

Plastic Packaging Tax: Consultation

Valpak Draft Response

1. What is your name?

Kathy Illingworth

2. What is your email address?

Kathy.Illingworth@valpak.co.uk

3. Which best describes you?

Please provide the name of the organisation/business you represent and an approximate size/number of staff (where applicable).

(Please tick only one option. If multiple categories apply to you, please choose the one which best describes you and which you are representing in your response.)

Other

Producer Compliance Scheme

Valpak Limited

Number of staff approximately 150

4. Please provide any further information about your organisation or business activities that you think might help us put your answers in context.

Valpak Limited is the UK's leading producer responsibility compliance scheme operator with member schemes for the Packaging, WEEE and Waste Batteries regulations. In addition we provide our members services for the Carbon Reduction Commitment (CRC), Energy Savings Opportunity Scheme (ESOS) and other environmental areas such as recycling services, REACH, sustainable development consultancy and international compliance. Within our compliance and data services we obtain and process considerable volumes of detailed information on packaging formats and tonnages placed on the market from a large sector of industry.

Over the past decade Valpak have been at the forefront of researching and analysing the packaging flow data available, as well as working with stakeholder groups, to produce a series of detailed material flow reports which have become the established and recognised source of UK information.

5. Would you like your response to be confidential? Why?

No

6. Do you agree with the government's suggested approach to defining plastic in scope of the tax?

Yes, we broadly agree with this approach and provide the below comments which should also be taken into consideration:

- All definitions used should be coherent and consistent with other relevant legislation. For example, the Packaging Waste Directive also includes a definition of plastic
- Technical feedback from industry should be sought to inform definitions
- It should be clear that the definitions may be amended and should be read in line with the most recent amendments
- It may be useful to provide guidance on which common types of plastic packaging would be considered within scope

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- As an alternative it may be worthwhile HM Treasury considering the relative merits of taxing all uses of virgin polymer i.e. a tax on raw material use not the product, and for all applications rather than specifically packaging. This would broaden the scope and therefore impact of the tax and may be more effective as the impact is pushed further back along the supply chain.

7. Do you agree with the government's suggested approach to defining packaging and packaging materials in scope of the tax?

Yes, we broadly agree with this approach and provide the below comments which should also be taken into consideration:

- The Producer Responsibility Obligations (Packaging Waste) Regulations 2007 (as amended) (the Packaging Regulations) are currently being reviewed, and as part of this review the definitions and use of various terms such as primary, secondary and tertiary packaging and composite packaging are being reviewed. Therefore any definition used for the purposes of the tax should align with any amendments to the Packaging Regulations.

8. Is the government's approach to components of plastic packaging consistent with the way businesses operate and packaging is created?

- Broadly yes, but there are a number of areas which required further clarification. In particular clarification is required relating to packaging that is made up of a number of different components from different suppliers, for example a plastic bottle with a plastic lid and a paper label. Should the tax be assessed separately by each component supplier based on the weight of their component or based on the weight of the fully assembled package?
- For individual pack types the optimum level of recycled content will be set by technical characteristics and functionality required e.g. strength of the packaging.

9. Which of the above options for defining plastic packaging for composite material items do you think works better for the purposes of the tax?

- Out of the 2 proposed options for defining packaging for composite material items option 1 is preferable.
- As per our response to question 7, the Packaging Regulations are currently reviewing the definition of composite packaging
- When assessing the definition of composite, government should take into account the potential impact to packaging producers of any change in definition
- The definitions used for the Packaging Regulations and the plastic tax should align

10. Do you think alignment with the reformed Packaging Producer Responsibility regulations is important for the purposes of the tax?

- Yes, alignment would be extremely important in order to ensure a more comprehensive understanding and consistent application of the tax. It is likely that similar businesses would be obligated under both sets of regulations therefore alignment could help reduce the increased administration burdens.

11. Do you agree with the government's suggested approach to defining recycled content for the purposes of the tax?

- The same definitions of recycled content should apply in all relevant legislation. Therefore any chemical recycling processes would need to align with the Packaging Regulations, and other relevant legislation, and guidance to ensure it is a recycling process, as opposed to a recovery process

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- There may be an argument that certain pre-consumer material does not achieve the recycling definition as it may not have achieved waste status, for example it may be a by-product or off-cut of another process.
- It should be noted that some legislative requirements preclude recycled content e.g. food contact PP

12. Are there any environmental or technical reasons to consider excluding any particular ways of recycling plastic?

- Please see response to question 11

13. Is there any way that the proposed approach to defining recycled content could encourage unintended consequences, such as wasteful manufacturing processes?

