

Position paper of the Institut de l'économie circulaire on the European Commission's Circular Economy Package

Including the communication "Closing the loop- An EU action plan for the Circular Economy" as well as the propositions of the directives modifying the directives 94/262/CE, 1999/31/CE et 2012/19/UE

FOREWORD

The *Institut de l'économie circulaire*, launched in 2013, is a multi-actor association gathering more than 200 members (enterprises, communities, NGO, etc.). The *Institut* promotes a transversal vision of circular economy focused on the improvement of resource efficiency at every stage of the product's life cycle. As a centre of knowledge and reflection, the *Institut de l'économie circulaire* addresses all the public and private policymakers and aims to accelerate the transition towards this economic model that creates economic, social and environmental value.

Since the European Commission's communication on an "efficient European resource use" in January 2011, the EU contributed significantly to spread the concept of circular economy. The Circular Economy Package makes the European Commission enter into a phase of political realisation which will orientate durably the political and economic path of the Member states.

After having expressed its disappointment following the withdrawal of the previous Package presented by the Barroso's Commission in 2014, the *Institut de l'économie circulaire* followed with attention the new proposition of Juncker's Commission presented on the December 2nd 2015. Through its European working group, aiming to reinforce the interactions between the political and economic leaders at national and European level, the *Institut de l'économie circulaire* initiated a multi-stakeholders debate that led to this position paper.

Many additional opinions emerged from this participatory work. For ease of synthesis and clarity, we have selected a limited number of propositions agreeing with the fundamental principles of the *Institut de l'économie circulaire*:

- It is essential to improve the efficiency of our production and consumption models by taking into account the rarefaction of raw resources and the environmental externalities of the current economic model. Circular economy integrates these constraints and promotes an efficient use of limited resources.
- Circular economy is not restricted to the waste economy and recycling: it aims to optimize the use of resources, and this, during the entire **product's life cycle**.
- In the context of the transition towards a circular economy, **incentives** are better than constraint: economic instruments, voluntary actions and multi-actor collaboration helped to increase the economic actor's sense of responsibility and to identify the obstacles to sustainability.

This document reaffirms the necessity for Europe to adopt a package of ambitious measures in order to accelerate and support the transition towards circular economy. Some additional incentives are necessary for an effective economic model transition allowing to uncouple economic activity and resource consumption.

Moreover, a transition limited to the European level cannot respond to the world's resource issues. Consequently, the *Institut de l'économie circulaire* invites the European Union and its Member states to set circular economy on the international agenda, as it has been the case for climate change, in order to limit the global exposition to the resource depletion and others environmental damages.

The *Institut de l'économie circulaire* has favourably welcomed the Circular Economy Package presented by the European Commission on December 2nd 2015. Extended to the entire product's life cycle, this new package of measures takes into account the upstream of the value chain and especially the product's conception, contrary to the proposition of the Barroso's Commission withdrawn in December 2014. The drop of recycling goals should make the proposition more acceptable for the most belated Member states and does not reduce its general ambition.

The *Institut de l'économie circulaire* wishes to reaffirm some essential measures already present and submit some additional propositions which will help to provide this package with the necessary power in order to initiate a sustainable transition towards circular economy.

Important measures present in the Commission's proposition:

- **Deepen the work conducted on the eco-design products through the 2015-2017 working plan and a greater consideration of the material efficiency:**

"The Commission will promote the reparability, upgradability, durability, and recyclability of products by developing product requirements relevant to the circular economy in its future work under the Ecodesign Directive"

- **Introduction of minimum requirements concerning Extended Producers Responsibility and especially the implementation of an eco-modulation of producer's contribution based on the product end-of-life costs.**

"The Commission is also proposing to encourage better product design by differentiating the financial contribution paid by producers under extended producer responsibility schemes on the basis of the end-of-life costs of their products"

- **Improve product information in terms of durability in order to clarify the consumer's choice during the purchase process.**

"The Commission will specifically consider proportionate requirements on durability and the availability of repair information and spare parts in its work on Ecodesign, as well as durability information in future Energy Labelling measures"

- **Simplification and harmonization of the end of waste criteria in order to stimulate the market of raw materials at the European level to ensure the conditions for a fair competition.**

"Moreover, the revised legislative proposals on waste establish more harmonised rules to determine when a secondary raw material should no longer be legally considered as 'waste', by clarifying existing rules on 'end-of-waste'. This will provide operators with more certainty and a level playing field."

