

EXPLANATORY MEMORANDUM TO

The Draft Single Use Carrier Bags Charge Regulations (Northern Ireland) 2012

1. Introduction

- 1.1. This Explanatory Memorandum has been prepared by the Department of the Environment to accompany the Statutory Rule (details above) which is laid before the Northern Ireland Assembly.
- 1.2. The Statutory Rule is made under sections 77(2) and 90(2)(b), 90(3)(a) and (b) of, and paragraphs 1, 2, 3(1)(a), 3(2), (3), (4), and 4 to 22 of Schedule 6 to, the Climate Change Act 2008 and is subject to the draft affirmative resolution procedure.

2. Purpose

- 2.1. The objective of the Regulations is to:
 - require sellers to charge customers at least 5 pence for each single use carrier bag supplied new;
 - require sellers to pay the net proceeds of the charge (“the levy”) to the Department, and stipulate how net proceeds should be calculated;
 - make provision for certain exemptions from the charging requirement; and
 - provide for a regime of civil sanctions in the event of breaches of the Regulations.

3. Background

- 3.1. Around 250 million single use carrier bags are consumed in Northern Ireland every year. The levy is intended to reduce the environmental damage caused by these bags by cutting the number used. Experience elsewhere has shown that introducing a levy is a very successful way of substantially cutting bag consumption.
- 3.2. The levy will not eliminate single use carrier bags completely as there will still be times when shoppers need to use a bag. On those occasions, consumers should pay an amount that reflects the social and environmental cost of a single use carrier bag – this includes the carbon dioxide emissions and air and water pollution associated with their production, as well as the costs of removing discarded bags from public spaces and disposing of them. The levy will also contribute to funding for environmental programmes and activities.

4. Consultation

- 4.1. The Department has carried out 2 public consultations on the proposed introduction of a carrier bag levy.
- 4.2. Consultation on the policy proposals was carried out between 20 July 2011 and 12 October 2011. The Department received 64 substantive responses to the consultation, many of which were provided by representative groups.
- 4.3. These Regulations were the subject of a consultation exercise between 16 April and 9 July 2012. The Department received 37 separate substantive responses and, again, many of these were provided by representative groups.

5. Equality Impact

- 5.1. The Department is of the view that the Regulations are compliant with section 75 of the Northern Ireland Act 1998.

6. Regulatory Impact

- 6.1. The Department has conducted a Regulatory Impact Assessment which considers a range of options for intervention on single use carrier bags, including the “do nothing” option. These options are assessed against the objectives of achieving significant reductions in carrier bag consumption and raising revenue for environmental projects. A 10 pence levy (discounted to 5 pence in the first year) is identified as the preferred option.
- 6.2. The Impact Assessment can be accessed at:
www.doeni.gov.uk/carrier_bags_impact_assessment.pdf

7. Financial Implications

- 7.1. While there will be an administration cost to the Department, the levy is expected to raise net revenue which will contribute to the funding of environmental programmes and activities.

8. Section 24 of the Northern Ireland Act 1998

- 8.1. The Regulations are considered compliant with section 24 of the Northern Ireland Act 1998.

9. EU Implications

- 9.1. Not applicable.

10. Parity or Replicatory Measure

- 10.1. The Regulations partially replicate the relevant Wales provisions under the corresponding Act.
- 10.2. The key differences relate to the exemptions from the levy and the requirement for sellers to pay the proceeds of the levy to the Department instead of distributing them to good causes, as in Wales.

11. Additional Information

- 11.1. Not applicable.

Carrier Bag Levy

Regulatory Impact Assessment



Department of the

Environment

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2012

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1) Rationale for Government Intervention

1. In 2011 the Northern Ireland Executive approved the introduction of a carrier bag levy to benefit the environment by substantially reducing carrier bag consumption. In addition to this primary objective, the levy should raise revenue to replace the funding transferred from the Department of the Environment to fund the Green New Deal.
2. The production of carrier bags (CBs) imposes an external cost on society (or ongoing social cost) through:
 - Emissions from the CB production/transportation processes
 - Improper disposal
 - Damage to marine-life and wild-life
 - Aesthetic damage
3. The private marginal (additional) cost of each CB does not reflect the true cost to society of producing each bag. This creates a negative externality (or unfavourable side-effect). Government intervention to address this market failure would aim to correct this through internalising the social cost.
4. Introducing a Government levy at point of sale would partially or fully address the imbalance between the social cost and the private cost¹ of each CB. International evidence indicates that the introduction of a levy tends to result in a rapid and substantial reduction in CB consumption (over 80% from the current position).
5. The introduction of a government levy will also ensure that any residual consumption of bags raises revenue which can be used to fund environmental projects.

¹ The price at which CBs are purchased by retailers (which is recouped from consumers through the price of other goods).

2) Policy Options

6. Five main options have been considered:

- **A) Base Case – Do Nothing**
- **B) A 10p Carrier Bag Levy** (5p in first year of operation)
- **C) A Single Use Carrier Bag Ban**
- **D) Extension Of The Voluntary Agreement To More Retailers**
- **E) Introduce A Retailer Charge** (funds distributed to good causes by retailers)

Each option is described in more detail below.

