

LET'S RESHAPE EPR

for a game changing policy tool that supports prevention, reuse, separate collection and high-quality recycling

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October 2023

BACKGROUND

The tool of EPR has been widely recognized and celebrated as being an effective way of making producers responsible for products (and their subsequent waste) they produce. On the one hand, based on a partnership between companies, municipalities and waste managers, it allows the financing of the public service of waste management by producers, while reinforcing its efficiency. On the other hand, it could potentially encourage companies to enter a circular economy logic in the design of their products thanks to instruments like eco-modulation, thereby favoring products with a smaller environmental footprint.

So far so good, right? Unfortunately, not really. Due to the way EPR legislation is set up, combined with execution that is oftentimes flawed, the full potential of EPR has not yet been reached and producers are insufficiently held accountable for environmental damages they cause. Where EPR has been [moderately successful](#) in managing the end-of-life stages of products (better separate collection and recycling), it has not been effective in significantly changing the full lifecycle of products, i.e. creating more sustainable products and preventing waste. While the latter is in line with the [original academic definition](#) of EPR, some might argue that this is also not the goal of EPR, but rather a sole focus on waste management. We would beg to differ, specially in a context where [ten member states are at risk](#) of missing the recycling targets for both municipal waste and total packaging waste. In this context, it's essential to acknowledge that addressing the global packaging crisis goes beyond solely focusing on waste management. Instead, it necessitates significant reductions and the phase-out of environmentally harmful products.

In this paper, we propose concrete legislative measures that advance the working of EPR, making it an effective environmental tool that helps to achieve reduction, prevention, separate collection and closed-loop recycling targets for a broad range of product categories (at the least packaging, textiles and electronic products). Relying solely on EPR will not be adequate in minimizing the environmental impact of products throughout their entire life cycle. However, when complemented by an appropriate legislative framework, EPR can unlock its full potential.

Both the [Packaging and Packaging Waste Regulation](#) revision and the [Waste Framework Directive](#) revision currently negotiated at the European level provide an opportunity for change. Let's include a clear, ambitious vision for the future, in which EPR tackles not only the end of life stage of products, but systematically changes the design of products and their environmental impact according to the waste hierarchy. The EPR-schemes of the future need better governance, more transparency, clear enforceability and democratic inclusion of stakeholders. This collective effort is needed for the circular economy to thrive.

CONCEPT OF EPR

EPR-schemes are often set-up based on the [polluter-pays-principle](#). As the name suggests, polluters - being those who put polluting products on the market, are held accountable for the environmental costs of their management. Principle 16 of the [Rio Declaration](#) (1992) defines it as the “internalization of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the cost of pollution, with due regard to the public interest and without distorting international trade and investment.”

Following this principle, the [European Union](#) defines Extended Producer Responsibility (EPR) as “a set of measures taken by Member States to ensure that producers of products bear financial responsibility or financial and organisational responsibility for the management of the waste stage of a product’s life cycle”. The OECD’s definition varies slightly to the extent that they [view](#) the EPR-schemes as “organizational mechanisms for the prevention and management of waste”. The latter adds the crucial concept of waste prevention, which [is deemed](#) as most effective from an environmental point of view.

While EPR legally makes individual producers responsible for the financial and/or organizational execution of the targets set within a given EPR-scheme, we almost always see a collective organization of the responsibilities. So-called Producer Responsibility Organizations (PRO’s) are given the responsibility to act on behalf of the producers. These organizations are set-up through European and national legislation in order to carry the financial and/or organizational responsibility of EPR. Responsible producers pay the PRO a fee per kilogram of product placed on the market, with which the PRO at least finances the waste management costs. When they also carry out the organizational responsibility, PROs set up or partially fund the collection and sorting infrastructure in cooperation with the municipalities and waste management companies.

In most European Member States we see a single PRO per product stream, such as for packaging in the Netherlands or textiles in France. However, there is an option for competitive schemes, such as we see for packaging in Germany, Austria, Portugal or Poland.