The European Commission could consider the creation of a European committee of experts on this topic which will ensure as well the characterisation of complex waste, hardly accessible to European SMEs of the recycling sector.

- **The definition of achievable targets for municipal waste and packaging waste recycling will help to improve the management of end-of-life products at the European level.**

- **Support to research and innovation through the incentive "Industry 2020 in the circular economy", and to infrastructure through cohesion policy supporting the application of the waste hierarchy.**

- **Measures listed below also retained our attention and have to be achieved:**

- **Fighting against false environmental claims, planned obsolescence and illegal waste shipments,**
- **Introduction of circular economy orientations in BREFs (best available techniques),**
- **Better awareness of circular economy in the public procurement,**
- **Prioritization of non-toxic material cycles, of reuse and industrial symbiosis,**
- **Defining follow-up indicators**

Additional measures promoted by the Institut de l'économie circulaire:

The transition towards the circular economy aims to ensure an absolute decoupling between resource consumption and economic activity. While the first Package of July 2014 and the European Parliament's resolution of June 2015 provided a target on resource productivity for 2030, the new Package does not set a decoupling target, even relative, between economic activity and the resource consumption.

1 The European Commission has to restore a legally binding target in order to increase resource efficiency on a vision 2030, based on adequate indicators set by the Environmental European Agency.

Description: The adoption of a legally binding target on resource efficiency will help to reorient Member states development models towards more sustainability. As a reminder, a study carried out by the European Commission¹ showed that an increase of 30% of resource efficiency could create more than 2 million of jobs.

The resource productivity is set out by Eurostat as the ratio between Gross Domestic Product and domestic material consumption (total amount of materials directly used by an economy). This indicator seems inadequate and has to be reconsidered for multiple reasons:

- It does not take into consideration the entire resource consumption linked to production and imports;
- Taking into account GDP as an economic performance metric is inadequate: GDP does not take into account the negative externalities associated to the polluting activities;
- As a result of the leverage effect, an increase of the ratio between GDP and resource consumption does not necessarily generate a decrease or even a slowdown in resource consumption;

The Institut de l'économie circulaire deplores the lack of incentive measures directed to the economic actors. The financial support for research and innovation projects and for infrastructures has to be accompanied with economic and regulatory instruments in order to secure and develop circular economy activities.

Therefore, the Institut de l'économie circulaire recommends to the European Commission to adopt three strategic lines in order to support demand for products and services in compliance with circular economy:

- encourage Member states to adopt tax incentives,
- propose a financial mechanism which will secure the secondary raw material market against natural resources price fluctuation,
- promote circular economy in public procurement.

2 The European commission proposes an incentive tax framework in order to support the demand for products and services in line with circular economy.

- **In addition to the gradual tax increase for landfilling activity and incineration, the European Commission recommends to Member states to decrease the VAT rate applied to secondary raw materials and to products and activities of reparation and reuse. The Commission proposes to the Council to modify the annex III of the EU directive 2006/112/CE in order to allow Member states to reduce their VAT rates on products and activities in line with circular economy.**
- **The European Commission assesses the possibility for a tax shift from labour to natural resources. The Commission issues recommendations to the EU Members according to the results obtained.**
- **The European Commission proposes a new carbon taxation system or adaptations to the European emission trading scheme in order to create a sufficient incentive for public and private investment in activities with lower greenhouse emissions e.g. the renewable energies or the circular economy.**

1. European Commission, 2014. Study on modelling of the economic and environmental impacts of raw material consumption, Technical report 2014-2478.