Option A: Base Case – Do Nothing

7. Option A is the reference or base case and involves a do nothing approach whereby the existing UK wide Voluntary Agreement (VA) encompassing 5 major retailers² continues in Northern Ireland with no further intervention from Government.
8. It is estimated that this option has already achieved around a one third reduction in single use carrier bags (SUB) through a combination of removing bags from view at till-points, in some cases charging for SUBs, or through other incentives.
9. However, this option still generates a consumption level of around 250 million SUBs per annum in Northern Ireland with an ongoing cost to society as a result of the imbalance between the private and social cost of a SUB.
10. The 10 year Net Present Cost (NPC) for Option A is £228.9m (up to 2020), representing a net cost to society as each CB has a social cost attached to it (i.e. the production and disposal of CBs creates negative environmental effects).
11. Option A would fail to achieve the key objectives (a reduction in SUB consumption & their environmental impact; raise £4m net of administration

² Asda, Sainsbury's, Tesco, Co-Operative, Marks & Spencer.

and enforcement costs to fund environmental projects). Furthermore, government has no direct control over the continuation of the VA in Northern Ireland.

Option B: Carrier Bag Levy

12. Option B is the preferred policy option and involves the introduction of a levy on CBs which would be payable by consumers. International evidence from other jurisdictions indicates that introducing a levy would substantially reduce the number of SUBs consumed annually (by over 80%). This would create a net benefit to the environment through a reduction in SUB production emissions and waste disposal of SUBs.
13. A 10p levy has an NPC of £191m (up to 2020). The introduction of a levy, relative to Option A (Do Nothing), lowers the NPC reflecting the significant environmental benefits from lower SUB consumption. The levy would initially be introduced at 5p in year 1 and would only apply to SUBs for the first year of operation. This would provide households with time to adapt their shopping behaviour and bring reusable bags when shopping.
14. Option B has the potential to meet both the objectives.

Option C: SUB Ban

15. Option C involves a ban on all SUBs, such that it would be an offence to either produce or sell SUBs under this option. This option includes a ban on plastic bags – one of the options currently under consideration by the European Commission.
16. Option C could eliminate the estimated 250 million SUBs currently consumed each year in Northern Ireland. This would eliminate the ongoing social cost associated with SUBs and would result in a net environmental benefit through the reduced production and disposal of SUBs.

17. An SUB ban would not raise revenue for environmentally beneficial projects and would limit consumers' options for transporting shopping items from retail premises to their residences.

Option D: Extended Voluntary Agreement

18. Option D involves extending the existing VA through Government intervention, to encompass a greater number of retailers. Option D could encourage a further reduction from the reference case in the number of SUBs consumed annually.
19. Option D is similar to Option A but assumes that the VA would cover a larger number of retailers (beyond the existing 5). To this extent, it would have the theoretical potential to reduce SUB consumption further.
20. For example, an additional 20% reduction in SUB consumption in Northern Ireland would equate to around 50m fewer SUBs each year.
21. This option would not necessarily address the imbalance between the private and social cost of a SUB as retailers would not necessarily introduce their own charges to discourage SUB consumption, preferring to use other means instead. Furthermore an extended VA has no revenue raising potential and as it is voluntary in nature, government has no direct control to ensure that this approach would be adopted.

Option E: Introduce A Retailer Charge

(Funds distributed to environmental projects / good causes by retailers)

22. This is the approach adopted in Wales since October 2011. Under this option, legislation would be introduced requiring retailers to set a minimum charge (i.e. not a levy) for each SUB issued to customers.
23. This option would be very similar to Option B with the exception that revenue would not be transferred from the retailer to central government but would instead be distributed by the retailer directly to good causes.

24. While this option may meet the environmental objectives, it would fail to raise revenue for Executive funded environmental projects.
25. As required, option A (Do Nothing) has been carried forward for further consideration. Option B has also been carried forward for further analysis as it has the potential to meet all of the objectives.
26. The other options have not been carried forward for further consideration as they do not have the potential to meet all of the stated objectives.

3) Costs & Benefits

27. Options A and B have been carried forward for further analysis in this section. In order to identify the impact of each option and calculate their NPV, it was necessary to establish estimates for bag consumption in Northern Ireland including plastic/paper SUBs, re-usable bags (RB) and bin liners (BL).
28. Table 1 presents bag use estimates for Northern Ireland based on:
- The pre-Voluntary Agreement (VA) position
 - The post-VA position (Option A)
 - The introduction of a 10 pence levy (Option B)

Table 1 Bag Consumption in Northern Ireland³

(millions)	Pre Levy		Post Levy
	Pre VA	Option A Post VA	Option B 10p Levy
SUB	407.0	246.0	40.9
RB	3.9	8.5	14.4
BL	42.2	62.3	88.0
Gross Revenue	£0	£0	£4.6
Revenue Less Govt. Costs	£0	£0	£3.8

SUB – Single Use Carrier Bag RB – Re-Usable Carrier Bag
 VA – Voluntary Agreement BL – Bin Liners

³ **Pre VA Estimates:**

CB (SUB & RB) estimates based on pro rata average of Ireland, Scotland & Wales estimates.
 Bin Liner estimates pro-rata from Scotland 2005/6 Extended IA.

