

09 | July 2020



Brief

The New Circular Economy Action Plan

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Abstract

FEEM Policy Brief

On March 11th 2020, the European Commission presented one of the European Green Deal's (EGD) main blocks: the Circular Economy Action Plan (CEAP). The Commission recognised that the ambitious environmental objectives, the transition towards a regenerative growth model, and the decoupling of economic growth from resource use need to be adequately supported and identified a strategy to upscale the circular-economy approach from the front-runners to the mainstream economic players. Such a strategy is presented as the main instrument to achieve these goals, as it would contribute significantly to ensuring the long-term competitiveness of the European Union. The plan, in particular, aims at guaranteeing the regulatory framework implementation, the maximisation of the business opportunities that the transition provides and the minimisation of the burdens and the obstacles on people and businesses. This action, together with all the others included in the European Green Deal, represents a pivotal step in meeting the Paris Agreement goals.

01

Introduction

The new Circular Economy Action Plan (CEAP), developed into the EGD's framework, targets initiatives along the whole life cycle of materials, from products design to sustainable consumption. The initiatives are focused on areas where actions can also promote the creation of added value at the EU level. The plan, more in detail, contains the following measures:

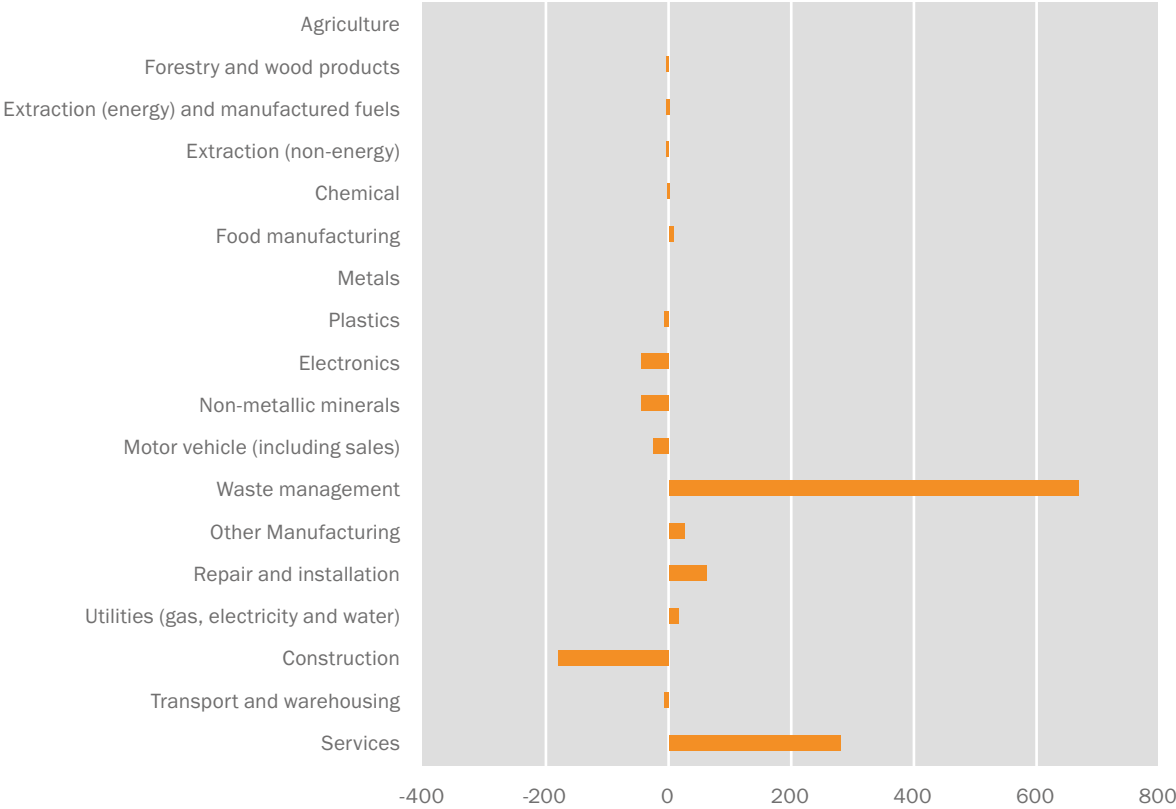
- Make sustainable products the norm in the EU;
- Empower consumers and public buyers;
- Focus on the sectors that use most resources and where the potential for circularity is high such as electronics and ICT; batteries and vehicles; packaging; plastics; textiles; construction and buildings; food; water and nutrients;
- Ensure less waste;
- Make circularity work for people, regions and cities,

- Lead global efforts on circular economy.

To inspire these initiatives, a future-oriented agenda aims at establishing a policy framework that will change production processes and business models while creating more sustainable consumption patterns. The change in the economic paradigm promoted by the plan will not only contribute to the achievement of the 2030 Sustainable Development Goals but, as a study led by Cambridge Econometrics, Trinomics and ICF (2018) highlights, it will also contribute to increasing the EU GDP by 0.5% by 2030, creating around 700 000 new jobs in different sectors . It is necessary to add that these estimates are the result of studies done before the outbreak of the pandemic emergency that we are currently facing, and that right now the future scenario is characterised by uncertainty.

