



CIRCULAR ECONOMY:

How addressing stumbling blocks will allow a greater impact by retailers in the emerging circular economy

As large Retailers our understanding of the global climate, economic system and world has altered dramatically over the past decade. In a resource constrained world, we have an increasing responsibility and interest in supporting greater sustainability in both environmental, economic and social terms. Therefore, transitioning to a circular economy will allow us to reduce our dependency on virgin materials and improve our exposure to volatile commodity prices. Importantly, it will also allow us to address growing consumer expectation to tackle climate change on their behalf.

Retailers' direct relationship with the consumer represents a great opportunity to further the transition

There are therefore great opportunities for us as retailers to make a substantial contribution to the transition towards a circular economy, particularly through our direct relationship with consumers both in stores and online. Retailers have already demonstrated a number of initiatives that directly target consumers in order to kick start a change in their mind-set to allow them to live healthier and more sustainable lives. ERRT members' examples include encouraging consumers through informative labels, changing packaging to allow products to last longer, newsletters and publications, community days and workshops on a variety of topics.

Sustainability is at the core of retailers' business models

Beyond our efforts to consumers, examples of circular economy initiatives include:

- A project which uses unsold bread donated to a brewery who produces beer that is then sold in the store;
- Packaging and product design, whereby content of harmful substances are either reduced or removed and packaging is made from such obscure sources as mushroom extract. However, also packaging is created from recycled substances or re-used for other purposes;
- Deposit and take back schemes, including a wide range of items from batteries to aluminium cans and garments;
- Reducing the amount of food wasted through optimizing performance in stores, better informing consumers about food usage/storage and facilitating greater food donations.

Whilst these efforts are making inroads, we wish however to stress the economic realities of this transition and want to highlight three areas of particular relevance to us which we recommend regulators to reflect upon in order to lay the groundwork for the right foundations.

Balance the trade-off between a desire to have greater recyclability of products and more durable products

The proposal to incorporate future product design requirements (reparability, durability, upgradability, recyclability, or the identification of certain materials or substances) under the Ecodesign Directive to improve the efficiency and environmental

performance of energy-related products is laudable. We welcome the Commission's intention to analyse these requirements on a product by product basis in new working plans and reviews. However, these requirements will create unforeseen issues which must be taken into consideration via impact assessments and thorough evaluation before an extension is realistic. Therefore, regulators should take into account the following:

- Products that contain recycled content or are manufactured for greater recyclability may not mean more durable products, as the quality of some components diminishes as they are recycled again and again. Therefore, regulators should consider the trade-

off between greater recyclability and more durability.

- Restricting the use of certain substances of materials will have a great impact on the functionality of products. i.e. use of glues in furniture, water resistant seals etc. To ensure developments towards more resource efficient products, regulators should take into account the following:
- Incentivizing an increase in the uptake of renewable energy use by large retailers, through financial mechanisms, will lead to greater product development.

Think about functionality and affordability in attempting to foster more resource efficient products

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Providing repair information to consumers has the potential to impact consumer safety, whilst also raising the issue of liability

The proposal in the Circular Economy Action plan to have horizontal requirements on the provision of repair information will be burdensome for large retailers, undermine their competitiveness and raise questions for consumer safety and liability. Regulators should therefore take into account the following:

- Retail is a fiercely competitive sector with small profit margins (often 2% or less). Therefore, obligating large retailers to provide product and parts information would undermine their competitiveness. This information is often the intellectual property of the retailer. Therefore, such an obligation would hinder retailers' ability to market new products and technology and result in less innovation in product design.

- The proposed action of including repair information booklets within product packaging leads to questions of liability and safety. Many products require professional services for disassembly and repair. If consumers were to repair some products this would raise questions of liability for market operators. Therefore, the Commission needs to balance the trade-off between more repairable products and consumer safety.

