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Sir Geoffrey Clifton-Brown MP
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By Email

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From Tamara Finkelstein
Permanent Secretary

Response to the Public Accounts Committee recommendations on the Deposit Return Scheme

Dear Chair,

I am pleased to update you on the progress of the Deposit Scheme for drinks containers (England and Northern Ireland) Regulations, which were approved by Parliament in January and have since come into force. I enclose a note (Annex A) in response to the committee's Fifth Report of Session 2023-24 on the Government's Programme of Waste Reforms HCC 333 which recommended that:

Alongside its Treasury Minute response, the Department should write to the committee with an update on how it is drawing on international experience to inform the design and roll-out of the deposit return scheme. This should include commentary on what lessons there are from countries that have introduced deposit return schemes on top of kerbside collections.

Unfortunately, this was not completed by the target date of Summer 2024, prior to the General Election. However, the response has been updated to include our latest international learnings on deposit return schemes. I hope you find this information useful.

Tamara Finkelstein

TAMARA FINKELSTEIN

Annex A

This paper responds to the Public Accounts Committee's (PAC) below recommendation.

PAC conclusion	The Department is basing the design of the deposit return scheme on small trials and international experience, but a lack of like-for-like comparators may make it difficult to get the UK's scheme right.
PAC recommendation	Alongside its Treasury Minute response, the Department should write to the committee with an update on how it is drawing on international experience to inform the design and roll-out of the deposit return scheme. This should include commentary on what lessons there are from countries that have introduced deposit return schemes on top of kerbside collections.
Department response	The Department will write to the Committee in Summer 2024 following the publication of the joint policy statement on DRS and notification of the draft secondary legislation, which sets out final policy positions of the scheme. This will ensure the letter can include specific examples of lessons learnt from international schemes once the developing policy positions are confirmed and made public.

1. Introduction

This government is committed to creating a circular economy that uses our resources as efficiently and productively as possible; minimises environmental impacts; accelerates our progress to Net Zero; supports economic growth; and creates new jobs.

Deposit Return Schemes (DRS) are a strong example of the circular economy in action. We have seen it work in over 50 countries across the world. DRS will make a difference to people's lives by tackling litter and improving local communities. Recycling rates will increase, and the drinks industry will benefit from the high-quality recycled materials that the DRS will provide.

Whilst the core designs and scope of international schemes can vary, many key principles are consistent across the schemes which predominantly focus on single-use drinks containers, with well-functioning schemes achieving collection rates of 90% or higher.

The Department of Environment Food and Rural Affairs (Defra) has worked closely with the Devolved Governments and international schemes to learn lessons to support the design and roll-out of the DRS in England and Northern Ireland. The Deposit Scheme for Drinks Containers Regulations (2024) for England and Northern Ireland were approved by Parliament in January 2025 and have come into force. Scottish Government is developing a DRS under Scottish legislation, which will be interoperable with the England and Northern Ireland scheme. This paper summarises how international schemes have shaped the design of DRS for England, Northern Ireland and Scotland.

2. International Learnings

The department has visited international DRS' to meet industry representatives, civil servants and scheme administrators. This has included understanding more about our chosen model such as using a return-to-retail approach, a centralised scheme administrator set-up, and whether to mandate an online takeback service.

Information has also been gathered from:

(1) teach-ins with international scheme administrators from Germany and Sweden, amongst others.
(2) extensive engagement with Republic of Ireland, where a DRS was launched in February 2024 and provides up to date learning from a neighbouring country.
(3) learning from a wide range of industry stakeholders involved in other schemes (particularly producers and retailers). This has included extensive engagement with UK based companies who were involved in the development of the Scottish DRS before that was paused.
(4) research on specific topics such as return points, scheme administrators, and online takeback. Building on the stakeholder engagement, there has been research commissioned on the public perception of DRS in the UK and the likely impacts on certain sectors (such as material pricing, local authorities and litter).
(5) research organisations such as Reloop, where thorough international experience and key learnings are summarised.