¹ Cambridge Econometrics, Trinomics, and ICF (2018), Impacts of circular economy policies on the labour market.

Figure 1 Circular economy job impacts across the EU28 sectors in 2030 (thousands)



Source: Impacts of circular economy policies on the labour market, Cambridge Econometrics et al., 2018

However, even though the full implementation of the CEAP may lead to promising results, the targets cannot be met only through the policy action, as the involvement of people, regions, and cities is critical to ensuring the

full circularity of the economic system. That qualifies the Action Plan as a fly-wheel for the private sector, aiming as well at making the European Union a leader at international level.

02

Production and consumption

The current linear economic system, which begins with the collection of resources and finds an ending in the disposal of the product after usage, does not provide any kind of incentive to producers to make their products more circular. For this reason, the European Commission has prepared this Action Plan, as the existing regulatory framework failed to tackle properly critical aspects.

For instance, the Ecodesign Directive (2009) provides a regulatory scheme for improving the energy efficiency of products, but it covers only energy-related aspects, revealing a significant limitation in scope. Similarly, the EU Ecolabel and the EU green public procurement (GPP) criteria provide some sort of incentive to companies to develop products that are durable, easy to repair and recycle, and to stimulate a critical mass of demand for more sustainable goods and services. The voluntary nature of these instruments, however, exposes the whole measure to the risk of not being sufficiently effective (Panzar et al., 2020).

Up to 80% of products' environmental impact is determined at the design phase (European Commission, 2020a). To make them fit for a climate-neutral, resource-efficient and circular economy, the Commission intends to propose a sustainable product policy legislative initiative. That would address the limited scope and impact of the current initiatives and tools.

This legislative proposal will prioritise interventions dedicated to product groups identified in the context of the value chain featuring (European Commission, 2020a). The main product groups taken into consideration are electronics, ICT, textiles, furniture and high impact intermediary products, while further groups will be identified based on their environmental impact and circularity potential.

In addition, the Commission will consider the introduction of mandatory requirements also for services. The initiative appears promising, especially with respect to its scope. The inclusion of a more comprehensive set of products is an important innovation, but it implies an increase of burden in the control system, not to mention the work required to develop the standards and the testing methods and the verification of new requirements.

On the consumption side, the participation and protection of consumers is another cornerstone of the CEAP. The Commission will propose a revision of the EU consumer law aimed at providing consumers with the full amount of information on products at the point of sale, including their lifespan and availability of repair services, repair manuals, and spare parts and offering additional protection against greenwashing and premature obsolescence by setting minimum requirements for green labels/logos and information tools such as

ecolabelling and green public procurement criteria. A new “right to repair” will be proposed, oriented at offering new horizontal material rights for consumers such as availability of spare parts or access to repair. Product and Organisation Environmental Footprint methods will be used to incentivise companies to substantiate their environmental claims. This measure is dedicated at clearing the air around the massive volume of different green claims on the market, with or without independent verification.

On the public buyers’ side, the Action Plan states that “[...] *the Commission will propose minimum mandatory green public procurement (GPP) criteria and targets in sectoral legislation and phase in compulsory reporting to monitor the uptake of Green Public Procurement (GPP)*”, supporting the increase in demand for

sustainable products from public authorities, which represent 14% of EU GDP in terms of purchasing power. To additionally support capacity building, a “Public Buyer for Climate and Environment” initiative will be proposed, which will provide guidance, training and dissemination of good practices, facilitating exchanges between buyers committed to GPP implementation.

The initiative concerning the public buyer’s side is welcome, as it gives a chance to the public sector to set an example for the private. However, when private choice and preferences are taken into consideration, it is difficult to imagine more influential criteria than price and convenience. In this respect, a more robust policy action that incentivises consumers to change their decisional process is highly desirable.

03

Sector-specific measures

The Commission will take action in identifying the barriers to the expansion of markets for circular products by cooperating closely with stakeholders in key value chains, namely electronics and ICT, batteries and vehicles, packaging, plastics, textiles, constructions and buildings, food, water and nutrients.

In this respect, the Commission has decided to adopt a sector-specific approach, identifying at first the gaps that characterise each industry, and then suggesting a possible policy action oriented at closing it.

Generally speaking, what appears as the main obstacle is the prevalence of the linear business model, and its persistence, preventing the implementation of the circular business model. For instance, the electrical and electronic equipment is one of the fastest-growing waste streams (2% of annual growth rate), and in the EU less than 40% of electronic waste is recycled, according to Eurostat². These figures are critical, and for this reason, the Commission will present a “Circular Electronics Initiative” aimed at a better implementation of existing instruments and the creation of new ones as well to promoting the increase in products’ lifetime.

