

CIRCULAR ECONOMY

Silver bullet for the EU's competitiveness and sustainability?

REPORT

Winter 2016



#CONVERSATIONWITH

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WHY CIRCULAR ECONOMY?

Businesses need to appreciate the economic case for recycling, reusing and remanufacturing materials so that the circular economy can take off in Europe, according to **Jyrki Katainen**, European Commission Vice-President responsible for jobs, growth, investment and competitiveness.

“We must enable businesses to see a profit if they move to the circular economy model,” he said in a ‘Conversation with’ Friends of Europe on 25 January. **“The market economy is the best friend of the circular economy.”**

The discussion focused on the Circular Economy Package, released by the Commission in December, which aims to make Europe a global centre for sustainable and environmentally-friendly industries, reduce dependence on raw materials and create new jobs. Measures such as waste prevention, Ecodesign and re-use could enable EU businesses to make net savings of €600bn and reduce greenhouse gas emissions by up to 4%, the Commission has said. The initiative will be supported by an array of EU financing tools, ranging from the Horizon 2020 budget to structural and strategic investment funds.

“If we get this right in Europe, we could be leading the world in it,” said moderator **Tamsin Rose**, Non-Resident Fellow at Friends of Europe.

The Commission’s proposals start with ambitious targets to reduce waste. By 2030, 65% of municipal waste and 75% of packaging waste is to be recycled across the EU, with a maximum of 10% of all waste disposed of by landfill.

One proposal is to ban landfilling waste divided for separate collection, as is frequent with plastic and materials left over from demolition. “This is the case with most packaging materials, so the packaging sector is probably an issue where we can go further the fastest,” Katainen said. “The biggest challenge is often how to organise separate collection. But in some member states, glass recycling is nearly 100%, so why put any glass in landfill? Member states could share best practices.”

BENEFITS OF ECODESIGN

The circular economy also means that products are being designed to reduce waste by making them with fewer virgin materials and more recycled products, as well as by cutting the waste created through that product’s use.

By the end of 2020, the EU’s Ecodesign Directive will have saved as much energy as Italy’s annual electricity consumption, Katainen said. **“As always in a market economy, the consumer is the king. That’s why we had to take into account how we could empower consumers who want to make deliberate choices between refrigerators that are consuming lots of energy and those that are consuming less.”**

The Ecodesign Directive is already known to consumers for introducing energy labelling to an array of electrical products. That success is a good reason to expand the directive’s scope to inform consumers about other aspects of a product. **“There should be labelling of how resource-efficient a product is or how much recycled raw material has been used to make it,”** Katainen

said. In the case of mobile phones, for example, the cost of remanufacturing could be halved if it was easier to take old devices apart. If 95% of mobile phones were collected, this could generate savings on manufacturing material costs of more than €1bn.

“Reparability is one area which we will concentrate on more, and we are planning to regulate the life expectancy of a product. It’s not easy to regulate things like that, but we believe that it is possible and that it will create longer-lasting products. The Ecodesign Directive is a very powerful tool and you could use it more than we use it at the moment,” Katainen said.

SHIFTING BUSINESS MODELS

Huge gains could come from industrial symbiosis. Some factories produce side products that are considered waste because they are not used by that particular industry. For a different industry, however, that same side product would serve as a raw material. “If we concentrate on this issue, we could save a lot of resources, especially in the steel, bio and mining industries,” Katainen said. “This may enable us to create more sustainable models.”

A deeper change from the circular economy could be in the way people use products. While it might make sense to buy something that is likely to appreciate in value, like a house, in other cases it could be easier for people to rent. For example, when someone buys a washing machine, what they want is clean clothes rather than ownership of an appliance – and they would probably be happier if they can forgo the responsibility of repair and maintenance.

Such a business model provides manufacturers with an incentive to make electrical appliances to last instead of ones that will at some stage break down. “This is a business model based on better washing machines that last longer, because the service provider wants to lease them out for as long as possible,” said Katainen.

A shift from recycling to refurbishing light commercial vehicles could, according to the Commission, save materials worth €6.4bn a year, cut energy costs by €140m and reduce greenhouse gas emissions by 6.3m tonnes. Lighting, too, can be considered as a service. “One company is asking: ‘Are you buying bulbs, or is your concern lighting?’” Katainen said. “As a result, they develop more sustainable bulbs because they want to run the lighting service for less.”

WHERE SHOULD FUNDING COME FROM?

Many circular economy businesses will need a financial kick-start before they become profitable. The EU’s Horizon 2020 research programme will provide more than €650m over the coming few years. EU structural funds will provide €5.5bn over the next five years to help various parts of Europe improve their recycling and treatment of waste.

“The question is how to use those structural funds in the most innovative way,” Katainen said. “If the problem is that in some countries there are lots of illegal landfills, the major purpose is not to establish legal landfills, but how to replace those illegal landfills with modern technology that leads to another stage: circulating raw materials, collecting waste better than before and using it for profit-making.”

In addition, circular economy projects are getting help from the new European Fund for Strategic Investment (EFSI), which was set-up by the European Investment Bank Group and the European

Commission to attract private financing to infrastructure projects. In the six months since it started, around €50bn has been mobilised, of which most comes from the private sector. “This can be used in new innovations in the circular economy,” Katainen said.

THE ROLE OF THE PUBLIC SECTOR

Once the circular economy concept has been shown to be working in various fields, it could be extended to the public sector. “**Clean public procurement is one part of our proposal,**” Katainen said. “Before we make it legally binding, we have to make sure that the concept is really working. Public procurement in Europe plays a big role in our economy and the volumes would be very significant.”

Yet in some cases, national regulations can get in the way of circular economy business models, Katainen said. For previously unused raw materials, the EU single market works well, with trade operating smoothly across national borders. “But if you try to sell or buy used raw materials, then we don’t really have a single market at the moment,” he said. “There are national restrictions and laws, and it makes circular economy business models almost impossible. **We need to regulate Europe-wide to create a single market for recycled plastic and other materials.**”

One sector singled out by the Circular Economy Package is fertilisers, where a revised regulation is envisaged “to facilitate the recognition of organic and waste-based fertilisers in the single market and support the role of bio-nutrients.” “At the moment, this sector is very national, so it is only a matter of creating a single market, meaning we have to harmonise the regulation,” Katainen said. “This fertiliser directive is on our table. I guess we will be able to finalise a proposal in a couple of months’ time.”

NEED FOR SUCCESS

Success for the circular economy in Europe would potentially provide a model for developing countries, he said. “If we create a better regulatory environment in Europe, we could give advice on how to regulate in order to start the change from a linear model to a circular model,” he said. “**The technology is already here,** and it’s developing all the time. **We have to signal where profit is coming from** for the private sector.”

Throughout the whole process, Katainen is also keeping a close watch on himself – to make sure he does not get carried away. “Policymakers who get interested in something usually want to do as much as possible,” he said. “We are very enthusiastic and we want to change the world immediately. There is always a risk that we use our regulatory power the wrong way and too actively, and I have to tell myself not to interfere everywhere. We have to be careful about what to regulate and what should not be regulated.”

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