proportionate to the scale of policy impact.

The IA usefully discusses comparable schemes across Europe to support key input assumptions. This includes a brief assessment of how similar those schemes are to the proposal and how successful they have been in increasing packaging recycling rates.

Assumptions and uncertainty

The IA acknowledges a number of uncertainties in the cost-benefit analysis and uses sensitivity analysis to explore their implications. For example, to capture uncertainty in the counterfactual position, the IA provides low, central, and high estimates for the pre-2025 switches in packaging placed on the market. However, the IA could benefit from expanding its sensitivity analysis to test the impact of other uncertain assumptions that underpin the analysis, such as testing the assumption that the price of a PRN will remain at their highest price over the past 3 years.

Wider impacts

The IA provides detailed assessment of potential impacts on trade, consumers and competition. This includes a specific section on trade, including how the requirements of the proposal will be consistent with WTO rules. The IA explains that importers of packaging for UK consumption will face an obligation under pEPR, but states that distortions on trade are not expected as the reporting requirements will be

the same for both domestically produced and imported packaging. However, IA could benefit from considering potential impacts on the demand for imported packaging given the added complexity of ensuring compliance. Additionally, the IA could clarify whether the requirements would increase the export of UK produced packaging relative to imported packaging, as producers would not be obligated for packaging consumed outside of the UK. The IA could also further explain how the regulations will work in practise for importers who are not based in the UK.

The IA also assesses likely competition impacts in line with the CMA's guidance, in particular whether the impact will directly or indirectly limit the number of suppliers and the competitive impacts on key actors in the supply chain. The IA states that as the significant costs of pEPR are expected to be proportionate to size, the cost to producers of complying with pEPR payments are not expected to have disproportionate impacts or drive firms out of the market. The impact on consumer affordability is also considered; the analysis suggests that lower income groups may see relatively higher price increases due to the proposal. It would benefit from explaining whether any mitigation may be necessary to ensure affordability from the lowest income decile. In addition, the IA should also consider how potential costs pass-through to consumers might affect the overall effectiveness of the policy in reducing packaging waste. In particular, if producers do not ultimately pay the full net cost of the packaging they place on the market, this may weaken their incentives to reduce packaging use and improve packaging recyclability and efficiency. Equally, if consumers see pEPR costs passed on in the form of higher prices, consumers may substitute these goods for others, resulting in a dynamic effect which could impact the demand and supply in the market, reducing producer incentives and the effectiveness of the proposal.

The IA states that fees paid by producers to LAs will take account of equity and regional considerations by looking at rurality and level of deprivation and performance expectations but could provide a further explanation on how this will work in practice and the potential regional distributional effects. For instance, the IA could clarify whether the fees will account for the disproportionate costs faced by rural areas due to the increased cost of collection and transport.

The IA could be strengthened significantly by considering the impact of the proposal on innovation. The rationale in the IA references the need to improve innovation incentives and therefore would benefit from more detail about expected benefits of innovation. In particular, the IA could comment on whether the fees will incentivise SMBs. The IA would also benefit from considering the indirect impact on sectors that rely heavily on packaging, such as in health and social care.

The IA could benefit from summarising the overarching wider environmental impacts that are discussed throughout the IA, including the impact of the regulations on waste reduction, the wider eco-system impacts and potential greenhouse gas savings.

Monitoring and evaluation plan

The IA states that a PIR of pEPR will take place two years from when the regulations come into force and that the pEPR evaluation will be part of a system-level evaluation of the wider Resources and Waste policies. A strategy-level impact evaluation and a process evaluation at the policy level will also be included in the evaluation.

The IA outlines the current waste data sources that are available (such as WRAP data and the WasteDataFlow reporting platform) and the additional packaging waste data expected to be collected through pEPR. The IA could benefit from further explaining how these data sources will be utilised for the impact and process evaluations that have been proposed. In particular, the IA states that the impact evaluation will gather quantitative and qualitative evidence about the difference pEPR is making but could provide further specific detail on the nature on this evidence, including key research questions.

The IA states that a pEPR monitoring and evaluation framework has been developed, which includes a list of indicators to measure change, but could benefit from including this in the monitoring and evaluation plan of the IA. The IA could also benefit from showing how the data sources listed in the monitoring and evaluation plan will be used to obtain these metrics.

The Department has done well to consider the causality between the proposal and the outcomes on packaging waste, identifying factors that are not under their control. The Department could benefit from discussing how (in addition to accounting for all activities of all actors) it will adjust the evaluation to account for these. This would allow the Department to accurately evaluate the effectiveness of the proposal and measure the success of the objectives.

Regulatory Policy Committee

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