



# Squaring the Circular Economy August 2015

The forthcoming relaunch of the circular economy package will look to improve resource efficiency performances across manufacturing industries and along the whole value chain. The new package will move beyond recycling targets, notably requiring products to be better designed for repair and reuse.

Companies will be held accountable through new binding resource efficiency indicators or product passports. The ambition to develop a deeper and broader secondary raw materials market may have a significant impact on companies' material sourcing policies and prices.

While the circular economy is a novel policy concept, business already recognises its economic potential. Therefore the circular economy is likely here to stay, yet the pace of Europe's transition is unknown and will depend on the level of ambition expressed in the relaunched package.

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## Wasted opportunities

The premise of the circular economy is often misunderstood. There is a perception that it is an ongoing battle between environmentalists and corporations, where one side wants to see the environment preserved and protected and the other prioritises profits. But the circular economy aims to connect both, delivering economic as well as environmental gains.

A circular economy is an alternative to a traditional linear economy (make, use, dispose) in which we use as few resources as possible, keep them in use for as long as possible, extract the maximum value from them whilst in use, then recover and regenerate products and materials at the end of each service life. This means designing products for longevity with reparability in mind so that materials can be easily dismantled and recycled, not to mention the alternative business models that encompass for example the sharing economy or repair-and-maintenance services that an

increasing number of manufacturers offer.

While it may take years or decades for the ultimate vision of the circular economy to take hold, the transition has begun as industry recognises its business potential. Companies adopting circular economy approaches cannot only reduce material costs but generate new revenue streams by creating new markets and products and at the same time keeping customers for longer.



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## Moving in circles

In December 2014 First European Commission Vice-President Frans Timmermans withdrew the circular economy package – intended to increase recycling levels and tighten rules on incineration and landfill – with the promise to re-table a proposal with a “broader, more ambitious approach” by the end of 2015.

His rationale was met with great skepticism, as many Member States had thought some elements of the package too ambitious – especially the waste-related targets – and BUSINESSEUROPE, the umbrella organisation of 34 national business federations, had called for the virtual scrapping of the package.

Though the likelihood of a more ambitious package emerging from the ashes of December’s debacle is questionable, its approach is certain to be broader, and centre around the idea of economic innovation rather than environmental protection alone.

What the withdrawal has done is to reopen the political debate, as a result of which a public consultation was launched which will run until 20 August 2015. One camp cautions against any watering down of the original package, while the other has sensed that everything being up for grabs presents an opportunity to boost specific initiatives or see them scrapped altogether the latter for example includes an extension of resource efficiency requirements to non-energy related products under the review of the Ecodesign Directive.

## If you can’t measure, you can’t manage

The European Parliament has been keeping up the pressure on Timmermans to deliver on his promise to present a broader and more ambitious package by the end of 2015, and provided political input through the adoption of its Resolution on 9 July 2015.

One of the Parliament’s most radical proposals was that the European Union (EU) should develop and introduce a binding lead indicator and a series of sub-indicators to measure resource intensity by 2018. They would apply at Member State and industry level and aim to quantify the lifecycle impact of goods produced or imported into the EU in every sector, measuring at least a product’s land, water and material use, and carbon footprint. This could form the most far-reaching set of reporting standards the EU has ever

proposed, applying to virtually every product placed on the European market.

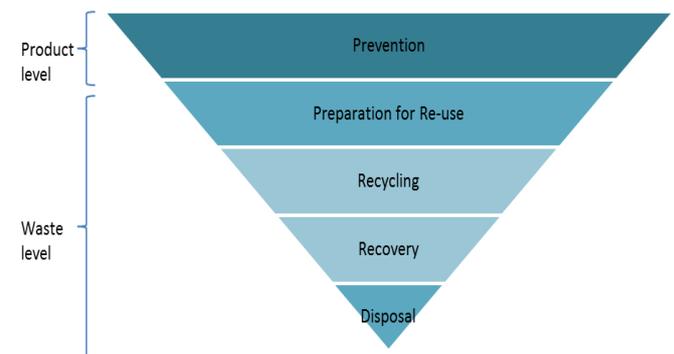
But determining those indicators is no small task. The European Resource Efficiency Platform, advising the previous Commission, failed to reach agreement on methodologies for footprint indicators. At that time they merely proposed a “resource productivity indicator”, measured as the proportion of GDP to raw material consumption. This drew criticism from NGOs as it does not differentiate between valuable and less valuable materials, since it is purely based on weight and does not take into account water and land. A resource efficiency target of 30% by 2030, as measured by GDP relative to raw material consumption, though non-binding in nature, will also be proposed.

