

CEPS Task Force Report “The Role of Business in the Circular Economy”

Vasileios Rizos, Research Fellow, CEPS
Arno Behrens, Associate Senior Research Fellow, CEPS
Eleanor Drabik, Researcher, CEPS
David Rinaldi, Associate Research Fellow, CEPS

Brussels, 16 May 2018

Structure of presentation

- 1. Drivers to the circular economy transition**
- 2. Making markets function for a circular economy**
- 3. How policy makers can support the circular economy**

Drivers to the circular economy transition

- **Sustainability**
- **Security of supply of resources**
- **Competitiveness**
- **Digitilisation**
- **Investment**

Drivers to the transition

Sustainability

- Business models will need to be adapted in such a way that they can serve “the markets of the future within the limits of the planet’s resources”
- Link between use of natural resources and climate change
- Sustainable Development Goals (SDGs)
 - Goal 12: “ensure sustainable consumption and production patterns”
 - UNEP: 12/17 SDGs promote human well-being through sustainable resource use

Drivers to the transition

Security of supply of resources

- Europe's economy is dependent on imports of raw materials from third countries
- Much of Europe's industry is reliant on international markets to provide access to raw materials
- The production of many materials is often reliant on a few countries outside of the EU
- Circular economy can help reduce supply uncertainty due to scarcity and geopolitical factors

Drivers to the transition

Competitiveness

- Increasingly international marketplace: resources and energy costs represent an important competitiveness factor

Digitilisation

- Emerging breakthrough technologies change the business environment: Cloud, Internet of Things, 3D printing
- New business models enabled by digital technologies (sharing models, product as service)
- Shift in consumption patterns

Drivers to the transition

Investment

- Consensus that CE business models represent not only an environmental opportunity but also an economic one
- Evidence indicates that there is an investment gap in Europe and in various sectors there are investment opportunities that can be seized

Making markets function for a circular economy

Barriers in the B2C and B2B markets

- Business model innovation, in both the B2C and B2B markets, will be critical to mainstreaming the circular economy

Key challenge in the B2C market

- Difficulty in implementing product as a service and leasing models since consumers prioritise the upfront price of products rather than the entire life-cycle economic benefits

Key challenges in the B2B market

- Lack of transparency on the origin or content of products and materials and lack of cooperation of multiple companies along the supply chain with different interests and priorities

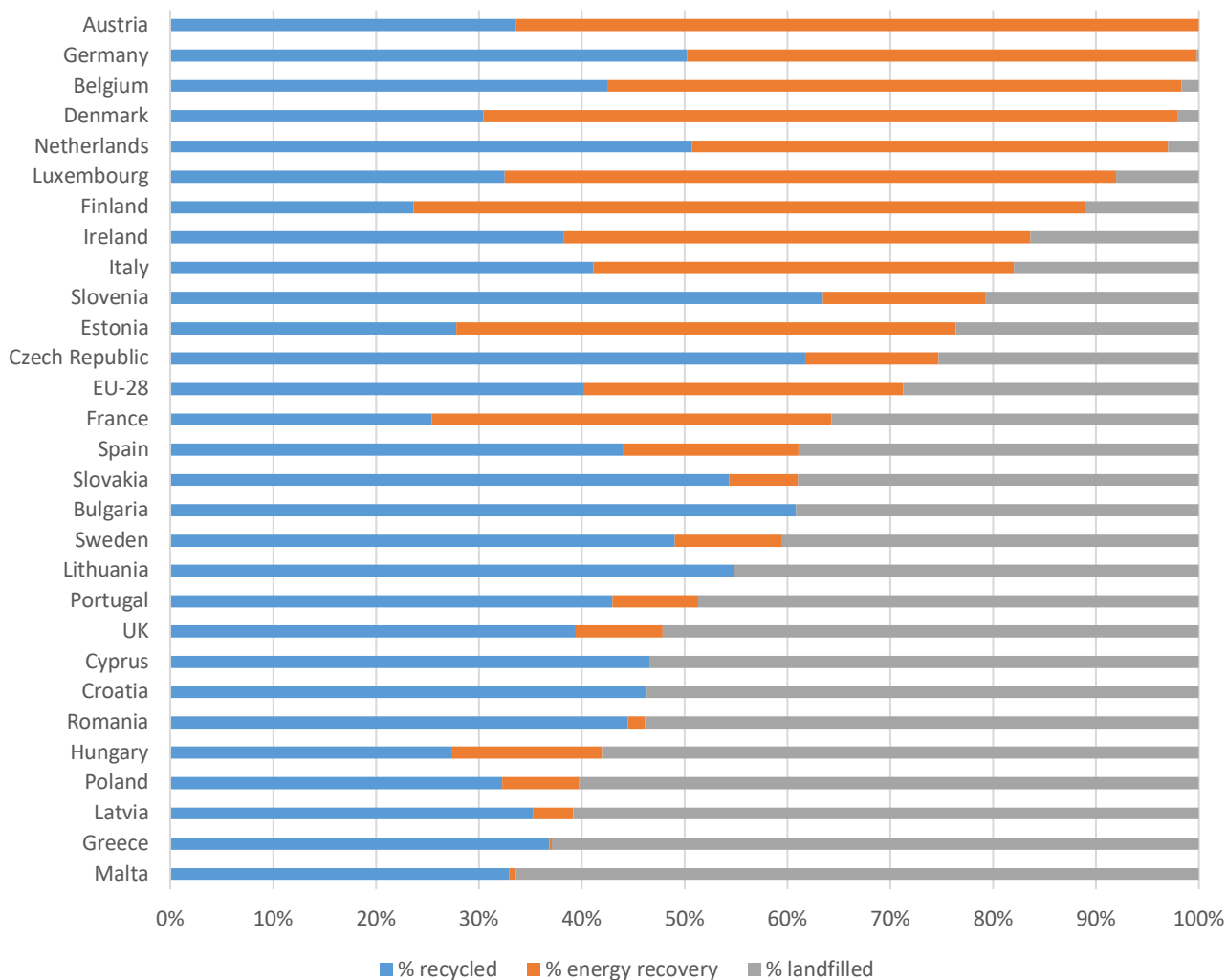
Making markets function for a circular economy

