

USE OF UK WIDE SKUs – COMPLIANCE

1. Introduction

As part of its Operational Plan CSL indicated that products included in the DRS scheme as Scheme Articles would be identifiable by a unique, GS1 compliant, barcode. However, in response to producer and distributor concerns over the impact of duplication of SKUs (Scotland and rest of UK) on supply chains it was considered that a single product (code) may be used throughout the whole of the UK. Such SKUs, referred to as UK wide SKUs, will carry a producer fee premium to reflect the increased risk of containers being presented for deposit reimbursement when a deposit was not originally paid e.g. bought by a consumer outside of Scotland but returned for deposit redemption in Scotland.

There are also more significant risks of such UK wide SKUs, sold by the producer outside of Scotland without deposit and producer fee, then being resold, contrary to the DRS regulations, to a wholesaler/retailer in Scotland (they are Non-Scottish Articles as the producer did not intend that they be sold in Scotland as Scheme Articles) either with or without deposit and without the knowledge of the producer.

A reseller outside of Scotland may attempt to represent the product as Scheme Articles, with a deposit having been paid, to a retailer in Scotland who then acquires the product in the belief that they are compliant. Alternatively, a retailer in Scotland may acquire product outside of Scotland, with no deposit, and mis-represent them as Scheme Articles to consumers. There is no identification on the product that adequately differentiates Scheme Articles from non-Scheme Articles in these circumstances. Only a financial audit trail would provide such evidence.

2. Risk Assessment

Prior to determining that the use of a UK wide SKU (REAN or NEAN) is appropriate, a producer is required to assess the risk associated with the use of such a code. This assessment will need to be formalised to provide evidence of due diligence regarding meeting the obligations on the producer to report accurate Placed on Market data and ensure that they minimise the risk of non-Scheme Articles (non-Scottish Articles) being presented for sale in Scotland. It is believed that the highest risk items will be high volume (maximum sales potential) and low value (lower investment, higher return potential).

The table below details some of the considerations in the determination of the level of risk. (They are not presented in any particular order)

Consideration	Assessment	Rationale
Route to Market:	Split between retail and wholesale	Direct to retail lower risk than sales to resellers
Market Share	Volume share relative to direct competitor brands	The larger the market share the greater the opportunity
Value	Value relative to the deposit	Deposits are the same for all products irrespective of value. The return therefore is greater on lower value products
Alcohol	Is it an alcoholic product?	Alcoholic drinks sellers and wholesalers operate in a regulated market. Note: This alone should not be seen a failsafe against fraud.

Availability of supporting information	Is data available that can support the declared numbers e.g. EPOS	Different sources of data can be used to validate the 'reported' data
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3. **Mitigating Factors**

Having completed the risk assessment, the producer must document how it will mitigate against the identified risks. As part of any subsequent compliance assessment the producer will be required to demonstrate that any process identified and implemented as part of the risk assessment has been carried out successfully or discrepancies investigated.

Examples of mitigating factors may include:

- Creation of 'Regional' forecast for Scotland; compare actual sales vs forecast
- Monitor return rates: CSL will highlight variances to comparable basket of products/outlying products and investigate. Cumulative return rates in excess of 100% will result in a charge to the producer; where this persists CSL will investigate and take appropriate action.
- Obtain first tier sales information from resellers through commercial arrangements where appropriate
- Use commercially available data e.g. Nielsen/Kantar
- Clear audit trail for stock supplied vs deposit paid; investigate unexpected changes in ratio

If no satisfactory control procedure can be identified the producer should reconsider the use of a Scottish specific SKU.

4. **Placed on Market (PoM) – UK wide SKUs**

Accurate PoM is a regulatory requirement as part of annual registration. CSL will submit this on behalf of the producer based on the monthly/periodic reporting; the producer is therefore responsible for the accurate reporting of PoM to CSL. This is more straightforward with Scottish specific SKUs but is more complex where UK wide SKUs are selected. As many supply chains operate on a pan UK basis deliveries of a UK wide SKU into a single customer's warehouse may be used to support shipments both into Scotland and the rest of the UK (rUK). To ensure accurate reporting for the producer's PoM reporting there are possible options for the determination of whether the item supplied is a Non-Scottish Article or a Scheme Article. Examples are:

- Supply as Non-Scottish Article and obtain actual returns from retailers/resellers post-despatch from warehouse, rather than on delivery, to convert to Scheme Articles
 - Ensure charges for deposits can be reconciled to deliveries (producer and retailer)
 - Retailer to ensure sales data can be supported by deposit charges
 - Producer to monitor % between total delivered and declared as sold in Scotland
- Charge deposits based on delivery address
 - Supply Scheme Articles to Scottish delivery addresses and Non-Scottish Articles to rUK addresses
 - Provision for recipient to advise adjustment based on subsequent shipment address and for producer to subsequently adjust PoM
- Split delivery – Scheme Articles (deposited), Non-Scottish Articles (non-deposited)
 - Can be used where customers have the capability to hold a single SKU with deposit status indicator

5. **Invoicing**

To provide a comprehensive audit trail back up the supply chain, to ensure that Scheme Articles on sale can be validated as such where UK wide SKUs are being used, the producer should ensure that the following principles are followed regarding invoicing:

- Indicate clearly on the invoice which products have a deposit charged
- Do not include deposit charge in the unit product cost
- Show a separate line for total deposits charged (by VAT rate)
- For retrospective deposit charging provide supporting documentation regarding SKUs they relate to i.e. link the deposits to the products previously delivered.

6. Disclaimer

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