When considering the design of the scheme in England and Northern Ireland, the department conducted two public consultations, extensive engagement with industry and analysis of comparisons with international schemes. We concluded that a centralised model was the best approach, meaning there is a single administrator managing the scheme. We also concluded that a return to retail approach was favourable as a tried and tested DRS model for achieving high return rates, consumer convenience and operational feasibility.

Whilst we have considered learnings from schemes globally, our engagement has been informed by learning as much as possible about our chosen scheme design, which replicates and builds on many of the key features seen in high performing European schemes. Many of the European schemes with which we have engaged have comparable features to the UK's intended design such as:

- a collection target that covers a broad scope of packaging and container types.
- a deposit level set at an amount which provides sufficient incentive for consumers to participate in the scheme and return their containers into it.
- an easy-to-follow redemption system that is reliable and as accessible as possible.
- a system based on the principles of producer responsibility, where producers are responsible for financing and operating the system.
- the operation of a DRS alongside kerbside / household recycling collections.

Other international schemes, such as in the United States and Canada, often use a decentralised, return to depot approach which can bring additional complexities with multiple scheme administrators operating in a single scheme and is less accessible for consumers.

We have also focused on learning from countries which run a high-performing DRS alongside kerbside collection systems. High return rates of in-scope materials from Germany (98%) Slovakia (92%) and Sweden (89%) demonstrate that, alongside a kerbside system, the added incentive DRS provides to consumers drives up recycling of in scope products. In comparison, average return rates are 62% in USA and 74% in Canada.

Litter surveys pre and post implementation also show that DRS can significantly reduce littering of in-scope containers. In Germany, prior to the introduction of the mandatory DRS, single-use drinks containers were estimated to represent about one-fifth (20%) of the total litter volume (in 1998). Approximately 1 to 2 billion single-use beverage containers were littered across the country in 2002. After the introduction of the DRS, littering of beverage containers subject to deposits was reduced to ‘almost zero.’[1]

The rationale for introducing a DRS alongside existing recycling collections is clear. In the UK, despite having kerbside recycling systems that collect plastic and metal drinks containers, recycling rates for these materials has stagnated at around 70%, they continue to represent a high proportion (55%) of litter by volume[2] and the quality of recycling is often impacted by contamination in mixed kerbside recycling. For example, Material Recovery Facility (MRF) sampling indicates that 16.6% of input material to MRFs was contaminated[3]. Comparable international examples have shown that alongside kerbside recycling systems, a DRS can offer unique benefits to recycling rates, recycling quality and littering.

Table 1 - International schemes that Defra has engaged with (2023 - 2024)

Country	Population (millions)	Scope of collected materials	Kerbside collections?	Previous engagement *Visit or teach-in, date*
Germany	80.3	Plastic, metal, glass	Yes	Visit (March 2024) Teach-in (August 2023)
Republic of Ireland	5.1	Plastic, metal	Yes	Visit (September 2023, September 2024) Teach-in (January 2023, March 2024)
Scotland	5.4	Plastic, metal, glass*	Yes	Part of regular joint engagement as the scheme has been designed and developed in an interoperable way across England, Northern Ireland and Scotland.
Slovakia	5.5	Plastic, metal	Yes	Visit (January 2024)
Sweden	10.4	Plastic, metal	Yes	Visit (March 2023)

**Glass was included as a material in scope during Scotland’s initial roll-out.*

The section below sets out specific elements of the scheme’s design which have been informed by international learnings.

2.1 Return Points

Issue: International DRS’ have often struggled to get the right balance in the number of return points. Too few return points mean consumers find it difficult to return containers and redeem their deposits (impacting the scheme’s core objectives); too many return points result in increased logistical complexity and unnecessarily increased scheme costs.

How international experience was used to inform and influence DRS scheme design: Within the international context, the population per return point (PpRP) metric is considered to ensure there are enough return points to make returning a container as easy as possible for consumers and to achieve the benefits of a DRS (increased collection, increased recycling, reduced littering, and creating a closed loop).