Description:

- The support to demand is essential for circular economy development. Reparation, reuse and recycling are highly labour intensive. Circular economy products and services which are social and environmental value providers are generally more expensive than the linear economy products which benefit from scale economies and which do not include environmental externalities in their prices. Tax incentives, as decreased VAT rates, could contribute to develop and secure circular economy.
- More generally, the European Commission has to encourage Member states to rebalance their taxation by taking into account the concurrent issues of resources scarcity and unemployment. Approximately 51% of the taxation across the EU is currently based on labour. Otherwise, eco-taxes only represent 6% of taxation in the European Union. The project Ex'tax² conducted in the Netherlands concludes that a partial report of taxes from labour to resource consumption at *iso-tax* (without modification of the total tax amount weighing upon businesses), could create several hundreds of thousands of jobs.
- The annual cost of a ton of carbon (approximately 8€/t) is insufficient to shift investments towards clean activities. The Commission has to ensure that SCEQE reforms will be sufficient to reach an adequate carbon price: 56€/t minimum in 2022 and 100€/t in 2030.

3 The Commission Europe studies a financial mechanism to offset the extra-cost of secondary raw materials and to secure recycling sectors, in particular in presence of short-term natural resources price downturn.

Description: Natural resources depletion causes a structural price rise of raw materials³. However, the transition towards circular economy is suffering from short-term natural resources price drop which may jeopardise the economic viability of existing reuse and recycling infrastructures. Secondary raw materials are actually subject to substantial fixed costs related to collection, sorting and treatment processes. Their development is however necessary in Europe, because of the risk of shortages in supply in medium term.

This cyclical support to circular economy sectors could take the form of insurance mechanisms such as additional carbon credits. The European Commission can act as a facilitator by guaranteeing Member states that the measures are compatible with the rules related to public aids or even by orientating a part of its findings if this is necessary.

4 The European Commission establishes a set of « circular economy » criteria related to public procurement based on the work of a dedicated Comitology committee. It also sets national targets for those criteria in the context of public procurement.

Description: Within the framework of its action plan, the Commission highlights that "Public procurement accounts for a large proportion of European consumption (nearly 20% of EU GDP)" so they can "play a key role in the circular economy". The Commission's propositions are however insufficient and do not allow to modify public procurement procedures at the European level. The financial cost is still the predominant award criteria in public procurement contracts, often without taking into account socio-economic and environmental benefits of the economic actor's responses.

The Commission gathers a Comitology committee aiming to determine a list of "circular economy" criteria which will be considered primarily, along with the direct operation cost. The Commission makes sure that these new criteria can be easily enquired without adding additional burdens on businesses. It sets national and regional targets imposing to take into account "circular economy" criteria in public procurement.

Supporting the circular economy sector is not sufficient in order to initiate an economic model transition if pollutant activities or natural resources intensive activities continue to get subsidies. The circular economy package has to lead to a reorientation of the European Union funding towards resource efficiency.

2. Groothuis, 2014. New Era. New plan. Fiscal reforms for an inclusive circular economy. Case Study The Netherlands. The Ex'Tax project.

3. McKinsey Global Institute, 2013. Resource Revolution: Tracking global commodity markets- Trends survey 2013.

5 The European Commission assesses all direct or indirect subsidies harmful for the environment and implement an action plan aiming at their suppression.

Description : Despite the great awareness on environmental issues at the European level, several polluting activities still receive direct or indirect subsidies at the European scale. The Institut de l'économie circulaire agrees with the European Parliament notice of June 2016 considering that " all EU funding (...) must be mobilised to promote resource efficiency, in line with the waste hierarchy (...) and urges the Commission and the Member States to phase out all environmentally harmful subsidies⁴ ".

Firstly, an assessment has to be conducted in order to better identify harmful subsidies, based on the work that has been initiated from the European Parliament in 2011⁵.