Post VA Estimates:

SUB estimate based on uplift of 2008/9 NI VA data (208m) using Welsh ratio (480m:416m); adjusted to include Paper SUBs (+5%); 2009/10 VA reduction applied to VA share (208m) then total SUBs increased in line with Office for Budget Responsibility GDP forecasts up to 2012/13.

RB estimate assumes 57.5% of consumers switch from SUBs to RBs at a rate of 20 SUBs: 1 RB.

Bin Liner estimate assumes an increase of 1 bin liner for every 8 fewer SUBs used.

10p Levy:

Extension of assumptions used for Post VA Estimates and evidence from bag levies/charges in other jurisdictions.

29. Prior to the UK Voluntary Agreement, SUB consumption is estimated to have been 407m per annum in Northern Ireland. This figure is estimated to have reduced to 246m (by 2012) primarily as a result of the Voluntary Agreement (VA).
30. Modelling suggests that SUB consumption could reduce further, as a result of introducing a 10p levy, to around 41m SUBs per annum.
31. It is anticipated that the introduction of a levy on all CBs (SUBs and RBs) would drive up consumption of RBs and bin liners. RB consumption is estimated to increase from 8.5m to around 14.4m while bin liner consumption is estimated to increase from 62m to c.88m.
32. A 10p levy is estimated to raise £4.6m gross and £3.8m net of Government administration and enforcement costs (estimated at £0.82m per annum).
33. Table 2 estimates SUB consumption per person and per household based on the estimates in Table 1.

Table 2 SUB Consumption per Person & per Household

	Pre Levy		Post Levy
	Pre VA	Option A Post VA	Option B 10p Levy
SUB/Person	228	138	23
SUB/Household	584	353	59
SUB/Household/Week	11	7	1

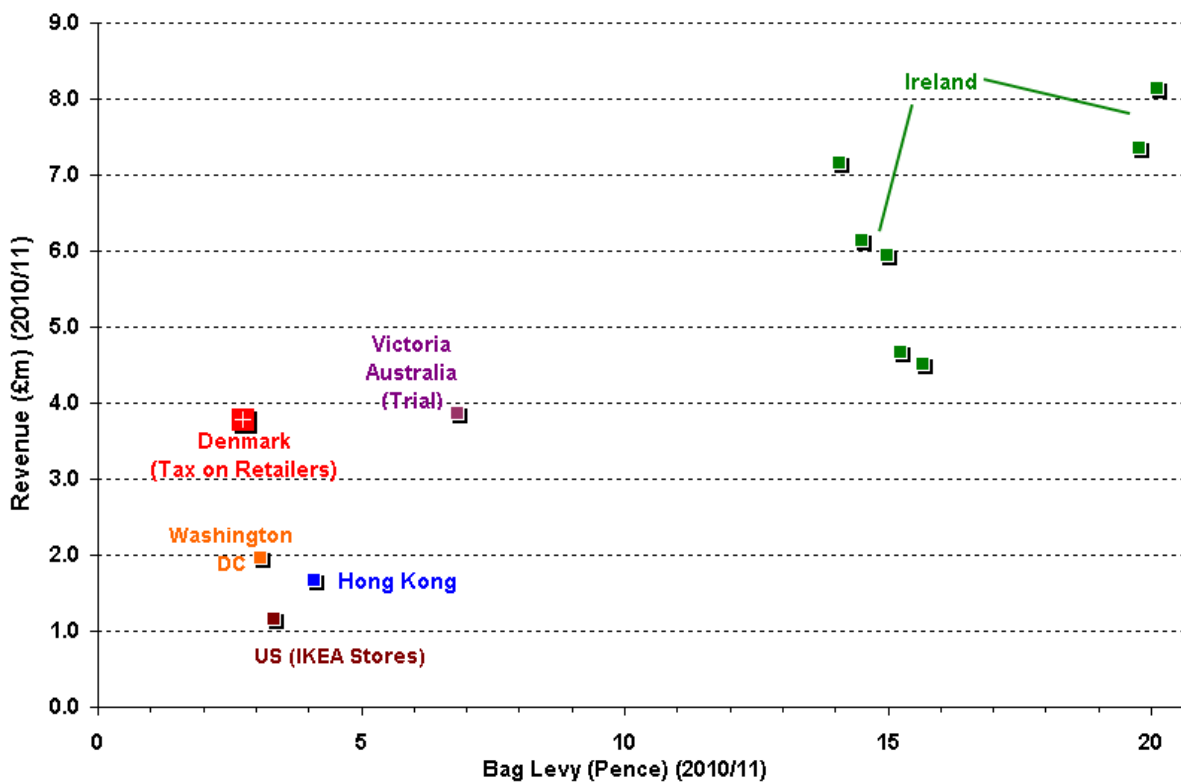
Number of NI Households = 697,400 (NISRA)

Northern Ireland Population = 1.788m (NISRA)

34. The number of SUBs consumed per person is estimated to have dropped from 228 to 138 as a result of the VA and should fall further to around 23 SUBs due to the introduction of a 10p levy.