While [UNEP](#) agrees with the OECD definition to the extent that they see is a.o. waste prevention as part of the PRO mission, [research](#) has shown that current EPR-schemes do not focus on this. According to [OECD](#), PROs aim to improve Design for Environment (DfE), yet there is only [limited evidence](#) that this has occurred so far.

Given that producers pay a fee based on the amount of product they put on the market, EPR’s might look a lot like tax systems. However, there is an important difference. Contributions paid by producers are directly used by the PRO. Thus, this contribution didn’t require additional budgetary resources from the State, and isn’t “absorbed” into the overall public expenditure. The EPR fee are used to directly fund the waste management system and are closely linked to the waste placed on the market by an individual producer.

In this perspective the EPR fees are, or should be, directly linked to the costs of the system and then be paid directly to the PRO, and can be modulated to encourage environmentally friendly design choices.

Differences between operational and financial EPR schemes



Image 1

WHAT WE SEE HAPPENING IN PRACTICE

The financial and/or operational responsibility on producers of specific product groups often results in a focus on the end-of-life stage of products. While end-of-life management is important, the [circular economy](#) needs increased focus on the design, production and use-phase of products. Our current consumption pattern heavily relies on single-use, throwaway products, generating [increasing amounts](#) of waste. In order to turn this trend around, EPR-schemes should play their part. However, we see various obstacles that currently lead to this specific focus on end-of-life, namely:

- The flawed governance of the Producer Responsibility Organisations;
- The absence of harmonisation across Europe;
- The non inclusion of non-european stakeholders;
- The problem of free riders;
- The inadequacy of the cost coverage provision.

A MAJOR GOVERNANCE ISSUE

In almost all cases, it makes sense to set up a so-called PRO who is made responsible for handling the EPR-fees (financial responsibility) and/or setting up the waste management scheme (operational responsibility).

In this role, the PRO takes up a central position in the waste management scheme. Although they are given this responsibility through EU and national legislation and are supposed to merely execute this environmental legislation, in practice we see a different result. PROs use their position of power to influence additional environmental policies, other stakeholders have a limited say in processes like collection, reuse, recycling and height of the fees paid to municipalities. The consequences of the design of EPR-schemes is also recognized by the Netherlands Environmental Assessment Agency, who [state](#) that “while collective EPR offers advantages to producers, such as economies of scale and less free-riding, it dilutes eco-design incentives and may raise competition concerns”.