Extended to the entire product's life cycle, the new action plan aims to "close the loop", that means strengthening resource efficiency by taking into account the priority order of the waste hierarchy: prevention, reparation for reuse, recycling step and energy recovery. Nonetheless, concrete measures included in the package are too often limited to recycling, which occupies the third position in the hierarchy promoted by the waste directive. Besides the tax incentives already introduced, some additional measures could develop reparation and reuse.

6 The European Commission proposes a set of measures intended to develop reparation and reuse:

- **The European Commission extends environmental labelling requirements to all lasting products, beyond the energy products, and mostly includes criteria related to the product lifetime and its reparability.**
- **The European Commission promotes the implementation of voluntary agreements aiming at extending the duration of spare parts availability and promote cooperation and sharing information between producers and independent reparation and reuse operators.**
- **The European Union supports and encourages Member states to support the development of circular and solidary economy businesses invested in reparation and reuse.**
- **The European Commission studies the levers and barriers to the professional transition towards reparation, reuse and more generally circular economy. A set of measures is intended to facilitate labour market adaptation to the economic model transition.**
- **The EU develops an awareness campaign aiming to promote reparation and reuse to European citizens, associating all the actors of these sectors.**

Description :

- The development of consumer's information regarding product lifetime and reparability will help to develop sustainable products competitiveness, as it has been the case for the energy-saving electronic devices.
- Spare parts availability allows to extend the repairable products lifetime. The implementation of voluntary agreements will help producers to determine spare parts optimal duration availability by taking into account material and energy efficiency gains related to the extension of products lifetime.
- Partnerships between producers, reparation and reuse operators allow to extend products lifetime by facilitating consumers access to those services.
- The circular and social economy businesses generate great social and environmental benefits: they create jobs, facilitate social inclusion and give a second life to products. The European Union has to ensure that some findings will be directed towards these actors.
- Circular economy is based on several skills related to reparation, refurbishing or remanufacturing. Facilitating the professional transition towards those jobs, in particular through education and continuous training, is necessary for labour market adaptation. This transition should be based on the needs recorded by the Jobs and Skills Management Planning.
- The raising awareness on reparation and reuse is necessary to initiate a change of the European consumer's behaviour. A campaign devoted to the promotion of these activities in the EU territories and towns could help European consumers to better know the available supply. The campaign will also insist on the economic, social and environmental benefits related reparation and reuse activities. The campaign could focus particularly on primary schools and colleges.

4. European Parliament, 2014. Resource efficiency : moving towards a circular economy- European Parliament resolution of 9 July 2015 (2014/2208 (INI))

5. Parlement Européen, 2011. EU Subsidies for polluting and unsustainable practices.

7 The European Commission proposes some additional measures aiming to close the loops of biomass and water resources:

- The Commission defines a framework on biomass resources efficient use by taking into account the economic and environmental benefits related its diverse possible uses. This framework fits with the waste treatment hierarchy.
- The Commission restores the target for bio-waste separate collection by 2025.
- The Commission integrates water among the identified “priority sectors” and carries on an assessment of the water resource optimisation potential in Europe (prevention, used water reuse). The Commission proposes an efficient strategy of water resources use based on this study’s results.

Description: The five priority sectors identified in the circular economy package cover important issues (plastics, food waste, critical substances, construction and biomass). Biomass resources are particularly relevant to integrate circular economy loops. There are multiple possible uses of biomass. A framework of efficient use for these resources could help to optimize their use.

Bio-waste represents approximately one third of our waste’s volume. Those resources, that are recoverable through compost or methanization, are often wasted because of the absence of separate collection.

The *Institut de l’économie circulaire* agrees with the notice of the European Economic, Social and Environmental Council concerning the need to integrate water among the priority sectors. Some countries in South Europe have to deal with water stress which will probably be exacerbated with climate change. The European Union has to adopt a specific circular economy strategy for water resources.

The Institut de l’économie circulaire considers that cooperation has to be at the centre of the transition process towards circular economy. Public and private sectors have to collaborate more in a way to remove the barriers and obstacles to the development of circular economy. The circular economy package does not raise sufficiently public action cooperative tools, which help to empower economic actors and involve them directly into the transition.