- We suspect this is unlikely but would need to be considered in more detail in the light of likely tax levels, as the likelihood of this type of unintended consequence would be based on whether wasteful manufacturing processes were more economically viable than paying the plastic tax

14. Do you agree with the government's preferred approach of a single threshold, and why? If not, what alternative would be better, and what are the risks associated with this? Please explain your answer and provide any supporting information and evidence.

No.

Whilst a single threshold may assist with understanding the tax, as noted in the consultation there are other points to consider, including:

- The tax is intended to change behavior and encourage greater use of recycled plastic. Set at an appropriate level, the plastic tax will undoubtedly increase the market driver for recycled plastic. However the tax is proposed to be introduced in 2022 and it may not be possible for the recycling infrastructure to increase in capacity and technology to develop in time to allow many producers to include 30% recycled content.
- Different polymers and applications allow different levels of recycled content currently
- Market dynamics in the supply and demand of recycled plastics are complex. Some recycled polymers are in short supply e.g. food grade recycled packaging plastics. In general, where packaging grade recycled plastic is above virgin prices the tax will have to be at least as great as the differential plus the switching costs, otherwise it will be cheaper to pay the tax and continue using virgin plastic
- As part of Valpak's compliance work we have created Valpak's Environmental Product Information Centre (EPIC), a database of over 20million products sold onto the UK market. Our largest comprehensive dataset relates to the UK grocery retail market where we hold packaging and product data relating to 55% of UK product sales. Based on 2017 EPIC data, we estimate that around 83% of grocery (supermarket only) plastic packaging (by weight) is food contact and therefore restricted in its ability to incorporate recycled content. Approximately 34% of grocery plastic packaging is food contact, but not in either rigid PET or natural HDPE bottles (both of which have the ability to include recycled content under certain carefully controlled conditions), **therefore approximately 34% by weight of grocery plastic packaging would not currently be able to contain any recycled content unless producers changed material or new technology or material standards were implemented.** Overall, this represents approximately 14% of all plastic packaging, or around 321k tonnes. However, these figures do

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not include non-grocery food contact sales (i.e. non-grocery food retailers, hospitality etc.) so this figure is likely to increase considerably if these additional products were also included.

- A lack of collections for recycling of some formats e.g. consumer films will not be rectified until consistent collection of all plastics is implemented. This affects 17% of all plastic packaging as identified in the WRAP/Valpak Plastic Flow 2025¹ report.
- It is likely to take considerable time for the necessary technology development, investment in capacity and new material and process standards to be implemented before this can be achieved
- We therefore suggest a more phased approach to both polymer type and application, for example consider introducing the tax at a lower level than the proposed 30% recycled content and gradually increasing this over a period of years or using a tiered approach. The tax revenue should then be ring-fenced to invest in chemical recycling infrastructure.

15. Assuming a single threshold, do you agree with a 30% threshold for recycled content and why?

- No. The proposal could lead to a ceiling of 30% recycled content as there's no fiscal reward for going above 30% and we suggest considering a phased or tiered approach would be more effective.
- Wider economic impacts could also follow depending on the extent of pass through of the tax to consumer prices. This will impact on inflation; products with <30% recycled content increase in price due to the tax, suppliers will likely pass some of this through to retailers, and retailers to consumers prices, and reduced (real) incomes which might fall disproportionately more on low income households
- The tax is likely to raise the demand and price for recycled plastics for packaging applications; this could undermine the economics (at current prices) for some packaging and non-packaging products which are already at much higher levels of recycled content. The cost impact on these products may become even greater, thereby unintentionally resulting in lower recycled content for these products
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¹ See <http://www.wrap.org.uk/content/plasticflow-2025-plastic-packaging-flow-data-report>

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- It is likely to take considerable time for the necessary technology development investment in capacity and new material and process standards to be implemented before this can be achieved
- We therefore suggest a more phased approach to both polymer type and application, for example consider introducing the tax at a lower level than the proposed 30% recycled content and gradually increasing this over a period of years or using a tiered approach. The tax revenue should then be ring-fenced to invest in chemical recycling infrastructure.

16. Are there any products for which it would be very challenging to increase the level of recycled content, and why? If so, please outline the effect of a tax on production decisions and consumption of these items.