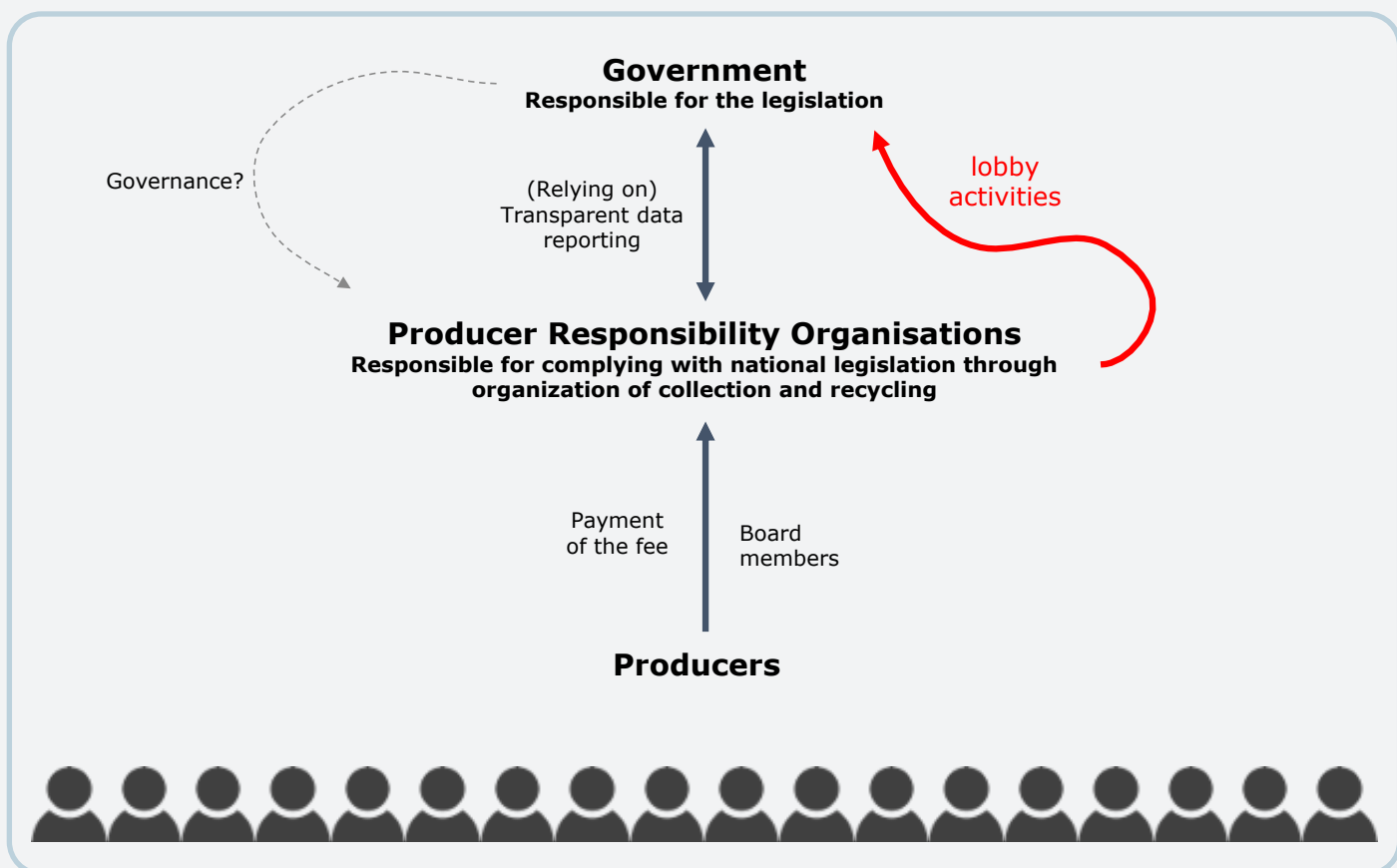


Image 2

Image 2 shows the way in which a PRO functions. In most cases, the board members of PROs exist solely of producers who fall under the EPR-scheme. These producers also pay the required fees to the PRO. The PRO in turn makes sure that national legislation is met through e.g. setting up collection and recycling schemes (depending on the targets in place) or merely financing existing waste management schemes. At the same time, national governments rely on PRO for the gathering of data on their specific product stream, as well as timely reporting. Producers - and thereby PROs - are often viewed as the main stakeholder in EPR-schemes. While this holds true to the extent that they are responsible for meeting the targets, they simultaneously have a stronger voice at the negotiating table when EPR-schemes are set up. This form of strategic responsibility should not be a case where national governments have regular discussions with PROs or producers only in order to set-up the framework of an EPR-scheme, but rather include a large group of stakeholders reflecting the different interests at play. Even though article 8a of the current WFD [stipulates](#) that member states have to ensure a regular dialogue between relevant stakeholders, this mostly happens as an afterthought.

The governance issues hamper the work of various stakeholders, such as recyclers, municipalities and environmental NGOs. EuRIC (the European Recycling Industries' Confederation) [recommends](#) that “EPR Schemes provide adequate representation of the waste management and recycling sectors as a minimum requirement. This will ensure that there is an appropriate balance of interest amongst the most relevant actors in the value chain”. In a similar manner, Municipal Waste Europe [argues](#) that in the context of EPR for textiles, the scheme “should be designed within a collaborative framework and with strong, transparent communication between all the players involved in the value chain and in the decision-making process (national/regional governments, municipalities and municipal waste operators, producers, retailers, sorters, recyclers, citizens, charities, social enterprises, research institutions, etc)”.

It is important to specifically shed light on the governance issues around EPR-schemes, because they affect the functioning and effectiveness of EPR as a whole. As long as the set-up of the schemes are based on cost-effectiveness and the protection of the vested interests of producers, the environmental outcome will be limited. In order to move beyond the end-of-life (EOL) management of products, the governance issues need to be tackled. Where the intentions of the Article 8a of the WFD do include greater transparency and better governance (see recital 21 and 22 of WFD), the actual outcomes on a national level fall short on these aspects.