Regulatory challenges

- The shipment of waste for materials' recovery within the EU is a complex process entailing a high administrative burden and costs
- EU legislation on hazardous substances: i) Difficulties in remanufacturing products, ii) uncertainty about substances included in products
- Need to provide clarity on emerging issues arising from new disruptive technologies (e.g. liability and intellectual property issues related to 3D printing technology)
- Wide differences in waste management performance across member states; a lack of waste collection and processing infrastructure is an issue in several countries

Making markets function for a circular economy

Recycling, energy recovery and landfilling rates of plastic packaging waste in the EU, 2015



How policy makers can support the circular economy

Ecodesign

- The EU should continue and accelerate the process of setting circular economy design requirements for different product groups

However: Any such design requirements introduced in EU law should be verifiable, flexible and linked with the life-cycle impacts of products

Recommendations for EU policy makers:

- Set horizontal and/or per-product group information requirements (e.g. display information on substances) to prepare the ground for introducing design requirements into EU law
- Coordinate with member states to identify the non-energy-related product groups that should be prioritised for future design requirements
- Introduce harmonised criteria for applying differentiated environmental fees under extended producer responsibility to encourage the ecodesign of products

How policy makers can support the circular economy

Tax shift

- Although there have been many calls for shifting taxation from labour to resources, in practice only negligible progress has been achieved within the EU

➡ In comparison with labour-related taxes, environmental taxes only contributed slightly over 6% in 2015

- Barriers: The immense level of political attention received when a national fiscal system is changed
- Recommendation: The EU should take further action and guide member states in a process of reassessing their taxation policies and considering tax shifts from labour to resources

How policy makers can support the circular economy

Tax incentives

- Tax approaches related to material resource efficiency are generally penalty-led in the EU

However: At the member state level and beyond the EU (China, Sweden, Belgium, Ireland) there are examples of policies providing tax incentives to companies

- The current EU VAT system sets a minimum VAT rate (15%) and allows certain exemptions; however, the recent Commission proposal to update the VAT Directive indicates that in the coming years this system could become more flexible

Recommendation: Member states should explore possibilities for introducing tax incentives for circular products and services that would coexist with tax penalties

How policy makers can support the circular economy

Public Procurement

- There is untapped potential for using public procurement as a major demand-side policy instrument for the creation of markets for more environmentally friendly products and services across the EU
- There are examples of countries that have introduced ambitious, green requirements in public procurement (e.g. Japan, Italy, France)
- Member states adopt programmes for circular procurement or consider the integration of circularity elements into their National Action Plans (NAPs) for green public procurement

However

- Transparency issue : Procurement officials are interested in obtaining information about the origins and composition of the products that they acquire
- In the procurement process the purchase price is a more influential factor than the costs occurring during the lifetime of the product/service

How policy makers can support the circular economy

Public Procurement

Recommendations for EU policy makers on circular procurement

- Encourage all member states to revise their NAPs for greening their public procurement and to integrate circular economy aspects into the revised plans. Also produce an EU guidance document to assist member states in this process
- Provide more guidance on the use of life-cycle costing in the procurement process and develop tools and methodologies for different product and service groups
- Introduce measures that support transparency regarding the origins and composition of products throughout value chains

- THANK YOU! -