35. The household figure has fallen from 584 to 353 due to the VA and it is estimated that this figure would fall further, to 59 SUBs with a 10p levy.
36. Overall, the introduction of a 10p levy is estimated to reduce SUB consumption by c.90% from the pre VA position or c.83% from the post VA position.
37. Figure 1 illustrates the revenue that *would have been raised from a bag levy in Northern Ireland based on the experience in other jurisdictions* that have already introduced a levy or charge.

Figure 1 Bag Levies/Charges – International Experience



38. Washington DC, Hong Kong and US IKEA stores introduced charges equivalent to 3 to 5 pence. If implemented in Northern Ireland, the experience from these schemes suggests revenue generation of between £1m and £2m per annum. Modelling suggests that the trial charge equivalent to 7 pence in Victoria (Australia) would have generated around £3.9m in Northern Ireland.

39. The most successful scheme in terms of revenue generation is the “PlasTax” (plastic bag tax) in Ireland. As illustrated in Figure 1, the real terms charge has varied between 14p and 21p (equivalent) over the 7 years presented in the chart. Over this period, if the PlasTax experience had been replicated in Northern Ireland, the model suggests revenue generation of between £4.5m and £8.1m.

A) Impact on Consumers

40. The following assumptions have been applied for the purposes of the analysis⁴:

- The cost of supplying CBs (including purchase, transport and storage costs) is passed on to consumers, either embedded within the price of the goods or as an explicit charge at the check out (such as Marks & Spencer and B&Q).
- Plastic SUBs cost £8.60 per 1,000 bags.
- Paper SUBs cost £187.45 per 1,000 bags.
- Plastic RBs sell for 10p.
- Bin liners cost 5.7p each.

41. The total additional financial burden on Northern Ireland consumers as a result of a levy is made up of the following elements:

- Payment of the levy on each CB consumed post-levy
- **Less**
- Savings from reduction in SUB use
- +
- Cost of additional RBs (cost to retailer)
- +
- Cost of additional bin liners

42. The total annual additional financial burden to consumers was calculated for a 10p levy.

⁴ Derived from data in 2005/6 Scottish Extended IA provided by the CBC and survey data reported by researchers from University College Dublin [UCD]. Uplifted to 2011 prices using UK GDP deflator.

Table 3 Financial Impact of Levy on Consumers

CB Levy	10 Pence Levy
Levy Cost To Consumers	£4,810,000
Plastic SUB Savings	-£1,680,000
Paper SUB Savings	-£1,830,000
Additional RB	£590,000
Additional Bin Liners	£1,470,000
TOTAL	£3,360,000
Cost Per Person	£1.88
Cost Per HH	£4.82

43. The analysis suggests a 10p levy would directly cost consumers £4.8m (charges paid to retailers). This would be partially offset by savings from reduced SUB consumption which would total £3.5m.
44. Increased RB and bin liner consumption would cost an additional £0.59m and £1.47m respectively. Overall, a 10p levy would cost an additional £1.88 per person⁵ per annum or £3.36m per annum in total.
45. The overall impact on individual consumers is relatively small at less than 4 pence per week. The household (HH) impact is estimated at £4.82 per annum or less than 10 pence per week.

⁵ Population/household data source: NISRA

B) Impact on Environment

46. The principal reason for government intervention is to address the externalities which arise from the mismatch between the private and social costs of a CB.
47. The environmental cost of a SUB is estimated to be 4.22 pence. This was based on the following impacts:
- **CO₂ emissions from SUB production**
Emissions assumed at 2.08kg per SUB
Cost of carbon assumed at 1.45p per kg⁶
 - **Air pollution from SUB production**
Emissions assumed at 0.01kg per SUB
Abatement costs assumed at 24.15p per kg
 - **Water pollution from SUB disposal**
Waterborne waste per SUB produced assumed at 0.1 grams
Abatement costs assumed at 3.19p per kg
 - **Clean up Costs**
Landfill cost per SUB assumed at 0.54p
Street cleaning cost per SUB assumed at 0.41p
Beach cleaning cost per SUB assumed at 0.003p
48. Applying the above assumptions to RBs and bin liners produced social cost estimates of 18.17p and 7.8p respectively⁷.
49. Based on the changes in bag consumption outlined earlier, there would be a net environmental benefit from the introduction of a levy on CBs. While increased RB and bin liner consumption would have a net environmental cost, this would be more than offset by the reduced environmental burden from SUB consumption.

⁶ DECC – 2010 Short Term Traded Cost of Carbon (uplifted for inflation as original cost expressed in 2009 prices)

⁷ Average bag weights taken from Environment Agency Life Cycle Assessment of Supermarket Carrier Bags – CB = 8.12g / RB = 34.94g / Bin Liner = 15g.

50. Based on the information presented at paragraph 47, Table 4 outlines the environmental costs and benefits from the introduction of a 10 pence levy:

Table 4 Environmental Impact of CB Levy

	10p Levy
SUB	-£8,660,000
RB	£1,070,000
Bin Liners	£2,000,000
Net Cost	-£5,590,000

51. The reduction in SUB consumption results in an environmental benefit (represented by a minus figure) of c.£8.7m. The increased environmental cost of RBs and bin liners totals c.£3.1m, resulting in an overall net environmental benefit of c.£5.6m (represented by a minus figure).
52. The net environmental **benefit** per capita is estimated at £3.13. This equates to an average household environmental benefit of £8.01 per annum.