- We are aware that recycled content is currently prohibited from PP food contact applications
- There is a risk of switching away from packaging or polymer types that are highly functional, for example in terms of their intended purpose, cost-effectiveness, recyclability etc., and have existing viable end markets but have low or no recycled content. For example, PP used in food packaging has viable end markets in non-packaging applications such as automotive parts and types of furniture. A move to PET would allow the inclusion of recycled content, however may reduce the overall recyclability of the product. There could also be switching to non-plastic packaging products to avoid the tax, but where the overall environmental impact has not been considered
- As part of Valpak's compliance work we have created Valpak's Environmental Product Information Centre (EPIC), a database of over 20million products sold onto the UK market. Our largest comprehensive dataset relates to the UK grocery retail market where we hold packaging and product data relating to 55% of UK product sales. Based on 2017 EPIC data, we estimate that around 83% of grocery (supermarket only) plastic packaging is food contact and therefore restricted in its ability to incorporate recycled content. Approximately 34% of grocery plastic packaging is food contact, but not in either rigid PET or natural HDPE bottles (both of which have the ability to include recycled content under certain carefully controlled conditions), therefore approximately 34% of grocery plastic packaging would not currently be able to contain any recycled content unless producers changed material or new technology or material standards were implemented. Overall, this represents approximately 14% of all plastic packaging, or around 321k tonnes. However, these figures do not include non-grocery food contact sales (i.e. non-grocery food retailers, hospitality etc.) so this figure is likely to increase considerably if these additional products were also included.
- It is likely to take considerable time for the necessary technology development investment in capacity and new material and process standards to be implemented before this can be achieved
- We therefore suggest a more phased approach to both polymer type and application, for example consider introducing the tax at a lower level than the proposed 30% recycled content and gradually increasing this over a period of years or using a tiered approach. The tax revenue should then be ring-fenced to invest in chemical recycling infrastructure.

17. Are there any products for which the use of recycled plastic is directly prohibited in packaging? If yes, please provide details on these products stating the relevant legislation and industry standards as well as the effect of a tax on production decisions and consumption of these items.

- Please see response to question 16
- It is understood through discussions with the BPF that there are restrictions that should be considered, for example at present food contact approval is required for all packaging in direct contact with food,

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drink, pharma and personal care products as well as certain other applications. This is estimated to account for 50% of all plastic packaging. At present approval only exists for the use of PET and HDPE and both in certain applications, which again only represent an estimated 50% of the market that requires food contact approval.

18. What evidence is currently held by liable manufacturers and importers on the levels of recycled content in their plastic packaging and how it might be able to meet the requirements of identifying recycled content levels?

- No response

19. If you are an importer of unfilled plastic packaging or plastic packaging material, what information do you hold on the recycled content? What controls or assurance do you have over the accuracy of this information? How might you influence the level of recycled plastic content?

- No response

20. Do you agree with the government's suggested approach of setting a flat rate per tonne of a plastic packaging product? Why?

- Unsure
- Whilst this may ease administration burdens however it is suggested that this requires further investigation and technical evaluation before finalising, including full assessment of the restrictions on recycled content in certain applications. It may be considered in the future that different polymers should attract different fees, however this should only be varied based on thorough cost benefit analysis and in line with specific and consistent governmental policy outcomes
- We would therefore suggest considering options for a more phased or tiered approach to introducing the tax may be more effective.
- Complementary supply chain measures alongside the tax, particularly to accelerate UK reprocessing, are needed to mitigate substantial price increases for recycled plastic. Otherwise, the UK could be importing more recycled flake, pellets etc. These investments could be funded by revenues from the tax and investment funding to boost UK plastic recycling could as a result of a reformed packaging EPR system.

21. Do you agree with the proposed points at which domestic or imported products would be liable for the tax? If not, at what point in the supply chain do you think the tax point should be and why?

- No
- The tax should apply equally to plastic packaging imported empty and filled, so importers of filled packaging should also be liable if the packaging conversion has been carried out elsewhere. Avoiding the tax on filled imports may cause unintended consequences such as incentivizing greater import of products filled in other countries in packaging made without recycled content.

22. Are there any situations where the proposed tax points would be administratively, practically or legally difficult? Please explain any adaptations that might be necessary.

- Where there are multiple points in a supply chain it may be difficult to ascertain at which point the tax would become liable

23. If you are a business that produces or imports plastic packaging, how much of your yearly production, in tonnes, would you expect to be liable for the tax?

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- No response

24. Do you provide (manufacture or import) plastic material which could be used as packaging without knowing the final use of the product? Is this a common occurrence?