THE ABSENCE OF HARMONISATION ACROSS EUROPE

The rules that EPR-schemes have to adhere to are laid down in the Waste Framework Directive. Given that it is a directive, Member States are given the opportunity to set up the schemes in a way that they see fit (e.g. (non)competitive, with(out) fee modulation, etc.) as long as they incorporate the basic principles described in article Article 8a of [Directive 2018/851](#) amending the WFD.

The intention of the European legislators wasn't necessarily full harmonisation – although there is a provision for implementing acts to ensure harmonisation if desired or required. As a result, both the extent and implementation of EPR have diverged among different Member States. Indeed, European countries are using various systems and rules for EPR schemes, and this variation extends to other countries in the European Economic Area and major EU trading partners. This means that product scope, cost coverage, fee structure (categories and granularity), fee modulation criteria, and reporting requirements are inconsistent between EU countries.

Furthermore, as illustrated by a [recent study led by Adelphi](#), according to the experiences of Member States, the competition for access to waste is resulting in inefficiencies and higher costs because some actors may purposefully exceed their obligations and speculatively sell the excess quantities to other PROs who would otherwise be unable to meet their collection quotas.

In this perspective, the EPR policies implementation has led to a fragmented approach of this instrument, limiting its impact while increasing the administrative burden on producers, especially those placing products on the market in multiple EU countries. The current WFD proposal introducing EPR for textiles lacks harmonization provisions, opening the door for fragmented implementation and executions between Member States.

THE NON INCLUSION OF STAKEHOLDERS OUTSIDE THE EU

Most EPR-schemes are part of national legislation, and typically, these schemes do not look beyond the borders of the Member States or Europe. This limitation becomes evident when considering exports, as also shown by recent studies by a.o. [EEB](#) and [Utrecht University](#). EPR-

schemes do not take into account that when products are shipped abroad, producers effectively get a free pass for any type of end-of-life management costs. Although the Basel Convention prohibits the export of hazardous waste (like end-of-life vehicles), [research](#) shows that end-of-life products are often disguised as 'reusables' in order to be exported. Instead of being placed on the producers, the financial burden is then shifted onto the receiving country. Given that producers will look for ways to keep their costs as low as possible, especially in competitive EPR-schemes, this loophole undermines the effectiveness of the EPR-legislation. For a circular and sustainable economy to work, we need inclusive policies that do not only look at the wellbeing of the environment and societies within Europe, but also beyond.

Also, as second-hand products are exported from the EU to third countries for reuse, the associated EPR fees paid by producers to support waste management costs too often fail to follow these products and are retained in the exporting countries (notably for [used electronics, vehicles](#) and [textiles](#)). This deprives importing countries of the adequate financial support to manage the products once they inevitably reach their end of life and need to be collected, disassembled, repaired, decontaminated, recycled or finally disposed of. [Recent research](#) on the exports of used electronics and vehicles from the EU to Africa estimated that every year African economies miss out on € 340 – 380 million in EPR fees associated with second-hand electronics, and on € 294.6 – 409.4 million in EPR fees for second-hand vehicles. However, EPR fees traveling with exported second-hands goods should not incentivise the export of waste, disguised as reusable goods, to be managed in the Global South at lower costs in comparison to the EU.

THE FREE RIDERS EFFECT

Free riders are defined as “those producers who benefit from EPR systems without contributing their share of the costs” (OECD, 2016). Yet they still benefit because their products are likely to be collected for recycling along with products from sellers who are compliant and who have contributed financially to waste management schemes. Free riders gain an unfair advantage over law-abiding competitors.