C) Impact on Government

53. The introduction of a levy on CBs would result in both one off upfront costs to central government and ongoing recurrent costs for the enforcement and collection/administration of the levy.
54. Table 5 outlines the estimated ongoing administration and compliance costs of a CB levy. Figures are presented in 2011/12 prices and are based on a model of a Northern Ireland carrier bag levy collection and compliance team. The structure and costs of establishing this team within the Department of the Environment are based on comparable organisations within Northern Ireland and information on the administrative arrangements for the PlasTax in Ireland (Office of the Revenue Commissioners).

Table 5 Government Costs of CB Levy

Government Costs (£000s)	
Collection/Administration Team	370,000
Compliance Team	370,000
IT Licences & Support	140,000
Total Ongoing Costs	880,000

55. Once the levy is introduced there would be ongoing operational costs associated with the collection and administration of the revenue. It is estimated that the collection and compliance costs for the carrier bag levy would be in the region of £0.88m per annum. These costs would be paid from the revenue raised from the levy.
56. The levy is also estimated to entail one off set up costs of c.£50k for IT hardware and c.£170k for the delivery of an in-house IT system for the collection and monitoring of CB revenue. A budget of c.£15k/year for 2 years would be required for a publicity campaign to ensure consumers are aware of the introduction of the new levy and that retailers are aware of their obligations.

D) Impact on Business (Retail & Manufacturing)

57. The proposed levy on CBs will affect the economy as well as the environment.

Conclusions on the business and industry effects of the CB levy are based on:

- Examination of financial data.
- Evidence from previous studies on similar measures in other jurisdictions.

Manufacturing

58. The Carrier Bag Consortium estimates that there are 15–20 *plastic* bag manufacturers, importers and distributors in Scotland, most of which are SMEs⁸. DETI is unable to release information on manufacturers, importers and distributors of CBs in Northern Ireland for disclosure reasons. However, data from a range of alternative sources⁹ indicates there are around 16 businesses in Northern Ireland potentially engaged in the manufacture, import or distribution of plastic and paper bags.

59. These businesses are estimated to have a combined turnover of c.£10m (based on average turnover of manufacturing enterprises employing fewer than 100 people in Northern Ireland¹⁰) and are estimated to employ around 90 people in Northern Ireland (based on average employees of manufacturing enterprises employing fewer than 100 people in NI).

60. Many of these businesses are already engaged in other forms of packaging, offering a diverse range of products. It has been estimated that CB related turnover is c.£5m, with around £1.2m of this total coming from sales *within* Northern Ireland¹¹.

⁸ Scotland 2005/6 Extended IA – estimate validated through study of the online Applegate directory of plastics companies in the UK [Apgate].

⁹ Applegate online directory; Dun & Bradstreet; Departmental communications; Online searches (Yell and Google), Invest NI.

¹⁰ DBIS – SME Statistics 2009.

¹¹ While detailed sales and export data for CBs is not available from DETI (for disclosure reasons and due to limitations of SIC Codes), figures from DETI suggest that around 25% of plastic packing goods produced in Northern Ireland are sold within Northern Ireland.

61. The number of CB related jobs within Northern Ireland is estimated at c.45, with around one quarter of these dependent on sales within Northern Ireland. Importers, distributors and manufacturers of carrier bags would be affected by the levy. In Ireland, one manufacturer closed after the “PlasTax” was introduced.
62. Smaller enterprises are considered more likely to be impacted by a levy as it is anticipated that they have less capacity to adapt. The Scottish Extended Impact Analysis suggests most bin liners produced in the UK are manufactured in England. It is considered unlikely that production could be switched to Northern Ireland to compensate for some of the lost CB production.
63. It is estimated that 9 direct jobs and c.£1m of turnover could be lost in Northern Ireland as a result of a levy being imposed on plastic and paper CBs (assuming a c.83% fall in CB consumption). This estimate is made up of jobs in the manufacture and sale of both paper and plastic CBs within Northern Ireland as plants would either;
- Close; or
 - Move operations to elsewhere in the UK/abroad.
64. However, a portion of these estimated job losses could be offset as manufacturers diversify where possible into other plastic or paper products. Manufacturers may be able to take advantage of an increase in RB consumption from around 8.5m to 14.5m units per annum. Further, the establishment of the carrier bag levy administration and compliance team is anticipated to create up to 10 jobs. Therefore, the net jobs impact on the local economy is expected to be negligible.

Retail

65. It is estimated that giving away SUBs will cost retailers in Northern Ireland £4.2m (246m SUBs) in 2012/13. It has been assumed in the consumer impact section that this cost is ultimately recouped from consumers through higher prices for other goods and services provided by retailers.

