

# ECONOMIC INSTRUMENTS FOR A CIRCULAR ECONOMY

Moving to a circular economy requires reorienting market forces towards resource conservation. To do this, the EU and its Member States can incentivise practices that encourage less waste and penalise those which are more wasteful. Different economic instruments, such as taxes or financial incentives,

can fulfil this role based on the impact that producing and consuming a certain good has on human health and the environment. By sending clear price signals to both producer and consumer, circular economy-friendly business models are more likely to emerge and become mainstream faster.

## WHAT IS THE SITUATION?

Economic instruments are used to varying degrees for waste management across Europe but they are not used systematically or to their full potential everywhere. Some regions or countries have taxes on landfilling and incineration which aim to discourage these practices. Others make use of pay-as-you-throw schemes to reduce the generation of waste. There are also deposit-refund systems which increase collection rates of specific products. Extended Producer Responsibility schemes monetise the environmental impact of a product at the end of its life and this cost is added to the product's price when it is purchased. There are also other types of rewards for citizens who choose to make environmentally-friendly purchases, such as eco-cheques or rebates for energy-efficient appliances. But the EU and its member states could make better use of the tools at their disposal to encourage more resource-efficient activities.

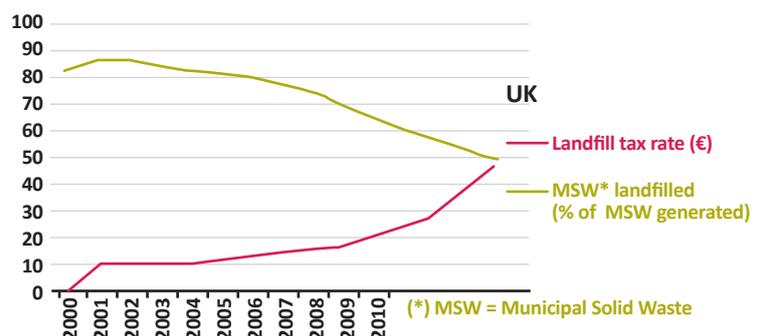
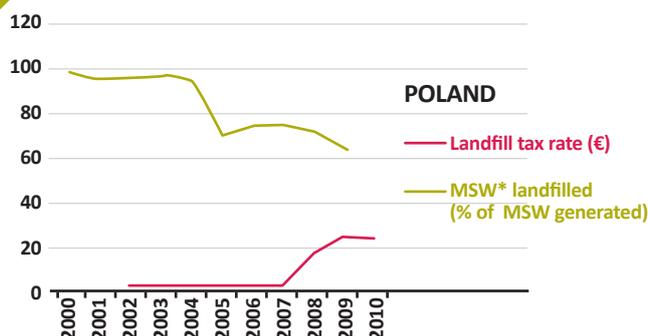
These economic instruments are primarily set up and used by member states, not the EU. Although member states should retain a certain flexibility over these tools, the EU should be setting minimum rules to operate them.

First, this would help counter the trend that smaller member states do not have the strength or resources to design these sorts of tools themselves or resist pressure from large companies. Second, there are missed opportunities across the EU where better results could be achieved, if a more harmonised single market approach were to be reinforced. For example if a landfill tax rate is too low, it will not encourage initiatives that try to increase the level of waste that gets collected separately. Likewise, if producer responsibility schemes do not cover the full cost of proper collection, treatment or recycling, municipalities will not be able to set up the full infrastructure themselves. The EU needs to set the right framework conditions for these economic instruments to operate successfully.

## FACTS AND FIGURES

A

There is a clear correlation between taxes on landfill and landfill rates of Municipal Solid Waste (MSW) [1]



(\* MSW = Municipal Solid Waste)

## B Differences in Pay-As-You-Throw schemes across Europe [2]

# 17 EU MEMBER STATES

EMPLOY PAY-AS-YOU-THROW SCHEMES BUT ONLY AUSTRIA, FINLAND AND IRELAND HAVE ROLLED ONE OUT TO ALL THEIR MUNICIPALITIES

## C Differences in fees paid by placers on the market/producers in EPR schemes [3]

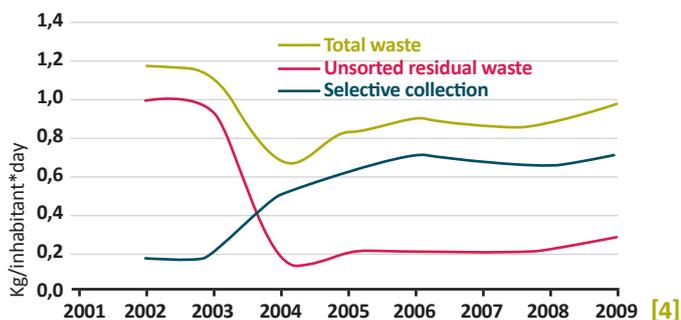


## CASE STUDIES

### ITALY

The introduction of Pay-As-You-Throw schemes in parts of Italy has led to a clear decrease in the amount of waste that isn't separated (residual waste) and an increase in the separation of recyclable and compostable material. The scheme has delivered results both in small towns and large cities [4].

**DOGLIANI, NORTH-WEST ITALY:** A town of 5,000, Dogliani has seen dramatic improvements in separate collection with a pay-as-you-throw scheme.



**FRANCE** has Extended Producer Responsibility (EPR) schemes for different product types such as electrical or electronic waste, packaging, furniture and paper. This means it integrates a fee, which covers the cost of disposing a product, into the purchase price paid by the user.



The schemes are adjusted based on how recyclable the product is: the more recyclable the material, the lower the fee. This is, essentially, an incentive for manufacturers to design their products so that they are more easily recyclable. For example, manufacturers who place vacuum cleaners with brominated flame retardant plastics on the market pay 20% more than manufacturers who don't use this hazardous substance [5].

## POLICY RECOMMENDATIONS

- Require the setting of economic instruments in national waste management plans before they can be notified as required by article 28 of the Waste Framework Directive. The Commission should not approve a national waste management plan if economic instruments are not used and adhering to minimum EU standards
- Set minimum requirements for EPR schemes to operate and deploy them for waste streams beyond electric and electronic equipment waste and packaging. Define EU-wide criteria that help to determine how fees should vary according to the properties of the product (e.g its toxic content) and its repairability, recyclability or durability. The requirements must be set at EU level so the manufacturer complies with one set of rules, not 28 different ones
- Require 100% of the net cost of collection, treatment and recycling to be covered by producers
- Encourage and set guidance on deposit refund systems in order to support returnable or reusable packaging schemes and increase the collection of recyclables
- Require mandatory Pay-As-You-Throw systems for municipal solid waste to reduce the waste that is not sorted at source
- Call on EU Member States to progressively increase taxes on landfill and incineration in countries where combined landfill and incineration levels of residual waste are higher than 20%.
- Set a reduced VAT rate for repair and reuse activities and increase taxes on non repairable products or non economically recyclable material
- Allocate European funding to innovative economic instruments such as waste performance contracts or practices encouraging circular business models (e.g. leasing, sharing)

## FOR MORE INFORMATION

European Commission – [http://ec.europa.eu/environment/waste/pdf/final\\_report\\_10042012.pdf](http://ec.europa.eu/environment/waste/pdf/final_report_10042012.pdf)  
 European Commission – [http://ec.europa.eu/environment/waste/pdf/target\\_review/Guidance%20on%20EPR%20-%20Final%20Report.pdf](http://ec.europa.eu/environment/waste/pdf/target_review/Guidance%20on%20EPR%20-%20Final%20Report.pdf)  
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