Written evidence submitted by The Society of Independent Brewers (SIBA)

About

The Society of Independent Brewers (SIBA) was established in 1980 to represent the growing number of independent breweries in the UK. Today SIBA has around 750 brewery members, responsible for 80-85% of the country's independently brewed beer.

SIBA's membership encompasses a broad range of brewers from very small nano-breweries to larger firms owning pubs, taprooms and shops. In 2019, our members produced 493 million pints, approximately 6% of the beer produced and consumed in the UK.

The vast majority of UK beer production is in the hands of four global breweries, which account for around 88% of the entire market. The balance in between is made up of other internationally owned brands and a number of large, regional 'family' brewers.

The industry has been hit hard by the Covid-19 pandemic, with 200 million fewer pints of craft beer being produced last year with the enforced closure of pubs – representing 10 years of lost growth and a 34% fall in production.[1] In the last quarter of 2020, small brewers experienced a 45% fall in sales during the critical Christmas period. Over the past year, we have seen small breweries closing for good and more are on the verge of shutting.

Impact of Deposit Return Schemes

Our members are conscious of their environmental impact and want to do more to tackle their dependency on the natural world. Consistently, SIBA members lead the drinks sector in product and manufacturing innovation.

The majority of the approximately 500 million pints our members produce in a normal year is placed into traditional cask or kegs and consumed as draught beer in pubs. Of the 5.5 billion glass bottles and 7.7 billion cans placed on the UK market each year (according to WRAP), we estimate that our members produce only 1.4%, around 150 million glass bottles and 35 million aluminium cans.

For smaller businesses, packaging costs are a much bigger element than for larger rivals. We are concerned that the proposed Deposit Return Schemes (DRS) in Scotland and the separate scheme in England, Wales and Northern Ireland planned in the Environment Bill, do not take account of the impact on small producers, and would, we believe, have a significant and disproportionate impact on our members and consumers.

[1] SIBA Survey January 2021 - https://www.siba.co.uk/2021/02/12/200-million-fewer-pints-craft-beer-brewed-2020/

As the Committee will know, the DRS in England, Wales and Northern Ireland is in its infancy with the legislation still to be passed by Parliament and DEFRA is intending to consultation on

the scheme this year. In comparison in Scotland the scheme has been established under the Deposit and Return Scheme for Scotland Regulations 2020 and is planned to come into force in 2022. This means that some of the implications of the Westminster scheme are currently unknown, but SIBA believes that they will be similar to those introduced in the Scottish scheme.

SIBA believes that they could:

- **Impose significant costs**. Small businesses will struggle to cover annual registration costs and producer fees, new labelling requirements and the impact of accepting returned containers.
- **Reduce the choice and availability** of independent craft beer. Global brands can more easily adapt to costs than small businesses which operate in a highly competitive marketplace.
- **Create more uncertainty for businesses** who do not know whether it will be fully compatible with the scheme being introduced in Scotland and whether Scotland will accept containers from England, Wales and Northern Ireland.

What small brewers are calling for

Small independent brewers would like to see DRS that has:

- **Proportionate costs for small producers**: Registration and producer fees, along with labelling, should take account of size of producer, including de-minimis thresholds for small brewers based on the national Small Breweries' Relief Scheme.
- **Safeguards for small producers:** The Scheme Administrators should be required to demonstrate how it will give due regard to the requirements of small breweries to stop it being dominated by global producers.
- **Assurances on compatibility:** The devolved administrations should confirm that the DRS schemes will be fully inter-operable.
- **Focus on plastic and on on-the-go products initially:** As these are the most littered it would allow an initial focus on these products before considering whether it should be widened to include glass and cans.

Financial impact

The financial impact of DRS on small producers includes several components:

1. The deposit which must be paid by the producer to the Scheme Administrator/ Deposit Management Organisation and then charged to the retailer. The payment of this can have cash flow implications for small producers. In Scotland this is to be set at 20p per container.