There are various ways in which producers can be non-compliant with EPR obligations. These include seeking to minimise financial contributions through under-reporting, not registering with a national register or not signing up to a PRO. Free-riding is a problem as it distorts the market by providing a competitive advantage to those companies who avoid full EPR compliance. Free-riding also reduces the accuracy of data reporting and where placed on the market figures are underestimated, recycling rates may be overestimated. It may also result in the underfunding of waste management systems. Free-riding is a growing challenge for sales made through online, multi-seller platforms. Indeed, [a study published by the Organisation for Economic Co-operation and Development \(OECD\) in 2018](#) first showed that online multi-seller platforms are a major contributor to free-riding, as 5% to 10% for the electronic and electrical equipment sales. As underlined by the European Commission recently on its [guidance for the compilation and reporting of data on packaging and packaging waste according to decision 2005/270/EC](#), this finding was re-affirmed by a larger unpublished study led by Eunomia on EPR free-riding in online marketplaces conducted in 2021 for DG Environment. The most significant free riding problem in terms of volume appears to relate to large and well-known multi-seller platforms with fulfillment centers in the EU.

INADEQUATE COST COVERAGE

The fact that producers pay for externalities of their products, like waste management, does not create sufficient stimulus to redesign products. This has been greatly emphasized by several researchers (Gottberg et al., 2006; Huisman, 2013; Kautto, 2006; Kemna, 2011; Kunz et al., 2018; Mayers, 2007; OECD, 2006; Subramanian et al., 2009; Tojo, 2006). According to [Utrecht University](#) (UU) this has two reasons: first of all, collection and recycling is set up in such an efficient way that it costs less than 2% of the product price (sometimes even as little as 0,1%). We should note here that producers are only responsible for the fraction of waste that is separately collected, meaning that they are not responsible for the fraction that ends up in the residual waste. So far, most EPR-schemes ignore this perverse stimulus where producers get a free pass for waste that is not separately collected. Secondly, the UU argues that EPR-schemes need to incorporate a reward system for design changes. When this is not the case, the producer does not benefit directly from making design changes and is therefore less inclined to do so. Even for schemes with eco-modulated fees, where producers who e.g. design for reuse / recycling or include recycled content in their products pay lower fees, the fee differentiation is often so small that it does not encourage producers to take those steps.

[An assessment](#) of current EPR practices for the product streams of packaging, WEEE, batteries and textiles show that EPR and eco-modulation of fees) are currently focused almost exclusively on waste management (collection and recycling), instead of driving waste prevention (by promoting reusability, durability, reparability). Further, EPR fees and hence eco-modulation does not consider the full social and environmental costs associated with the products, thus failing to adequately implement the polluter pays principles for these products streams.

These issues stem from the current cost coverage of EPR systems which is based on the limited concept of “necessary costs” to deliver the expected service of meeting the regulatory collection and recycling obligations (disciplined in art. 8 and 8a of the Waste Framework Directive) and seeks to minimize the costs (by essentially only including the costs incurred to improve recycling and collection). In the pursuit of cost minimization, the EPR fee generally becomes too low to effectively implement the PPP principle and encourage producers to design products, which have high environmental performance regarding waste prevention and reusability. A systemic revision of the EPR regime currently set in the Waste Framework Directive is therefore a precondition to unlock the full potential of Extended Producer Responsibility in applying the Polluter Pays Principle. This should include a revision of the EPR cost coverage, overall size of the fees, use of the revenues, governance of the Producer Responsibility Organisations, and be accompanied by ambitious regulatory targets focusing on waste prevention and reduction of pollution along the whole life cycle.

RECOMMENDATIONS FOR THE EU LEGISLATORS

exploiting the full potential of EPR for the circular economy

Extended Producer Responsibility is a key component of the European Commission's environmental and industrial policy package. EPR is one of the instruments to scale up the circular economy in Europe, with the ultimate aim of climate neutrality by 2050. It is also a crucial policy to cover the costs of products at their end-of-life stage, meeting high recycling and product performance targets, and improving the management of resources in order to follow the waste hierarchy principles.

In this perspective, the European Union should maximise the effectiveness of EPR and increase the benefits that schemes aim to deliver. Moreover, coordinated EU-level action is necessary to avoid distortions to the single market, a risk which is likely to increase given the potential expansion of EPR to more products. Below we outline the actions we deem needed to improve the tool of EPR, making it a game changer for circular economy goals.

