Written evidence submitted by the British Beer and Pub Association

Introduction and summary

The British Beer and Pub Association (BBPA) welcomes the opportunity to respond to the Environment Audit Committee's call for evidence on the development of a Deposit Return Scheme (DRS) in England. Our members account for over 90% of UK beer production and operate around 20,000 pubs across the UK. We believe a DRS has an important role to play in meeting recycling ambitions and the move towards a circular economy and we fully support its purpose and aims. Specifically, it is abundantly clear from the weight of evidence that there is a need to tackle the scourge of plastics in our oceans. For a DRS to be successful, the BBPA believes that it must align with other Government ambitions to tackle packaging waste, including proposals to improve the consistency of kerbside recycling and reforms of the existing Producer Packaging Responsibility Regulations.

It is also important to note that the costs to our industry associated with developing, implementing and operating a DRS system that includes glass, metal and plastic drink containers are immense. It is therefore critical that the additional costs borne by brewers and pubs are recognised through reducing the already disproportionate tax and regulatory burden faced by the UK brewers and pubs. Brewing is already the most highly taxed business sector in the UK and one in three pounds spent in Britain's pub goes directly to the Government.

It is also vital that the UK Government and devolved administrations continue to work together to align their respective DRS plans to ultimately enable a fair, industry-led and cost-effective UK-wide Deposit Return Scheme (DRS). DRS in Scotland is due to commence in July 2022, at least two years ahead of the rest of the UK in all likelihood. A DRS in one part only of what is currently a single market and the requirement for separate stock for products sold in Scotland will add significant costs, complexity and challenges for consumers and businesses alike in both Scotland and the rest of the UK. Further regulatory divergence in how future DRS schemes are prospectively implemented across other UK nations will result in further costs and logistical challenges.

Despite this, and as one of the sectors most directly impacted by DRS, the BBPA and its members have been leading the way, along with the soft drinks industry, on enabling the delivery of a world-class DRS system in Scotland. After a lot of development work and engagement with the wider supply chain, Circularity Scotland Ltd was formed on 22nd February, with the aim to become the Scheme Administrator in Scotland. The BBPA is one of 28 founder members along with other trade associations and individual producers and retailers. However, the BBPA, is strongly of the view that due to the impacts of the current pandemic, which stalled progress, the July 2022 implementation date in Scotland not realistic.

The beer and pub sector takes its responsibility to environmental stewardship very seriously and wants to work with Government to ensure policy can achieve its stated goals, but fragmented sequences and disparate schemes will not only fail to reinforce positive producer and consumer behavioural changes, but they will be financially ruinous for British brewers if not considered alongside the overall tax and regulatory burden the sector is already facing.

Covid-19 and the current state sector

Pubs and brewing support 900,000 jobs in towns and communities throughout the UK and contribute £23 billion to the UK economy. One-in-fourteen young adults currently employed work in our sector, and the sector generates nearly £13 billion in tax revenues for the Exchequer. At least, this was the case before 2020 and the subsequent policy decisions Government enacted to combat Covid-19.

Pubs and brewing have disproportionately borne the brunt of restrictive business measures despite being approved as Covid-secure workplaces. We are still seeing the devastating effects these decisions are having on our sector, but we are determined to come through this and resume a world-leading pub and brewing offer – one that plays a positive role in our communities, is a force for good for our mental health and sociability, and employs a positively high amount of young adults adults – who have been hit hardest by Covid unemployment.[1] However, we need Government support to ensure a job-rich recovery on the other side of this pandemic, to take steps to level the playing field, and to support a world-class domestic industry.