Product information is often the intellectual property of retailers', providing this information would therefore lead to less innovation

Focus on the possible rather than the improbable and burdensome

The proposal for an independent testing programme to detect and address the practices of planned obsolescence will require huge resources that could be better

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used in evaluating the new design requirements of the Ecodesign Directive. Large retailers' reputation is built upon the reliability and quality of the products they sell. Therefore we refute the concept of planned obsolescence as a practice in our businesses. Raising

the issue of planned obsolescence has already resulted in calls for minimum lifetimes of products, which would mean longer warranty periods and concurrently lead to a substantial increase in product costs for consumers. Furthermore, the proposal to have an independent testing programme for planned obsolescence is not a feasible proposition. This is because product usage periods greatly differ under varying usage conditions and usage scenarios.

To foster the longer life of products, regulators should take into account the following:

- A zero rate of VAT on repair services offered by larger retailers would facilitate greater product longevity for consumers, whilst also providing a financial incentive for such professional services to be established and strengthened allaying fears for consumer safety.

Obligating producers to bear the entire cost of waste management is not reflective of the economic realities of large retailers operating cross border

EPR schemes have led to some substantial improvements in waste recycling and recovery performance in member states, reducing the amount of waste sent to landfill. However, before proposing amendments to EPR, such as differentiation in fees paid and establishing minimum requirements, the Commission should strengthen enforcement of the variety of existing schemes in member states to prevent free-riding and cheating and harmonize the definition of EPR. More specifically, regulators should take into account the following:

- The proposal that the 'entire cost' of waste management will be borne by the producer is not demonstrative of the key objective of the revision of the Waste Directive. The objective being by taking waste policy further this will bring direct savings linked with better waste management practices. Clearly the obligation for producers to bear the entire cost of waste management does not reflect this objective. The exhaustive list of what the costs would be for the producer is too open ended and not reflective of the economic reality of operating cross border as ERRT members do. Producers do not have control of the entire waste management stream and therefore should not bear the entire burden.

EPR schemes have led to some substantial improvements in waste recycling and recovery performance in member states

Furthermore, this proposal is not founded on any systematic evidence of what the financial contribution would be in practice. Our suggestion is to retain article 14 of the directive.

The implication that the scope of EPR be extended to furniture and textiles (under article 9 of the WFD) is in fact contrary to the ambitions to promote further recyclability and reuseability of products, as stated in the proposed revision. Therefore, we recommend removing this implication entirely and replacing it with examples of waste streams that are covered by EPR. We then suggest conducting a thorough impact assessment of what extending the scope would mean.

Setting minimum requirements is not a feasible one-size-fits-all solution. There is a pressing need to establish a level playing field within a legal framework ensuring fair competition along with efficient enforcement and control by public authorities.

Reward leaders and eradicate free-riding and cheating to improve extended producer responsibility

To strengthen EPR schemes and their enforcement:

We call on the Commission to focus on harmonizing the definition of EPR and providing specific definitions of each waste stream to ensure that particular national EPR schemes operate under the same conditions. What works in one waste stream does not work in others, for example communicating to consumers works for the packaging waste stream but for others this is not the case. Strengthen the provisions under article 36 of the Waste Framework Directive on enforcement to eradicate free-riding and

cheating and ensure a level playing field for all market operators.

Summary

To conclude, by highlighting these three areas of the circular economy that are of particular concern to us, we wish to convey our recommendations to regulators in order to facilitate the transition to a circular economy that will reduce our dependency on virgin materials, improve our exposure to volatile commodity prices and address growing consumer expectation that large retailers are committed to tackling climate change.

About the European Retail Round Table (ERRT):

ERRT brings together the CEOs of Europe's leading retail companies who share their collective experience and ideas with policy makers in view of giving Europe's consumers better access to the benefits of the Single Market and to promote delivery of a sustainable consumption model. ERRT Members are: Asda, Walmart, C&A, Dansk Supermarked, Delhaize Group, El Corte Inglés, ICA Gruppen, IKEA, Inditex, Jerónimo Martins, Lidl, Marks & Spencer Group, Mercadona, Metro Group, Royal Ahold and Tesco.