## When recycling is not enough

Member States are legally committed to managing waste according to the waste hierarchy. Priority is the prevention of waste followed by preparing waste for reuse, then recycling, recovery, and finally disposal.

Despite its commitment to the waste hierarchy, EU waste legislation is said to reward Member States and policies that concentrate on recycling – rather than prevention and reuse at the top of the waste hierarchy – and use less energy and fewer materials than recycling. For example, while Member States are required by the Waste Framework Directive to have a waste prevention plan in place, the activities included in these are not mandatory.

### Waste Hierarchy



As part of its zero waste programme the European Commission is now expected to promote the top of the waste hierarchy by forcing manufacturers to provide greater access to spare parts, repair services, and repair information and manuals; longer minimum product guarantee periods; and promotion of economic instruments such as green taxes and “pay-as-you-throw” schemes.

There will also be a focus on making better use of the existing framework – notably through a review of the Ecodesign Directive and Green Public Procurement criteria – to improve material efficiency through the development of product-specific criteria on reparability, durability and recyclability. Further market-led innovation will also be supported by the Horizon 2020 programme.

Other proposals put forward by the European Parliament and by the influential NGO European Environment Bureau (EEB) – including a compulsory product (materials and components) passport, extended producer responsibility schemes, minimum recycled material content

requirements and product-specific resource-efficiency standards – will also be at the centre of the debate. However, it is unclear which of these measures will make it into the new circular economy package proposed by the European Commission.

### To REACH or to recycle

Although the REACH Regulation on chemicals does not cover waste as such, it does affect recycled products relying on secondary raw materials extracted from waste. The border between waste and product is defined by end-of-waste criteria, as already in place for recycled metals.

Quality standards are needed to increase the use of other secondary raw materials such as recycled plastic. However the complexity of the substance and lack of reliable data requires industry and the European Commission to look for pragmatic solutions.

Once recycled material re-enters the economy due to it receiving end-of-waste status, by complying with specific end-of-waste criteria or being incorporated in a new product, it must be fully compliant with chemical legislation, in particular REACH.

However the number of chemicals whose use is restricted in EU products keeps growing, making it difficult for recycled products to comply with EU chemicals legislation. Therefore there will be a call to step up efforts to substitute substances of very high concern.

Political debate on restricting the number of substances that pose unacceptable risks to human health or the environment in the context of REACH will prove to be contentious. However, this will ultimately determine the potential for recycled waste to become a major, reliable source of raw material in the EU, and therefore may heighten competition between recycling and chemical companies.

### A zero-waste game

Whilst the European Parliament wants to retain the ambitious recycling targets set out under the previous package, the European Commission is likely to be more flexible in defining binding targets to reduce waste, increase recycling and phase out landfill across Member States. Options include allowing Member States more time to comply, making some or all of the targets aspirational rather than legal, and/or allowing for national variations.

Targets are needed for legal certainty and to drive the investment necessary for a zero-waste Europe by 2030. Targets are likely to cover more waste streams (food, industrial, commercial) and will be supported by economic instruments such as landfill taxes and investment projects.

Another idea that will be discussed is the “Schengen zone for waste” to boost a secondary raw materials market, as for example the recycling industry requires economies of scale. Furthermore waste may only be exported to third countries if certified facilities operating to quality, environmental and safety standards equivalent to those in the EU are used.

Europe’s transition towards a more circular economy faces a number of barriers and challenge. The European Commission now faces an unenviable task in balancing competing interests while coming up with a package that does not lack foresight and ambition. The Dutch Presidency has already expressed its desire to pull Europe ahead in the circular economy race.

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