Our sector is taxed disproportionately highly and already carries a significant amount of regulation that increases business costs. That is why we believe that any measures taken in relation to DRS must account for the cumulative economic impact to a sector that is in extreme need of support. Brewing is the most heavily taxed business sector in the UK economy, with 41p in every pound of turnover directly paid in taxes. This compares with 20p for the remaining drinks manufacturing sector; 15p for telecommunications; 12p for information services and 7p for retail.[2]

Costs

The initial set up costs in Scotland alone for the Scheme Administrator were initially estimated to be £28 million, funded by producers, and then £75 million per year operating costs. Deloitte analysis for the Scottish Government estimate an initial producer fee for each container (non-refundable) at 3.1p to pay for the scheme, the equivalent, for beer, of a 6 per cent duty increase. This is before all the operational and logistical costs for brewers themselves in implementing DRS across their portfolio and distribution networks. For beer alone there are c.6.5 billion bottles and cans sold per year in the UK that will be required to carry a deposit and pay an unredeemable producer fee.

On top of the costs associated with introducing a deposit system, the potential consumer behavioural changes of the 20p deposit plus increased pre-deposit price per container will disproportionately and unfairly impact sales beer and cider compared to wine and spirits. These lower-strength products are sold in smaller single serve glass bottles and cans, often as part of multi-packs. If the producer fee is passed through into price as will be inevitable then the initial cost of a 20 pack of beer will rise by £4.62 compared to 23.1p for a bottle of vodka. Although DRS is an environmental scheme, it should be consistent with, and not contradict, policy elsewhere with respect to responsible drinking by not resulting in cost rises in the most dilute form of alcohol, disproportionate greater than in more concentrated forms of alcohol.

It is also important there is no double-counting of costs between DRS and wider EPR reform. It must be that materials in scope of DRS do not incur any additional charges associated with current (PRN system) or future producer responsibility requirements. We are also extremely concerned that there has still been no confirmation that deposits will be exempt from VAT which would otherwise bring further challenges and avoidable additional costs.

Scheme Proposal and key considerations

Through the consultations to date and all the evidence analysed thus far, DEFRA have indicated that the scheme design for England will mirror closely that of Scotland in terms of the materials and types

[1] https://commonslibrary.parliament.uk/research-briefings/sn05871/

[2] The tax burden faced by the Brewing Industry: Oxford Economics, December 2020

of waste in scope. The biggest area of contention in terms of materials in scope has been glass, which adds a huge amount of additional costs and complexities into a DRS system for producers, pubs, retailers and consumers. The heavier weight and lower value of glass, along with health and safety issues with broken glass all cause issues from a full return to retail DRS model and why in a number of countries, glass tends to be outside of DRS.

The BBPA has previously provided evidence on this in our submissions to DEFRA and to the Scottish Government when the DRS schemes were being designed. The inclusion of glass materially disadvantages drinks such as beer, sold in small single-serve containers. Assuming a flat producer fee and deposit per glass container, means the impact on the price to consumer is much more significant and hence sales of beer will be hit much harder than wine and spirits. Depending on the final scheme design, there is a risk of upsizing of containers and shifts to other materials, with different categories impacted differently. This needs to be carefully considered. The overriding desire at this stage though is for a consistent UK-wide scheme.

We support a single, industry-led scheme administrator for maximise efficiency. It is also important the scheme administrator has sufficient flexibility and levers at its disposal within its scope to ensure recycling targets are met on behalf of individual producers. This means flexibility on setting the deposit rate and producer fees and the ability to consider factors such as container size and materials. Crucially it includes keeping and reinvesting unredeemed deposits to minimise the scheme costs.

It is crucial, as in Scotland that pubs and hospitality venues have an opt-out from charging deposits to consumers and being return points where they operate a closed-loop system. In this situation, containers are sold for consumption on the premises and the pub will be responsible for returning the containers to the scheme administrator and redeem the deposits they have paid. It is not practical or reasonable for pubs though to have to take back other containers unless they opt in to providing this as a community service (e.g. rural pubs). Pubs will already have significant challenges in storing empty containers securely as they will now have a value attached to them. There will also be an additional and negative cash flow impact for pubs.

Additional information

We are happy to provide more detailed information to the Committee at any point on this issue and the specific challenges for brewers and pubs.

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