- No response

25. Would you support extending joint and several liability for UK production, and for imports?

- Yes
- This may help to ensure the tax is paid consistently to avoid unintended consequences such as incentivising greater use of filled imports which avoid using unrecycled plastic thereby defeating the policy objectives.
-

26. Please outline any issues in relation to routine wastage or spillage that may have an impact on the tax liability.

- No response

27. Do you agree with the government's initial proposal that the tax at import should only apply to unfilled packaging? If not, what would the effects be? What alternative would you prefer and how would it work?

No

- A key design principle of the tax should be to deliver the intended policy outcomes without unfair discrimination
- Our estimates show that approximately 486k tonnes of plastic packaging are imported into the UK unfilled, as opposed to 737k tonnes which are filled (these estimates include estimates of non-obligated packaging. (Note: The way in which the packaging data form under the packaging regulations is completed makes it very difficult to generate accurate estimates. Our estimates are purely indicative to provide some level of guidance on levels or proportions of imports. We would assume an accuracy of no more than +/- 10%)
- Placing a tax only on unfilled imported packaging creates an un-level playing field for producers of products which have UK-based manufactured packaging
- The proposed approach does not align with the approach of the Packaging Regulations, which does include imported packaging
- Taxing only empty imports could risk exporting UK jobs in pack/fill activities and increase the environmental burden of product by importing greater quantities of filled product whose packaging does not meet the recycled content policy ambitions

28. Do you agree with the government's suggested approach for crediting exports?

No. We disagree with the government's approach to crediting exports only when the packaging is exported unfilled as:

- The proposed approach does not align with the Packaging Regulations, which exclude all packaging which is exported whether filled or unfilled.
- There is often more than one point in a packaging supply chain, so a large amount of packaging may be exported but also have been liable for the tax. Our estimates show that approximately 180k tonnes of plastic packaging is exported filled, therefore would have been liable for the tax but unlikely to be able to apply for a credit (please see question 27 for more information about our estimates).

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29. Do you foresee any difficulties in providing appropriate records to demonstrate that packaging has been exported?

- It is likely that the same or similar companies would be obligated by both the plastic packaging tax and the Packaging Regulations, therefore the same sales records could be used to show export for both sets of regulations

30. Do you agree that the government should seek to exclude small operators? If yes, what would the risks be if the government didn't do this?

- This should be based on thorough cost benefit analysis carried out when the design of the plastic tax is clearer and the level of the tax determined

31. Would Option 1a, Option 1b or Option 2 best meet the government's objective of excluding small operators from the tax whilst ensuring the tax has a strong environmental rationale?

- If small producers were to be excluded, Option 1a or Option 2 would be preferable. As per our response in the EPR Packaging Reform consultation a turnover-based threshold based on filed company accounts can lead to difficulties in measuring and unintended consequences, especially when companies restructure
- Any measure based on turnover alone would need to consider whether this applied to total company turnover, or simply that relating to plastic packaging items only which may be difficult accurately to isolate

32. What factors should the government consider when setting a threshold (either on volume or turnover) or a relief? Do you have any suggestions for appropriate levels? If so, please provide an explanation for why you believe this is appropriate.

- As per our response in the EPR Packaging Reform consultation a turnover-based threshold based on filed company accounts can lead to unintended consequences, especially when companies restructure
- Any measure based on turnover alone would need to consider whether this applied to total company turnover, or simply that relating to plastic packaging items only which may be difficult accurately to isolate

33. Would having a de minimis create any significant risks to the effectiveness of the tax at import (including, but not limited to, treatment of multiple imports from the same exporter/manufacturer/brand owner)? If yes, please provide evidence and suggest any additional legislative or operational countermeasures.

- No response

34. Do you anticipate any risks or issues that would arise from introducing a de minimis that aren't explored above? Please provide details.

- As per our response in the EPR Packaging Reform consultation a turnover-based threshold based on filed company accounts can lead to unintended consequences, especially when companies restructure
- Any measure based on turnover alone would need to consider whether this applied to total company turnover, or simply that relating to plastic packaging items only which would be difficult accurately to isolate

35. Do you agree that the registration and reporting requirements outlined are appropriate? If not, please specify why.

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- It is likely that businesses obligated under plastic packaging tax will also be obligated under the Packaging Regulations
- The timeline proposed for this tax does not reflect the timelines in the Packaging Regulations; it would be useful, to reduce administration burdens, if the systems were aligned. For example the packaging regulations currently require annual reporting rather than quarterly

36. Please provide details of the estimated one-off costs for registering with HMRC.

- No response

37. Please provide details of the expected one-off and on-going costs of completing, filing, and paying the return.

- We do not have a specific estimate, however this is likely to be more of an administration burden, and therefore more expensive, if the system is not aligned with the Packaging Regulations timelines

38. Is the government's suggested approach to compliance proportionate and appropriate? If not, please outline any scenarios that you anticipate may require bespoke compliance powers or penalties?

