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NOTE

From: Presidency

To: Permanent Representatives Committee/Council

Subject: Preparation of the Council ("Competitiveness") of 29 February 2016
Mainstreaming competitiveness - the circular economy package
- Policy debate

Delegations will find attached a note from the Presidency on the above mentioned topic.

Introduction

The circular economy package that the European Commission presented on 2 December 2015¹, consisting of an action plan as well as a number of legislative proposals aimed at reducing waste and increasing recycling and re-use, presents an opportunity to increase European economic competitiveness within the earth’s environmental capacity. It addresses the necessity to embed the principles of resource efficiency and “circularity” in the production and consumption of materials and products at all stages of their value chain.

Ambitions

The ambition in the circular economy package is to facilitate a transition to a more circular economy, where the value of products, materials and resources is maintained in the economy for as long as possible, and the generation of waste is minimised. This transition will boost the EU’s competitiveness by creating new business opportunities and protecting businesses against scarcity of resources and volatile prices, offering opportunities for innovation, new business models and more efficient ways of production and consumption. The transition will be driven by economic actors such as businesses and consumers, while the role of governments at EU and Member State level is to ensure the incentives are set in a way that they both **maintain our competitiveness and protect the environment**.

The circular economy package therefore aims to provide the right conditions to unleash market forces and facilitate **multi-stakeholder cooperation** in such a way to simultaneously reap environmental, social, and economic benefits, while minimising any (perceived) trade-offs. This can be achieved by more **coherence and alignment in policies and in actions** by economic operators across Europe, including in the development, dissemination, and adoption of circular economy technologies, processes, and business models. From the choice of primary and secondary resources to the product design phase, in optimal use of renewable resources, and from product use to product disposal and recycling, in order to stimulate material feedback loops (e.g. repair, re-use, recycling) within and between value chains. To achieve this, the package suggests a role for the EU in **promoting best practice** within production processes and sustainable production of resources within and across Members States and industries. **Developing economic incentives and informing producers and consumers** of the whole-of-life impact of goods and services, will support the creation of environmental and social benefits within value chains. In particular, increasing the effectiveness of the waste hierarchy in the EU and **boosting markets for ‘secondary’ raw materials** (such as bio-nutrients and plastics) will support new business opportunities and reduce resource dependency.

¹ http://ec.europa.eu/environment/circular-economy/index_en.htm

Opportunities

Making the transition to a resource-efficient economy enables environmental-economic “win-wins”; in other words, business and consumer decisions that deliver economic benefits while improving environmental outcomes². The goal is to make Europe’s economy **cleaner and more competitive**, by cutting resource use, reducing waste and boosting recycling. This makes the European economy **more resilient** to resource scarcity and wider environmental threats such as pollution, climate change and the endangered ability of ecosystems to provide society with crucial services such as clean air and water.

By making smarter use of resources (e.g. natural capital, nature based solutions, bio-economy and ecosystem services), **new innovation opportunities** within and across value chains arise, local **jobs** across all skill levels are created which provide opportunities for social integration and cohesion, **and pressures on the environment can be reduced** significantly. Introducing the principles of resource efficiency and “circularity” can offer significant competitiveness benefits for businesses by reducing costs and opening up new markets. The transition to the circular economy also offers the opportunity for Europe to take the lead in a global “sustainable industrial revolution”³, expanding the global market for European low-carbon and resource-efficiency technology solutions and better aligning economies with the planet’s capacity. The action plan also promotes economic incentives for waste management and sustainable consumer and producer behaviour, promotes demand drivers such as public procurement, and proposes funding of €650 million for innovation under the Horizon 2020 programme along with other financing tools such as EFSI and cohesion funds.

And the numbers show this pays off:

- Resource productivity in the EU grew by 20% in 2000-2011. Maintaining this rate would lead to a further 30% increase by 2030 and could boost GDP by nearly 1%, while creating over two million jobs⁴. It is estimated that a better use of resources could deliver savings of €30 billion per year for European industry⁵.
- The overall benefits of the circular economy package itself are difficult to quantify with precision at this stage. The benefits of the waste proposals alone are estimated as follows:
 - Economic benefits of €24.5 billion;
 - Creation of 140,000 jobs in the waste management sector alone; and
 - Reduction of EU carbon emissions by 500 million tons of CO₂eq between now and 2035⁶.

