



Executive summary: Creating favourable market conditions for the development of the circular economy

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This is a short summary of the report *Creating favourable market conditions for the development of the circular economy*. The report is originally published in Swedish. In April 2019, the Confederation of Swedish Enterprise published a report entitled *Circular economy for a competitive and sustainable business community in Sweden*. A great deal has happened since. The European Commission has presented its Circular Economy Action Plan and the Swedish government has presented a national strategy as well as an action plan. Research in the field has moved forward and the mission and work of authorities has assumed a greater focus on the development of the circular economy. Furthermore, the transition pace in Swedish businesses has accelerated and new circular materials and product flows and business models are continually and rapidly being developed.

Despite these positive steps, the development of the circular economy remains modest. Businesses develop and implement new circular materials, products and services, but efforts are often hampered by existing regulations and their application as they are not adapted to circular solutions. Considerable political ambition exists, but policy work on the circular economy primarily continues to be treated as an environmental issue. The circular economy has the potential to make a substantial contribution to achieving many of the sustainability goals, which is why it must also be addressed as an overarching societal issue.

Swedish businesses are at the forefront of promoting sustainability, innovation and the development of new technological solutions that reduce emissions and increase resource efficiency. The transition to fossil-free and circular business models can initially be challenging for businesses but it also offers considerable potential business opportunities.

A key starting point for the development of the circular economy is favourable market conditions and the idea that reduced environmental and climate impact goes hand in hand with increased competitiveness. Circular materials, products and services need to be profitable and competitive, for which reason it is important that favourable market conditions for the circular economy are established. This must be a key focus of policy development and political decisions going forward.

Together with its member organisations, the Confederation of Swedish Enterprise has produced this report to highlight the key conditions and enablers necessary to support the business sector's efforts to support the circular economy.

To ensure that the business community's transition to the circular economy reaches its full potential and that circular solutions are profitable and competitive, a number of "Key Conditions" are needed. In addition, there are also several "Enablers" that the Confederation of Swedish Enterprise would like to highlight. These can significantly improve market conditions for circular business models, both individually and together. In total, eight different "Enablers" are presented, along with 50 tangible recommendations to policymakers, focusing on both changes to existing regulations as well as proposals for new policy tools and actions. The "Enablers" are, in no particular order of priority:

1. A well-functioning single market and a global focus is necessary

A well-functioning single market is a prerequisite for the development of the circular economy in Sweden and the EU. Regulations on the circular economy must be aligned across the EU with national implementation harmonised as much as possible. Common EU standards, developed by standardisation bodies in collaboration with industry, are important complements to regulation in order to enable technological development and innovation. Free trade is a prerequisite for the circular economy and increased resource efficiency. Therefore, free trade needs to be protected and strengthened globally, and policies for trade and circularity need to support each other to a greater degree to create favourable conditions for the global development of the circular economy.



2. Develop the application of the current regulatory framework to support the circular economy

Regulations that support the transition to a circular economy are necessary for it to become a reality. In the short term however, while waiting for regulatory changes to come into force, considerable opportunities exist to promote circularity by applying existing regulations in ways that are more adapted to circular material and product flows. In many cases businesses are one step ahead of decision-makers and regulatory authorities, developing new circular techniques and solutions, but have difficulties realising their potential due to a lack of clarity about how regulations should be applied in a non-linear economy. Modified application of regulations developed in dialogue with business and improved supervision could accelerate this process.

3. Update waste regulations to enhance resource efficiency

The circular economy is based on maintaining the value of products, materials and resources for as long as possible and minimising waste. To achieve this, all material that can be used again must be seen as resources, regardless of whether they are primary, recycled or reused materials. Existing waste legislation is based on linear material and product flows and therefore needs to be changed and adapted to enable efficient and competitive circular solutions. A narrower definition of waste could handle this to a large degree, but other measures could also facilitate circular flows in the near term under the current waste definition. At the same time, it is crucial that supervision is strengthened and improved to prevent unlawful operators from entering the market.

4. Adapt laws and their application to enable the management of chemical substances in circular flows

Chemicals are fundamentally important for the society as they enable and provide specific functions or properties in products. Chemical substances also occur naturally in various raw materials. The Swedish environmental goal and the term “non-toxic” are often used in the context of “non-toxic circular flows”. What this means in practice for materials and products in the circular economy is, however, unclear. This hinders progress and needs to be clarified. It is important that legislation regarding restrictions and information requirements is based on risk assessment and risk management. It must also be made clear how the legislation is to be applied to materials and products that are already on the market and that are circulated. Continuous work on substitution is vital and the development of new substances and techniques needs to be encouraged.

5. Ensure effective financial instruments to facilitate circularity

The circular economy is based on the premise that sustainable and circular business models can be developed and become profitable and competitive on the market. Well-adapted economic instruments can be a way to achieve this. Financial instruments can also make it difficult and, in worst case hinder progress, if they are not designed in the right way. To create the right conditions to stimulate growth in circular business models, several existing financial instruments, such as excise taxes and VAT rules, need to be reviewed to ensure that they are appropriate and that they encourage development in the right direction. Any new financial instruments intended to promote circularity need to be based on scientific decision-making and objective impact analyses, including analysis of how such instruments would affect market conditions for circular business models.



6. Invest in research and facilitate innovation

Technological development and innovative solutions in the economy are vital to reduce carbon emissions and to increase resource efficiency. While this transition may present a challenge to business, it also offers new opportunities. Research on the circular economy also has a key role in promoting businesses' work on circular material and product flows. In order for research to contribute to the transition more effectively, it needs to be connected to the issues and challenges of the business community to a greater degree and have a more substantial focus on market-based solutions. Furthermore, investments need to be made in test facilities, interdisciplinary research and more long-term research projects. In addition, it is important that research considers conditions for SME companies. Research on the circular economy should also be made available to smaller companies.

7. Support the development of “product as a service” and business models based on extending product life

For many businesses, the circular economy amounts to a shift from more traditional linear business models to models that to a greater extent are based on services. These business models often involve manufacturers retaining ownership and control of products for longer periods of time and instead deliver the service that customers want. Existing regulations, such as accounting rules, contractual and insurance issues as well as tax rules, are rarely adapted to these types of business models and need to be reviewed and amended to support progress. The same applies to business models that are based on extending product life by repair, remanufacturing and upgrading. Today, it is often unclear how existing regulations are to be applied to these business models. Here too, regulations need to be reviewed to ensure that these business models are encouraged.

Other measures to promote these business models include the development of financing solutions as well as ensuring that digitalisation acts as an enabler by synchronising policy for the circular economy and digitalisation.

8. Invest in increased education, knowledge, and skills in the circular economy

There is a substantial need to raise the level of knowledge among politicians, authorities, business, academia, civil society and consumers about what the circular transition entails. More initiatives and policy proposals to meet the need for skills in the area is also needed. There is currently a major skills shortage in business, and this constitutes an obstacle to the climate and circular transition. The circular transition places greater demands on a well-functioning supply of skills in many areas and the development of largely new skills in vocational and academic education. To strengthen skills broadly and secure the future supply of necessary skill sets, efforts are needed across the entire educational system from primary school to higher education.

The full report is available on the Confederation of Swedish Enterprise website.