66. The introduction of a CB levy would reduce the upfront cost to retailers due to the very substantial reduction in SUB consumption (c.200m fewer SUBs). However, as the retail sector is assumed to operate in a competitive environment, it is assumed that these savings, less any administrative costs for retailers, are ultimately passed on to consumers through lower prices for goods and services provided by retailers.
67. Evidence from Ireland and the BRC suggests that the food retail industry would benefit from net cost savings from a CB levy (after taking set up and administration costs into account). Savings would result from having to purchase fewer SUBs, while sales of bags for life and bin liners would increase¹².
68. Evidence from Ireland indicates this would not be the case for non-food retailers. Those retailers that switched to paper bags (mainly high street non-food retailers) required greater storage space and more frequent deliveries.
69. However, this experience is unlikely to be reflected in Northern Ireland as the Northern Ireland CB levy would apply to both plastic and paper CBs. Therefore, the levy is unlikely in itself to cause a substitution effect between paper and plastic CBs. Indeed, the substitution from SUBs to RBs could actually prove beneficial for retailers.
70. Larger retailers are likely to find it easier to implement the system needs for compliance as they tend to have computerised systems and can benefit from economies of scale/scope. There would be a cost for retailers associated with administration of the levy, but the experience in Ireland suggests that the effects were generally positive or neutral¹³.

¹² BRC, ERM, UCD.

¹³ UCD.

71. Table 6¹⁴ presents data from four larger retailers from a 2007 review of Ireland’s plastic bag tax (“PlasTax”). Monetary amounts are displayed in €’s.

Table 6 PlasTax Review – Ireland 2007

	A	B	C	D
Sales Turnover (000s) (2002)	1,400,000	454,000	879,000	206,000
Pre-Levy Bag Expenditure	2,208,000	500,000	1,270,000	154,000
Annual Levy Implementation Costs	100,000	8,000	0	60,000
Shoplifting & Trolley Theft	65,000	50,000		0
Admin Costs As % Of Turnover	0.007%	0.002%	0%	0.029%

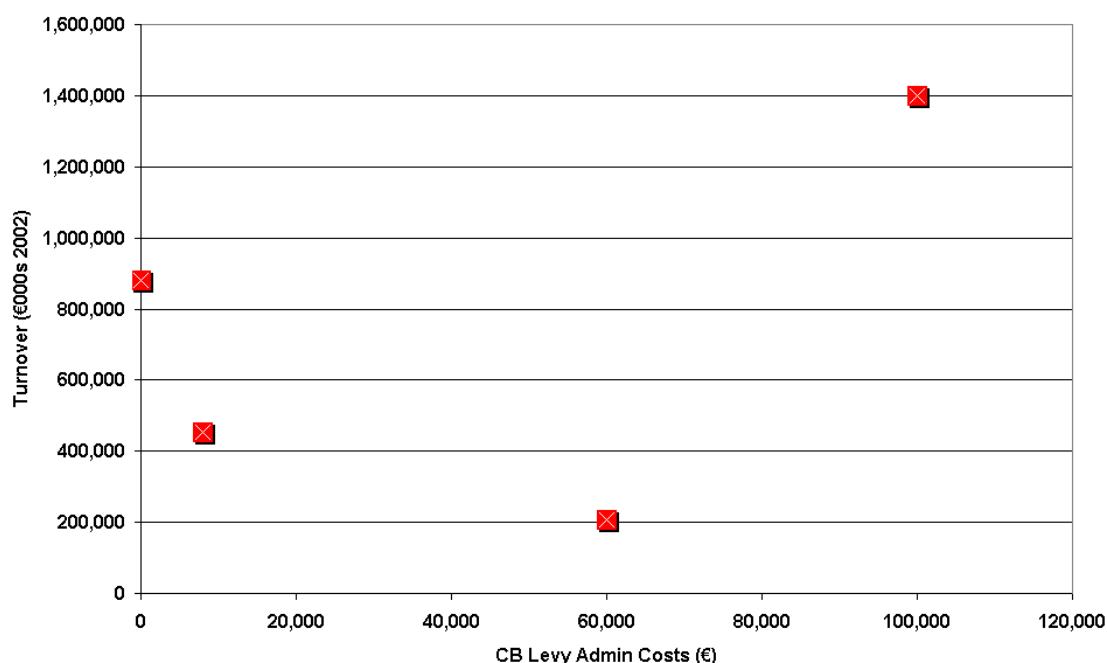
72. The largest of the 4 retailers, with a 2002 turnover of €1.4b, reported administration costs for the levy of €100k, representing just 0.007% of the retailer’s turnover. Retailer B reported lower administration costs of €8k representing only 0.002% of turnover. Retailer C reported no administration costs. Retailer D reported the highest administration costs as a percentage of turnover (0.029%), corresponding with the fact that Retailer D had the lowest turnover (€206m).

73. In all cases the pre-levy bag expenditure, which would have reduced by an average of c.90%, was significantly greater than the PlasTax implementation costs. This is consistent with the report’s findings that retailers generally had a positive or neutral view of the levy.

74. Figure 2 presents the turnover and administration costs for the four companies.

¹⁴ Turnover for retailers B & C was not available and has been approximated from other returns in the review. Turnover was calculated assuming pre-levy bag expenditure is related to retail turnover.

Figure 2 Plas Tax Review 2007 – Administration Costs Relative to Turnover



75. Based on the analysis above, it is anticipated that a levy would represent a greater burden to smaller retailers (e.g. newsagents, independent convenience stores, butchers, etc.) particularly if they do not have computerised systems.