IMPROVE GOVERNANCE FOR EPR-SCHEMES

As mentioned above, the central position that PROs take within EPR-schemes, lead to undesirable outcomes. The revision of the WFD needs to tackle the problems around the governance of EPR-schemes, in order to make existing and to-be-introduced EPR-schemes more effective, more democratic, and better enforceable. Improving EPR-regulation under the WFD, will in turn lead to more effective EPR under the PPWR.

In order to achieve better governed EPR-schemes, we need a new reality in which:

- PROs will no longer use their strategic position to lobby against ambitious environmental policies at the national and European levels in order to protect the entrenched/established interests of their corporate members;
- The governance structure of PROs will be addressed to ensure that stakeholders such as governments, environmental organizations, and waste processors are included in a democratic and transparent way in policy processes, the set up of contracts and fees, and decisions on strategy (such as efforts to increase circularity);
- (National) governments, in turn, will take more control and ensure that a broader group of stakeholders is involved in policy design and more stringent criteria are set up for PROs;
- Efforts by PROs to shift responsibility for (litter) waste onto consumers, for example, through clean-up campaigns, will be discouraged;
- PROs will no longer be difficult for governments to monitor, as governments will have access to sufficient data from the PROs (e.g. on financial streams) as a result of increased transparency.

The revision of the WFD needs to create the legislative conditions in which the scenario outlined

above becomes a reality. The [current revision proposal](#) leaves out the amendment of Article 8(a) altogether, thereby ignoring the possibility of improving EU-wide EPR schemes.

REDEFINE THE 'PRODUCERS' NOTION TO INCREASE ENFORCEABILITY

We ask the European Commission to set up a new definition of producers in order to have brands and distributors no longer solely responsible. We see that the fact that only part of the value chain is held responsible for reaching the targets - namely the producers - leads to enforceability issues. In the Netherlands, for years, PRO [Stichting Afvalfonds Verpakkingen](#) failed to meet the glass recycling targets. However, this failure never resulted in enforcement or sanctions. Through [a lawsuit](#) in 2019, Recycling Netwerk Benelux attempted to compel the Dutch government to take action when Afvalfonds Verpakkingen did not meet the recycling targets for glass. Ultimately, the Council of State decided that the PRO could not be held responsible for this because they depended on third parties (such as municipalities) to achieve the targets.

A redefinition and a broader scope of the responsibility, as mentioned above, will ensure a democratic representation and better cooperation between PROs, municipalities, waste companies and civil society to ensure costs coverage, prevention and high-quality recycling.

REDEFINE PROS MISSIONS - BEYOND WASTE MANAGEMENT

The EPR principle is well recognised by the European Union as a key policy to accelerate the circular economy. The tool plays an important role within the Waste Framework Directive and the PPWR. Given that both are currently under negotiations, we recommend redefining the mission and workings of EPR, in order to push the PROs to focus their efforts on prevention, reduction and reuse.

In this perspective, we call on EU co-legislators to ensure that PROs cover the full costs, to better apply the polluter pays principle, to shift the financial responsibility from public authorities and taxpayers to producers in line with article 8a of the Waste Framework Directive, in order to maximise the impact of EPR.

Indeed, the mission of the PROs should be to address reduction, reuse and recycling in the circular economy, while playing a key role in the fight against climate change, the preservation of resources and biodiversity, and the reduction of carbon impact of products placed on the market.

In this perspective, we recommend to include in the cost-coverage scope:

- Collection, transport and treatment costs for separately collected waste;
- Collection, transport and treatment costs for non-separately collected waste covered by EPR;
- Public communication and awareness raising campaigns costs, including on reduction, reusability options, waste prevention, separate collection systems and sorting instructions;
- The littering, prevention and awareness campaigns costs - by taking inspiration of the [article 8 of the SUP directive](#) on EPR;
- Costs for the appropriate control of the system, including auditing and measures against free riders (cf linked with the proposal below);

- Administrative costs, which means the costs linked to the running of the organisation, data reporting and enforcement activities;
- Fund for change: PROs should dedicate a percentage of their budget to support the development of new circular economy sectors, focusing on reduction, reuse and repair. This is already happening in [France](#), and being discussed in [the negotiations](#) on the international plastics treaty and [revision of the PPWR](#).

