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Dear Edward

DEPOSIT RETURN SCHEME (DRS) UPDATE

I have carried out a considerable amount of engagement on DRS with many businesses and organisations over recent weeks, to whom I am very grateful. Industry has been making good progress on preparations for the scheme, which will go live in August 2023. It will be a major part of our efforts to reduce littering, cut emissions and build a more circular economy. However, I am aware of business concerns on some outstanding issues, particularly given the very significant pressures everyone is facing during the current cost of living crisis. We have committed to a pragmatic approach to implementation, and the action I am setting out today will help to make the scheme more efficient and reduce costs, while ensuring that environmental benefits are still delivered.

Reduced producer fees

Circularity Scotland has, this week, published significantly reduced producer fees and Day 1 payments. The changes reflect updated assumptions, enabled by the Scottish Government's revised guidance regarding return point exemptions and by an ongoing review of the scheme operating costs.

Circularity Scotland has also reviewed the timing of cashflows from producers to the scheme administrator for deposits and the producer fee. The revised profile of payments will mean producer costs are reduced at the point the scheme goes live.

The changes mean producer fees will be 8%, 30% and 40% lower for glass, PET plastic and metal containers respectively. The Day 1 payments for producers using UK-wide barcodes will also be reduced by two thirds, from 2.4 months of fees to 3 weeks of fees.

These are important changes and I am pleased that Circularity Scotland has also committed to continue to work on initiatives to seek to further reduce the financial

impact of the scheme on producers and return point operators, and optimise the cost of operating the scheme while still supporting consumers to return their empty containers.

Online takeback

Having considered the concerns presented by online retailers regarding the takeback element of DRS, I am proposing to bring forward amendments to the regulations so that initially only the largest grocery supermarkets will be obliged to provide a takeback service; all other businesses will be exempt. In addition, the takeback obligation on those supermarkets will be phased in: we will set a date for takeback to be available to the general public in 2025. Before the amending regulations are introduced, I intend to undertake further work to identify how elderly and disabled people, who may not be able to get to a physical return point, will be protected during this phasing-in of takeback and also to investigate further steps that may make the takeback obligation easier to discharge.

Day 1 regulatory compliance approach

I understand that there are concerns from industry about having enough time to prepare and be ready for DRS go live on 16 August 2023 and the risk of non-compliance with the DRS Regulations on Day 1. While I cannot speak on behalf of SEPA, as the independent regulator, the Scottish Government is encouraging joint working between it and Circularity Scotland to support industry with compliance as they transition towards full DRS operations.

As a result, SEPA, with support from Circularity Scotland, is working on a proactive and managed approach towards compliance where there are clearly evidenced operational challenges to industry readiness for go live in August 2023. SEPA has made it clear that it would like to see as many obligated businesses be ready and compliant for DRS next year as possible. It remains committed to providing advice and guidance as the preferred route to achieving compliance for businesses who are striving to meet their obligations.

Return point exemptions

This week Zero Waste Scotland has updated the Return Point Exemption application forms and online guidance to reflect the changes I updated the Committee on in my last letter. These updated forms will make it easier for retailers to apply for an exemption and will streamline the process for retailers and hospitality providers, while also making sure that people all across the country can still easily access a return point. These changes and processes should also speed up the decision-making process and provide clarity to retailers on the outcome of their application at an earlier stage than currently.

VAT

As you know, the application of VAT to DRS deposits is reserved policy determined by the UK Government. While I asked for much needed clarity on its approach to the application of VAT on deposits by July, to date, this clarification has still to be

provided. We continue to do all we can to press HM Treasury for a final decision on the treatment of DRS deposits but the issue remains unresolved at this time. I will provide the Committee with an update as soon as this becomes available.

Communications

I recognise that communications and engagement are very important to the success of the scheme. I intend to make this a priority focus for the period between now and implementation. I am pleased that Circularity Scotland has recruited a senior communications expert to start in the New Year. This role will be pivotal in leading and co-ordinating communications with industry and with consumers.

Finally, I note that the progress that has been made has been confirmed by our independent review process. I am publishing two reports covering the independent Gateway Review undertaken in May 2022 and the follow-up Assurance of Action Plan review in October. These are attached with this letter and will be published on the Scottish Government website later today. While the most recent report confirms that there are still significant challenges to be overcome, they demonstrate an improving picture and confirm the feasibility of a scheme being in place for August 2023.

As I set out to you in my previous update, I will continue to work closely with businesses and others to ensure that we have pragmatic solutions in place to implement this transformational scheme. Again, I look forward to updating you further on progress, and to the launch of Scotland's Deposit Return Scheme next year.

Kind regards

LORNA SLATER