1 Microsoft Word - DRS-Litter Fact Sheet (Summary)-14June2021.docx

2 https://www.keepbritaintidy.org/sites/default/files/resources/20200330%20KBT%20Litter%20Composition%20Report%20-%20FINAL.pdf

3 Tackling contamination in dry recycling | WRAP, March 2024

To understand the best approach, Defra has conducted research and engaged with similar international schemes. This includes:

- conducting a comparison of similar European schemes[4]. The evidence suggested return point density was not clearly associated with greater return rates. For example, schemes with high return rates over 90% such as Croatia, Denmark, Finland and Lithuania, had some of the lowest population per return point whilst schemes with lower return rates such as Sweden had a higher population per return point. Research also showed European schemes have taken a more targeted approach to return point obligations by exempting retailers based on store size. For example, Croatia, Estonia (both under $200m^2$), Malta (under $150m^2$) and Slovakia (under $300m^2$) have exemptions based on store size[5].
- extensive engagement with the Scottish Government who revised their return point approach, which was to obligate all retailers selling in-scope containers to host a return point. Instead, in November 2022, Scottish Government changed their exemptions process to reduce the number of return points and in doing so, reduced producer fees. They did this by:
    - providing a mapping service to help locate nearby return point alternatives
    - simplifying the environmental health exemption by focusing on store size
    - a streamlined exemptions/approval process for food service and hospitality retailers
    - later announcing in April 2023 that they will exempt all hospitality premises that sell the large majority of their drinks products for consumption on the premises, from acting as a return point.

Learning from this international evidence, DRS regulations for England and Northern Ireland will:

- require only supermarkets and convenience stores to act as return points from day 1 of schemes across the UK, to strike a balance of return points
- allow other types of organisations that sell in-scope drinks containers, such as take aways, coffee shops, hospitals, schools and hospitality venues, to apply to host a voluntary return point. Experience from international schemes shows that hosting a voluntary return point is popular, as organisations see the benefit of increased footfall
- allow for any retail premises in an urban area that are $100m^2$ or less to not be required to operate a return point
- allow obligated stores to apply for an exemption to host a return point on the grounds of either (1) breach of health and safety requirements or (2) close proximity to another return point

This will help support a successful day 1 rollout. Return point obligations will be kept under review as the scheme becomes more established, to ensure the network is appropriate and accessible.

2.2. Deposit Management Organisation (DMO)

Issue: The set-up of the scheme administrator is fundamental to the success of a DRS. As an industry led scheme, the administrator will be responsible for how schemes in England, Northern Ireland and Scotland work together, for managing the financial flow of the deposit, and for making key operational decisions such as setting the deposit level, retail handling fee and producer fee. Effective governance, cross-sector industry representation, and

4 Croatia, Denmark, Estonia, Finland, Germany, Lithuania, Netherlands, Norway, Scotland and Sweden

5 RELOOP_Global_Deposit_Book_11l202.pdf (reloopplatform.org)

transparency are all said to be key elements of establishing a successful scheme administrator. We refer to this organisation as the Deposit Management Organisation (DMO).

How international experience was used to inform and influence DRS scheme design: To understand the key challenges and successes of a centralised scheme administrator, the department has engaged with similar international schemes and industry stakeholders. This includes:

- visiting Sweden, the Republic of Ireland, Slovakia and Germany to meet with the respective scheme administrators.
- organising teach-ins with the German scheme administrator
- procuring the services of an industry expert with over 10 years' experience leading a European scheme administrator and advising other schemes across Europe on their launch. They are working closely with us on a number of aspects of the scheme design including how to best manage DMO revocation, as well as with the DMO application documents and appointment process.
- collaborating closely with industry stakeholders, that have been directly involved in scheme administrators in other nations to provide recommendations. This includes international retailers and drinks manufacturers such as Tesco and Coca Cola, whom we engaged with during our visits to the Republic of Ireland and Slovakia.