² See Green Action Plan for SMEs (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52014DC0440>) and ‘Growth within: A circular economy vision for a competitive Europe’ from Mac Arthur Foundation/Sun/McKinsey (https://www.mckinsey.de/sites/mck_files/files/growth_within_report_circular_economy_in_europe.pdf)

³ CSTP ministerial declaration 21 November 2015: <http://www.oecd.org/sti/daejeon-declaration-2015.htm>

⁴ *Modelling the Economic and Environmental Impacts of Change in Raw Material Consumption* (2014), Cambridge Econometrics et al.

⁵ *Guide to resource efficiency in manufacturing: Experiences from improving resource efficiency in manufacturing companies* (2012), Europe INNOVA.

⁶ http://ec.europa.eu/environment/circular-economy/pdf/analytical_note_swd_259_en.pdf

- Business-led studies estimate a potential to boost EU GDP by up to 3.9%⁷ by creating new markets and products and creating value for business⁸. Waste prevention, ecodesign, reuse and similar measures could bring net savings of €600 billion, or 8 % of annual turnover, to EU businesses, while reducing greenhouse gas emissions by 2-4%⁹.

Challenges

The transition to a circular economy requires a **systemic change**. In addition to targeted actions affecting each phase of the value chain and key sectors, it is necessary to create the conditions under which a circular economy can flourish and resources can be mobilised. Effective implementation of the action plan offers opportunities, but also represents a challenge and requires the following key aspects to be addressed:

- In supporting the transition towards a circular economy it is important to **avoid all unnecessary costs** for consumers, Member States and businesses (in particular **SMEs**), to ensure that policies are easy to adopt and are **cost-efficient**, and to **optimise the potential for net benefits**, in line with the principles of **Better Regulation**.
- **Member-States, businesses and sectors** are currently at **different phases of the transition** in terms of the progress they make towards a circular economy, the barriers they face and the opportunities that it represents for them. This disparity may require differentiated policies and incentives, including where necessary adaptive yet stimulating legislation that is easy to adopt.
- For **SMEs** in particular it is important that (transition) **costs are minimised**, and that they are enabled to benefit from the potential the circular economy offers.
- The Action plan should contribute to a better functioning of the **Single Market**, particularly for **secondary raw materials**.
- **Innovation** for the transition to a circular economy, and for sustainability in general, and the development of new business models need to be speeded-up. Member-States and the Commission should consider how to ensure that current and new policies and legislation are adaptive and supportive for innovation (i.e. an innovation principle). For example, making use of **innovation deals** (a ‘Circular Challenge’) can help the path to a more circular economy.

⁷ *Towards the Circular Economy: Economic and business rationale for an accelerated transition* (2012), Ellen MacArthur Foundation.

⁸ The jointed working party of Industry and Environment will further elaborate on the expected economic gains of the circular economy package on 11 February.

⁹ *The opportunities to business of improving resource efficiency* (2013), AMEC et al.

- The transition to a circular economy requires a **long term horizon** and a continued long-term and broader commitment from **all levels of government**, including the EU, Member States, regions, cities and all stakeholders concerned. Leadership and responsibility for the transition must be shared and jointly promoted by all actors and accountability for progress in realizing the transition requires a holistic and cross-silo approach. Strengthening **awareness** of all actors is important in this respect, as well as strengthening possibilities for cooperation and symbiosis within and among value chains.
- The transition towards a circular economy takes place within a **global competitive environment**. This external dimension should be taken into account.
- It is important that the implementation of the Action Plan by the Commission and Member States is **monitored** to ensure that adequate follow-up is given to the actions, and that possible new regulatory requirements do not cause unnecessary obstacles for businesses. **Integrated EU-wide intelligence-gathering** is needed to identify environmental and economic vulnerabilities and opportunities linked to ecosystems and resource scarcity, as well as best practice on addressing these through resource efficiency and circular and/or bio-based practices at both Member State and EU level.

Process during Netherlands Presidency

Besides the legislative proposals on waste which are currently being addressed at working party level, the action plan announces various initiatives which the Commission intends to undertake in the coming 5 years to facilitate the transition to a circular economy and which will involve different Council formations. The Netherlands Presidency suggests it is important for the Council to respond to the action plan as a whole during this semester. The Council is invited to consider whether the proposed actions are sufficient, appropriate and necessary to facilitate the transition to a circular economy, as well as assigning specific priority to certain actions.