ENSURE HARMONISED PRINCIPLES ON THE FEE STRUCTURE AND THE ECO-MODULATION

We ask the EU legislators to include harmonised principles for the fee structure of EPR and eco-modulation.

These principles should be driven by the principles of the waste hierarchy to prioritize prevention, reduction, reusability and recyclability while avoiding undesirable side effects. One of the possibilities is linking the granularity of the eco-modulated fees to the sustainability requirements of products as will be laid down in the [Ecodesign for Sustainable Product Regulation](#).

In this perspective, establishing granular fee structures for products which are harmonized across all Member States will support the provision of consistent data, better traceability, reduce reporting burden for producers and help tackle the challenge of free-riding and exported waste without paying the full externalities. A prerequisite for ensuring effective eco-modulation, also includes revising the cost-coverage principle (see above).

The harmonized fee modulation principles across the EU market would have significant impact at the design stage. This position is supported by key stakeholders, as evidenced in [Eunomia's 2020 report for the Commission on guidance for EPR schemes](#). In this perspective, the eco-modulation system should be designed as simply as possible, with practical implementation in mind and prevention and reduction key objectives.

Furthermore, EPRs also exhibit shortcomings in adequately addressing the quantity of items introduced to the market. To promote a circular economy and combat overproduction, particularly in fast fashion, EPRs should stipulate progressive fees linked to the number of new items placed on the market every year. This approach would incentivize a focus on quality over quantity and encourage practices such as leasing, repairing, and reusing existing items. The marginal cost of placing additional new items on the market would increase as more new items are placed on the market. In addition, a specific threshold for the quantity of new items placed on the market should be set. Above that threshold, any bonuses linked to eco-modulated fees would be canceled.

FIGHT AGAINST FREE RIDER, ESPECIALLY THE E-COMMERCE STAKEHOLDERS

There are many different routes products purchased online take before reaching European customers. This often involves online marketplaces and fulfillment service providers.

As underlined above, heterogeneous definitions in existing legislation, such as manufacturers, importers, distributors and dealers, are not well adapted to the online reality, especially when traders are located outside of Europe without an EU-based importer which contributes to the free riders effect.

In this perspective, it is critical that EU legislators ensure that there is a level playing field for producer responsibility including for imported goods sold online. Marketplaces and platforms should have distinct obligations to ensure that the traders they host comply with producer responsibility rules or have liable economic operators within the EU or EEA before a sale can be processed. Enforcement on non-EU retailers who sell directly to EU consumers should be increased, with the potential to block parcels and/or their vendors' sites which demonstrate non-compliance.

RECOGNISE (MANDATORY) DRS AS PART OF EPR POLICY

As underlined by the OECD in its last [circular economy report](#), deposit return systems (DRS) have proven to be effective in increasing collection rates and reducing littering. Countries are increasingly interested in implementing DRS for a range of products (besides packaging, also [batteries](#) and [textiles](#)), combined with other EPR policy instruments covering broader waste streams.

The best performing deposit systems in the world, manage to reach over 90% return rate for packaging. In order to reach this, the systems must prioritize people at their core, both in their design and implementation. It's the level of public engagement, or its absence, that ultimately determines whether a DRS achieves success or failure. Over time, DRS has proven to be the most effective tool for increased collection rates and high-quality recycling. Furthermore, the DRS infrastructure can enable reuse systems by giving consumers an incentive to return products, thus facilitating the necessary physical movement between consumers and producers.

DRS also helps to diminish littering and influence consumer behavior, which is difficult to address with other mandatory EPR policy instruments.

As key examples :

- In Australia and US, [the coastal debris surveys](#) showed that the proportion of beverage containers littered on the coasts was 40% lower in states with a DRS legislation for these containers than in states without a DRS;
- In Estonia, after the introduction of a DRS for beverage containers, the share of beverage containers amongst littered items along roadsides dropped from 80% to below 10% according to the [global deposit book of Reelooop](#);
- In Germany, the share of beverage containers amongst total litter dropped from 20% (in 1998) to “almost zero” two years after the introduction of a DRS on one-way beverage containers in 2005.