Learning from this engagement, we are seeking to:

- use a 'return to retail' model, which means retailers who sell drinks containers in scope of DRS are obligated to accept used containers for recycling. This model has proved successful in comparable European schemes such as Germany, Slovakia and Sweden and has delivered high return rates of over 90%. We have accordingly targeted our scheme administrator to collect at least 90% of material by year 3. The 'return to retail' model has also been used in the recently launched Republic of Ireland scheme.
- extract the benefits and efficiencies of an industry-led not-for-profit organisation which is independent of government. A private Deposit Management Organisation aligns with the 'producer pays' principle, ensuring industry bears the cost of collecting the items they produce, whilst also affording them certain benefits for doing so (e.g. retailer handling fees and access to high-quality recycled material). It leverages the benefits of logistical integration and efficiency by placing industry at the heart of the scheme and incentivising them to deliver it successfully. Industry will pay for and benefit from this scheme so are incentivised to integrate it with their existing IT, accounting and manufacturing infrastructure as cost-efficiently as possible, whilst delivering the scheme within the framework set by the legislation. We expect a candidate for the DMO to be developed with the backing of producers and retailers. This is a well-trodden path for many of these businesses who have implemented similar schemes across Europe.

In addition, we have drawn from the approach to scrutiny, oversight and ongoing scheme management seen in international schemes, as well as from industry and consumer feedback to carefully develop the legislation and the DMO 'operational plan'. This plan is drawn up by the DMO but signed off by the Defra Secretary of State and can ensure the schemes effective operation. This includes:

- ensuring that reverse vending machines, deposit refunds and other return infrastructure is as accessible and simple as possible for consumers

- flexibility is in place for the DMO to create a return point network that provides effective coverage for consumers, but also reduces the burden on businesses wherever possible. This includes exemptions from collecting back containers for community centres, hospitals, schools and other locations, as well as the option for hospitality businesses to operate ‘closed loop’ systems for drinks consumers on site.
- the detail of scheme delivery will be delivered through the DMO application process and agreed with consideration of the regulations and the knowledge of industry around the practicalities and logistics of DRS.

2.3 The Provision of an Online Takeback Service

Issue: Previous consultation and stakeholder engagement have considered whether there should be mandatory requirements for online takeback and, if so, which retailers should be required to provide a service.

Online takeback is when an online retailer selling in-scope drinks containers provides a take-back service for empty drinks containers. For example, a supermarket could collect empty drinks containers when they deliver a customer’s next online shop.

How international experience was used to inform and influence DRS scheme design: To understand the feasibility of mandating a takeback service at scale, the department has engaged with scheme administrators from countries which run voluntary takeback as well as with wider industry who have experience of international schemes. This includes:

- organising a teach-in and visit to Germany with the scheme administrator, Remondis and a visit to Sweden with scheme administrator, Pantamera. Evidence from both schemes shows that although there are some examples of online takeback in countries such as Germany, Norway and Sweden, these are primarily small scale and voluntary. We have not found a proof-of-concept for a mandatory online takeback service on the scale required across England, Scotland and Northern Ireland.
- engagement with major UK supermarkets through the DRS Retailer Readiness sub-group, who highlighted the significant cost to retailers who, if mandated, would be required to develop new digital systems and significantly adapt their operational process to roll this out at the scale required across England, Scotland and Northern Ireland.

There is, therefore, insufficient information to understand the costs and potential unintended consequences of requiring retailers to provide an online takeback service at this scale.

The UK government, DAERA in Northern Ireland and the Scottish Government have therefore decided that there will not be a requirement for retailers to operate a takeback service for drinks containers sold online from day 1. Instead, we will work with retailers and prospective DMO candidates to investigate options, including voluntary solutions. We will keep the obligation under review.

International learning has been at the heart of our consideration in designing a DRS. The scheme design has balanced the learning from international schemes with the feedback from UK industry and consumers through our extensive stakeholder engagement and consultations. We will continue to bring expertise from international schemes into our work as we progress to appointing a DMO.