Stakeholder conference: “Unwrapping the package - towards a circular economy in Europe”¹⁰

On the 25th and 26th of January the stakeholder conference “Unwrapping the package - towards a circular economy in Europe” took place in Rotterdam, The Netherlands, organised by the Netherlands Presidency in cooperation with the European Commission. The conference was attended by ca. 350 stakeholders from business and civil society across Europe, as well as policymakers from EU Member States and the European Commission.

Stakeholders discussed challenges and opportunities for the circular economy in Europe based on concrete cases from the private sector in various Member States. The discussion further addressed the need for national and EU policy to speed up the transition, and the question to what degree the Action plan offers sufficient support for this. Topics that received extra attention in these discussions were stimulating reuse and the market for secondary materials, public procurement, the Ecodesign directive, the role of natural capital, and measures to promote and support innovation. To this regard participants provided several recommendations on national and EU policies required to support and promote the Circular Economy, including:

- a long-term focus and strong guidance and ownership by the EU and Member States to ensure ambitions are translated into practice
- consistency in national approaches (standards i.e. for reparability, quality of recycling, etc.)
- the need for exchange of best practices and lessons learned by Member States and stakeholders for instance in adopting supporting public procurement policies
- more financial incentives and market-based instruments (tax, VAT, etc.) to stimulate reuse and the market for secondary resources.

The Presidency intends to organise discussions about the circular economy action plan in both the ‘mainstreaming debate’ in the Competitiveness Council on February 29 and the Environment Council on March 4. The Competitiveness Council will focus on the priorities and challenges from an economic perspective, whereas the Environment Council will focus on priorities and challenges from an environmental perspective. On the basis of these debates, the Presidency intends to work towards Council conclusions regarding the action plan, to be adopted in the Environment Council on June 20.

¹⁰

<http://english.eu2016.nl/latest/events/2016/01/25/stakeholder-meeting-on-the-circular-economy>

Mainstreaming Competitiveness: Questions for the COMPET Ministers in the Circular Economy Action Plan

The COMPET Ministers are invited to discuss the Circular Economy as part of the Competitiveness Councils 2003 mandate to be “*effectively consulted within the Council’s decision-making processes on proposals considered likely to have substantial effects on competitiveness, alongside the responsibility of all Council formations to assess the impact of their work field*”¹¹. In September 2014, under the Italian Presidency, it was agreed that the Competitiveness Council should “*carry out in a more structured and more systematic manner its mandate to examine all relevant proposals that have substantial effects on competitiveness*”. Under the Luxemburg Presidency, the Circular Economy Package was listed as one of the dossiers that the competitiveness mainstreaming mandate of the COMPET Council should focus on.

While being fully aware of the economic opportunities arising from the circular economy, at least in the short term, elements of the action plan may also pose challenges to competitiveness. The COMPET Council is invited to reflect on both opportunities and challenges and to discuss in what way these challenges can be met to assure an optimal transition towards a circular economy. The Presidency suggests for the COMPET Council to focus its discussion on the following issues:

Prioritisation

The transition towards a circular economy has the potential to generate substantial benefits in terms of competitiveness. Some elements of the action plan will contribute more to this than others.

- i) What actions should be the priorities to contribute to unlocking the potential (e.g. supporting innovation towards resource efficiency, removing obstacles for developing a secondary market for raw materials, fostering eco-design, applying the tools for Better Regulation, such as impact assessment, SME testing etc.) of the circular economy for job creation and economic growth?

Challenges

Whilst realising a more circular economy offers important long and medium term benefits, the transition towards it can also pose challenges for competitiveness, certainly in the shorter term. These challenges include for instance potential temporary cost increases for firms that have to adjust to a new regulatory environment, which particularly for SMEs may be challenging. They may also come from the different stages Member States are in, in making the transition towards a circular economy. Also, in some sectors the transition may be more complex than in others. Clearly, it is essential that the Better Regulation principles are duly taken into account to meet these challenges.

- ii) Given the COMPET Council’s mandate in mainstreaming competitiveness, what are the main messages from the COMPET Council to the ENVI Council on dealing with these challenges? Which challenges most urgently need to be addressed, and how can the implementation of the action plan be organised in order to do so?

¹¹ Presidency Conclusions of the European Council of March 20-21 2013, Doc. 8410/03