- Further details are required in order to respond to this question. Once the design of the scheme is formulated then further options for how to ascertain, and if needed, enforce, recycled content requirements should be outlined
- It would seem to be a sensible approach for HMRC to have similar enforcement powers to their current enforcement powers for other taxes. We would assume that this would include the power to request and be provided with certain supporting documentation e.g. invoices etc. which may be extended to include documentation relating to recycled content

39. Are our anti-abuse proposals sufficient to tackle the risk of fragmentation (abuse of the de minimis or universal relief) from UK based plastic producers?

- Whilst this appears to be a sensible approach, we do not have the legal expertise to answer this question

40. Is our approach regarding assuring the accuracy of declared recycled content appropriate? If not, please share any other suggestions you may have.

- This area requires further work and detailed guidance to be developed. Once the design of the scheme is formulated then further options for how to ascertain, and if needed, enforce, recycled content requirements should be outlined

41. Do respondents believe that using UK based agents for non-established taxable persons may help support compliance?

- No response

42. Are there any further compliance risks that have not been addressed in this chapter, please provide details?

- Whilst not a compliance risk per-se, the proposals may have the unintended consequence of encouraging producers to import filled packaging from outside the UK as opposed to using UK manufactured packaging to pack/fill their goods

43. If you are a business, what is your annual turnover?

To year end 2017: c. £40million

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44. Are you currently obligated under the Packaging Producer Responsibility system?

- Yes
- Valpak Limited has obligations as a Producer Compliance Scheme (PCS), and as a PCS takes on the legal compliance and reporting obligations of its members
- Valpak Limited is not an obligated producer itself

45. If you manufacture or handle plastic packaging, which sector(s) do you provide it to?

- No response

46. If you manufacture or handle plastic packaging, can you please provide an overview of the types of plastic packaging products as well as the tonnages and the levels of recycled content in each? Do you expect this to change over the next 5 years?

- No response

47. If you manufacture or handle plastic packaging, how much of this packaging is produced domestically, exported and/or imported?

- No response

48. If you process or handle recycled plastic, do you export or import any? If so, how much, and where from/to?

- No response

49. If you manufacture plastic packaging, can you please provide an overview of the prices of some of your plastic packaging products. Can you also provide information on how these costs break down according by material costs, labour costs, other operating costs and profit?

- No response

50. If you manufacture or handle plastic packaging, can you please describe how plastic packaging prices fluctuate? How much do prices vary, and what are the main causes, e.g. fluctuations in exchange rate, oil and other commodity prices, etc.?

- No response

51. If you manufacture or handle plastic packaging, how long does it take you (in months) to increase the recycled content of your product? What factors are important in determining this length of time?

- No response

52. If you manufacture or handle plastic packaging, would the tax incentivise you to speed up any current plans to increase recycled content? To what extent? How quickly?

- No response

53. If you manage waste, how long would it take you to set up the systems required to supply more plastic waste for recycling/recycle more plastic? How much could you produce?

- No response

54. If you manufacture plastic packaging, how would the tax affect the amount and price of product you produce? In cases where you weren't able to increase recycled content, would you pass the price of the tax down the supply chain?

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- No response

55. Is there anything else you would like us to note about how your business operates and how you think it would be impacted by the tax?

- Valpak Limited is the UK's leading producer responsibility compliance scheme operator with member schemes for the Packaging, WEEE and Waste Batteries regulations. In addition we provide our members services for the Carbon Reduction Commitment (CRC), Energy Savings Opportunity Scheme (ESOS) and other environmental areas such as recycling services, REACH, sustainable development consultancy and international compliance. Within our compliance and data services we obtain and process considerable volumes of detailed information on packaging formats and tonnages placed on the market from a large sector of industry.
- Over the past decade Valpak have been at the forefront of researching and analysing the packaging flow data available, as well as working with stakeholder groups, to produce a series of detailed material flow reports which have become the established and recognised source of UK information. We would be happy to share our packaging flow reports with HM Treasury and / or HMRC if this would be useful. We would also be happy to discuss our proposed hybrid governance model which we are proposing under the EPR Packaging Reform consultation, and this may interact with the proposed plastic packaging tax system

56. Unless already covered in your responses to other questions within this document, is there anything else you would like us to note about the impact of the tax, especially any potentially adverse impacts on groups with protected characteristics?

- No response