2. Administration fee per year. In Scotland this is set at £360 per year with a small de minimis for those below the VAT threshold of £85,000. This was increased from £209 in the draft regulations to £360 and will mean that a small producer with a few members of staff (with a turnover of more than £85,000 per year) has to pay the same fee as a Global multinational company such as Coca-Cola. We do not yet know how much it will be set in England, Wales and NI.
3. Producer fee per container which must be paid by the producer to the Scheme Administrator/ Deposit Management Organisation that manages the schemes. In Scotland, analysis by Zero Waste Scotland has suggested this could be up to 3.8p for glass and 2.8p for cans. If this figure is extrapolated across the UK it would cost in the region of £200 million per year for the whole of the beer industry the equivalent of a 6% increase in beer duty.[2]
4. Labelling costs. While the Scottish regulations do not require new labelling, the Scheme Administrator may require anti-fraud measures and a common identifier. The Environment Bill sets out mandatory labelling for England, Wales and Northern Ireland. This is likely to include barcodes (which many small breweries do not have) and new logos.

Small breweries operate in a highly competitive and marginal marketplace, where a few pence can make the difference between profitability and loss. They are also “price-takers” and cannot in the current market easily increase prices to take account of increased costs and will struggle to absorb any costs. Therefore the combined impact of changing labels, paying administration and producer fees will affect small breweries’ margins and discourage them from selling their products in bottles and cans.

In many cases (pre-Covid) bottles and cans are a way for small breweries to showcase their products and encourage people to seek out and try their beers in the local pubs. During Covid they have become a lifeline for small breweries as the only way they could maintain sales while the pubs were closed.

While Scotland cannot mandate labelling, it is likely for anti-fraud measures and the use of reverse vending machines they will require barcodes and other markings such as a common identifier. It is therefore extremely likely that small producers selling in Scotland will have to introduce separate labels for this market or alternatively pay a higher producer fee than its larger competitors. This will be prohibitive for many small producers. The additional costs of small runs of Scottish only labels will significantly increase the costs and discourage breweries from selling in that market. This includes those based in Scotland that sell across the UK and those based in England, Wales and NI.

For example, one of our members based in Scotland sells to a UK based supermarket with approximately 5% of their beer in Scotland. They would see the labelling costs more than double for their Scottish only products, as the print run requires a minimum order of 100,000 cans, which means that the beer is now no longer profitable. Because of the purchasing power of supermarkets the brewery faces the choice of not selling in Scotland or selling those products at a loss to the supermarket.

[2] We do not yet know the final level it will be set by the two DRS schemes but the Zero Waste Scotland analysis provides a working example

Given the impact DRS will have on small producers, SIBA believes that the costs should be proportionate to the size of the producer, with appropriate de-minimis thresholds.

Currently for nutritional information there is a de-minimis for prepacked food from manufacturers that meet the definition of micro businesses.[3]

We would recommend that the DEFRA and the Scottish Government uses the definition of a small brewery as given under the Small Breweries' Relief Scheme. Currently a small brewer that produces 5,000 hectolitres (approximately 900,000 pints) contributes 50% of their beer duty to the Treasury. This would seem an appropriate de-minimis threshold for DRS.

Administrative impact

Small breweries will be expected to provide information and data that they do not necessarily hold. In Scotland under schedule 1 of the regulations there must be unique codes or marks to identify scheme articles. The Scottish Government has suggested that producers will have to provide barcodes/ EAN numbers, unique ID and data capture markers and SKUs.[4] As previously stated, some small producers do not have this information and this could mean they are unable to register and offer their products for sale in Scotland. We would expect that the Westminster DRS will require similar levels of data collection.

For example, one small brewery based in London has beer that is sold in Edinburgh and other places in Scotland. As it is sold through a wholesaler, the brewery does not know how much beer is sold in Scotland nor which retailers it will be sold to. This brewery also does not have barcodes on its labels. Under the Scottish DRS, this small brewery will have to discover where his beer is sold, provide information to the Scheme Administrator and in all likelihood make changes to its labels. Under these circumstances the producer may decide not to provide his beer into the Scottish market.

Currently the Scottish scheme allows the producer to fulfil the obligations themselves, without registering with the Scheme Administrator. We believe that very small nano-brewers (e.g. those only selling on market stalls or a few shops) may opt for this. It would require them to register with the Scottish Environment Protection Agency (SEPA) directly and provide an operational plan. It is not currently clear what this plan will entail but we

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[3] Prepacked food from manufacturers meeting the definition of a micro business need not have nutrition labelling under this exemption. The UK uses the definition in EU Commission Recommendation 361/2003 which defines a micro business as having less than 10 full time equivalent employees and a turnover of less than 2 million euros - https://www.food.gov.uk/sites/default/files/media/document/qanda-nutritionalrequirementsof11692011.pdf

[4] P8 shows a template form detailing the information producers must provide - https://www.gov.scot/binaries/content/documents/govscot/publications/impact-assessment/2020/03/deposit-return-scheme-scotland-full-business-regulatory-impact-assessment-2/documents/scheme-administrator-scotlands-deposit-return-scheme-application-form-operational-plan-template/scheme-administrator-scotlands-deposit-return-scheme-application-form-operational-plan-template/govscot%3Adocument/scheme-administrator-scotlands-deposit-return-scheme-application-form-operational-plan-template.pdf

would encourage the Scottish Government and SEPA to make it accessible for very small businesses.