Regulatory measures for electronic and ICT under the Ecodesign Directive, the implementation of the “right to repair”, the introduction of a universal charger, the improvement of the collection and treatment of waste electrical and electronic equipment, together with the review of EU rules on restrictions on hazardous substances in electrical and electronic equipment are the key measures that the Action Plan will take for this kind of products.

Another useful example concerns packaging. In 2017, packaging waste in Europe reached the amount of 173 kg per inhabitant, the highest ever. In order to address this critical issue, and ensure that all packaging on the EU market is reusable or recyclable by 2030, the Commission will reinforce the mandatory essential requirements for packaging by revising the Directive 96/62/EC. This revision will focus on:

- Reducing (over)packaging and packaging waste;
- Driving design for reuse and recyclability of packaging;
- Reducing the complexity of packaging materials.

2 https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=t2020_rt130&plugin=1

These policy actions appear to go beyond material substitution, incorporating measures aimed at promoting longer lifetimes, reducing excessive use, introducing recycled content requirements for certain products (as it will happen with the revision of the Construction Production Regulation), and promoting and incentivising product-as-service models.

Simultaneously, it has also been recognised that some challenges in competing with primary raw materials need to be addressed. In this respect, the introduction of requirements for recycled content in products is intended to ensure a smooth expansion of the recycling sector in the EU. At the same time, to establish

a well-functioning of a secondary raw materials market, the Commission will explore the possibility of developing EU-wide end-of-waste criteria for certain waste streams, enhance the role of standardisation, make timely use of restrictions on the use of substances of very deep concern, and assess the possibility to establish a market observatory for critical secondary materials. What seems to be equally relevant is the competitiveness of second-use materials. If primary raw materials are cheaper than reused goods or secondary materials, it is clear that the policy actions will have a small impact. Tax reforms that incentivise repair activities and the market for second-hand goods need to be implemented.

04

Making circularity work for people, regions and cities

The CEAP does not only focus on sector-specific measures but considers different challenges and acts also on individuals. The transition towards a circular economy might create a significant number of new jobs, and the Commission intends to exploit the job market potential fully. To do so, a Pact for Skills with large-scale multi-stakeholder partnerships and the Action Plan for Social Economy will be launched. Moreover, investments in education and training systems, lifelong learning, and social innovation will be promoted under the European Social Fund Plus. However, also in this case, lightening the fiscal burden that characterises the labour sector would ease

the workers' reskilling and requalification. Displaced workers need to be supported and allowing companies to pay for reskilling could reveal itself as a promising investment.

At the regional level, the Cohesion Policy funds will provide means for implementing circular economy strategies, while the Just Transition Mechanism will support specific projects. The European Urban Initiative, the Intelligent Cities Challenge Initiative, and the Circular Cities and Regions Initiative instead will offer assistance at a territorial level, to help cities to achieve their circular economy targets.

05

Leading efforts at the global level and monitoring progress

In a globalised economy, a country's success is strictly linked with its partners' positioning, and the EU does not make any difference. For this reason, the Action Plan recognises the urgency to support a shift to a circular economy that would be global and to do so, some measures are considered as useful.

The European Plastics Strategy will help the Commission to lead the way at international level towards a global agreement on plastics, while a Global Circular Economy Alliance will help to spread knowledge and promote partnerships.

Finally, to accelerate the transition towards a more circular economic system, the Commission will reinforce the monitoring of national plans and measures. At the same time, it will update the Monitoring Framework for the Circular Economy, a tool that contains and displays all the relevant indicators, aimed at helping evaluate the countries' progress towards a circular economy.

Conclusion

The Circular Economy Action Plan (CEAP) appears to be a very ambitious initiative and identifies most of the gaps, key issues and opportunities, such as the recognition of the need of taking a global perspective on the matter correctly. Such a dense plan needs to be detailed in all its features and actions for being completely effective.

The first specification that is needed, in order for the EU to be fully acknowledged as leader and promoter of the circular economy, is EU-level targets relatively to the reduction of the EU's ecological footprint, as the CEAP fails to proposing them explicitly. At the same time, the development of new mandatory requirements for a certain set out of products represents an important measure, but the design of standards and testing methods for the verification of the new requirements is crucial for the success of this action.

Mainstreaming innovative and disruptive approaches such as product-as-service for all sectors is another issue that should be tackled seriously, and the identification of best practices and the consequent incentivisation would help to bring about a better quality of life, innovative jobs, and upgraded knowledge and skills, bearing in mind that a sole focus on citizens' behaviour will not be sufficient to achieve this result.

The last major policy aspect that should be considered is specifying a clearer and more incisive tax reform that would incorporate the cost of environmental externalities and make the secondary raw materials market more competitive.

Finally, as a general consideration, the CEAP appears to be an ambitious plan and widens the European Union's action towards the transition to a more circular economy. However, it fails to specify important details, delegating these provisions to future specific acts.

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