The functioning of the DRS depends on a set of criteria. According to [Eunomia](#), these are: a) the value of the deposit, b) convenient return possibilities, c) a straightforward and consistent design, d) clear communication towards the consumer. Additionally, in order to ensure its success, European regulation should clearly define the product scope of mandatory DRS to avoid any unintended substitution effects. Policies that define the scope of a DRS based on certain materials leave more opportunity for producers to change materials in product design to avoid participation. Policies that instead specify the scope based on product groups may be better suited to avoiding possible substitution effects.

COMBINE THE POTENTIAL OF EPR WITH OTHER ECONOMIC POLICIES

As recently underlined by the European Investment bank and the European Commission in a joint report [“Cutting plastics pollution Financial measures for a more circular value chain”](#), the combination of financial and economic incentives is crucial to close the loop of the plastics value chain. Such policies include EPR systems as well as price incentives to improve the competitiveness of the recyclate and quotas on recycling.

Current taxation systems continue to support a linear ‘take-make-waste’ economy creating an uneven playing field for circular business models. In combination with improved EPR, fiscal instruments and other forms of price-based measures can also play a key role to improve the circularity of the European economy and reduce resource consumption to bring it in line with planetary boundaries (see [EEB study on Circular Taxation, 2022](#)). To support the transition to a just and circular economy, fiscal action is needed both at national level and in an EU context.

A number of countries have already started taking steps towards the use of fiscal instruments to stimulate waste prevention, reuse, recycling and material efficiency. However, while the role of fiscal and economic instruments to stimulate circularity has been on the EU agenda for some time, including the recent commitment in the new Circular Economy Action Plan, a systematic approach to the subject across Europe is still missing.

The adoption of harmonised fiscal instruments within the EU could enable the application of the much-needed incentives for the circular economy, whilst safeguarding public revenue streams and ensuring social equity, as underlined by a [recent study by Eunomia and the European Environmental Bureau](#).

The EU could, for example, play a key role in setting harmonised minimum tax rates for a broader range of resource uses beyond energy products, issue recommendations on the use of revenues from new circular taxes to lower labour taxes as well as further develop existing circular economic instruments (e.g. EU own-resource on non-recycled plastic packaging waste).

Therefore, EPR policy alone couldn’t support the transition to a circular economy by prioritising prevention, reuse and competitiveness of recycled material. The EPR measures need to be completed with:

- **A tax on virgin resource use.** As an example in the textile industry. Synthetics currently make up 69% of all fibre production, and if the industry continues on its current path, they will account for 73% of all fibre production by 2030. A virgin plastic tax could help shift the market away from over-reliance on fossil-fuel-derived synthetics, account for the negative impacts of such materials (microfibre release, fossil fuel extraction and non-biodegradability at the end of life) and level the playing field with other fibres, which are more expensive than synthetics.
- **Taxation in combination with fee modulation** as described above to further incentivise behaviour change and drive the use of secondary materials in manufacturing, implement eco-design and decrease consumption
- **Lower VAT-rates on products based on circularity criteria** such as recycled content, could have positive environmental effects by supporting circular economy and shifting consumption patterns. A reduced VAT rate on products made from recycled materials or those that are

easily recyclable can promote the transition to a circular economy. By making recycling, repair, or reuse more financially appealing, it can incentivise the adoption of sustainable waste management practices and reduce waste generation. As [recently proposed by Czech Republic to the Council of the European Union](#), a lower VAT rate for recyclates / recycled products is a possible economic tool to promote the circular economy. Indeed, the environmental benefits of replacing extracted raw materials with recycled materials are not internalized in prices, although they are often the most important factor in consumers' choices and public procurement. Therefore, fiscal incentives in the form of lower VAT rates could have major role to play in better rewarding environmental benefits and in stimulating sustainable consumers' choices by increasing the price competitiveness of sustainable products.

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SIGNATORIES