76. As a minimum, retailers would need to have an auditable system for:

- Recording CB sales
- Accounting for CBs in stock
- Reconciling sold versus stock remaining
- Submitting records (quarterly or annual) & payments

77. However, the online CB returns are unlikely to be overly onerous for retailers and the record keeping and reporting processes should be relatively easy to incorporate within businesses' existing arrangements.

78. In order to minimise the reporting burden on business, the online return to the carrier bag levy administration team should only require a few basic pieces of information and the portal should automatically calculate the payment due once the retailer inputs the number of SUBs and RBs. It is envisaged that the majority of retailers will only need to provide a return once every quarter.

Shoplifting & Theft

79. Although levels of theft were initially reported to have increased in Ireland following the introduction of the PlasTax, they have since returned to pre-levy levels and are even dropping further¹⁵.
80. Table 6 above includes some data on shop lifting and trolley theft. Retailers A and B reported increased theft to the value of €65,000 and €50,000 respectively. Retailer B initially saw quarterly theft attributable to the levy rise to €15,000 which then fell back to €10,000 per quarter.
81. Retailer C did not provide theft information and Retailer D reported no increase in theft due to the levy. A fifth retailer not shown in Table 6 reported no increase in theft.
82. Of the 5 large retailers providing data on theft, 2 indicated no increase, 2 reported an increase followed by a decrease and 1 reported an increase. The highest level of theft relative to turnover was reported by Retailer B, initially representing 0.013% of turnover before dropping to 0.009% of turnover.
83. Increased trolley and basket theft has been highlighted by some as a potential cost to industry resulting from people wishing to save on paying for bags. Five months after the introduction of the PlasTax, the Irish Retail, Grocery, Dairy and Allied Trades' Association (RGDATA) reported that 50 baskets per month were disappearing from shops at a total cost of €450/month.
84. However, relative to the potential savings from a very substantial reduction in SUB consumption, the retailer administration costs and costs of theft appear to be extremely small.
85. For the purposes of the Net Present Cost (NPC) analysis, it has been assumed that the costs to retailers in Northern Ireland to set up a CB levy would be £614k (altering of till points), with recurring administration costs of £553k¹⁶ (equivalent to c.1.4 pence per CB).

¹⁵ The Department of Environment, Communities & Local Government (Ireland).

¹⁶ Population based pro-rata estimate from cost estimates in the RIA for the Welsh CB levy.

4) Impact Tests

Competition Assessment

86. The introduction of a CB levy might have an adverse impact on SUB manufacturers, although this is likely to be minimal since there are relatively few of these producers situated in Northern Ireland (see paragraphs 58-64).
87. Positive competition effects may result from the increased demand for RBs and bin liners such that manufacturers of these bags would benefit from producing a greater volume.
88. Positive competition effects may also result from the development of other sustainable alternatives to SUBs.

Small Firms Impact Test

89. Some retailers have suggested that the introduction of a CB levy may have a disproportionate effect on small businesses (including micro businesses), since a levy may lead to a reduction in impulse purchases from these retailers. However, this might also affect larger retailers, although such effects are not currently quantifiable.
90. As larger retailers might find it logistically easier to implement new charging and administration systems, they might also have an advantage with regard to non-compliance and possible court proceedings,.
91. However, the online payments and returns to the carrier bag levy collection team are not anticipated to be unduly onerous for retailers and the record keeping and reporting requirements should integrate relatively easily with existing retailer practices.
92. While data specific to small firms is not available, the 2007 PlasTax Review in Ireland indicates that among larger firms, the costs of implementing the levy averaged around 0.006% of turnover.

93. Assuming in the region of 11,000 retailers in Northern Ireland would be affected by the CB levy, the *average* cost per retailer is estimated at c.£50/year.
94. However, it is anticipated that this cost would be more than offset by the £3.1m savings from reduced SUB consumption, which would equate to an average saving per retailer of c.£280 per annum.
95. Small firms could also benefit from increased RB and bin liner sales.

5) Enforcement & Sanctions

96. Enforcement activities will be conducted in a fair and transparent manner and in line with outlined best practice guidelines with actions taken appropriate and proportional to the issues identified. It is anticipated that the enforcement regime relating to the proposed CB levy will be largely complaint driven, drawing on the experience and lessons learnt with the comparable introduction of the PlasTax in Ireland.
97. It is proposed that the carrier bag levy enforcement team will be required to investigate breaches of regulation related to:
- Failure to charge for bags which fall within the scope of the legislation
 - Failure to keep and provide accurate and verifiable records of the numbers of carrier bags dispensed
 - Failure to pay the required CB levy revenue to the carrier bag levy collection team within the stipulated timeframe.
98. Enforcement action would take the form of civil sanctions. It is proposed that a range of penalties would apply for breaches of the regulations – with variable monetary payments of up to £20,000 or, in certain cases, 10% of the outstanding monetary payment (whichever is the larger).

6) Monitoring & Review

99. A review will be undertaken two years after implementation of the policy (early 2015). The review should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences.