8 The European Commission proposes a set of measures aiming to develop the cooperation between public and private actors and integrate the “circular economy” Package into a political action modernisation strand:

- The Commission studies the feasibility of “innovation agreements”, like the Dutch Green Deals, at the European level or in several Member states. These agreements aim to remove the technological, regulatory or organisational barriers to the development of circular economy innovative projects.
- The Commission promotes as well the use of these public policy tools at the Member states level.
- The Commission encourages the implementation of voluntary actions regarding the efficient use of resources, especially in the industrial sectors, and studies the ways to highlight this kind of commitment (ecolabels, best practices platform, etc.).

Description:

- The public policy model of Green Deals is particularly appropriate in the circular economy transition context. These “contracts” involve mutually public and private actors without being legally binding. This model is currently applied in France through the “Commitments for a green growth” (*Engagements pour la Croissance Verte*). The Commission has to study how this tool can be deployed at the European level.
- Several European industrial actors are committed in circular economy. Resource scarcity energy and resource intensive businesses have to reconsider their economic model. The Commission has to promote a long term industrial vision and encourage industrial sectors to improve their resource efficiency by investing in eco-design, remanufacturing or recycling.

The Institut de l’économie circulaire regrets the absence of incentives aiming to promote product service systems. Several inefficiencies associated to the linear economic model, as planned obsolescence, non-reparability or non-recyclability, are related to the property transfer between producers and consumers. Evolving towards the functional economy, where the service supplier provides the use of a product prevent the business benefits to depend only on the volume of sales but also on the performance and optimization of the use provided.

9 The Commission proposes a set of measures aiming to promote the development of the functional economy which is defined as: “An economic model which favours the provision of a use to the sale of a product.”

- **The Commission identifies economic and regulatory barriers to functional economy development and produces recommendations to the Member states as well as to public and private funding platforms in order to facilitate the development of functional economy.**
- **The Commission promotes existing functional economy best existing practices and directs a part of its funding towards functional economy.**
- **The Commission proposes the creation of a European platform to assist SMEs and micro businesses in their economic model transition.**

Description: The functional economy helps to decouple business economic performance from its resource and energy consumption. The longer product lifetime as well as material and energy efficiency gains are more valuable for the producer in a functional economy model. It should be noted that functional economy can be applied out of the business to business or business to consumer relations: a paper from the *Institut de l'économie circulaire*⁶ highlighted that the application of functional economy principles within the framework of public funding allocation could help strengthening their economic and environmental efficiency.

Despite the efficiency gains, an enterprise developing a functional economy offer can be confronted with regulatory or funding issues (distribution change between fixed and variable costs, delayed return on investment, etc.). The European Commission has to facilitate the transition of economic actors towards functional economy by allocating a part of its funding to innovative projects and by promoting the best practices.

The Institut de l'économie circulaire has welcomed favourably the recycling and preparation for reuse targets for municipal waste. However, municipal waste only represents 10% of the total waste⁷. Apart from packaging waste for which specific targets are set, the industrial and commercial waste, which represent the majority of total collected waste in the European Union, is not subject to specific targets.

10 The European Commission takes measures (enhancement of statistics, specific targets related to industrial and commercial waste, recycling, etc.) aiming to improve the waste management. The Commission also ensures that municipal waste is limited to the “household and similar waste in nature, composition and quantity”.

Description: The Eurostat database concerning industrial and commercial waste is not sufficient. The European Commission has to strengthen its knowledge concerning waste streams and then propose some dedicated realistic and ambitious goals.

Municipal waste management receives public funding and has then to be limited to the household and similar waste.

6. Institut de l'économie circulaire, 2015. Inscrire les aides publiques dans l'économie de fonctionnalité : une nouvelle donne en faveur d'une économie circulaire.

7. Eurostat statistics explained, 2016. Municipal waste statistics.