We understand that DEFRA does not currently intend to allow producers to fulfil the obligations themselves. We would recommend that DEFRA does allow producers to do so,

which would be more efficient and effective if they only serve a few retailers or only sell on a market stall. Often small breweries have started off by selling at local market stalls to build their business – in fact some of the UK's success stories started this way. DRS could discourage entrepreneurs from being able to set up a brewery and grow their business.

For example, one micro-brewery in England only sells bottles on a market stall, the rest of the beer is sold in casks in local pubs. The brewery only sells 300 bottles per month, which would not make a material difference to the number of items in circulation, and it would be able to fulfil the DRS requirements itself (I.e. the bottles could be returned to the market stall). However, under the DEFRA proposals it will have to register and change it labels and pay producer fees which would discourage the brewery from continuing to sell beer at the local market.

Governance

SIBA is concerned that the Scheme Administrator (SA) in Scotland, and the Deposit Management Organisation (DMO) in England, Wales and NI, will be dominated by the Global corporations that produce the majority of products sold in the UK. There are no guarantees that they will take fully account of the needs of small producers in making decisions on how the scheme will operate.

SIBA would recommend that there are safeguards for small producers with the SA and DMO being required to demonstrate to the Governments how it will give due regard to the requirements of small producers.

Other impacts

Crowlers

Several small independent retailers, pubs and bars have been introducing crowlers as an alternative to pre-packed beer in cans and bottles. These are aluminium cans which are filled from the draught dispenser and sealed on the bar's premises using a special machine. This means that a patron can choose a beer that is on tap and have it placed in a container to drink at home. During Covid, crowlers have seen growth in some markets in the UK.

Crowlers present an issue for DRS that has not yet been resolved and could result in threatening this innovative and growing service. In these instances, the producer has not chosen for their beer to be placed in a container which is within scope of the DRS, therefore cannot include it within their administrative and financial requirements nor could be held responsible for what happens to the empty container.

Neither DEFRA nor the Scottish Government have yet resolved the issue of crowlers, but it may result in the independent retailer being defined as a producer for the requirements of DRS. This means that a small independent bar or bottle shop will have to register, pay all the

required fees and place their own label on the cans. This will significantly increase the costs of offering this service and is likely to discourage the use of crowlers.

Take back service

Both DRS schemes are set to include a take back service for online sales. For small breweries, this will mean that, for example, a microbrewery in Cornwall that may only sell a few bottles of beer into Scotland online, will have to register for DRS and pay all the fees and any labelling requirements. In addition, it will have to provide a takeback service from the site of the delivery. It is still uncertain how this takeback service will operate but SIBA are concerned that it will make selling online by small producers too costly. It is also unnecessary as most people will return these products along with others to their nearest return point.

Pubs and bars

We understand that pubs and bars are to be permitted to operate on a closed-loop system, whereby they do not have to charge the deposit as the container is kept on the premises. However, for pubs and bars, DRS will represent a new theft risk. For many pubs, empty bottles are stored outside in bins which will under DRS now become a valuable product. This will mean that they will have to invest in new security measures and not all venues, especially those in city centres, have space for secure storage of empty containers.

Many small breweries operate mixed venues, where they have a brewery, shop and taproom within the same complex. This will lead to having to introduce new procedures to ensure that deposits are charged on some products (takeaway) and not others. They also often do not have space to store and separate empty containers.

Covid-19

The Covid-19 pandemic has had a significant impact on the industry, and it is likely to take many years to recover. The industry does not have the resources to current fund and introduction the DRS schemes and would encourage DEFRA and the Scottish Government to delay their introduction to take account of the impact of the pandemic. Ideally both would work together to launch a joint DRS for the whole of the UK which is fully inter-operable and comes in once we have recovered from the pandemic.

March 2021