100. The policy review may, in turn, lead to a review of the statutory requirements.

Review Objective

101. The review is intended to assess the effectiveness of the policy in achieving its objectives of adapting consumer behaviour (reduced CB consumption) and raising revenue for Executive funded environmental projects.

102. It should seek to evaluate the achievement of the policy objectives in terms of reduction in demand for SUBs against the estimated 2012/13 level of consumption and the target net revenue of £4m per annum.

Review Approach & Rationale

103. The main approach for the review will be the monitoring of the number of SUBs being issued, since the overarching aim of the policy is to significantly reduce the number of SUBs issued in Northern Ireland.

104. Additionally there will be a review of the staffing structure of the Carrier Bag Levy Operational Support Unit to ensure that it is fit for purpose.

105. Two further consumer/retailer attitude surveys will be conducted in October 2012 and October 2013.

Baseline

106. The review should measure the reduction in the number of SUBs issued in Northern Ireland against the estimated 2012/13 baseline figure of 246 million SUBs. Retailers will be asked to submit estimates of the number of SUBs and RBs issued in 2012 (prior to the levy). Should this data become available and be deemed to be sufficiently reliable, this figure should be used as the baseline in place of the 246m estimate.

Success Criteria

107. Any reduction in the number of SUBs consumed will be evaluated against the expected percentage reduction (83%) associated with the 10p levy, to assess the effectiveness of the policy in terms of reducing SUBs.

108. Should the number of SUBs consumed begin to rise after an initial fall (as with the Irish PlasTax) the policy would need to be reconsidered, for instance, increasing the levy. This is a separate issue from the increase from 5p to 10p after the first year of operation.

Monitoring Information Arrangements

109. Retailers would be required to provide online returns with their online payments to the carrier bag levy collection team. These will provide an evidence base for the review.

7) Consultation

110. The following organisations were consulted during the preparation of this Regulatory Impact Assessment:

- HM Revenue & Customs
- The Welsh Assembly Government
- Office of the Revenue Commissioner (Ireland)
- Department of Enterprise, Trade & Investment (DETI)
- Department of Finance & Personnel
- Dun & Bradstreet
- Land & Property Services
- Department of Environment, Communities & Local Government (Ireland)
- CBI
- British Retail Consortium (BRC)
- McDonald's
- Northern Ireland Independent Retailers' Association (NIIRTA)

111. In addition to discussions with the organisations listed above, a public consultation on the scope of the levy, the type of bags to be covered, the amount of the levy and the collection and enforcement options was undertaken between July and October 2011. A further consultation on the Department's proposals for subordinate legislation is scheduled for Spring 2012.

8) Summary

112. Table 7 below summarises the key information for each option considered. The SUB consumption, revenue generation and the Net Present Cost for those options carried forward for further analysis (Options A & B) are presented.

Table 7 Options Summary

Option	Single Use Bag Consumption (million pa)	Revenue (£m) (Net of VAT)	Net Revenue (£m) (Net of Costs & VAT)	Net Present Cost (£m)
A) Base Case (Do Nothing)	246.0	£0	£0	£228.9
B) 10p Carrier Bag Levy (5p Year 1)	40.9	£4.62	£3.74	£191.0
C) Single Use Carrier Bag Ban	Options dismissed as they fail to achieve key Northern Ireland Executive objectives.			
D) Extension of Voluntary Agreement				
E) Charge Administered By Retailers				

113. Under Option A (i.e. continuation of existing arrangements), it is estimated that 246m SUBs would be issued in Northern Ireland in 2012/13. The Net Present Cost (NPC) provides an estimate of the environmental, social and resource cost to society of each of the options. The NPC for this option over the period until 2020 is £228.9m. Option A would fail to deliver any revenue for Executive funded environmental projects.

114. Option B, the introduction of a 10p levy for SUBs and lower cost RBs (with a reduction to 5p and applied only to SUBs in year 1), is estimated to reduce SUB consumption to just under 41m SUBs in 2013/14. This represents a reduction of over 83% in the number of SUBs (200m+ SUBs) consumed in Northern Ireland.

115. As a result of such a substantial reduction in SUB consumption, the NPC of Option B is over 16% lower than for Option A – reflecting the substantial environmental benefit which may be derived from reduced SUB production; resulting in reduced air and water pollution and reduced CO₂ emissions. The lower NPC also reflects reduced clean up and disposal costs.

116. In addition to the substantial environmental benefit, it is estimated that a 10p levy could achieve the target net revenue of £4m per annum. While the amount of net revenue estimated above is £3.7m per annum, this allows for the possibility that administration costs could be higher than originally estimated. Provided that the original estimate of administration costs is broadly correct, modelling indicates that the £4m target should be achieved. The net amount of revenue collected through a 5p levy (on SUBs only) in year one is estimated at £1.5m.

117. Option B emerges as the preferred policy option as it is anticipated to deliver a substantial environmental benefit and, when fully implemented, could achieve the target net revenue of £4m per annum.

9) Declaration

[This section will be completed post public consultation]

I have read the Regulatory Impact Assessment and I am satisfied that the benefits justify the costs.

Signed

[DD-MM-2012]

Environment Minister

Contact Points

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